

## **The flexibility of taxes**

Discussion paper about tax evasion, tax avoidance and tax paradises  
to support EAPN to define its position on taxes for the near future

# The "flexibility" of taxes.

## Introduction

In the process of the Theory of Change EAPN decided to have a clear view and meaning on wealth and taxes, This includes an opinion on the evasion – and the avoidance of taxes. EAPN always had a view on taxes, but overall as part of measurers to take, policy to change or austerities to withhold. The new process should bring forward a view on taxes as an individual part of the political field in which we are lobbying, creating and offering proposals for changes for the better.

This paper is meant to support this process and find new, more direct, views on taxes, on taxation and on the role of the EU and governments.

In the paper “EAPN Financing Social Protection Reflection Paper”, March 2018, there are links to taxes, such as.

- Improve public budgets: Revisit and improve the financial regulative frameworks; Reallocate public expenditures; Re-shape tax systems; Enhance independent social audits.
- Consider the EU wide prospect: Harmonize the social protection systems in EU; Clearly target the EU funds at social indicators and make their usage conditional on progress made; Introduce a global tax on wealth across EU; Learn lessons from EU member states and EU history.
- Clearly recognize social protection and wellbeing of all as political priority, giving priority to a Social Investment Pact that balances the Fiscal Compact.
- Revisit and improve the financial regulative frameworks and stop the financialization process within the EU member states. There is need for better financial norms and rules to protect the public interests in reference to corporate taxation, concessions, public procurements, privatizations, loans taking & financial balances that currently often privatize profits while socializing the losses. Building sound financial normative frameworks based on social commitments will contribute to increasing public budgets.
- Re-shape tax systems by better balancing between the interests of different groups in a society. The EU member states have different tax systems and not all of the are clearly oriented to cope with income inequalities, poverty and social exclusion. The taxation systems' trends in the last decades need to be reconsidered. EAPN considers necessary clear recommendations for progressive taxation and tax wedges, higher direct taxes and lower indirect taxation.–such changes to national tax systems could provide meaningful funds for social protection systems. In additions, a European wide financial transaction tax, and meaningful efforts against tax avoidance and evasion would complement such tax policies and could provide additional funds for social protection systems.
- Improve financial control and its transparency. Corruptive practices and illicit financial flows deprive public budgets of revenues needed for social protection<sup>14</sup>. Researchers of offshore cash flows and financial havens, link them to the lack of regulations, information (bank secrecy) and knowledge<sup>15</sup>. Vague normative financial frameworks and ‘legal’ corruption need decisive actions and higher responsibilities of financial ministries and tax authorities.
- A tax on wealth across EU, with proceeds used to finance social protection.

All of them very clear standpoints and proposals, that can be part of an EAPN vision on taxes.

Furthermore we can find such proposals et cetera in **“Poverty and Inequality in the EU, EAPN Explainer”**, 2016.

- ❖ The overall persistent high level of poverty in the EU suggests that poverty is primarily the consequence of the way society is organized and resources are allocated.
- ❖ Social protection benefits, but also accessible quality services and personalized pathways to employment should be implemented by Member States to fight poverty and social exclusion according to an integrated ‘Active Inclusion’ approach<sup>6</sup> for people who are able to work or find quality jobs, but access to rights, resources and services must be guaranteed to all groups, at all ages if poverty is to be tackled effectively and the transmission of poverty avoided.
- ❖ The overall persistent high level of poverty in the EU suggests that poverty is primarily the consequence of the way society is organized and resources are allocated. The decisions over how to eradicate poverty in the end are political choices about the kind of society we want.

In EAPNs 2011 **“wealth, inequality and social polarization in the EU”**, you find

