European Parliament
2019-2024

Committee on Economic and Monetary Affairs

2020/2259(INI)

4.3.2021

DRAFT REPORT

on creating an economically, socially and environmentally sustainable European tax system in the post-COVID economy
(2020/2259(INI))

Committee on Economic and Monetary Affairs

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

The European Parliament,

- having regards to articles 113, 114, 115 TFUE,

- having regard to its resolution of 10 March 2021, towards a WTO compatible EU carbon border adjustment mechanism,

- having regards to the European Parliament motion for a resolution further to Questions for Oral Answer B9-0002/2021 and B9-0001/2021 pursuant to Rule 136(5) of the Rules of Procedureon reforming the EU list of tax havens,

- having regards to the IMF Fiscal Monitor report of April 2021,

- having regard to the World Bank's report of 27 May 2020 entitled 'State and Trends of Carbon Pricing 2020',

- having regard to the report of the United Nations' High Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda of 25 February 2021 entitled 'Financial Integrity for Sustainable Development',

- having regard to the ongoing work of the United Nations Committee of Experts on International Cooperation in Tax Matters?

- having regard to the report of the United Nations' Inter-agency Task Force on Financing for Development of entitled 'Financing for Sustainable Development Report 2020',

- having regard to the ongoing work of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS),

- having regard to the OECD report of the 9 October 2020 entitled « Green budgeting and tax policy tools to support a green recovery »,

– having regard to its resolution of 10 February 2021 on the New Circular Economy Action Plan[1],– having regard to its resolution of 13 November 2020 entitled 'The sustainable Europe investment plan – how to finance the Green Deal'[2],

– having regard to its resolution of 15 January 2020 on the European Green Deal[3],

– having regard to its resolution of 18 December 2019 entitled 'Fair taxation in a digitalised and globalised economy: BEPS 2.0'[4],

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[1] Texts adopted, P9_TA(2021)0040.

[2] Texts adopted, P9_TA(2020)0305.

[3] Texts adopted, P9_TA(2020)0005.

[4] Texts adopted, P9_TA(2019)0102.

– having regard to its resolution of 15 January 2019 on gender equality and taxation policies in the EU[5],

– having regard to its resolution of 16 November 2017 on combating inequalities as a lever to boost job creation and growth[6],

– having regard to the EU's 2030 greenhouse gas emissions target as endorsed by EU leaders in December 2020[7],

– having regard to the Eurostat report of 2020 entitled 'Sustainable development in the European Union – Monitoring report on progress towards the SDGs in an EU context',

– having regard to the Commission report of 2020 entitled 'Taxation Trends in the European Union',

– having regard to the Commission survey of 2020 entitled 'Tax policies in the European Union',

– having regard to the Commission communication of 20 May 2020 entitled 'EU Biodiversity Strategy for 2030 – Bringing nature back into our lives' (COM(2020)0380),

– having regard to the Commission proposal of 14 October 2020 for a decision of the European Parliament and of the Council on a General Union Environment Action Programme to 2030 (COM(2020)0652),

– having regard to the Commission communication of 15 July 2020 entitled 'An Action Plan for Fair and Simple Taxation Supporting the Recovery Strategy' (COM(2020)0312),

– having regard to the Commission communication of 27 May 2020 entitled 'Europe's moment: Repair and Prepare for the Next Generation' (COM(2020)0456), and to the accompanying legislative proposals,

– having regard to the Commission communication of 20 May 2020 entitled 'A Farm to Fork Strategy for a fair, healthy and environmentally-friendly food system' (COM(2020)0381),

– having regard to the Commission communication of 11 March 2020 entitled 'A new Circular Economy Action Plan for a Cleaner and More Competitive Europe' (COM(2020)0098),

– having regard to the Commission proposal of 4 March 2020 for a regulation of the European Parliament and of the Council establishing the framework for achieving climate neutrality and amending Regulation (EU) 2018/1999 (European Climate Law)

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[5] OJ C 411, 27.11.2020, p. 38.

[6] OJ C 356, 4.10.2018, p. 89.

[7] European Council conclusions, 10-11 December 2020.

(COM(2020)0080),

– having regard to the Commission evaluation of 11 September 2019 of Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity (SWD(2019)0329),

– having regard to the International Monetary Fund (IMF) Special Series note on COVID-19 of 16 December 2020 on tax policy for inclusive growth after the pandemic,

– having regard to the IMF policy paper of 10 March 2019 on corporate taxation in the global economy,

– having regard to the IMF policy paper of 1 May 2019 entitled ‘Fiscal Policies For Paris Climate Strategies – From Principle To Practice’,

– having regard to the interim conclusions of the mission to the EU of the UN Special Rapporteur on extreme poverty and human rights, Olivier de Schutter, which identified tax competition in the EU as one of the obstacles to reducing poverty[8],

– having regard to the United Nations Framework Convention on Climate Change (UNFCCC), to the Kyoto Protocol thereto and to the Paris Agreement,

– having regard to the Organisation for Economic Co-operation and Development (OECD) report of 19 May 2020 entitled ‘Tax and Fiscal Policy in Response to the Coronavirus Crisis: Strengthening Confidence and Resilience’,

– having regard to the International Energy Agency report of 9 Oct 2020 on energy prices and taxes for OECD countries,

– having regard to the OECD report of 15 October 2019 on entitled ‘Taxing Energy Use 2019: Using Taxes for Climate Action’,

