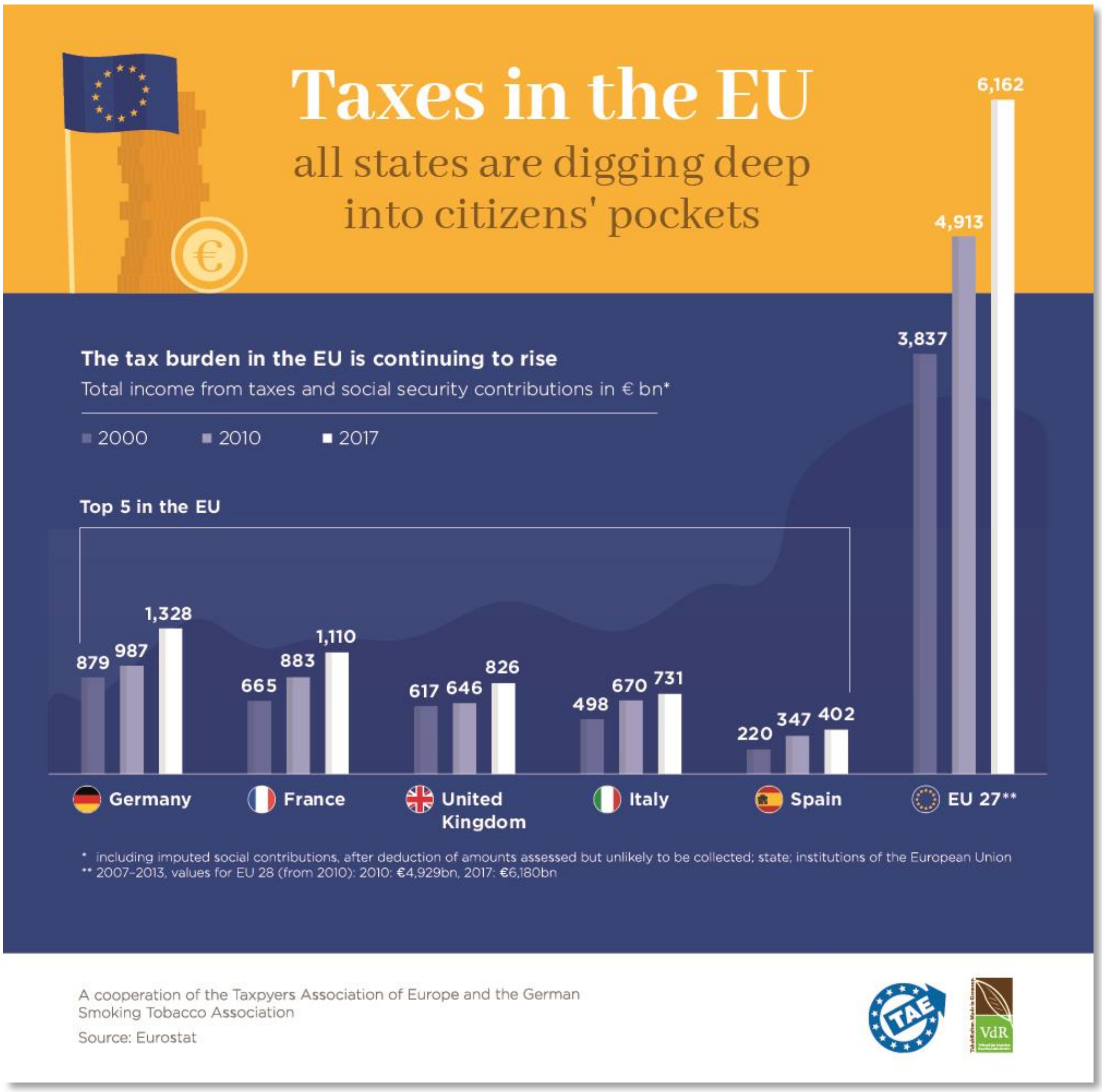
Against Levelling Down and Centralism
Keeping Competition