- An effective fight against poverty and social exclusion however will not be possible without addressing existing inequalities and the need for a better redistribution of the world’s riches.
- A major problem of household surveys on wealth is the tendency of wealthy people not to disclose their real situation. Participation in household surveys is voluntary and existing surveys usually suffer from a middle-class bias.
- Wealth continues to be a hidden issue. Only recently has public interest and media reporting on wealth and its impact on inequality started to increase. A more analytical public debate on wealth distribution however has hardly started. Even at the European Meetings of People Experiencing Poverty wealth has hardly been reported to be discussed, although general concern on the growing gap between rich and poor has been raised at these meetings.
- According to the data first made available in 2009 the top 10% of the Austrian population holds 54% of all financial assets, with the top 1% holding 27%. The richest Per mille 0,1% holds 8% of all financial assets which equals the total of financial assets held by the lower 50%.
- The income of the richest 10% of people across OECD countries is on average nine times that of the poorest 10%. Poor people in rich countries are not necessarily better off than their counterparts in lower income countries. The poorest 10% in Sweden have an income that is 1,5 times the level of the poorest 10% in the US even though average incomes are higher there.
- International monitoring systems on capital flight and arms trade, and creating more transparency on capital movement would have to be introduced in order to move towards a reorientation towards development and the fair provision of global public goods.

This all shows that taxes, fair taxation, the evasion or avoidance of taxes are always present in EAPNs papers and policy. However there is no concrete vision on this issue, nor are there concrete proposals what should be done, has to be changed or is no longer acceptable. In a time in which governments themselves, the European Parliament as such and the European Commission are discussing how to deal with the fact(s) that taxes are avoided and mislead, with tax havens and that fraud with VAT should be attacked, it is paramount to have our own opinion paper on taxes et cetera.

This paper is meant to help, to support the discussion that hopefully will lead to this EAPN TAX Paper 2019.

## The “Flexibility” of taxes

*How they are handled and how they are (ab)used.*

*A story about how people look at taxes, how they try to bypass and avoid them and how they are used to make agreements.*

The van Dale dictionary describes taxes as follows:

*"Obligation to pay a financial contribution to the government's expenses: income tax, wage tax, corporation tax."*

Wikipedia says the following about it.

### **Budgetary function**

*The most important function of taxation is the budgetary function. This function means that the revenue from the tax is intended to finance provisions that the legislator determines must be generally accessible and available. These provisions are for the most part funded from the income from taxes. These provisions concern the Royal Family, defense, police, justice, infrastructure, social security, health care, education, art and culture.*

### **Instrumental function**

*Taxation also has an instrumental function. This means that the government has secondary objectives in mind with taxation. For instance:*

- *distribution function - for a change in income distribution*
- *allocation function - a protection of national activity*
- *stabilization function - influencing cyclical policy or*
- *social function - stimulating behavior, such as environmentally friendly, healthy or social behavior.*

*The instrumental function of taxation increased sharply in the second half of the twentieth century. It also assumes that the government can analyze the consequences of taxation and that there is a strong correlation between the desired development and the instrument.*

So, if we can summarize briefly, the purpose of taxation is to make society possible and to allow the state to invest in infrastructure, education, health care, social security, security and the economy to develop a country and promoting and sustaining development, which means every step that can lead to more cohesion, less poverty and more overall progress.

Taxes are important to achieve all of this and as soon as fewer tax revenues come in, problems arise that (may) lead to austerity.

### **Not paying taxes**

There are many forms of tax evasion. In addition, this is not seen as criminal behavior, but rather as a gentlemen's action. You can also say that it is a national sport that is played by many. Sometimes illegal, sometimes even legal. To get an overview of what is happening, an incomplete summary.

1. Black work, nowadays people also use the term "grey work".
2. Save money on, send money to, a foreign account to prevent taxation.

3. Money laundering. This concerns the criminally acquired money that is put into circulation via a certain circuit.
4. Evade, often legally, through a private company, a business structure.
5. VAT fraud. Reclaim VAT that has not been paid. The term carousel is often used here. Sell goods to a foreign company, which sells them further, etc., while the goods themselves have not been delivered, but have remained in the starting country.
6. A P.O. Box company, often found in a tax haven. Profits are settled through this "firm" in countries where you have little or no tax to pay.
7. Tax havens. Constructions where profits are taken via a variety of detours to a place where no – or very little corporate profit tax has to be paid.
8. Constructions via "cheap" countries. Relocating the headquarters of a company to the country where the lowest tax rates apply often leads to tax evasion. Countries compete against each other through a corporate profit tax reduction.
9. Agreements that countries make with companies, mostly multinationals, making them pay an extremely small amount of tax on their profits. The reason is that the company hopes that the company will invest in the country concerned and create jobs. Here too, countries compete with each other.
10. Lobby mechanisms. An example is the very well functioning lobby of family businesses, which means that no inheritance or very little tax has to be paid in the event of inheritance about the value of the business. Another example is the fact that airlines have such a good functioning lobby that kerosene is tax free.

