TAX SYMPOSIUM

EU Tax Symposium 2023 – Minutes of Panel 1, 25 October 2023

"Does our tax mix age well? Next generation taxation and structural changes"

Panel Session 1 focused on **"*Does our tax mix age well? Next generation taxation and structural changes*"**. Our economies and societies are undergoing long-term structural challenges, the so-called megatrends, which include demographic change, technological change, globalisation, and environmental challenges. Without policy change, these megatrends are expected to, on the one hand, negatively impact the sustainability of our tax revenues, and, on the other hand, require an increase in government spending, notably to achieve the digital and green transition of society. It is therefore crucial to reflect today on how best to adapt our tax mix to render it future-proof, simultaneously safeguarding sufficient tax revenue to deliver fiscal sustainability and ensuring an efficient and fair tax system. The panel discussed how to design a tax mix that will help our societies get ready to face current and upcoming structural challenges, focusing on both competitiveness and fairness.

The panel, moderated by **Gerassimos THOMAS** (Director-General for Taxation and Customs Union, European Commission), was composed of:

- **Jesús GASCÓN CATALÁN** - State Secretary for Finance, Spain (EU Presidency)
- **Maurizio LEO** - Deputy Minister of Finance, Italy (via video-link)
- **Esther LYNCH** - General Secretary, European Trade Union Confederation (ETUC)
- **Fredrik PERSSON** - President BusinessEurope

Gerassimos Thomas opened the panel describing the EU27 tax revenues in terms of shares: larger part of the burden is borne by labour taxation, with Personal Income Taxes (PIT) and social security contributions representing 24% and 35% of the total revenues, followed by VAT (18%) and Corporate Income Taxes (CIT) (7%). Much smaller amounts are collected through taxes on property (around 5% of the total). He highlighted that this reliance on labour taxation will be an issue due to the demographic trends. So, we need to find alternative source of revenues also to finance the greening of the economy, but without forgetting that, in an open world, competitiveness is key.

During the introductory remarks, **Jesús Gascón Catalán** highlighted that, although the EU Presidency of Spain will be concluded in December, the implementation of any policy today needs to be consistent with a long-term strategy and targets, notably regarding the socio-economic mega-trends. In this light, public policies should use collected revenue to reduce inequality and foster growth, combining efficiency and fairness.

Maurizio Leo made the following points: 1) the demographic change and the fall of the birth rates require fiscal incentives like those Italy is planning to adopt (fringe benefits and family-quotient system); 2) the world of work is changing due to new technologies. From the fiscal point of view, the gig economy and smart working require high cooperation among countries for a different application of the concepts of fiscal residence and centre of economic interest, in line with OECD recommendations; 3) additional revenues need to be raised by countering evasion and avoidance using technology and effective compliance mechanisms; 4) the green transition needs to be supported through fiscal mechanisms of reduced taxation, also with the use of European resources as the Social Climate Fund; 5) regarding capital taxation, the OECD Pillar 2 will be implemented next January and, likely, the Pillar 1 could follow soon. Although this represents a positive action in terms of fairness and mitigation of tax evasion, we must always be cautious about the taxation of capital income because of its high mobility.

Esther Lynch remarked that ETUC represents 45 million members from 93 trade union organisations in 41 European countries, who are happy to pay the taxes due. She underlined the importance of increasing the number of workers covered by collective bargaining, whose wages are 10% higher than the average. She emphasised the role played by Commission directives on minimum wage and gender pay gap, which will also allow workers to increase their contribution to tax revenues. In the same way, extra-profits stemming from increasing interest rates should pay their fair share of taxes. Furthermore, she remarked that any tax breaks for companies in support of the green and digital transition should be linked to social conditionalities and investment in workers, also in terms of training.

Fredrik Persson highlighted that BusinessEurope represents 20 out of 23 million companies in Europe, mostly SMEs, focusing on how to produce and increase the size of the cake before discussing how to divide it. He expressed concern about the fact that Europe is lagging the US and Asia, remarking that, over the last 15 years, the US has grown much more than Germany, which is the locomotive of Europe. He emphasised that this is a challenge in view of demographic change and the green transition, which is an inevitable responsibility for every single company, without forgetting the digital transition and the geo-political transition, requiring additional costs in terms of defence expenditure and support to some countries as in the case of Ukraine. Fredrik Persson suggested that all those challenges could be turned into opportunities if Europe manages to restore competitiveness through less and better regulations, faster approval of permits and keeping the cost of energy at a reasonable level. Finally, he remarked that BusinessEurope aims to increase the number of high-quality jobs in Europe and that the reduction of cost for the companies is a key variable to defend European competitiveness, especially if looking at the US Inflation Reduction Act (IRA). More competitiveness is needed but it can be done.

After this first round of observations, **Gerassimos Thomas** remarked that there is also a specific panel devoted to competitiveness and gave the floor to National and European parliamentarians for questions and comments.

