# Speech given by Bernadette Ségol, General Secretary of the European Trade Union Confederation (ETUC)

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Mrs Minister,
Dear Mikko, dear Ninna,
Dear colleagues and friends,

You have invited me to speak on tax havens and tax policy coordination in Europe. I should perhaps start by saying that the ETUC so far does not have a comprehensive policy on taxation policy with a few exceptions like the FTT, the need to shift taxation away from labour to products and services that are harmful to the environment, and to have a common corporate tax base combined with a minimum tax rate. So far, taxation has not been a matter of great concern at EU level. But this is about to change, and I guess this is why you invited me to speak about the subject.

To the legal situation: the European Treaties stipulate only very few areas for the harmonisation of Member States' rules, mainly in the area of indirect taxation (principally the Value Added Tax and Excise Duties), and this because indirect taxes may create an immediate obstacle to the free movement of goods and the free supply of services within the Internal Market and create distortions of competition. But the internal market can also be the vehicle for profit shifting, tax evasion and fraud. This has led the European Commission to embark on a series of initiatives to counter these trends. Lately an expert group has been set up on taxation and the digital economy. This has been welcomed by the European council in October. However while specific initiatives are being taken related to the internal market, in general terms, taxation is a matter primarily of the Member States, not the EU.

Regarding the policy moves of the recent months which I will talk about in a moment, I believe that they have to do with the consequences of austerity policies in Europe and the tacit recognition that government policy needs more room for manoeuvre than is currently the case.

I will start with a few fundamental thoughts on these matters and the policy lines that ETUC member organizations have agreed on. In a second step I shall outline the current debate in the EU. Last but not least, I will outline how we believe that better EU coordination on taxes can achieve prosperity for all in a more Social Europe.

## I

Let me start by putting forward some figures on the development of taxation across the European Union. Since the crisis started in 2008, VAT has increased in more than half the European member states (15 out of 28) with an average increase of 1.5 % points between 2008 and 2012. Income tax has risen by 0.8 % points despite the discourse on shifting taxation away from labour. The steep decline in corporate tax rates seems to have levelled out at an average rate of 22 % points in 2011, but still down by 10 % points since 1995. But most worrying, in times of depressed when tax revenues is the most needed to stabilise the economy the tax ratio (tax revenue as % of GDP) is down from 39,4 per cent in 2007 to 38,4 per cent in 2008. Meanwhile the Commission and the

Parliament estimate that 1 trillion € in public money is lost due to tax fraud and tax avoidance, every year, in the EU.

One way of interpreting these trends is that taxation is for those who cannot afford to avoid it, or in other words the working people are paying the taxes on behalf of those who can afford to avoid paying taxes. This is far from tax justice, an issue I will get back to.

In this Social Compact for Europe of last year, the ETUC has been calling on the EU "to focus on policies improving living and working conditions, quality employment, fair wages, equal treatment, effective social dialogue, trade union and other human rights, quality public services, social protection - including fair and sustainable health and pension provisions - as well as an industrial policy favouring a just transition towards a sustainable development model. Such policies would contribute to building citizens' trust in their common future."

And in conjunction with these positive goals, we have said that we "reject all policies leading to downwards competition be it on labour rights, wages, working time, social security, taxes or the environment."

Let me explain to you the reasoning behind this. If we like it or not, the European Union in its tools for better economic policy coordination has adopted a highly restrictive policy line when it comes to government expenditure. Put simply, within the economic governance framework of the Six Pack, the Two Pack and the Fiscal Treaty, governments have to respect generalized debt brakes under the control of the European Commission. On the revenue side however, such instruments of coordination at EU level unfortunately do not exist. At the same time, we urgently need growth and investment programmes to fight mass unemployment, to re-build the European industrial potential and to move towards a sustainable growth model, one that is built on modern infrastructure, research and development, climate technology and renewable resources, not on financial bubbles and speculation. Also in the Social Compact, we demand well-functioning public services in the interest of all. The EU must stop pressure to privatise and liberalise them further to cut public expenditure.

All this requires considerable public resources; in other words: additional expenditure. How can we achieve this, with the high pressure and default theory on public debt and deficit reductions? It is essential that we argue the link between sound public finances and sound tax systems, not only expenditure reductions.

For the ETUC, it is primarily a matter of economic and social justice to re-establish redistributive and progressive taxation on income and wealth, and the end of tax havens, tax evasion, tax fraud, corruption and undeclared work. In the Social Compact, we are demanding a "harmonisation of the corporate tax base and minimum rates of taxation for companies, possibly with the introduction of a minimum rate of 25%, the current average level of imposition in Europe."