This list is not sufficient, but gives an impression of what is being done to prevent people and companies from paying a fair share of taxes. This is often justified by saying that:

A. the tax burden is too high.

B. A lot of taxes are already paid, outside of the company profit tax.

*Avoiding VAT remittance through fraud and tax avoidance costs EU countries billions every year. This means that the Netherlands misses almost 3 billion.*

*The 28 EU countries together missed out on more than 137 billion euros in VAT revenues in 2017. The amount is eight billion lower than in 2016, there has been a downward trend for five years. The European Commission reports this on the basis of its own research.*

*5th or September 2019.*

## Examples

It is generally known that Switzerland is the country to hide money. That still applies, even though Swiss banking secrecy has changed here and there and Swiss banks pass on data to foreign tax authorities.

The Netherlands is known as a letterbox country. The European Parliament has decided that the Netherlands belongs to tax havens. The European Parliament has adopted a policy plan for fairer and more effective taxation and for tackling financial crimes.

In it, the Parliament states that: "Seven EU countries (Belgium, Cyprus, Hungary, Ireland, Luxembourg, Malta and the Netherlands) have characteristics of a tax haven and facilitate aggressive tax planning."

<https://www.pressreleasepoint.com/tax-crimes-meps-want-eu-financial-police-force-and-financial-intelligence-unit>

For years, the Netherlands has been one of the best in the world in terms of incoming and outgoing foreign direct investment (FDI). However, about 80 percent of these investments do not remain in the Netherlands, but are directly channeled to other countries via so-called Special Financial Institutions (SFIs). State Secretary for Finance Menno Snel wants to put an end to this type of investment and proposes to limit tax benefits and further improve the investment climate.

<https://longreads.cbs.nl/im2018-4/geldstroom-van-bfis-in-nederland-welke-roll-spelen-bilateral-verragen/>

*Due to one specific Dutch tax leak, governments worldwide miss out on 5 to 10 billion Euros a year, unless action is taken before 2020. The Dutch government is helping multinationals avoid tax on a large scale, Oxfam Novib states Tuesday in a new report.*

*The European Court of Justice instructs European tax authorities to put an end to the tax breaks that certain investors have enjoyed to date. According to the FD (Financial newspaper, NL), the European judge settles the Netherlands as a tax-flow-through country.*

*More than half of the inhabitants of 21 OECD countries believe that their government should make the rich pay more taxes to support the poor with that money, according to a study by the Organization for Economic Cooperation and Development.*

*The finance ministers again reject the European Commission's proposal for a 3% tax for large multinationals. Who do these ministers work for? Apparently for the big, especially, American monopolists.*

*Central Planning Bureau (CPB): the Netherlands as a transit country for tax evasion. It was recently announced that the Netherlands missed € 22 billion in tax revenue due to evasion in 2018.*

Ireland is chosen by multinationals as a base (head office) for the EU because the corporate profit tax is the lowest here.

*Multinationals moved \$106 billion of corporate profits to Ireland in 2015, making it the largest corporate tax haven in the world.*

<https://www.ozy.com/acumen/worlds-biggest-corporate-tax-haven-its-no-paradise-island/87954>

Luxembourg makes agreements with multinationals and offers them the possibility of reducing their profit tax payments. There is whispered that some pay no more tax than about € 1650 a year.

EU member states that include overseas territories, such as, e.g., the Netherlands, France, the United Kingdom, Portugal do little or nothing against island tax havens.