– having regard to the OECD report of 11 September 2019 entitled ‘Tax Morale: What Drives People and Businesses to Pay Tax?’,

– having regard to the OECD report of 18 September 2018 entitled ‘Effective Carbon Rates 2018: Pricing Carbon Emissions through Taxes and Emissions Trading’,

– having regard to European Environment Agency Report No 17/2016 of 6 September 2016 on environmental taxation and EU environmental policies,

– having regard to Rule 54 of its Rules of Procedure,

– having regard to the report of the Committee on Economic and Monetary Affairs (A9-0000/2021),

A. whereas the fiscal system must be reformed by shifting the tax mix, making the tax system fairer and adjusting our redistributive mechanisms if the state is to continue

[8] https://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=26693&LangID=E

establishing the preconditions for inclusive and sustainable well-being, to address the inequalities exacerbated by the Covid-19 pandemic as well as helping companies to be more competitive, so that more jobs can be generated and to protect the effectiveness of the welfare state;

B. whereas the COVID-19 pandemic created an unprecedented health crisis with major impacts on our societies, economy and public coffers, as well as an extremely negative overall impact on the economic performance of the European Union, including dramatic and asymmetric social consequences;

C. whereas the European social model, based on quality public services and inclusive social protection, was paramount to face the consequences of the Covid-19 pandemic;

D. whereas inequality levels have increased throughout Europe when compared to 1980[8a] and negatively impact human well-being[9];

E. whereas the notion of a fair and efficient tax system does not necessarily imply a higher overall level of taxation for all tax payers;

F. whereas the economic recovery and the challenges regarding climate crisis, the ecological transition, the digitization of the economy involve very profound changes and increase the need to mobilise more resources and re-evaluate the current taxation policies, in particular the many loopholes embedded in complex national taxation polices, so that this transition is fair, helping our companies and our SMEs to be more competitive and to continue creating jobs;

G. whereas these challenges require a fiscal framework that ensures sufficient room for public and private investments;

H. whereas tax morale is generally higher in countries that tax more heavily, which is evidence for the willingness of citizens to pay tax in return for effective public services[10];

I. whereas recent developments in taxation and tax collection have shifted the tax incidence from wealth to income, from capital income to labour income and consumption, from MNEs to SMEs and from the financial sector to the real economy;

J. whereas EU member states rely disproportionately on certain taxes, particularly labour income taxes, social contributions and indirect taxes such as value added tax (VAT);

K. whereas since 2002 the share of environmental tax revenues in total government taxation revenue has slightly declined, as has its value as a share of GDP;

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[9] ***World Inequality Database, 2019, How Unequal Is Europe? Evidence from Distributional National Accounts, 1980-2017, https://wid.world/europe2019/***

[10] https://www.oecd-ilibrary.org/sites/0533eea9-en/index.html?itemId=/content/component/0533eea9-en

L. whereas 'the polluter pays' principles are not consistently applied, and the external costs of natural resource use and pollution are generally paid by society rather than the user/ polluter;

M. whereas in many EU Member States, taxes and levies on electricity are higher than for coal, gas or heating oil, both in absolute value and as a share of total price, hence hampering the achievement of the EU environment and climate policies;

N. whereas, taxation policies can be an effective tool for encouraging behavioural changes and incentivising investment but must always be progressive and not hit the poorest hardest;

O. whereas the 2011 EU flagship initiative for a resource-efficient Europe called for 10 % of total government taxation revenue to come from environmental taxation; whereas environmental taxation; environmental tax revenue in the EU amounted to €330.6 billion, corresponding to 2.4% of GDP in 2019 according to Eurostat;

P. whereas environmental taxation could sometimes be unfair by disproportionately hitting lower income households; as a consequence, social justice has to be taken into account when designing a post-COVID environmental taxation;

Q. whereas the aim of environmental taxes should not be to maximize tax revenue, but to incentivize citizens and companies to internalise the costs of their negative externalities, and therefore minimize pollution;

R. whereas small and medium-sized enterprises (SMEs) and ordinary citizens are particularly affected by the Covid crisis as well as the complexities of the tax system and tax compliance, taking into account their limited resources compared to those of multinational enterprises (MNEs);

S. whereas the Interinstitutional Agreement on budgetary cooperation of 16 December 2020 (IIA)9a refers that new own resources "should be aligned with Union policy objectives and should support Union priorities such as the European Green Deal and a Europe fit for the Digital Age, and should contribute to fair taxation and the strengthening of the fight against tax fraud and tax evasion";

T. whereas research by the Institute for European Environmental Policy shows that households have over-internalized their cost of pollution, paying 127% of the damage they do, while industry has internalised a mere 26% and agriculture a mere 6% of the cost they impose on society;

U. whereas tax matters are at the core of national sovereignty while the European Union is responsible for coordinating certain tax rules and rates and ensuring stronger cooperation between Member-States, in order to boost the role of tax policies for the economic recovery and where this is pertinent for the Single Market;

V. whereas tax policies can have a significant impact on the European response to the social crisis that emerges from the economic situation Europe is facing; and, to that end, national tax reforms, in the context of the pandemic, must be balanced and better coordinated between Member States, having in regard taxpayers rights, the European companies competitiveness and the need to tackle tax fraud and evasion;