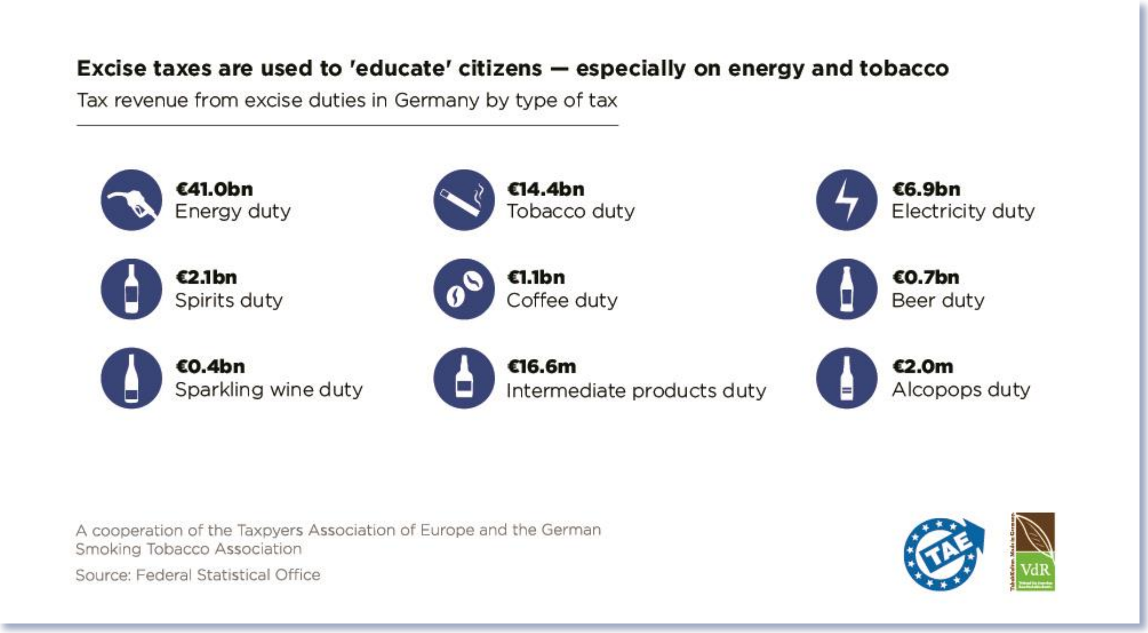
With open eyes into the European election!

The Taxpayers Association of Europe (TAE) in collaboration with the Association of the German Smoking Tobacco Industry (VdR) placed the order with the renowned online portal, Statist, to examine the most important tax and finance data of the EU ahead of the European election. The following insights are of relevance:

The **tax burden of all EU citizens is continuously growing**.

