ATTAC

Globalisation needs regulation

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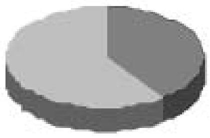
Global Tax Justice:
If everybody shares the burden, no one suffers.

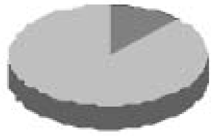
Do you think it's fair when you pay for an annual income of 100,000 Euros *

36,73%
tax on:



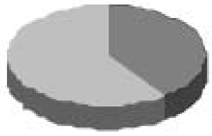
- Wages and Salaries

25,00%
tax on:



- Interest on Aunties savings

12,50%
tax on:



- Interest earned from a private foundation

0,00%
tax on:

-Interest earned by a foreigner
-Equity income from a private foundation
- Profits from stock market trading
-Profits from foreign currency trading

* without social security contributions

How did this come about?

In the sixties and seventies capital was not very mobile, a tight net of capital transfer controls hampered the free flow of the deutschemark, schilling, pound etc. Due to this limited opportunities for capital flight taxation was reasonably fair. At this time the economy boomed, it grew faster than in the previous twenty years, full employment was close by and the differences in incomes began to shrink slowly.

This scenario changed at the end of the seventies when neo-liberal politics like Thatcherism and Reaganomics got established worldwide. One of the core elements of neo-liberalism is the free flow of capital, but once capital is totally free to move it is difficult for Finance Ministers to tax it accordingly.

More and more Tax Havens

It gets even more difficult when, in the course of liberalisation, tax havens appear. You find tax havens not only in the Caribbean or Pacific (Bahamas, Samoa) but also right in the middle of Europe - Luxembourg, Liechtenstein, Monaco, Switzerland and Austria.

In tax havens capitals gains and financial wealth are not only save from taxation, but the financial authorities in the countries of origin don´t get informed because of bank secrecy.
The result is that the profiteers of globalisation contribute less and less to our common goods - hospitals, education, public transport, environmental protection, sport and culture.

Tax Competition Begins

Tax havens not only attract tax evaders, they also put pressure on other countries to reduce their tax rates on income, profit and wealth. In the last twenty years almost all countries have been competing in reducing taxes on income, profits, and capital gains. In the industrialised countries the average tax on business profits has dropped from 51 to 35% since 1985. Tax on interest yield from 47 to 33% and the top income tax bracket plummeted from 52 to 42%, and this process is by no means at an end.
Indeed some economists consider that in the long run it won't be possible to tax profits at all. For some multinational corporations this is already the case - they file their profit tax returns in tax havens, they use tax loopholes or sometimes even manipulate their balance sheets. The result is they pay little

or no tax where they are actually operating. Some examples for Austria: Creditanstalt (1998 and 99) the Spar AG (1997 and 98) and Shell Austria (1977) or the Immuno AG (1977). This is not just unfair for the community, but also for the small and midium sized businesses that can´t use these 'creative possibilities' and suffer under an unfair competitive disadvantage.

Tax Haven Austria

Austria is not the victim of this development - a helpless island in the stormy seas of globalisation - but a pioneer and perpetrator. The taxation of business profits lies well below the EU average, and the wealth tax is the lowest of all industrialized nations (see chart). The contribution made by wealth taxes to state finances has declined in the last thirty years by two thirds, despite a strong growth of wealth. The wealth tax was effectively abolished in 1993, the assessment base for real estate taxes has not been updated since 1970 and the creation of the 'private foundation' (Privatstiftung) in 1993 has the effect that in Austria the richest pay the lowest taxes on their income. If wealth and profit taxes in Austria were at the average EU level (the sacred scale) then Austria would have received around 70 billion Schilling (5 billion Euro) per year more in taxes, and so achieved a budget surplus - without budget cuts. The melodrama called “balanced budget” (Nulldefizit) would not have been plaid.

Employment is Over-Taxed. Taxpaying is Unpopular

The lost taxes on profit and wealth have been so massive, that the Finance Minister had no choice but to find other sources of revenue: taxes on wages and salaries (and from small businesses that are income taxed). Labour is not volatile –Austrian workers cannot easily move their wage accounts to Liechtenstein.
In 1998 EU Commissioner Mario Monti stated that in the last 15 years the average taxation on wages and salaries rose from 35 to 42%, while taxation on capital fell from 45 to 35% within the same period. In Austria the divergence is even worse. Since 1965 the percentage of taxation on corporate profits in relation to total tax revenues has halved from 27 to 14%. At the same time revenue from income taxes tripled from 10 to 30%. (See chart)
So it is no surprise that the mass of taxpayers are groaning under their tax burden and long for a reduction of their tax ratio like for a rainstorm after a heat wave with 46° C. Most of them do not know: If wealth and profit were adequately taxed, the government could maintain, and improve the level of public services, at considerably lower rates of taxes on wages and salaries. Schools, hospitals, roads and railways, post offices, museums, pensions and social security would all benefit.