*The tab for this international shell game? It's as much as \$240 billion a year in lost tax revenue for governments around the globe, according to a 2015 estimate by the Organization for Economic Cooperation and Development.*

*What does losing out on those billions in tax revenue each year mean for the enormous U.S. economy? According to Tørsløv, small companies pay the biggest price. Multinational enterprises have the resources and experience to direct money offshore, but that's not the case for small and medium-size American firms, which end up paying a full American tax bill. "This makes for some seriously unfair competition," says Tørsløv.*

*Davies argues that if offshore money were to come back to the U.S., it could just as likely end up in low-tax accounts. He points to President George W. Bush's tax amnesty in 2009, when \$300 billion in profits from U.S. companies with foreign subsidiaries were repatriated — 92 percent went to shareholders, not to federal coffers. "**Even when the money comes back,**" Davies says, "**most of it ends up contributing to the wealth of a small share of the population.**"*

*Molly Fosco, reporter at ozy.com*

*In summary, it is an open issue whether, and if so to what degree, existing information exchange agreements are able to substantially fight international tax evasion. Existing evidence shows the success of respective agreements, but, at the same time, tax evaders seem to find new paths, such as diverting deposits into non-complying tax havens, looking for regulatory loopholes in non-havens, and – what we seem to uncover here – putting their funds into new disguises that circumvent regulatory requirements.*

*Tax Evasion in New Disguise? Examining Tax Havens' International Bank Deposits*

*Lukas Menkhoff and Jakob Miethe*

[https://www.diw.de/documents/publikationen/73/diw\\_01.c.574066.de/dp1711.pdf](https://www.diw.de/documents/publikationen/73/diw_01.c.574066.de/dp1711.pdf)

## **Can it be different? Does it have to be changed?**

The answer to these two questions is simple: yes. Why? There are two main reasons why things should change quickly.

1. It's good for the economy. When companies with billions of profits do not have to pay any or very little corporate profit tax, they use the money to take over other companies and thus become even more powerful, make more profits, acquire more money for takeover, and so on. It is clear that this is not fair to companies that do pay their share properly. What is often forgotten is that jobs are lost this way. Taking over often means that we lose jobs. Plus, wages are coming under pressure. The more monopolistic companies determine the field, the more low-wage jobs are created, which contributes to the increase of poverty, which affects twice the economy of a country. Firstly because fewer taxes revenues are collected and secondly because (much) less money can be spend.

2. If everyone, including multinationals and the (super) rich, pays its fair share in taxes, more, much more money will come into the state treasure chest. This also has two advantages, because it offers the states the opportunity to invest more in improving the entire infrastructure, so also in housing insulation, construction of affordable housing, climate goals, increasing minimum incomes and not to mention the tax can be reduced! So, really tackling tax evasion, forbidding individual agreements with companies and no longer competing with each other through taxation creates more prosperity, more jobs and fewer taxes for everyone. What are the EU member states waiting for?

There is a third reason, however that may not be not of great importance for all parts of society, namely putting an end to tax avoidance means that no more austerity measurements are needed. Budget cuts always affect the weakest disproportionately. You will find the biggest cuts in social security, supplies and healthcare.

*Consider these estimates: bribes to the tune of \$1.5–\$2 trillion change hands every year. Tax evasion costs governments more than \$3 trillion a year, and countless more is lost through other illicit activities. This is money that could go for health care, education, and infrastructure for millions worldwide. But the cost to society is far greater: corruption distorts incentives and undermines public trust in institutions. It is the root of many economic injustices young women and men also suffer every day.*

*The best disinfectant is sunlight. It all comes down to the [core notion of governance](#), says David Lipton. Paolo Mauro and others explore how countries can [combat graft](#) by putting in place accountable institutions, improve government budget transparency, and exchange financial information across borders. Jay Purcell and Ivana Rossi propose [ways to resolve the tension](#) between the need for transparency and the right to privacy. Nicolas Shaxson argues that tax havens, too, have a stake in [curbing evasion](#). And Aditi Kumar and Eric Rosenbach argue for [closer cooperation](#) among law enforcement, financial institutions, and regulators.*

*These hidden transactions are not one nation's problem nor within one nation's power to resolve. Tackling the problem requires strong domestic policies and cross-border collaboration. The payoff will be myriad other political, economic, and social benefits, not least reducing inequality.*

*All the more reason to shed light on the dark corners of the world economy.*

*IMF, Blog Follow the money, 3rd of September 2019*

## **Justice for all**

The European Competition Commissioner [Margrethe Vestager](#) has announced she is now [going to investigate](#) what we hope is the first of many secret tax deals arranged between accountancy firm PwC and the Luxembourg tax authorities. We asked recently along with [Simon Bowers](#) of the [International Consortium of Investigative Journalists](#) and [John Christensen](#) why the European Competition Commissioner, *still* hadn't investigated any of the [546 secret tax deals](#) exposed by the LuxLeaks whistleblowers.