W. whereas new technologies, such as Artificial Intelligence or blockchain could contribute in making tax collection more efficient, tax administrations more lean and mean and thus providing citizens with a better, more modern public service;

X. whereas the European institutions reached a broad agreement regarding the need to establish new own resources;

Y. whereas the green transition is a structural priority for the European economic recovery and tax policies can help Member States in achieving the climate and environmental goals; national tax reforms must have this dimension in regard, but rather shift the fiscal pressure than increase it on average;

Z. whereas an Economic and Monetary Union requires a more appropriate framework to ensure cooperation and coordination in the field of taxation, particularly to achieve optimal results in preventing base erosion, dumping and tax competition;

1. Considers that COVID-19 has highlighted certain deficiencies of our tax systems and gives the Member States a unique opportunity, along with strong digitalisation, for a proper and holistic analysis of tax systems, how individual taxes interact and how they can be better coordinated to produce more flexible, resilient, green, growth-enhancing and fairer tax systems; recommends that Member States take this opportunity to build a new social-fiscal contract with citizens; underlines that this will help not only with raising revenues, but also with building trust and accountability between citizens and the state; points out that highly complex arrangements reduce acceptance of taxation among the general public; stresses the need to strengthen the single market, to level the playing field amongst tax payers, in particular SMEs and make ourselves more competitive; stresses the need for coordination and cooperation at EU level to avoid distortions and subsequent revenue losses, whilst respecting the competence of the member-states; notes that tax reform does not necessarily imply higher levels of taxation for all tax payers;

Challenges facing our tax system from an economic, social and environmental perspective

2. Highlights that current tax systems, and the fiscal capacities of Member States, are already facing and will increasingly face severe challenges endangering the balance of public accounts even further, such as:

   a. the need for large public investments and private capital to sustain the economic recovery, job creation, the green and digital transition and reaching the sustainable development goals,

   b. the ageing of our societies and the consequent reduction in the working-age population,

   c. the digital transformation of our labour markets,

e. increased tax competition, the existing tax gap and unequal fiscal pressure amongst income groups[11];

3. Stresses that public finances will need to play a major role in enabling sustainable transitions through investments in innovation, infrastructure, human capital and ecosystems, yet these needs will compete with expanding demand for spending on areas such as pensions and health;

4. Takes note that tax revenues, measured as percentage of GDP, increased slightly in the European Union (EU-27) up to 40.1 %; takes note that in 2018 revenues remained almost equally distributed among indirect taxes, direct taxes and social contributions and that the distribution of revenues by tax base (consumption, labour and capital) remained stable compared with previous years (around 52 % from labour, 28 % from consumption and 20 % from capital); Underlines that VAT is on the rise in the Union and represent 7,1% of GDP whereas corporate taxes are decreasing and represent 2,8% of GDP; stresses that the gap between those figures was one point less in 2006; Observes that between 2005 and 2018 taxes on capital as a percentage of total taxes have decreased in the EU, while taxes on labour have increased and VAT reaching the highest value in more than a decade; notes that environmental taxes raise 6% of total tax revenues[12]; notes that energy tax revenues constitute the main component of environmental tax receipts for almost all countries (accounting for almost 78 % of EU-27environmental tax revenues), of which transport fuel taxes represent around 67% of receipts, followed by non-fuel transport taxes (19 %) and pollution/resources taxes (3 %);

5. Underlines that the tax incidence has shifted from wealth to income, from capital to labour income and consumption, from MNEs to SMEs, and from the financial sector to the real economy, thus becoming more regressive; observes with concern this shift in the tax burden from more mobile to less mobile taxpayers, resulting in a lower average tax burden for the very income-rich[13];

6. Points out that technological progress and economic integration are making the taxpayers and tax bases of all types of tax increasingly mobile[14]; notes that this could reinforce the tendency to rely on immobile tax bases; emphasises that such tendency leads to severe unequal outcomes for ordinary citizens, in particular women, self-employed and SMEs; highlights that under these circumstances, particularly when considering the freedom of capital and freedom of movement within the European

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[11] European Commission, 'Tax policies in the European Union' survey, 2020, https://ec.europa.eu/taxation_customs/business/company-tax/tax-good-governance/european-semester/tax-policies-european-union-survey_en

[12] https://ec.europa.eu/eurostat/statistics-explained/index.php/Environmental_tax_statistics

[13] European Commission, 'Tax policies in the European Union' survey, 2020, https://ec.europa.eu/taxation_customs/business/company-tax/tax-good-governance/european-semester/tax-policies-european-union-survey_en

[14] European Commission, 'Tax policies in the European Union' survey, 2020, https://ec.europa.eu/taxation_customs/business/company-tax/tax-good-governance/european-semester/tax-policies-european-union-survey_en

Union, it is paramount to establish common rules that provide more tax certainty and contribute to a level playing field; in addition calls on Member States to increase their efforts in the digitalization of the tax administration and to strengthen international cooperation in order to better deal with this tendency;

7. Reiterates that taxing profits where the economic activities take place will allow governments to increase citizens' tax morale while offering a level playing field for their SMEs, that struggle to cope with unfair competition from MNEs; highlights the need to tax multinational corporations on the basis of a fair and effective formula for the allocation of taxing rights between countries; takes note of the Commission's Communication to withdraw its CCTB and CCCTB proposal and instead come forward with BEFIT; notes that reform of the at arm´s length principle in corporate income taxation is needed;