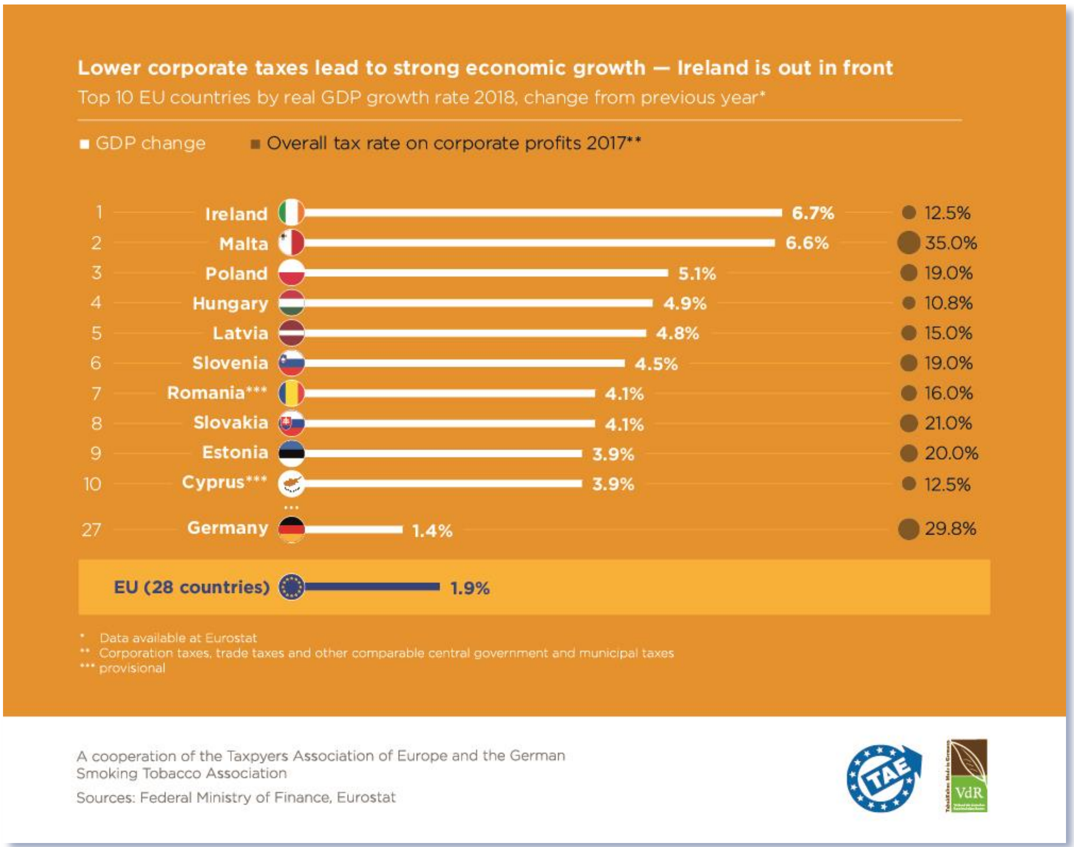


Where it is not income tax that hits hard, the tax authorities gets their money through excise taxes. See below the chart for Germany for the year 2018. Excise taxes are also supposed to influence the behaviour of the citizens.



Taxes and Economic Growth

Interestingly enough it is exactly those countries with lower tax rates that have the highest economic growth.



The numbers show that high taxes dramatically weaken the economy. The economic performance literally gets strangulated. In proportion, even countries with lower, simple flat tax systems have higher tax revenue.

Demands of the Taxpayers Association

Maintaining the Principle of Unanimity Regarding Tax Issues

Mostly unnoticed by the public eye, the EU Commission has undertaken a massive push to fundamentally change the future social and tax policy of the EU. In those specially sensible areas of finance up until now the principle unanimity applies. Thus every country has the possibility to prevent unwanted EU resolutions in these areas by veto. The EU Commission would like to change that!

For ultimately the EU Commission is bothered by the fact that it cannot simply impose its plans like the introduction of a separate EU tax, a financial transaction tax or digital tax.

No Rip-Off Through Digital Tax!

Here is what makes us at the Tax Payers Association of Europe (TAE) so angry: Under the smokescreen of fiscal justice (fair taxation) it is really all about milking the tax payers and nothing else!

Who doesn't want the big "bad" corporations like Google, Amazon and Facebook to finally pay more taxes and render their fair share thereof. For this to happen only the consolidated common tax base for corporate entities (CCCTB) would have to be harmonised and EU-wide minimum taxes for companies and an EU digital tax be introduced. This is the only way to get to the giants, and so on and so forth. A good person cannot object to that, right?

The reality is that transparency and stricter rules already exist today.

This profane manipulation of citizens by the EU Commission and political decision makers becomes especially apparent in the example of suggested taxation of digital enterprises.

Here the Commission quotes completely out of context and thus wrongly (!) from a study: The tax burden of digital enterprises lies on average at only 9 percent while non-digital enterprises pay 21 percent taxes on average.

This requires action, doesn't it? No, it doesn't and shouldn't! Because the reality is quite different.

Comparison of the Average Taxation of Large Enterprises		
	Digital Enterprises	**Non-Digital Enterprises**
Claim by the EU Commission	9.5%	23.2%
ECIPE	**26.8%**	**27.7%**
CES/ifo	**20.9%**	**26.7%**

Even the officials from the Federal Ministry of Finance (led by the Socialist Party) warn against the introduction of a digital tax. That actually says it all.

Especially for export nations like Germany, France and others, the digital tax could prove to be a dangerous boomerang in the end.

Such a tax system no longer rewards the development and production of innovative goods and services in a country, but rather consumption.

<u>Take the car industry, for example:</u>

One of the reasons why Germany's tax revenues are so high is that although German manufacturers sell around 80% of the cars produced in Germany outside their home market, the profits are taxed entirely in Germany.

Olaf Scholz should therefore rather listen to his in-house experts than to his European colleagues and refrain from the digital tax.