Let me say this clearly: only the rich and wealthy can afford a poor state. People with sufficiently high incomes can pay for their own private security, they don't need public schools and universities, public libraries, a well-functioning public transport network et cetera. The privatization of publicly financed common goods is not a problem for them. In their logic, services of general interest could become a negligible quantity since they buy everything for themselves from their own pocket! Ideologically motivated reservations against the state and sound finances are incompatible with the European Social Model. So are flat tax regimes that exist in some of the Central and Eastern European Member States. Both physical and social infrastructure need sound systems of taxation, as well as public investments to correct for damages that naturally arise from competition in a market economy. Markets alone cannot and will never create social rebalancing.

## II

What is the situation at European level today? As I already mentioned, the Commission and the Parliament estimate that 1 trillion € in public money is lost due to tax fraud and tax avoidance, every year, in the EU. This is 1000 billion € or more than 10 per cent of public debt of the euro area. The tax gap has reached an alarming size. It represents cost of roughly 2000 € for every European citizen, including children and pensioners – per year! As a matter of illustration: the average of the tax lost in Europe today exceeds the total amount that Member States spend on healthcare, and it amounts to more than four times the amount spent on education in the EU.

Relatively few countries have made their own national estimates of the tax gap. In Finland, I have been told, Finland, the Director General of the Tax Administration noted in 2011 that the Finnish tax gap was estimated at between €4 billion and €7 billion, although this was based on international comparisons rather that the Finnish authorities own studies.

The current tax gap in Europe represents not only an alarming loss of public revenue but also a danger for the safeguarding of the EU social model based on quality public services available to all. It makes tax systems within the EU unfair and is a threat to the proper functioning of the Single Market. The loss of revenues continues to increase the deficit and debt levels in the Member States, when austerity is imposed and right at the most crucial time of fighting the crisis. Due to tax fraud and tax avoidance, funds available to promote public investment, growth and employment are lacking.

All of this in times of the biggest economic, financial and social crisis since decades, when the automatic stabilisers of the welfare state remain more relevant than ever to ensure growth and social cohesion. Let's also remind ourselves that effective and progressive taxation remains fundamentally important for public authorities in their task of fulfilling their obligations and meeting the needs and expectations of their citizens.

A large part of the non-taxed liquidity is feeding into financial trading activities rather than public consumption and investment. It is the lack of coordination of tax policies in the EU that has led to significant costs for citizens and companies operating cross-border within the EU, and that facilitates non-taxation or tax fraud and tax avoidance. More and more European enterprises find themselves in a competitive disadvantage compared to those that find ways to avoid paying their fair share. As a result, the scale of tax fraud and tax avoidance ends up in a downwards spiral and it undermines citizens' trust and confidence in the fairness and legitimacy of tax collection and the fiscal system as a whole.

In addition, countries under EU assistance programmes have in the last years seen many of their larger companies leave in order to benefit from tax privileges offered by other countries. For example in the case of Greece, the Commission has calculated that as much as €60 billion have escaped from Greece to Swiss banks since the beginning of 2012.

Tax fraud and tax avoidance, therefore, represent a serious, multi-facetted problem, requiring a coordinated approached, at national, EU and international level. With Member States sticking to their national competence over their fiscal systems, action at national level is important. But this is not sufficient. The cross-border nature of tax fraud and tax avoidance requires that all focus must be put towards establishing a cohesive, concrete and common European tax strategy, embraced and implemented by all Member States.

The Commission has recognized the problem in three Communications at the end of last year: an Action Plan to strengthen the fight against tax fraud and tax evasion, a Recommendation on aggressive tax planning, and a Recommendation to apply minimum standards of good governance in tax matters. These are certainly first good steps in the right direction, but there are also important weaknesses. The Action Plan for instance is primarily based on voluntary initiatives and takes a national approach, in blacklisting non-EU tax havens at national level. The Commission did not have the courage to point to tax havens within the EU! To my view, a European list of tax havens would have to include the tax havens in the EU and it should be made publicly available.

I think that we need to differentiate between the different forms of non-taxation that, taken all together, make up the 1 trillion € tax gap. Tax fraud and tax evasion constitute illegal activities of evading tax liabilities. These include tax havens which, as your title for this session rightly states, steal our money. There should be no doubt about legal prosecution. This can and should be done at national level. Yet it requires good cooperation between the fiscal authorities of Member States and, we would argue, a system of automatic exchange of information among them.