8. Regrets that in spite of the numerous calls for shifting taxation from labour to pollution, revenues from taxes on pollution and resources in particular have remained very low in many Member States, accounting for 2.4 % of GDP, and 6.0 % of total tax revenues collected in the EU-27 in 2018[15]; highlights the potential of increasing revenue through the application of the 'polluter pays' principle and that such taxes are difficult to evade owing to the character of the tax base; underlines that the goal of taxation on pollution should be to incentivize polluters to internalize negative externalities, and therefore the goal should be a shift in behaviour, rather than a maximization of tax revenue; Stresses that the "polluter pays" principle should not be applied in a way that leads to the transfer of the major part of the additional taxes to the consumer;

9. Regrets that the current tax system still favours a linear supply chain by failing to provide sufficient incentives to better resource and waste management, recycling, re-usage and refurbishment; underlines that taxation plays a key role in ensuring our transition towards a circular economy and more sustainability; welcomes, in that regard, the contribution based on the non-recycled plastic packaging waste as a new own resource and encourages similar alternatives;

10. Observes that the European Union managed to reach its emission reductions target for 2020; stresses the importance of tax policy in reaching the 2030 and 2050 targets, particularly in reducing greenhouse gas emissions and phasing-out of fossil fuels;

11. Underlines that the design of any environmental taxes must take into account the effects of other policy instruments such as the Emission Trading System in order to avoid double payments;

12. Clarifies that the introduction of environmental taxes must lead to a more socially just and economy-friendly tax system; stresses that any regressive effects of the new taxes requires adequate compensation measures at both Member State and EU level;

13. Observes that existing labour, wealth and environmental taxation schemes have not kept up with political, economic and societal developments; notes that environmental taxes

[15] Taxation Trends in the European Union; 2020 publication

are considered to be among the less distortive taxes; points out that the IMF and the OECD identify well-designed inheritance/gift taxes and capital gains taxes as suitable means to fight wealth inequality in a less distortive manner and with an acceptable level of administrative complexity; notes that property taxes are considered to be less detrimental to economic growth given the physical immobility of the tax base, however, overall property taxes remain underutilized in the Member States and revenues remain low in the total tax mix; notes with particular concern that redistribution through personal income tax system is endangered through the digital transformation of labour markets, the increasing mobility of labour and rising level of non-standard employment;

14. Notes that an important part of budgetary capacity is channeled through tax expenditure in the form of exemptions, deductions, credits, deferrals and reduced tax rates[16] in pursuit of certain policy objectives such as research and development; notes further that these overly complex national tax systems and in particular their various exemptions lead to loopholes;

15. Regrets that there is continuing government support for carbon intensive industries in certain Member States; recalls that according to the OECD, carbon intensive industries have benefitted from around 50% of the coronavirus financial support packages[17]; notes that state aid should be designed and granted in an economically, socially and environmentally responsible manner;

16. Notes that the tax gap in the EU is significant and that VAT gap, particularly, is expected to increase due to the economic constraints of the pandemic; and that VAT, as a source of an EU own resource, is a specially important area of European integration on tax matters, that needs to be reformed in a way that helps to boost European economy recovery, mainly when it is linked to our competitiveness;

17. Notes that low taxes on resource-use combined with high taxes on labour impede the development of the circular economy, which is resource-efficient but labour and knowledge intensive;

18. Notes that tax fraud and evasion are permanent challenges to our national tax regimes and that European integration on tax matters must have in regard the priority on building better common solutions to stronger cooperation between tax administrations and judicial systems;

19. Saddened by the negative social and economic effects of the COVID-19 pandemic leading to bankrupt enterprises, loss of market shares by SMEs and unemployment resulting in a loss of the member states tax base; welcomes that, in this regard, Member States and the Commission have tried to secure jobs and to protect the tax base while supporting SMEs and ordinary citizens through a wide set of measures, among others,

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[16] The tax-expenditure-to-GDP ratio is on average 4.5 percentage points in the EU; https://www.cepweb.org/reforming-tax-expenditures/;
IMF, 'Tax Policy for Inclusive Growth after the Pandemic', 16 December 2020, https://www.imf.org/en/Publications/SPROLLs/covid19-special-notes#fiscal

[17] https://www.oecd.org/coronavirus/policy-responses/green-budgeting-and-tax-policy-tools-to-support-a-green-recovery-bd02ea23/

respecting the temporary state aid framework, tax exemptions, deductions, credits, deferrals and reduced tax rates; observes the repeated calls by international institutions such as the OECD that efforts to restore public finances should not come too early as some countries' path to exiting the crisis may be long; urges therefore tax policy reforms to be holistic in order to play a vital role in supporting a just transition to a sustainable and digital economy while supporting a strong economic and social recovery from the COVID19 crisis;

Post-COVID-19 taxation challenges

20. Highlights that COVID-19 has demonstrated that the current disproportionate reliance on labour income taxes and social contributions, puts a disproportionate burden on employment and is neither sustainable nor economically effective just like complex tax systems; welcomes the action plan for fair and simple taxation supporting the recovery by the Commission;

21. Takes note of the Commission's communication of 3 March 2021 recommending Member States to strengthen tax collection and enforcement, to widen tax bases and to undertake growth-friendly tax shifts, which inter alia reduce the burden on labour and support environmental and climate objectives;