Anyone who light-heartedly opens a new theatre of war in view of the raging international trade dispute is more than foolish. Because once such a tax for internet companies has been introduced, both the US and China will introduce comparable regulations, countermeasures for analogue goods such as cars in order to "finally get a larger share of the profits made by the foreign car industry”. This would entail dramatic revenue losses for the German, French and Italian tax authorities, just to name a few car-producing EU countries.

The "economic sage", Lars Feld, criticizes the idea as a "special digital value added tax" that interferes with the principles of international tax law and burdens the economic activity of global companies in the EU. The approach amounts to "Europe first". IFO boss, Clemens Fuest, speaks of populism in tax policy, which is in no way inferior to the introduction of tariffs by the American President, Donald Trump. American counter-reactions would be inevitable. "In the end there are only losers," says Fuest.

Instead of provisional regulations, the G20 and OECD should ensure that the digital economy fully meets its normal tax obligations.

Taxing income, i.e. not profits, without taking account of losses or write-downs, etc., is an attack on the basic principles of the market economy and taxation according to the principle of efficiency.

The planned 3 % levy on gross sales inevitably threatens to lead to arbitrary multiple charges depending on the return on sales of the company concerned. If, for example, the company's return on sales is 10%, this corresponds to a burden of 30% on profits from the digital tax. In addition, there are the usual income taxes, corporation and trade taxes. This results in a high burden in Germany of more than 50% in total!

Impact of Tax Burden of the Planned Digital Tax Example: Germany			
Revenue	**1,000**	**1,000**	**1,000**
Digital Tax (3 % of revenue)	30	30	30
Profit Margin	**5 %**	**10 %**	**15 %**
Profit (Revenue x Profit Margin)	**50**	**100**	**150**
Profit minus Digital Tax	20	70	120
Profit Tax Rate	30 %	30 %	30 %
Profit Tax	6	21	36
Total Tax	**36**	**51**	**66**
Total Tax Burden (Total Tax / Profit)	**72%**	**51%**	**44%**

Source: Welling (2018); Calculation and presentation DSi;
Assumption: The digital tax should count as business expense and therefore lower the taxable earnings

This careless action harms the European economy and consumers. It is driven by ideology or vote catching on the occasion of the forthcoming European elections.

It also completely ignores how many direct and indirect jobs depend on digital companies. Only jobs directly created in Europe are endangered by the digital tax.

Development of Employees from 2007 until 2018						
	amazon		f	Google	Microsoft	
2007	17,000	21,600	16,805	16,805	78,565	34,300*)
2011	56,200	60,400	32,467	32,467	90,412	38,000
2015	230,800	110,000	61,814	61,814	117,354	62,600
2016	341,400	116,000	72,053	72,053	114,074	70,700
2017	566,000	123,000	80,110	80,110	124,000	74,400
2018	647,500	132,000	98,771	98,771	131,000	73,100

Sources: https://de.statista.com and https://www.statista.com
*) only figures for the year 2009 available
A summary from the Taxpayers Association of Europe (TAE), February 2019
Logos and pictures are original to the brand web sites

Moreover, these regulations are potentially in conflict with existing double taxation agreements.

Just because US companies sell digital services in Europe does not mean that they also have to pay corporate income taxes there. The current rules of international taxation still stipulate that taxes must be paid where products are developed and produced, not where they are sold.

Tax avoidance by multinationals is a real problem, but it is not limited to the digital economy. We therefore think it would make more sense to link taxation more closely to value creation. What is needed is a new definition of what a permanent establishment is in order to be able to clearly allocate profits (not sales!). An example of this is the distribution of trade tax revenue according to permanent establishments in Germany.

<u>To sum it up:</u>

- The digital tax is a boomerang for Europe; we throw pebbles to China and the USA and will receive a tsunami in return.
- The digital tax is once again driven by populism and envy. The bad internet companies must be taxed. This only leads to losers on all sides.
- It's a quick shot the consequences of which for the European economy have not been taken into account.
- Stupid, stupid digital tax!

The Euro-Zone Budget Must Be Rejected!

Many Euro-countries are pushing for a new transfer-pot for the Euro-zone. Especially France and Germany are for this. From the taxpayers perspective this plan is to be clearly rejected, for it would cause the self-responsibility of the countries to be even more hollowed-out and the redistribution to be increased.

