

Role of tax policy in times of crisis

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The Committee on Economic and Monetary Affairs adopted an own-initiative report by Kira Marie PETER-HANSEN (Greens/EFA, DK) on the role of tax policy in times of crisis.

The report focuses on the most negative effects of the COVID-19 crisis on EU companies, and on the solutions that can be found to remedy it through a stronger and fairer tax system that not only responds to the current crisis and inflation, but is also up to the task of tackling, among other things, the climate crisis and the biodiversity crisis.

This report focuses on some of the strongest negative effects that the COVID-19 crisis has had on societies in the EU, and on which solutions to these effects can be found in a more solid and just taxation system that not only responds to the current immediate crisis and inflation, but also delivers in facing the climate and biodiversity crisis among other things. Along the lines of some of the most recent studies, the report addresses some of the following points:

Fiscal responses to the current crises and inflation

The report noted with concern that the effects of the COVID-19 pandemic, the shock to energy prices following Russia's military aggression against Ukraine and high inflation are hurting people and businesses, with the poorest households hit hardest. Effective tax rates have risen considerably for families with children, particularly those at the lower end of the income scale. Gender inequalities worsened during the pandemic. Inflation has increased overall VAT receipts, which has mechanically increased VAT receipts for Member States.

However, Members noted that Member States are still facing major imbalances in public revenue. They deplored the fact that the recent crises have also hit the self-employed and SMEs hard.

The report noted that certain multinational enterprises that make exceptional profits in times of crisis are often under-taxed. In addition, temporary VAT reductions have had a limited effect on final consumers but a more pronounced effect on businesses, which have in some cases increased their profit margins.

The report recognised that each Member State is entitled to define its own tax mix according to its needs, particularly in the social and economic spheres, but notes that, within the overall tax mix, environmental taxation still represents only a small proportion of total tax revenues in the EU.

Furthermore, subsidies for fossil fuels remain high in the EU and globally. Members noted that, on the whole, Member States' tax systems could become more effective instruments for tackling the climate and biodiversity crises.

At the same time, tax evasion and avoidance continue to deprive governments of revenue and are a cause for concern.

Resilient tax systems for the future

The report proposes key elements that could be considered in a more comprehensive approach to taxation to avoid ad hoc adjustments in times of crisis, as well as to ensure that inequalities are not exacerbated by existing tax systems.

The report recommends that:

- the Commission should **assess the effectiveness of temporary tax incentives**, including VAT reductions, applied in Member States and take action if necessary;
- the Commission should assess the value of VAT recovery systems and real-time VAT returns for vulnerable households;
- the Member States should design their **national tax systems** to promote prosperity, equality and social inclusion and should more effectively redistribute income and wealth through fair taxation;
- the Commission to analyse a **temporary excess profit tax** on other sectors for future crises to curb the oligopolistic power of certain companies and boost competitiveness;
- the demand to implement concrete policies, timelines and measures in order to **phase out fossil fuel subsidies** through tax measures as soon as possible;
- the Commission and the Council should continually assess how any revenue stemming from new temporary crisis taxation mechanisms should enter the EU budget (whether as own resources or other revenue);
- the Commission should review the **taxation of air and sea transport** to align them with the Green Deal objectives and create a level playing field with other modes of transport, such as road and rail transport;
- a multilateral initiative at the OECD Inclusive Forum to introduce **minimum carbon price standards**, would be welcomed; Members called for the creation of an international climate club to help countries advance towards a global carbon-pricing framework;
- the Commission should put in place an EU-wide programme of cooperation and coordination among national tax authorities to **tackle tax evasion** related to the mechanisms of the informal economy;
- the Commission should look into the **gender pay gap situation** from a tax perspective; calls on the Commission to assess existing data with respect to tax policy design and its impact on unpaid care work, use of public services, income and pension differentials and labour market participation;
- the Commission should continue the efforts to identify fresh, new and preferably genuine **own resources** and other revenue sources for the EU budget beyond the Interinstitutional Agreement.

Lastly, Members called for an additional **permanent special instrument** to be put in place over and above the ceilings of the multiannual financial framework, to allow the EU budget to better adapt and quickly react to crises and their social and economic effects on its Member States.