This, despite having launched so many other investigations into potential illegal state aid being offered to multinationals by EU member states. Simon Bowers wrote about it [here](#) and we raised the issue [here](#).

The Luxleaks cases exposed the Luxembourg tax authorities for granting outrageously low tax rates to multi-national companies. We speculated as to whether the apparent reluctance to investigate Luxembourg's potential role in breaking European Competition rules might be because the Competition Commissioner's boss, the EU Commission President Jean Claude Juncker was formerly Prime Minister of Luxembourg and one of the main architects of Luxembourg's tax haven model.

<https://www.taxjustice.net/2019/03/13/european-commission-to-investigate-secret-luxleaks-tax-deal/>

This week the Tax Justice Network's [John Christensen](#) spoke at this event at the European Parliament organised by the European Free Alliance of the Greens on Brexit and the future of tax havens.

[Here's](#) more information on the event and you can watch the whole thing [here](#). John spoke on the impact of Brexit on tax evasion and money laundering, offering up some important recommendations on how the EU should move forward in its treatment of the UK, its satellite havens and the City of London. Here are the notes he spoke from, and the [accompanying slides](#).

## ***BREXIT AND THE FUTURE OF TAX HAVENS***

### ***The Impact of Brexit on Tax Evasion and Money Laundering***

*22<sup>nd</sup> January 2019*

*It will come as no surprise that at the time of the 2016 referendum the UK government did not have a clear vision of the type of relationship for trade in financial services they would be seeking with the EU27 once Brexit is finalised.*

*The initial assumption seems to have been that passporting rights could be retained for the UK-based financial services sector and extended to satellites in the crown dependencies and overseas territories. This was the message I heard in the summer of 2016 both in London and the Channel Islands.*

*However, once it had become clear by end-2016 that passporting would not be a viable option, the focus shifted to gaining acceptance of mutual recognition of regulatory standards on the basis of equivalence.*

*Judging from discussions I've had this month in London, this expectation of recognition of equivalence of standards remains the goal for post-Brexit relations.*

*I am going to suggest that granting of equivalence should be contingent on the UK and its dependencies committing to and implementing minimum standards on transparency and regulatory compliance, and these commitments are subject to regular – annual – review of their spillover impacts on EU and other third-party states in order to block the UK from engaging in tax wars and regulatory competition.*

<https://www.taxjustice.net/2019/01/23/brexit-and-the-future-of-tax-havens/>

The Tax Justice Network, which operates throughout the world, offers more than just arguments why the tax system does not work. It also shows what can / must be done and where new "leaks" will arise. Time for more justice. Time for a fair tax payment by everyone and every company.

That also puts an end to the unfair competition between, often, SMEs and multinationals. Important because SMEs are seen as the engine of employment. Time to free them from unfair competition.

And general remark: *poverty makes a country poor*. Research has shown that since the introduction of the statutory minimum wage in Germany, the German economy has risen by at least 0.25% extra per year. Add to that what happens when an official legal and minimum wage is introduced in all EU member states and when, thanks to rapidly increasing tax revenues, the minimum income can also rise to an adequate level. A lot of money is being released that will be invested immediately, so that domestic spending will foster the economy.

A simple example helps to show what changes if the tax avoidance is ended quickly. Based on the data from the Central Planning Bureau that the Netherlands missed 22 billion in tax revenues in 2018 alone, the government budget would look completely different if - let's say - a third of this amount is collected.

The EU countries together lost nearly € 150 billion in VAT revenues in 2016, due to inadequate administration but also to fraud. This is according to a study published by the European Commission on Friday. The Commission wants the VAT system in the EU to be drastically reformed. September 2019

Add this to the fact that at the moment the 3% ruling, which is far too low, but at least a start, is approved the Council of Ministers, there will be billions more available tax revenues. Plus, based on the figures from the Central Bureau of Statistics of the Netherlands (CBS) that 3665 billion enter and leave the Netherlands through constructions without taxation, the tax revenue that arises here when the 3% rule also applies to this will be:  $3\% \text{ of } 3665 = 110$  billion Euros in extra taxes per year! The amount that will further grow when the rate that applies to every company will be calculated:  $15\% \text{ of } 3665 = 550$  billion Euros! Per year! At the moment the decision is taken to treat kerosene like other fuels and tax them, in steps, at the same level, billions of extra revenues will come free.