The new Euro-zone budget is supposed to counteract the economically differently strong development within the Euro-zone - similar to the *Aufbau Ost* (the development program for Eastern Germany). This will then be paid for by the financially strong EU countries, which will have to permanently subsidise die weaker EU countries by way of a sort of EU fiscal equalisation system. According to the EU Commission’s idea there is also supposed to be money given for structural reforms and investments.

Not just a few politicians also want to draw social spending from this pot. Until June 2019 the EU group wants to concretise the budget to be shouldered in addition to the 150 billion EU budget and is probably to be started in 2021.

The volume of the redistribution is still highly debated - France wants the budget to be as large as possible while the Netherlands would rather not have one at all. The bottom limit is put forward at 25 billion Euro.

There are several reasons why the Euro-zone budget is following a wrong approach: For the EU budget has proven itself as redistribution system within Europe and also the proportional Euro-zone. But there are also efficiency potentials here. A new list of priorities is necessary, EU expenditures would then have to be applied according to those new priorities in order to reduce the economic centrifugal forces in Europe. With the present agricultural focus of the EU budget one cannot create Europe’s future. Then there is the threat that the Euro-zone budget as an extra budget is misused as a vehicle for a future European unemployment insurance, which is desired mostly by the southern countries at the expense of the northern countries. This needs to be prevented. In addition to this there is the fact that with the BREXIT and without reform financially stronger countries like Germany have to make significantly higher EU-payments. In the coming years Germany is faced with up to 50 billion Euro additional payments to the EU per year! Obviously it is simply forgotten that even financially stronger countries have their limits on financial burdens, too. Even more money for redistribution within Europe therefore must be off-limits!

No Union of Redistribution

The elimination of unanimity would also have significant effects on the area of social security systems, which today are still the responsibility of the individual member states. If the EU Commission has its way, the principle of unanimity has to also be eliminated in this area in order to push ahead the social union. Among other things there is an intended EU wide regulation for minimum wages as well as the implementation of a European unemployment insurance.

All this is just a crude attempt by the EU Commission to create new ways of redistribution. There is a clash of fundamental differences in social and fiscal policy between the so-called “northern states” (Germany, Great Britain, the Netherlands and the Scandinavian EU member states) and the “southern states”.

New Tuning Key Necessary after BREXIT

This EU proposal becomes especially significant when viewed in the context of the impending exit of Great Britain, because the BREXIT severely changes the balance within the EU to the disadvantage of the northern EU members including Germany.

The EU Commission wishes fiscal political regulations in the future to be passed with a consent by 55 percent of the member states, whereby those states must together represent at least 65 percent of the EU population. Such a qualified majority decision would strengthen Brussels influence enormously, because such a majority is much easier to organise than the currently required consent by all EU countries.

With Great Britain leaving the EU the northern states will lose their current EU population share of around 39 percent and thus their blocking minority. With their 38 percent the Mediterranean countries under the leadership of France carry almost as much weight. Thus far the EU treaties call for a blocking minority of 35 percent in majority decisions. Therefore up until now decisions could neither be made without the consent of the North nor without the consent of the South.

If the British are leaving this finely balanced power structure of the EU will be lost. Without Great Britain the northern countries will no longer have the necessary voting shares to block EU decisions if necessary. At the same time the weight of the Mediterranean states will grow.

To state it directly and simply: An elimination of unanimity will lead to those countries, who have an interest in redistribution or communitarisation of debts being able to enforce such policy at any time due to the missing blocking minority of the northern states. Thus more redistribution, Eurobonds, banking liability (EDIS) and elimination of tax competition, introduction of new taxes as well as introduction of a EU tax will find the “gates wide open” with the elimination of the principle of unanimity!

The now suggested introduction of majority decisions sound harmless, but the devil is found in the details!

Necessary and to be demanded is therefore the preservation of the principle of unanimity and, if and when Great Britain leaves, the redefinition of the blocking minority at 2o or 25 percent.

No to a National CO2 Tax
European Solution Instead of National Actionism!

A CO2 tax as a “national solo effort” as e.g. discussed in Germany will lead to unforeseeable added burdens for the respective citizens and businesses, but without achieving much in climate policy: The national energy prices would continue to rise without the worldwide emissions being substantially lowered. The Taxpayers Association therefore expressly warns against such national solo efforts.

