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Taxing Europe
Where is the finishing line in the race to the bottom?

The European internal market has negatively affected capital income taxation like hardly any other area.

Take, for example, corporate taxation. The taxation rates on profits from major private companies are plummeting. Between 1980 and 2001, the EU member states have cut average corporation taxes from 44.8% to 31.8%. The income tax ceiling affecting profitable partnership companies and high-income individuals has also seen a significant drop—from an average of 62.3% in 1985 to 48.3% in 2001. Then add the plethora of unfair tax competition instruments that the EU member states have been tormenting each other with—to the point of taxing profits from foreign companies less than they do their own[1].

Or interest taxation—wealthy EU citizens in ever increasing numbers are taking their private capital abroad, so mostly keeping their interest income completely tax-free—most countries do not raise tax on interest payments from tax foreigners.

The result is decreasing tax rates on mobile investment income; firstly because they cannot be raised in the first place, and secondly, because tax rates are caught in a downward spiral. These tax revenues are needed for public spending such as education, childcare, social welfare and environmental protection. These low taxes on high earners and companies also have a negative impact on the general attitude towards taxation. Those political forces that have always been against public institutions are having a field day, as they now have a much easier time forcing through the cutbacks on the welfare state that they have always been campaigning for, with tax evasion and competition providing a perfect tool for neoliberal ideology and the reduction of the welfare state.

The approaching eastward expansion of the EU will only aggravate this race to cut taxes since most of the new member states already impose very low tax rates on corporate income, with corporation tax averaging just 23.6%. A series of tax cuts in Eastern Europe is also in the pipeline.

Co-operation on tax policy—a sick joke
Strengthening international co-operation would provide an alternative to this ruinous tax competition within the EU. This has long been a topic of discussion in tax policy. In 1992, for example, the high-level Ruding Commission recommended a unified 30% minimum taxation rate on large companies. This proposal was soon shelved. A long-term research exercise raised a list of 66 unfair tax competition measures that have to be changed or eliminated, while also allowing lengthy transition phases.

Recent measures in interest taxation across national frontiers have been passed, but are largely ineffective. From January 1, 2005, twelve EU member states will be informing each other on the interest income of their citizens with the intention of making tax evasion impossible. Luxembourg, Austria and Belgium will not be taking part. However, they will be imposing a tax on interest at source at a rate of 15% to be increased to 35% at a later time. Bank secrecy laws regarding taxation will remain intact. Other tax havens such as Switzerland, the Channel

[1] In contrast, regular tax competition leads to tax cuts that are the same for both national and foreign residents.

Islands, Gibraltar and San Marino are to follow suit. Unfortunately, this agreement, which has received so much acclaim from the German government, will be largely ineffective since it will only cover interest income from private individuals. These wealthy individuals need only set up a private foundation, trust or limited company in the countries concerned, and they are off the hook.

The discussion on lifting the unanimity requirement regarding taxation also remained futile. The Council of Ministers has to reach a unanimous decision for a decision on tax policy to be passed at European level, and countries such as Britain, Luxembourg, Belgium and Austria can use their powers of veto to block any real progress. This has led to France and Germany applying for the unanimity requirement's abolition in the EU constitutional convention. This, however, failed, which was mainly due to resistance from Britain.

Attac alternatives

The race to the bottom in European taxation has to be stopped. Not only what is referred to as unfair tax competition, but also regular tax competition has to be eliminated. However, European regulation will hardly be able to recover what has been given up at national level. For this reason, Attac is against the current plans for investment income tax cuts. Investment income has to be taxed as heavily as earned income.

There has to be an agreement on minimum investment income tax rates at European level—around 30% for corporate tax. Also, the mutual disclosure system has to be extended to all EU member states and all private investment income. The resulting double taxation agreements have to be terminated and renegotiated with the aim of effectively combating tax evasion. Countries in favour of this should unite and campaign to this end; for example, the German federal government should make this an absolute priority within the European unification process. Continued failure to do so will mean the long-term success of the Kirchhofs and Merzes of this world in forcing through their unsocial tax cuts, thus eroding the financial underpinnings of the welfare state. The German government is hardly going to act of its own accord—wealthy individuals and major holding companies benefit too much from the current situation; only unified pressure from the citizens of Europe will make a difference. The critics of the current system have now found a common platform in the *International Tax Justice Network* (www.taxjustice.net). The establishment of a German section of the network is planned for May, 2004.

Sven Giegold published Attac's basis text No. 4, "*Steueroasen trockenlegen. Die verborgenen Billionen für Entwicklung und soziale Gerechtigkeit heranziehen"(„*Eliminating the tax havens. Recovering the hidden thousands of billions for development and social justice"). The Attac tax evasion and tax policy workgroup has also published a leaflet, "Stop tax evasion" (Original: *Stopp Steuerflucht*). Both publications are available for order from Attac's materials supply service.

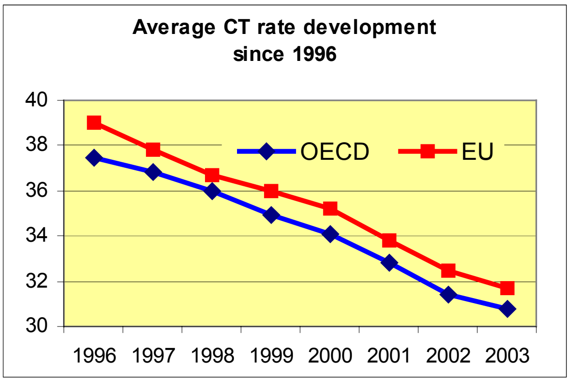

Figure: KPMG: EU-Osterweiterung: Ertragssteuern und Beihilfenrecht; Informations-Service Nr. 49, Oktober 2003.