The Dutch treasury misses 22 billion Euros annually due to tax evasion. It is estimated that the EU-wide figure is over € 823 billion, according to a study by a professor at the University of London on behalf of European Social Democrats. 24<sup>th</sup> of January 2019

December 13, 2018 9:11 AM Last update: December 13, 2018 2:44 PM

*The majority of foreign investment in the Netherlands flows out of the country through letterbox companies.*

*This is about 80 percent of the 4,587 billion Euros that entered the Netherlands last year, the Central Bureau of Statistics (CBS) calculated.*

*There are more than fourteen thousand of such letterbox companies. Four in five have no actual economic activity in the Netherlands. The majority of letterbox companies were set up by companies to pay as little tax as possible.*

*In 2017, the Netherlands exported 3,665 billion Euros. Just over half of the investments were made outside the European Union.*

*Relatively often money went to Asia and Oceania, in particular to India, Hong Kong, China, Australia and New Zealand. Mexico, Argentina and the Cayman Islands are also popular. The Netherlands is one of the countries that has the most tax treaties with other countries. The majority of these also concern double taxation treaties that prevent a multinational from having to pay tax on the same activities in several countries.*

*Source: Nu.nl, ANP*

The Tax Justice Network estimates that in 2012 (!) between 21,000 and 32,000 billion dollars in personal capital was stored overseas - untaxed. Huge amounts. If we also apply the 3% rule here, this will result in between 630 and 960 billion Euros per year.

Of course, much more with realistic percentages.

<https://www.nrc.nl/nieuws/2016/04/09/panama-papers-raken-iedereen-1605677-a194260>

### **Time for the big change! Equal taxes for all!**

The European Anti Poverty Network (EAPN, the largest NGO in the European Union), proposes six central changes to make on taxation for the new European Commission periode 2019-2014.

1. Bring forward a directive that clarifies that EU Member States stop using taxation as a means to compete with eachother.

*The German minister of Finance, Olaf Scholz, social-democrat- wants to introduce a higher taxation, by about 1,5%, of the wealth tax. The coalition partner, the cristian-democrats are opposing this proposal. Should it be intriduce it will bring about 10 billion € per year to the treasure chest.*

2. Put extra pressure, in accordance and cooperation with the European Parliament, to the Council of Ministers to introduce in 2020 the 3% tax regulation for all companies working within EU countries. Increase these 3% each two years with 2%, untill the moment that at least the lowest corporate tax level of a Member State is reached. This is very likely Ireland with a 10% corporate tax level.

3. Start a proces that will lead to taxation of kerosene, which also will contribute to the climate change policies. EAPN proposes to start here also with a 3% taxation, that will be raised by 1,5% per year till the moment it reaches the same level as is used for petrol.

4. Get committed in the discussion about the use of the extra billions of tax revenues that will be gathered: they should be used to improve the minimum income, to introduce a statutory minimum wage in ALL EU member states, to invest in climat change measurements, since they will bring new and qualified jobs, to prevent poverty and to support the creation of a really social EU. The EU wants to be the most competitive area in the world. Ending tax misuse and using the new revenues to built a really social EU will enormously contribute to this vision. Better wages and security for moments when one needs solidarity and support, increases the work performance.

5. What we need urgently is the taxation of financial transactions. Day after day trillions of euro's are send through markets without any kind of taxation. Introducing a small fee per transaction will not harm anyone, but will improve the national tax revenues. This is a way to work against austerities that will be spread out over the social programs, social assistance and other benefits and over the minimum income as the minimum wage, once the next recession has started. Stop to act this way, the easiest way, and use the transaction revenues to prevent austerities.

6. A, maybe new, but better working VAT system is urgently needed to make sure that the VAT is paid and is received where it has to be received. To end VAT fraude and carrousels means more income for member states and for the EU, which may help to avoid austerity measurements of which the poor and the low incomens, including the lower middel incomes, are always the most hurted groups. It also offers new money to built sustainable and affordable houses for the lower income groups.

Jo Bothmer, EAPN Netherlands