For that matter, in many EU countries the energy tax burdens are already to high as o today. Governmental experimenting with tax rates for different energy sources in order to reach specific emission goals in individual sectors must therefore be prevented! If on top of that there is discussion about lower tax burdens for specific groups in one field, chaos and unfairness loom.

If one wants to set new climate policy impulses, one should aim for an EU wide expansion of the CO2 certificate trading to additional sectors. But such trade would then perspectively have to be linked with the trade systems in other regions of the world.

The existing trade of certificates in the energy industry and large sectors of the industry in general already works and serves as a model character. This kind of certificate trading could in the future also be introduced to other areas like the traffic sector and the building and construction sector. Politics would then only have to define which CO2 limits are permissible. The question of which energy sources and technologies are being applied to keep within these emission limits would then exclusively be determined by market pressure through certificate prices, accurately and efficiently.

Demands:

- By help of governmental proceeds from certificate auctions the respective citizens and businesses have to be fiscally relieved elsewhere.
  The goal must not be to obtain more revenue, but to sustainably reduce CO2 emissions.
- Moreover, subsidies in the national budget should be examined to determine of the expected CO2 saving targets are even met. If this should not be the case, those subsidies must be eliminated, which in turn would create more leeway for taxpayers relief.
- With an eye on the worldwide trade, instead of national solo efforts a long-term overall package should be tied up rather than actionistically adopting new CO2 taxes.

Minimum Wage Already Mostly Implemented in Europe
EU Cracks Down on Wage Dumping

Of the 28 member states 22 have established a minimum wage by law. There is no legal minimum wage in Denmark, Finland, Italy, Austria, Sweden and Cypress.

The range of legal minimum wage in the year 2019 stretches from 1,72 Euro per hour in Bulgaria to 11,97 Euro in Luxemburg.

Minimum wages have increased in all EU countries since 2017. At the same time wage earners have been profiting from the low inflation rates of the last years, which have lead to an increase of real wages. Because of this, low income earners even had the highest increases since the turn of the millennium.

The demand of a minimum wage in Europe is therefore in large parts already fulfilled. According to EUROSTAT the minimum wage in Germany is even one of the highest in the EU.

Especially in countries in Eastern and Central Europe s dynamic increase of minimum wages has been recorded.

But decisive factor is not only the question of minimum wage and the increase thereof, but much more importantly the question of securing a livelihood. It is generally assumed that 60% of the medium wage level is necessary to secure livelihood. But the approach of only making the employer responsible for that aims to short, because through its tax policy the state has a large impact on what people have left over to live on. If money is short, it is often attempted to balance this out through transfer payments. From the perspective of the Taxpayers Association the better way would be to leave people with more money to start with thorough lower taxes.

“Same pay for same work” is the motto on the EU. But this does not mean paying the same wages in all countries, but preventing wage dumping in individual countries. This is the aim of the revised reform of the posting directive that the European Parliament adopted by clear majority on May 29, 2018.

Comparison of Minimum Wages in the European Union	Minimum Wage Per Hour 2017	2019
Luxemburg	11,27 Euro	**11,97 Euro**
France	9,76 Euro	**10,03 Euro**
Netherlands	9,52 Euro	**9,91 Euro**
Ireland	9,25 Euro	**9,80 Euro**
Belgium	9,28 Euro	**9,66 Euro**
Germany	8,84 Euro	**9,19 Euro**
Great Britain	8,79 Euro	**8,85 Euro**
Spain	4,29 Euro	**5,45 Euro**
Slovenia	4,65 Euro	**5,10 Euro**
Malta	4,25 Euro	**4,40 Euro**
Portugal	3,36 Euro	**3,61 Euro**
Greece	3,35 Euro	**3,39 Euro**
Lithuania	2,32 Euro	**3,39 Euro**
Estonia	2,78 Euro	**3,21 Euro**
Czech Republic	2,44 Euro	**3,11 Euro**
Poland	2,65 Euro	**3,05 Euro**
Slovakia	2,50 Euro	**2,99 Euro**
Croatia	2,51 Euro	**2,92 Euro**
Hungary	2,35 Euro	**2,69 Euro**
Romania	1,65 Euro	**2,68 Euro**
Latvia	2,25 Euro	**2,54 Euro**
Bulgaria	1,42 Euro	**1,72 Euro**
Sources: European Pay Scale Report of the WSI 2017; Statista January 2019; TAE, own research		