What Can be Done? Attac's Recommendations

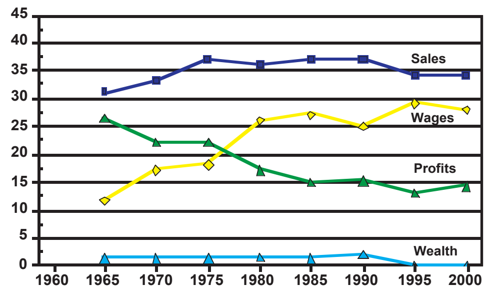
1. Shut down Tax Havens

Shutting down tax havens is simpler than generally thought; most of them are protectorates of industrialized nations. For example, the Cayman Islands, the Bermudas and Jersey belong to Great Britain, Samoa to the USA, the Dutch Antilles to Holland and the Cook Islands to New Zealand. These states deliberately developed tax havens to give wealthy people and companies the opportunity to avoid tax laws and regulations. As soon as political pressure is strong enough, tax havens could be closed by simple means.
- Registration of all income of non-residents to the relevant fiscal authorities.

- Consistently following the 'Resident State Principle' whereby tax is paid in the country of residence, less any taxes paid in the tax haven. The difference - the previous tax saving -would be withheld, so that no 'resettlement' would pay off.

- In the case of non-co-operation capital transfers to and from tax havens could be restricted, either by transaction taxes, or the resident states could rescind the licences of banks and corporations that run subsidiaries or letter-box-companies in tax havens. Capital is not parked in the Bank of Bahamas, but with a branch of the respective domestic bank.

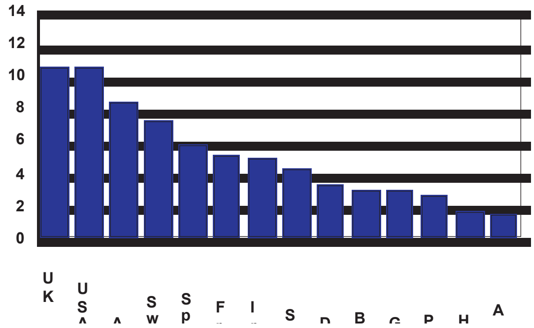
Share of taxes in percentage of the total tax revenues



Graphic: ATTAC

The EU can afford, both politically and economically to restrict capital transactions with tax havens. Thus tax justice would take priority over totally free capital movement. Actually in September 2002 the EU Competition Commissioner Frits Bolkestein threatened Switzerland with restrictions on capital transfers if the Swiss didn't provide information about capital gains of EU citizens. This threat was made null and void by Austria and Luxembourg who announced that they wouldn't support capital transfer limitations (a decision about this has to be unanimous). Luxembourg and Austria have blocked EU wide minimum taxation on capital gains for many years because they do not want to ease their bank secrecy

Share of Wealth Taxes as a percentage of total Tax Revenues



If the contribution to the states finances from wealth taxes was at the same level as in the US or UK (10.7% of all tax revenues) an additional 120 billion Schillings / 8.7 billion Euros would result.

2. Unitary Global Corporation Tax

When national states resort to tax dumping, everyone loses. As already mentioned, since 1985 in the whole EU, corporate income taxes (taxes on the profits of corporate enterprises) have fallen from 51 to 35%. In Austria the rate is 34%, and Finance Minister Grasser has announced a further reduction to 31%. The chairman of the social democrats Gusenbauer even suggested 30%, and Industry Minister Bartenstein demanded a rate of 25%.
Instead of continued competition, eventually reaching a zero rate, corporate taxes should be stabilised globally - for a start in the EU - at least at the current level, and later in steps increasing to a level of 50%. An important secondary effect would be a common basis for tax calculations; again this could start within the EU. Otherwise tax harmonisation makes little sense.
Further, the gap between official tax rates and the actual tax paid has to be closed. In Austria this gap is especially large, due to excessive tax-free limits and loopholes. Not at least due to the reality of the low rates on corporate income taxes Austria is known as a 'low-tax country'.