22. Recognizes that the pandemic will have a significant impact on tax revenue; reminds that, if successful, most green taxes will provide diminishing revenue; notes that safeguarding fiscal sustainability in the long-term requires countries to consider and coordinate their approach on alternative sources; underlines that the implementation of a tax shift must also consider the importance of a strong demand for a successful economic recovery;

23. Notes with concern that the impact of the COVID-19 pandemic is highly regressive, with the poorest households being the most severely hit[18] but also the self-employed and workers of SMEs; highlights that some multinational enterprises sharply increased their profits in the context of the crisis; observes that large companies that realise excess profits, such as e-commerce businesses and wealthy individuals who realise significant capital gains through speculation, are often undertaxed; regrets further that these actors can make use of their highly mobile nature to benefit from elaborate tax schemes and profit shifting**;** notes the growing discussion regarding how taxation can mitigate the negative impacts of the extreme accumulation of wealth and profits; calls in this regard on Member States to support international efforts at the G20/OECD level to tackle aggressive tax practices and double non-taxation; warns if no action is taken to rebalance the tax-mix, the tax morale of the citizens, self-employed and SMEs might be further damaged;

24. Highlights the important role of income tax policies as a redistributive mechanism to curb inequalities; notes that European cooperation is the optimal approach to ensure a

[18] OECD, 'Tax and Fiscal Policy in Response to the Coronavirus Crisis: Strengthening Confidence and Resilience', 19 May 2020, https://www.oecd.org/ctp/tax-policy/tax-and-fiscal-policy-in-response-to-the-coronavirus-crisis-strengthening-confidence-and-resilience.htm

fair taxation of capital gains and to safeguard the progressivity of income taxation on income;

25. Encourages the European Commission to study the tax revenue loss of not having a common withholding tax on dividends, interest and royalties in the European Union; expects the Commission to assess the results and, if adequate and after an impact assessment, put forward a legislative proposal;

26. notes that the European Council of July 2020 mentions the FTT as a possible own resource; highlights that a coordinated approach is optimal given the free movement of capital;

Necessary remedies and improvements to the tax system

27. Takes note that the total revenue from taxes and social contributions increased in the EU-27 between 1995 and 2019 reaching 40,1 % of GDP according to the most recent available Eurostat data in 2019 however, the level of total taxation differs considerably between Member States;

28. Underlines that large institutions such as IMF, World Bank and OECD call for a comprehensive shift to taxing pollution; notes that taxation is seen as the single most effective way of pricing carbon[19]; Highlights that environmental taxes have the potential to cover the need for additional revenue while supporting a resilient, competitive, sustainable and carbon-neutral economy; calls on Member States to consider shifting the tax base for environmental taxes through for example natural resource taxes, distance-based charges in the transport sector, fuel prices, and the taxation of deforestation, landfill, incineration, pesticides, fertilizers and nuclear waste; underlines that such taxes should aim at not further increasing the total fiscal pressure on low and middle-income citizens and SMEs, lead to energy poverty or distort innovation; urges all Member States to prevent a 'race to the bottom' in environmental taxation;

29. Highlights the potential of a globally agreed and stringent emissions trading system (ETS) on which the price of CO2 emissions should be based including all sectors in particular aviation, shipping and transport; notes, additionally, the reduction of CO2 emissions in the industrial sector must be promoted through CO2-reducing technology;

30. Points out that tax revenues will rise automatically, as our economies recover; encourages Member-States therefore to adopt growth-enhancing policies, especially towards SME's, to invest in future-proof infrastructure, to create fiscal incentives that facilitate public-private partnerships and that boost innovation and entrepreneurship; highlights that especially in the aftermath of the Covid-19 crisis, some enterprises are in need of capital;

31. Stresses that a successful climate transition requires a socially sustainable approach; underlines that environmental taxation should be accompanied by a general tax shift, namely by lowering labour income taxes and social security contributions, to protect

[19] https://www.imf.org/en/Publications/FM/Issues/2019/10/16/Fiscal-Monitor-October-2019-How-to-Mitigate-Climate-Change-47027

low-income households from regressive effects and to build more resilient, economically efficient and fairer tax systems[20]; notes that the specific tax design is at least as important as the tax type;

32. Warns that relying solely on environmental taxes represents a risk to adequate and stable tax bases, as some of these revenues will fall as environmental harm decreases over time and ideally be zero; calls on Member States to explore new and innovative potential sources of revenue that continue to incentivise a move towards a carbon neutral economy, and address new or under-addressed sources of environmental harm; calls on Member States to develop holistic tax reforms that safeguard long-term fiscal sustainability, shifting taxation from labour to pollution but also envisage a broadening of the tax base such as capital and wealth[21], installing a fair and transparent tax system making everyone pay a fair share; highlights that such options would dramatically benefit from a coordinated approach that prevents capital flight and the erosion of each country's tax base;

33. Highlights the inconsistencies in capital gains taxation across Europe and the negative fiscal spill overs resulting from it; calls for greater alignment and administrative cooperation of capital gains taxation inefficiencies;

34. Calls on Member States to review tax expenditure in all tax areas; calls on Member States to perform annual, detailed and public cost-benefit analyses of each tax provision; encourages the removal of tax expenditures which are at odds with social, environmental and economic goals whilst taking account of national idiosyncrasies; notes that tax incentives should aim at attracting investments in the 'real' economy;