Through a resolution by the European Parliament, starting by the middle of 2020 (two years implementation deadline) workers sent abroad will receive the same wages as their local colleagues. Moreover, they are to benefit from collective labour agreements and have a right to additional allowances for travel as well as board and lodging. This compromise was reached by representatives of the Parliament, the Commission and the EU states in March 2018 after more than two years of negotiation.**)

**) Please also see: https://www.tagesschau.de/ausland/europaparlament-lohndumping-101.html

Main Points of the Reform:

- All rules of the host member state regarding wages that are either determined by law or by collective labour agreements shall also apply to dispatched workers.
- The employer must pay for travel, board and lodging costs (instead of deduction from the worker's pay).
- The maximum dispatch period was set at 12 months, whereby the period can be extended by six months. After that all labour law provisions of the guest country shall apply.
- Temporary work agencies must guarantee their dispatched workers the same conditions that apply to temporary workers in the member state where the work is rendered.
- The cooperation in fighting fraud is intensified.
- The new elements of the directive apply to the traffic sector as soon as the planned, sector-specific regulations become effective.

The Taxpayers Association welcomes this initiative by the EU to fight wage dumping while at the same time preserving location competition.

A common minimum wage in the EU would also economically not be affordable and would eventually lead to the loss of competitiveness of the currently still cheaper low wage countries, judged by labour costs. If in those countries the tax rate would also have to be harmonised and thus increased, as demanded by some politicians, hey would completely lose their advantage of location. Who would then still invest in Malta, Cypress, Bulgaria or e.g. Romania, if they would have the same wage, costs and framework conditions as in Paris, Madrid, Copenhagen, Berlin or Munich? Certainly fewer than today! Then those countries would demand and receive financial compensation for this disadvantage of location, which was decreed by the EU. This way does not lead to more growth and prosperity, but only to more redistribution and higher debts, which we at the Taxpayers Association reject.

Additional Policy and Action Fields for the EU

- Reform of the institutions
- Reduction of bureaucracy and deregulation
- Mutual foreign and security policy
- EU migration policy
- Advancement of research and development

Conclusion

Europe is at a crossroads, not only because of the upcoming elections.

It is time to draw our conclusions from the experience with the British. There, the people woke up on the morning after the election and realised that the world had changed. Europe has to finally find the strength for renewal and agreement on necessary reforms, otherwise the anti-European forces will grow in strength, the creation of rivalling camps will widen and the further break-up of Europe will be looming.

After the European election the reform backlog must be broken through and an agenda must be created regarding the areas in which Europe needs to be strengthened and those in which the individual responsibility of the national states needs to be promoted. In order to create such an agenda, discussions and realignments are necessary. From the perspective of the Taxpayers Association this is foremost about fair tax competition and measures against tax dumping by individual member states. But the proposal of the EU Commission to eliminate the principle of unanimity for tax issues is a wrong and dangerous approach. It is to be feared that by doing so feed is given to the introduction of European taxes and that harmonisation of business taxes will lead to higher burdens on taxpayers. It would be more expedient approach to find other mechanisms to ensure a fair tax competition worldwide - on a national and European level. Under no circumstances should tax competition be abolished!

Also, considerations regarding the harmonisation of social standards, the broadening of redistribution within Europe, the weakening of individual responsibility of the member states, the levering of the stability pact or even the establishment of Eurobonds are to be rejected. For those kind of approaches only overstrain the taxpayers and intensify the centrifugal forces out of the European Union.

For those reasons it is necessary to preserve the principle of unanimity regarding tax ssues and the social security systems, and to support achievement-oriented and taxpayer-friendly powers at the European election.

The Taxpayers Association of Europe recommends to the voters to read the individual election programmes carefully!

We hereby appeal to the political decision makers to, once the European election is over, finally deal with the EU reform in a professional and solution-oriented fashion: “More Europe where necessary and less Europe where possible!”

Contact / Inquiries

Taxpayers Association of Europe
Rolf von Hohenhau, President
Michael Jäger, Secretary General

Office Brussels
Avenue de La Renaissance 1
B-1000 Brussels
Phone: +32 2 740 20 38
E-Mail: info@taxpayers-europe.org
Web: www.taxpyers-europe.org

Office Munich
Nymphenburger Str.- 118
D-80636 Munich
Phone: +49 89 12 60 08 20