Italian-German appeal: Funding the Corona Recovery by curbing tax dumping and money laundering

The Corona Virus epidemic and its consequences for our societies and economies pose a challenge for all of us unprecedented in the history of the Europe Union. We are glad that in both our countries the spread of the virus is now under better control. A number of restrictions of the public life and economy activity could already been lifted. However, this does not mean that the end of this crisis is insight. We are now entering a new phase. Companies of any size have been hit hard either by a complete stop or slow-down of their activities. One thing should be clear, when we debate the restart of our economies in Europe: This crisis hits all countries simultaneously and no single country is in this crisis because of bad economic or fiscal policy choices of the past, but because of a terrible pandemic. That is why we need to shoulder the burden of this crisis in Europe together. We therefore repeat our call for the issuing of European Health Bonds with a clear and defined common objective and subject to jointly agreed guidelines. Without burden-sharing, we would not only risk the stabilisation of the health system and the economic recovery of some countries, we would put the entire internal market at risk and with it our project of unifying Europe.

There is no doubt that the recovery of our economies demands an unprecedented amount of public money. At the same time tax revenues of our states dramatically decrease due to the economic crisis. Even if the resulting increase of new public debt is justified it would be irresponsible to forget the income side of public budgets. Increasing taxes is not a good guardian for economic recovery. Therefore, we should first and foremost concentrate on generating resources by curbing tax dumping and money laundering. In the past a lack of European unity has limited progress towards a common tax policy and a determined fight against financial crime.

In light of the magnitude of this Corona crisis and rising public debt, we call for a comprehensive zero tolerance policy against money laundering and tax dumping in Europe. Such a zero tolerance policy should consist of five key actions:

1. Europe need effective minimum tax rates on corporate income. If international efforts in the framework of the OECD do not come to an agreement as foreseen in the end of this year, the EU has to set its own minimum effective tax rate. This rate should be applied to large corporations on the basis of a common consolidated corporate tax base (CCCTB). These should also report publicly profits and taxes paid on a country by country basis as suggested by the European commission and supported by the European Parliament.

2. During the Corona Crisis digital business models have gained market shares from traditional businesses. This push towards digitalisation may well boost useful innovation. At the same time the competition is not fair if large digital companies pay hardly any corporate income taxes in Europe while traditional companies do. This is why Europe should introduce a common approach to digital taxation which ensures that profits made in Europe are also taxed in Europe on a fair basis. Until a corporate tax reform is in place, the digital taxation proposal by the European Commission and supported by the European Parliament should come into force as soon as possible.

3. A lack of resources and mutual trust between Europe's tax administrations is the basis for large scale crossborder tax fraud in VAT and dividend arbitrage. It is high time for the currently blocked VAT reform to be adopted by member states as well as a European response to dividend arbitrage to be drawn up.

4. Tax competition in Europe is about to spread from capital income to personal income taxation. Non-dom regimes, lump sum tax payments, special treatments of some types of income in bilateral tax agreements, free ports, golden visa and citizenships all have the potential to weaken comprehensive and progressive income taxation in the member states. Europe needs to develop a framework regulation in order to protect progressive income taxation from special regimes.

5. Curbing money earned through criminal activities is a boost for citizens' security as well as for honest businesses. Fighting money laundering will also generate additional public income. According to Europol only 1% of criminal money is being seized. Italy has demonstrated that member states can be successful in this domain through legal reforms which should be copied all over Europe. But in any case, Europe also needs an effective money laundering supervisor and regulator. For the large scale cases of financial crime a European financial policy should be created in the framework of Europol.

As tax policy normally needs a unanimous decision by all EU member states, progress towards tax justice is notoriously slow. Also common decision making in matters of security cooperation are difficult. But, there is room for maneuver. Measures for additional transparency and against money laundering can be decided by majority voting. Furthermore, the European Council may decide according to Article 116 TFEU on tax policy if competition in the single market is distorted. The level of tax competition does now justice the use of this provision as the new European Commission has already indicated. Lastly, member states should use cooperation in global and multilateral institutions to promote international decisions for tax cooperation.

This crisis demands determined decisions for fairness and efficiency on the income side of public budgets. The time to act is now.

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