The Greek parliamentarian **Stelios Petsas** (Committee of Economic Affairs) underlined that every tax mix must be fair towards citizens. Tax rates on labour could be reduced, but it is essential to fight tax evasion and avoidance. He added that, today, environmental taxes are very low, but we need to reflect on new tools for the necessary investments in infrastructures required by the energy transition, including behavioural taxation.

The Austrian parliamentarian **Kai Jan Krainer** (Budget and Financial Affairs) remarked that in the EU 30-40% of the cake goes to capital income and 60-70% to labour income, but, looking at the taxation, capital and wealth contribute between 10% and 20%, while labour contributes about 80-90% of the tax burden. With respect to fairness, and considering a just income, we should at least double the tax contribution of capital income. He concluded that this could be possible only thought cooperation and setting aside tax competition between countries.

Cypriot parliamentarian **Christiana Erotokritou** (Chairwoman of the Financial and Budget Parliamentary Committee) highlighted that demographic change, technological and green transitions require additional tax revenues collected through a proper tax mix. To achieve these objectives, she suggested the provision of tax incentives to environmentally friendly practices and technological investments, which will also create jobs and growth, and encourage investments in public-private partnerships, reducing the financial burden on governments. For the tax mix, she suggested the broadening of consumption taxation, while reducing benefits and pensions for high-income individuals. Finally, she remarked that any tax mix needs to strike a balance between revenue generation, economic growth, and fairness in taxation, without forgetting the competitiveness of the European economy.

Hungarian parliamentarian **Zoltan Vajda** (Chairman of Parliament's Budget Committee) remarked the importance of improving the efficiency of tax systems with the help of technology, notably in the field of revenue collection. He underlined the great progress made in his country in the context of tax and fiscal digitalisation, allowing to eliminate the use of paper in the near future.

After the questions, the moderator came back to the panellists for their views.

Jesús Gascón Catalán highlighted that labour taxation today represents the primary source of revenue, and it could be decreased only very slowly. Consumption taxation could be extended, but this would have to be accompanied by compensation payments, mitigating its regressive impact. Such compensation payments however are very difficult to implement in countries with different levels of government such as Spain. Another alternative would be to increase the taxation of capital with a positive effect on fairness and progressivity, but this poses risks in terms of incentives to save and invest and might undermine growth.

Fredrik Persson remarked that last week he visited Greece finding a country on a positive trajectory. He also had a recent meeting with the Swedish minister of Finance, who said that in difficult moments the only taxable things are real estate property, labour, and food. He emphasised that, realistically, increasing taxes on companies and capital would discourage investments, while Europe needs additional resources for green and technological transition, especially from private investment.

Esther Lynch highlighted that we do not have to discuss competitiveness in terms of costs for firms, but we should provide companies with public support only given specific commitments in creating jobs, investing in workforce and, at the same time, ensuring the taxation of profit, making Europe a good place for investments, and working. She emphasised that the main problems for employers today are the cost of energy and finding staff.

Gerassimos Thomas remarked that it is of paramount importance to balance growth and taxation in the long-run and gave the floor for three questions.

Paul Verhaeghe (Belgian Association of Tax Lawyers) remarked, in the light of the role of law, the importance of differentiating between tax avoidance and tax abuse, especially when setting new measures. He also expressed interest in the previous day discussion on the possibility of establishing a European indirect tax on real estate aiming to raise funds to support those who cannot afford the improvement of own housing in line with new energy efficiency standards.

Stela Velichi (European Physical Society) highlighted that people receiving pensions from more than one country are taxed twice because of a lack of communication between different tax administrations and requested the harmonisation at European level through a Directive.

Panos Gredis (European Public Law Organization) asked how to tackle the issue of uncollected VAT in the light of the principles of economic and social cohesion expressed in the European Treaty.

Gerassimos Thomas remarked that, as the VAT Gap Report 2023 by DG TAXUD shows, the VAT gap has decreased over the past years and invited the panellists to answer the questions in addition to providing final considerations regarding the future evolution of the tax mix in the long term.

Esther Lynch underlined that one important source of tax evasion concerns the bogus self-employed who are not correctly categorised by the platforms they work for resulting in disadvantaged working conditions and unpaid social contributions. Finally, she remarked that taxation, albeit a Member States competence, should be included in the debate on the European economic governance review trying to combine competitiveness and fairness.

Fredrik Persson, after mentioning the importance of reducing tax evasion and elusion, pointed out that inflation and the burden of regulations let Europe fall behind in the global competition. In fact, global companies are increasingly moving toward other places like the US, also thanks to the Inflation Reduction Act.

Jesús Gascón Catalán underlined the importance of fighting against tax frauds, the VAT gap and black market, but also emphasised the importance of building a cooperative relationship between tax administration and companies. Finally, he remarked that relevant and structural changes in tax structures should always be based on ex-ante and ex-post analysis ensuring the proper balance between efficiency and tax justice.

Gerassimos Thomas reiterated the importance of considering taxation in the context of European economic governance review. He concluded that, as suggested by several speakers, the future tax mix needs to address the long-term challenges of population ageing and the green and digital transition. This debate contributes to designing the future of the taxation in a balanced framework which can balance economic and social challenges.