



Commission des Episcopats de la Communauté Européenne
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Report of the "Social Affairs" working group

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Working towards greater equality in taxation matters in the EU
Report of the "Social Affairs" Working Group

At its meeting of 30/31 October in Brussels, the "Social Affairs" Working Group discussed the fiscal policies of the EU after the introduction of the euro. The meeting was prompted by the proposals by the European Commission for directives concerning the effective taxation of savings income {COM(1998)295} and energy products {COM(97)0030}, and the adoption by the European Council of a code of conduct on business taxation (cf. Bulletin of the European Union 12-1997, 186-190).

According to a Commission report, the implicit tax burden on wages and salaries rose from 35% in 1980 to more than 42% in 1995, whereas the implicit burden on other bases of assessment (tax bases), for example capital gains and company profits, fell from 44.1% to 35% over the same period.

This distortion in the tax systems of the member states is due in part to the removal of intra-European restrictions of the flow of capital, although the greater transparency resulting from the introduction of the euro is threatening to magnify the disparity between the burden on work on the one hand and the burden on other tax bases on the other. The negative impact on employment is serious. According to estimates reported by the Commission, the high tax burden on wages and salaries is responsible for four percentage points of structural unemployment in the EU. In the employment policy guidelines published in December last year, the European Union took the logical step of declaring the reduction of this tax burden to be one of the priorities of employment policy.

It is against this background that the "Social Affairs" Working Group welcomes the Commission's recent proposals concerning fiscal policy. Although it will not necessarily be possible to prove that these measures will have a major impact on employment, they nevertheless represent an appropriate and prudent response to the distortions described above. When the proposals are implemented, the EU member states ought to be able to apply fundamental principles when they develop their national tax systems, and so introduce a greater degree of fairness in taxation. In addition, virtually all the proposals of the European Commission are orientated in accordance with the principle of subsidiarity. Many of the obstacles in national tax policy cannot be solved simply by raising them to European level. In the near future, the European Council of Economics and Finance Ministers will hopefully establish a timetable for implementing the initiatives in fiscal policy. It is the view of the Working Group that a fixed timetable would be a clear indication of the settled will of all member states to make progress in reducing indirect labor costs and rectifying the distortions in the national tax systems.

Greater uniformity and proportionality in taxation

In the Encyclical “Mater et magistra”, Pope John XXIII wrote that in a system of taxation “based on justice and equity it is fundamental that the burdens be proportioned to the capacity of the people contributing” (Mater et magistra 132).

The Commission’s draft directive concerning the taxation of savings income and the code of conduct of the member states on business taxation are important steps in taking greater account of the principle of uniformity in taxation and in halting the gradual erosion of these tax bases in favour of placing a greater tax burden on work. In terms of “justice and equity”, the main purpose of the proposals is to end the widespread practice in national tax systems of treating individuals and companies differently. Individuals and companies in economically comparable circumstances must be taxed uniformly.

From a socio-ethical point of view, the consideration as to whether a person is resident in an EU member state or holds an account in that country as a non-resident citizen of another EU member state must not constitute grounds for taxing the interest earnings differently - at least provided there are no means of taxing the non-resident person in his/her European country of origin.

For this reason, the “co-existence model” proposed by the Commission in the context of the taxation of interest earnings is a welcome step. Under the model, the member states would be compelled either to tax interest earnings with a 20% withholding tax, or else to pass on information about relevant interest earnings to the account holder’s country of origin.

A similar approach is proposed for corporate taxation, and the code of conduct for corporate taxes lays down that tax measures must be regarded as harmful if they “result in significantly lower actual taxation, including zero-rate taxation, in relation to the normal level of taxation applicable in the member state in question.”

In Catholic social teaching, the call by John XXIII that “the burdens be proportioned to the capacity of the people contributing” has led to support for the introduction of a progressive rate of taxation. Those who earn higher salaries can also be called upon to pay a proportionally higher tax rate. In this context, too, the Commission’s proposal for taxing interest earnings is a welcome move because the option of passing on information about interest earnings, at least, guarantees that all components of a person’s income can be included in the basis of tax assessment.

With regard to the general move away from direct taxes and towards taxes on consumption (in particular value-added tax, but also energy taxes), it is the opinion of the Working Group that although there are arguments in favour of this development (in the environmental field especially), the fundamental principle of fiscal progression should not be abandoned. Progressive taxes are an excellent means of encouraging social equality, and are therefore important in maintaining social cohesion. In many member states, however, the impact is blunted by an excessively complex system of

wage and income taxes, which means that higher taxation is often the result of a lack of understanding of the tax laws rather than higher earnings. The principal objective should therefore be to trim these excesses.

A prudent approach must take account of the principle of subsidiarity

The Working Group is of the opinion that the proposals of the European Commission take prudent account of the principle of subsidiarity. They are not aimed at harmonising European fiscal policy, but at helping the member states correct their skewed tax structures and reduce the distortions described above.

As a result, the rates for business taxes remain a matter for the member states, provided they are applied uniformly and fair tax-rate competition is guaranteed. The first requirement of fairness is openness among the member states. For this reason, the Working Group welcomes the procedure, as laid down in the code of conduct of the member states for corporate taxation, designed to establish complete transparency in current and future tax measures in this field.

The Working Group considered the maintenance of tax-rate competition per se to be an effective way of keeping government spending down to the necessary minimum. The stability pact limiting budget deficits is an important safeguard for the next generation and future taxpayers, and similarly, fair competition in fiscal policy between EU member states may indirectly represent a guarantee that the current generation will not be placed under a disproportionate burden as a result of excessive government spending and high taxes.

The working group's positive assessment of the initiatives of the European Commission does not include the draft directive concerning the taxation of energy products, whereby certain pan-European minimum tax rates would be applied to energy products (petrol, diesel, gas, electricity, etc.). We agree with the opinion of the European Parliament (cf. the draft report by Patrick Cox MEP on this proposal) that the large number of exceptions listed in the draft directive should be reduced to a very small number. However, the member states should be at liberty to register special national arrangements with the European Commission in the context of European policy on aides granted by states.

An prudent approach must take account of the principle of subsidiarity, because in order to move European fiscal policy forward with any urgency, particular attention must be paid to national circumstances. Without making any moral judgement, the Working Group has established that many citizens as well as companies prefer to conceal their true financial circumstances from the national tax authorities. There are very different reasons for this. For example, many EU citizens invest their savings in another EU country not with the primary intention of earning interest without the tax authorities finding out, but because they want to guarantee that their wealth will be passed on to the next generation.

Such patterns of behaviour may be more prevalent in some EU countries than in others as a result of historical factors in the country, and in some cases they may even

be an expression of national culture. They can nevertheless be found in all countries. To move forward in this context, the dialogue must be conducted at national level. The co-existence model for the taxation of interest earning, put forward by the European Commission, leaves all avenues open for national reconciliation in terms of fiscal policy. It would be futile and dangerous to attempt to use European measures to force the pace of change that can only take place at national level.

Vote of the “Social Affairs” working group

<p>The “Social Affairs” working group requests the bishops of COMECE to accept this report and to bring forward its main elements to their bishops’ conferences. The general secretariat of COMECE should forward the report to the secretariats of the bishops’ conferences and the competent offices of the European institutions. In the view of the working group, it would be appropriate for the bishops’ conferences also to encourage discussion of the above issues in the national context.</p>