35. Notes that corporation and wealth taxes play a crucial role in reducing inequality through redistribution within the tax system and in providing revenues to fund social provisions and social transfers; takes note of the IMF recommendation in its Fiscal Monitor of April 2021 to introduce a temporary COVID-19 recovery contribution levied on high incomes or wealth to meet pandemic-related financing;

36. Observes that there is also room for significant revenue and efficiency gains at tax administration level; underlines that an effective, efficient and digitized tax administration, as well as a high degree of legal and tax certainty, needs to serve the taxpayers and can encourage investment, foster competitiveness and is thus conducive to generating economic growth; stresses that leveraging digital technology is crucial towards a simpler, more effective and efficient tax collection; calls on the Member States to submit an annual Report to the Commission on the extent that the digital transition has led to a reduction in public sector costs and the simplification of the procedures for citizens and businesses; recalls that cuts in budgets of tax administrations harm States' capacity to fight against tax dodging and have a negative impact on their

[20] IMF, 'Fiscal Policies for Paris Climate Strategies – from Principle to Practice', 1 May 2019, https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/05/01/Fiscal-Policies-for-Paris-Climate-Strategies-from-Principle-to-Practice-46826

[21] European Commission, 'Tax policies in the European Union' survey, 2020, https://ec.europa.eu/taxation_customs/business/company-tax/tax-good-governance/european-semester/tax-policies-european-union-survey_en

tax revenues;

37. Acknowledges the progress made with the DAC framework and the FISCALIS programme; calls on the Commission and Member States to further come forward with concrete solutions to enhance cooperation between tax administrations and reinforce their human, financial and digital resources in order to empower such structures for the important mission of tax collection but also the protection of European taxpayers rights;

38. Highlights that suboptimal enforcement and compliance have significantly contributed to dramatic loss of revenue; Notes that the Commission 2020 VAT Gap report forecast a VAT revenue loss of €164 billion; welcomes the Commission's Action Plan for fair and simple taxation and encourages further action to improve tax compliance overall;

39. Stresses that tackling tax fraud and tax crimes is paramount to ensure a fair tax system; highlights previous reports by the European Parliament which called for an ambitious review of the Anti-Money Laundering and Counter Terrorist Financing framework;

40. Observes that also businesses can through corporate social responsibility initiatives increase tax morale; supports and encourages the up-take of voluntary tax transparency frameworks such as GRI 207 and voluntary tax codes of conduct for businesses by large companies; recommends the European Commission and Member States to include such matters in public procurement and tender procedures;

Actions the Commission should take

41. Welcomes initiatives taken by the Commission within the framework of the Green Deal; notes that no clear and holistic guidance exists on how taxation could contribute to achieving the goals set out in the Green Deal such as the revision of the Energy Taxation Directive (ETD) and the Carbon Border Adjustment Mechanism (CBAM) and considers that the taxation system should therefore be reformed, whilst respecting the competences of the Member-States regarding taxation and the provisions of the internal market and Europe's competitiveness; stresses that taxation can be used both to deter certain behaviours and to incentivise investments in research and development or infrastructure necessary to achieving a carbon-neutral economy; reminds the Commission to focus on making our tax system simpler;

42. Calls on the Commission to explore all legal options to take action in the field of green taxation on a European level, such as the application of article 192(2) of the TFEU;

43. Calls on the Commission to publish a roadmap and toolkit to guide Member States in reforming their tax systems post COVID-19; calls on the Commission to prepare a comprehensive evaluation report submitted to the European Parliament, to be followed by an action plan, on existing and important distortions in all tax areas that could severely impede Member States in reforming their tax systems;

44. Looks forward to the Commission's soon-to-be-published revision of the Energy Taxation Directive (ETD)[22]; calls on the Commission to present a detailed impact

[22] OJ L 283, 31.10.2003, p. 51.

assessment including competitiveness and socioeconomic considerations such as tourism and energy poverty; highlights the interlinkages and complementarities with the Carbon Border Adjustment Mechanism and the review of the Emissions Trading Scheme; calls for aligning the taxation of energy products and electricity with EU environment and climate policies; agrees with the conducted evaluation that as technologies, national tax rates and energy markets have evolved over the past 16 years the ETD in its present form hampers the development and investment in clean energy by failing to set effective carbon prices that internalise fossil fuel's cost on the environment; calls on Member States to agree to close tax exemptions amongst other for aviation and maritime fuels, rationalise minimum rates and restore the level playing field; agrees and in line with the European Green Deal communication, the review of the directive should focus on environmental issues and therefore based on article 192 of the Treaty; stresses that the climate transition must contribute to reducing energy poverty;

45. Calls on the Commission to present legislative proposals to bring VAT rates in line with environmental considerations and consider differentiated VAT rates based on product circularity, asks to remove exemptions for international passenger air and maritime transport, and increase relevant minimum excise duties that have lost their effect due to inflation; seeks to pair these reforms with efforts to maintain purchasing power for those with the lowest income levels in the European Union;

46. Calls on the Commission to launch a proposal to make the aviation sector pay their fair share to ensure a level playing field and guarantee a climate neutral COVID19 economic recovery after the stabilisation of the economy; notes that freedom of movement cannot be undermined and potential negative social impact to citizens in peripheral regions needs to be taken into account;