On the other hand, tax avoidance may be a legal but nonetheless improper utilisation of the tax regime to reduce or avoid tax liabilities, and aggressive tax planning consists in taking advantage of the technicalities of a tax system, or of mismatches between two or more tax systems, for the purpose of reducing tax liability. The cases of big US multinationals such as Starbucks, Google and Amazon have become infamous earlier this year. They clearly fall under this category. To illustrate this: Starbucks in the UK stated it had made a loss for 14 of the 15 years it had been operating in the UK, with only a small profit in one year. The result is that over this period it has paid a total of merely £8.6 million (€10 million) corporation tax in the UK. It is hard to believe that a multinational company with a 31% market share by turnover has been trading with apparent losses for almost every year of its operation in the UK!

Tax avoidance and aggressive tax planning can only be fought successfully at European level. For corporate taxes, we would need a detailed country-by-country reporting system that prevents companies from shifting benefits to low-tax countries and losses to tax systems that make their write-off attractive. Both of these latter forms require a strongly reinforced cooperation between the tax authorities of different Member States.

When we look at the global level, I find it scandalous that the information on secret off-shore bank accounts published in April 2013 had to come from the International Consortium of investigative journalism and not from official sources of the EU or the Member States. Once more, this calls for a strengthened European and international commitment to transparency. We need an international, binding, multilateral agreement on the automatic exchange of information in tax matters.

The declaration of the G20 leaders of September 2013, made not too far from here, in St Petersburg, said the following: “In a context of severe fiscal consolidation and social hardship, in many countries ensuring that all taxpayers pay their fair share of taxes is more than ever a priority. Tax avoidance, harmful practices and aggressive tax planning have to be tackled.” - I believe that the Commission and the Member States must take on a more active role in the international arena to establish international standards which are based on principles of transparency, exchange of information and abolition of harmful tax measures. The OECD Principles that are to be worked out for the G20 on ‘Base Erosion and Profit Shifting’ could be a good starting point to achieve such international standards.

**III**

To conclude: what could be sensible goals for better tax coordination in the EU?

First, what is possible between the United States and Europe should also be possible within the EU! The US Foreign Account Tax Compliance Act (FATCA) is working towards an automatic exchange of information between the EU and the US to fight trans-border tax fraud and tax evasion. We need a similar legal instrument here in Europe!

Secondly, for the fight against tax evasion to be credible, we should establish numerical targets. I think that the ERTUC can support the European Parliament's position that Member States should commit to an ambitious but realistic target of at least halving the tax gap by 2020. This would gradually create significantly higher tax revenue in the order of 500 billion €, without having to raise the tax rates!

Thirdly, the ETUC supports the campaign of EPSU, the European Public Services Union. It is not enough for governments to say that they want to combat tax evasion and avoidance. To do so effectively, they must also provide the resources. Between 2007 and 2011, in 24 out of 28 Member states the numbers employed in tax administration have fallen. 50.000 jobs in tax administrations were lost. In some countries, this is equivalent to more than 10 per cent! It is paradoxical that against the backdrop of austerity, some governments have cut expenditure in precisely the area which should normally guarantee sufficient government revenues. More job cuts are budgeted. We say: this must stop!

Fourthly, tax evasion and avoidance also raise the question of fairness. Honest taxpayers, whether individuals or organisations, begin to feel that others are not making a proper contribution to society. This is particularly important when taxpayers start blaming the open borders of the EU Internal Market. It raises anti-European sentiment, whereas precisely more Europe would constitute the solution, not the problem! The country specific recommendations of the Commission must acknowledge that effective and fair tax systems need enough employees in the tax authorities to pursue those paying less tax than they should and to provide an efficient service to individuals and organisations who are paying the right amount of tax. Member States should therefore hire and allocate adequate staff, expertise and budget resources to their national tax administrations and tax audit staff, as well as allocate resources for the training of tax administration staff focusing on cross-border cooperation on tax fraud and avoidance, and to introduce strong tools against corruption.

Fifthly, as far as corporate taxes in the EU are concerned, Member States should agree and implement the Directive on a Common Consolidated Corporate Tax Base (CCCTB) and move gradually from an optional to a compulsory scheme. This would give a strong signal to European citizens that the joint regulatory framework of the EU is beneficial for all, not just for the benefits of big business, and that the European Social Model is working!

The Nordic countries are the real life demonstration that efficient and high quality public services are both a competitive factor and the foundations for a just society. This model is based on relatively high levels of taxation combined with a low degree of tax fraud and tax avoidance. In other words, they rely on tax justice. This should be a principle for the entire European Union, and not only for a part. The five points set out above lay down a set of principles needed for a European Union based on tax justice. We should push for these principles.
Thank you for your attention.