3. Taxation of Capital Gains has to be equal to Taxation of Wages and Salaries.

A further ATTAC demand for tax justice sounds very simple and logical, but in its effects would be revolutionary. All capital gain should be taxed like any other income. This would include above all income such as equity income, bonus shares, interest, also gains from exchange rate differentials, from stock market trading with shares, bonds, futures and options.
Why?

a) Is there any good reason why different sources of income should be treated differently for tax purposes? (The income tax law basically claims equal treatment of all income but in fact numerous exceptions and special regulations don't meet this claim)

b) Isn’t it absurd, that precisely these incomes that are generated without labour are taxed less than wages and salaries earned by labour. (This nonwage income mostly goes to the rich).

c) can anyone understand why taxation of capital gains are declining while capital gains are increasing at rates well above the economic growth rate. On the other hand the burden of taxation on wages and salaries is permanently rising although these are clearly increasing slower than the growth rate.

The results would be rosy. The great budget surpluses could be used to relieve the tax burden on low and medium incomes, to secure and develop the social security systems. A pre-condition for the equal treatment of nonwage and earned income is a joint effort throughout the EU. But the harmonisation of capital taxation is being blocked - as mentioned before -by Austria.

4. A Just Income Tax System

- The tax-free limit should be raised to 10,000 Euro per year.
- More tax brackets. Currently the first tax bracket starts at 21%, which is a big jump from 0 - the brakket progression should be gentler and more regular.
- The maximum tax rate should be raised to 60%
Important: this does not mean that the total income would be taxed with 60%, only the upper income segment - the first segment 10,000 Euro are also tax free for high incomes.
- Income tax should be extended to include currently favourably treated elements such as severance

payments or the 13th or 14th monthly salary. At the moment higher income earners can make a profit by paying only 6% instead of 50%. For lower incomes this saving is insignificant.

5. Lift parts of the Bank Secrecy

Bank secrecy does not only protect tax evaders, but also money launderers and terrorists. International “white-collar criminals” rely on it. On the other hand bank secrecy is the main excuse for lower taxes on capital gains than on wages and salaries. Our recommendation is that nonwage income should be automatically reported to the fiscal authorities, the same way as labour income, so that they can be justly taxed. Finally income from capital and employment would be treated equally. For third parties (employers, colleagues, relatives, nosy neighbours) bank secrecy would remain certainly.

6. Higher Wealth Taxes

Taxes on wealth (property tax, estate, inheritance, and gift taxes) make up 0.6% of the Gross National Product in Austria. In the UK it is 3.8%, and the EU average is 1.8%. If Austrian wealth taxes were at the EU average this would mean an increased revenue of 2.5 billion Euro (35 billion Schilling) Attac demands:

- Taxation of estates and property should be rated on the market value.
- Increase of inheritance tax.
- Abolish tax privileges for private foundations (Privatstiftungen).

It is important to note that in the tax debates the interests of the 'small' are often abused to serve the interests of the 'big'. Consideration for the 'small house builder' and the 'small farmer' is misused to exempt the large landowners and the private foundations from taxes. But it would be simple to establish rates for wealth taxes, for example tax exemption for lots smaller than 30 hectares or for property values up to 300,000 Euro.

Similarly the 'poor auntie' has always been the excuse for not making capital gains taxes on interest yield progressive. I.e. that the interest yields of multi millionaires are not taxed at the same rate as wages and salaries.

If however interest gains came under income tax, the same tax-free limit would apply. ATTAC recommends this should be around 10,000 Euro a year. How many aunties do you know which earn 10,000 Euros of interest per year? Exactly. But we only want to tax those who do, and they are the multi millionaires, who should pay the same tax on their income as the working population.

7. Global Tax Authority

Whoever supports fair tax regulations, i.e. for large corporations, shouldn't be wary of the necessary global institutions. A Global Fiscal Authority - as a UN organisation - would not increase the tax on beer or wages, but would have the following responsibilities:

- To sanction damaging tax practices and shut down tax havens.
- To search for money laundering operations and repatriate the illegally acquired capital to the country of origin.
- To establish and control a uniform basis and a uniform tax rate for corporate taxes.
- To introduce global taxes - i.e. on foreign exchange transactions or the use of natural resources.

The global authority could also undertake a painstaking task - the collection of a single solidarity tax for euro and dollar cash millionaires at a rate of 1% of their fortune. This would bring in the proud sum of 300 billion Euros/Dollars per year, enough to rid the world of the worst poverty and environmental damage, and pave the way for sustainable development around the globe.

CONCLUSIONS

Everyone would benefit from a just tax system, which levies taxes on the increase of wealth and the profits from globalisation. The nations would generate budget surpluses, we would need no budget cuts, but could instead improve the public infrastructure and the social security system.

Taxes are basically positive and benefit everyone, as they pay for schools, hospitals, public transport, old age pensions, kindergartens, environmental protection, sports and culture. All services that no one wants to be without, and if the tax burden is shared fairly, no one suffers.