47. Calls on the Commission to provide an assessment of all ineffective tax expenditures and subsidies in particular those harmful to the environment and leading to negative economic distortions; calls on the Commission to establish a screening framework for tax expenditures in the EU and oblige member states to publish the fiscal costs of tax expenditures;

48. Encourages the Commission to put forward an ambitious carbon border adjustment mechanism (CBAM); highlights that this tool is paramount to prevent carbon leakage and promote sustainable jobs and sustainable industrial production; reminds that the CBAM must be WTO-compatible even if it means not being designed as a taxation measure;

49. Calls on the Commission to, within its competences, propose an SME tax simplification package that aims to make tax compliance more streamlined and easier for small and medium-sized businesses, particularly when cross-border economic activities are concerned; this package should consist of measures for making tax reporting less burdensome, encouraging Member States and national tax administrations to digitalise their processes, and to explore ways for moving towards simplified e-accounting, e-declarations and even automatic declarations for SMEs; reminds in this regard the importance of learning from best practices in different countries and cooperative

compliance; notes in this regard OECD recommendations;

50. Calls on the Commission to set up a centralised database of VAT rates in EU Member States with a legal obligation on Member States to keep it up to date – which is not the case for the current VIES database maintained by the Commission;

51. Encourages the Commission to put forward all the legislative initiatives for taxation, including all mentioned new own-resources, as established in the Interinstitutional Agreement on budgetary cooperation of 16 December 2020;

52. Recalls on the Commission and the Member States to carry out regular impact assessments of fiscal policies from a gender equality, geographic, and socioeconomic perspective;

53. Calls for a multilateral initiative at UN or G20 level to introduce minimum carbon tax standards including a rate; notes that such multilateral initiative could lead to a Multilateral Carbon Tax Treaty that would put all countries-, high-,middle- and low-income countries on different pathways for application of a carbon tax, according to their differing levels of economic and social development; observes that recent analysis by the IMF and OECD shows that 55% of CO_2-emissions from energy use across OECD and G20 countries remain completely unpriced;

54. Calls on the Commission to abide by the principles of the better regulation agenda on taxation matters;

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55. Instructs its President to forward this resolution to the Council and the Commission.

EXPLANATORY STATEMENT

The emergence of the novel coronavirus in 2020 provided the setting for what has been a social, economic and health crisis unparalleled in recent history.

In the space of a few months, European countries showed that they could take hitherto unheard-of measures, in particular tax measures, with a view to alleviating the health crisis, even at the cost of sending unprecedented shockwaves through our economies. This experience demonstrates that we are capable of redirecting our social and tax systems towards new priorities.

The new tax system we are calling for, now under discussion here, must further three key purposes: firstly, ecological transition; secondly, reducing social inequalities; and, lastly, restoring competitiveness for our businesses, in particular SMEs.

Our tax systems must first further ecological transition. On the basis of current trends, the planet's carbon budget will be exhausted within 10 to 15 years. The carbon budget concept originated in the 'Global Warming of 1.5°C' report by the Intergovernmental Panel on Climate Change (IPCC). That is the leeway we have, in terms of carbon emissions, in order to limit global warming below a given threshold by comparison with preindustrial levels. The IPCC puts that limit at 1170 Gt CO_2, calculated as from 1 January 2018, in order to keep below 2°C.
The EU has no choice, therefore, and cannot be content with an ecological transition that is half-hearted and produces inequalities.

Tax systems must subsequently ensure fairer redistribution of wealth. The health crisis has facilitated windfall profits for a number of large multinationals; in addition, however, and in particular, it has impoverished the most vulnerable communities; and, in doing so, it has increased economic inequalities.

Because, lastly, of the declining competitiveness of our SMEs and the difficulties involved in ensuring a universal level playing field, thought must be given to how our businesses are taxed.

The next five years will be crucially important for tax policy. Changes in climate, technology and demography are transforming our societies and way of life, leaving EU citizens anxious about their own and their children's future. Furthermore, because of recent developments concerning taxation and tax collection, tax incidence has been shifted from wealth to income, from capital income to labour income and consumption, from multinationals to SMEs, and from the financial sector to the real economy. In the face of those challenges, solutions need to be found in support of a just transition to a sustainable economy.

The post-COVID-19 economic recovery process affords the EU a unique opportunity to conduct an appropriate and holistic analysis of tax systems. The analysis must factor in how individual taxes interact and how they can be better coordinated so as to produce tax systems that are greener, fairer and better targeted.

1. Greater taxation of environmental nuisances

At the heart of environmental taxation lies the aim of factoring the cost of environmental harms, or negative externalities, into prices for goods and services in order to steer individuals and businesses towards making more eco-friendly consumption and production choices.

Existing environmental taxation measures account for a modest share of national tax revenue. Although environmental aims are generally acknowledged as valid, when environmental taxation measures are implemented a range of factors must be taken into account, in particular competitiveness and fairness. The aim of that is to ensure that environmental taxation is sufficiently transparent to gain acceptance and so become an effective instrument in bringing about what is a necessary transition. That, then, is what this report will seek to promote, in order to develop environmental taxation, with a view to a genuine economic recovery that respects Europeans and the environment.

While international institutions such as the International Monetary Fund (IMF), the World Bank and the Organisation for Economic Cooperation and Development (OECD) are calling for comprehensive realignment of taxation so as to focus more on environmental nuisances, and despite the urgency of this debate, the European Parliament has not yet adopted its position on tax change. That position is needed: Europe must also be a leader on tax matters.

Environmental taxes have the potential to bring about behavioural changes while supporting a fair, sustainable and carbon-free economy.

That is why we are proposing tangible solutions, including:

- the introduction of taxes on natural-resource extraction; the fact is that higher prices are essential in order to scale back the extraction of natural resources, promote recycling and foster the transition to a circular economy;
- the introduction of distance-based charges in the transport sector in order to reflect the costs of pollution and impact of congestion caused by different types of vehicle, and with a view to promoting the transition to zero-emission mobility;
- taxing deforestation, encouraging reforestation, better forest management and better protection of biodiversity;
- taxing fertilisers and pesticides, following the Swedish or Danish model, in order to reduce the use thereof;
- ensuring that prices of foodstuffs reflect their real costs in terms of use of limited natural resources, pollution, greenhouse gas emissions and other environmental externalities.

Virtually no account is taken of social inequalities in the European Green Deal despite the fact that they are a factor in aggravating eco-crises and crises themselves tend to reinforce inequalities. The Commission seems to favour an approach focusing on social investment and employment activation – notions typically associated with the concept of human capital and with the financial viability of social policies – but disregards the redistributive effects of environmental policies.

For that reason, the measures we propose must be accompanied by offsetting actions for the poorest households, such as a reduction in income tax or social security contributions. In future, in this connection, the Commission and the Member States should carry out impact assessments to determine the effect of environmental taxation on the poorest households.

2. Genuinely redistributive taxation

At the start of the 20th century, realising the objective of tax justice involved, in most countries, a plan for progressive taxation under which those who earned the most would be taxed more. For decades, however, tax avoidance strategies have been pursued by the most affluent at the expense of a heavier tax burden on the poorest households. Furthermore, non-progressive levies have increased – value-added tax first and foremost – which is why we are calling on Member States to improve the tax yield from tax on the income of natural persons, and the most affluent in particular, since that is the most progressive tax.

Lastly, technological progress and economic integration are making the tax bases for all types of tax increasingly mobile, which, given the degree of economic integration in the single market, has led to particularly intense tax competition in the EU. That competition could reinforce the tendency to rely on immobile tax bases to finance public budgets and/or lead to a possibly significant reallocation of mobile tax bases across jurisdictions.Such a tendency undermines taxpayer morale and brings about serious inequalities for ordinary citizens, in particular women, the self-employed and SMEs. We therefore call for greater coordination between Member States, in a spirit of cooperation, in order to introduce or maintain taxes on mobile capital.

We also advocate reducing social security contributions as a proportion of labour costs in countries where there is a lack of competitiveness. To ensure that social protection is not impaired in the countries concerned, other revenue sources, such as those referred to above, should be drawn on. It is normal that social protection for citizens should be publicly funded, in particular from capital income. These factors must also be looked at in the light of population ageing.

Corporate taxes and wealth taxes also play a crucial role in reducing inequalities, since they ensure better wealth redistribution and make it possible to fund welfare provisions and social transfers. These are commonsense measures, and the gradual scrapping of wealth tax in Europe is regrettable.

3. Taxation that furthers SME competitiveness

Micro, small and medium-sized enterprises (SMEs) make up 99% of firms in the EU, accounting for two thirds of private-sector jobs and more than half of the total added value created by EU businesses. They need to be made more competitive and given better access to funding, especially as we emerge from the health crisis that has hit them hard. Carbon neutrality and the digital transition must be factored in to the strategies adopted to ensure a better environment for SMEs.

We think that SMEs are the forgotten casualties of the pandemic, in particular in connection with state aid schemes.

We regret the fact that SMEs are particularly affected by the complexities of the tax system – disproportionately so by comparison with multinationals. That is why we call on the Commission to carry out a systematic assessment of both the negative and positive potential relative impact on SMEs of these tax proposals, by comparison with multinationals, including with regard to the Common Consolidated Corporate Tax Base (CCCTB), digital taxation and energy taxation.

Multinationals need to be taxed more, too; that is especially true of the digital giants, which have done very well out of the health crisis. The time has now come for them to share in the common effort. Combating grand-scale tax evasion by large concerns is of the utmost importance.

An SME tax simplification package to make tax compliance more streamlined and easier for small businesses should be introduced. The package ought to comprise measures to make tax declarations less cumbersome and to encourage Member States and national tax authorities to digitise their processes and explore ways and means of switching to simplified electronic accounting, electronic declarations and even automatic declarations for SMEs.

We are also aware that SMEs may have difficulties in incorporating carbon pricing into their products. To our mind, the Commission should for that reason make sure that the Carbon Border Adjustment Mechanism includes well designed and automated arrangements for businesses, and in particular the smallest firms, to price carbon into their product chain.

In general, simplification is key to the issue of taxation: it will lead to more transparency, but also increased revenues, thwarting tax avoidance strategies in the process.

4. Conclusion

The health crisis has shown that the EU and its Member States can make a host of new tools available, in an efficient manner, to meet new priorities. Tax policy is one of those tools. The priorities for the next few years are well known: ecological transition, reducing inequalities, maintaining business competitiveness, and fair taxation.

This report outlines a new roadmap for building a taxation setup that is ecological, social and conducive to SME competitiveness.