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Lower income taxes & better measures to tackle the economic fallout of the Covid 19 pandemic

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Recognising that:

1. State fiscal intervention was necessary to facilitate lockdowns in the interest of public health. However, some of these measures have been excessive and caused unintended economic consequences (e.g. the credit risk associated with zombie companies and the associated credit risk[1] and cases of misuse of public funds such as the Plus Ultra Case in Spain[2]).

2. There have been diverse responses to the Covid-19 pandemic across the continent towards the labour market and welfare state (e.g. the socialist lead Spanish government increased income taxes over the past two years while other governments implemented temporary unemployment supports[3]).

3. Tax expenditures that are spending substitutes can take two forms:

    1. subsidies for certain economic activities, or
    2. subsidies in the form of transfers of payments for certain groups of taxpayers.

    There are documented cases that the former can lead to market distortions e.g. payments directed at housing or rental costs can have a distortive effect on the housing market by making it more expensive[4].

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[1] "Corporate zombification: post-pandemic risks in the euro area", Tobias Helmersson, Luca Mingarelli, Benjamin Mosk, Allegra Pietsch, Beatrice Ravanetti, Tamarah Shakir and Jonas Wendelborn, European Central Bank, May 2021. From: https://www.ecb.europa.eu/pub/financial-stability/fsr/special/html/ecb.fsrart202105_01~f9b060744e.en.html

[2] "The US investigates Plus Ultra Shareholders for Alleged Money Laundering", Helwing Villamizar, Airways Magazine, April 5, 2021. From: https://airwaysmag.com/airlines/the-us-investigates-pu-all-money-laundering/

[3] "El nuevo año llega con otra subida de impuestos de hasta 3.273 millones", Ignacio Faes, El Economista, January 12, 2022. https://www.eleconomista.es/economia/noticias/11560966/01/22/El-nuevo-ano-llega-con-otra-subida-de-impuestos-de-hasta-3273-millones.html

[4] "The effect of real estate purchase subsidies on property prices", Carla Krolage, ECONSTOR, 2020. From: https://www.econstor.eu/bitstream/10419/222854/1/1726141764.pdf

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4. The EU Commission noted last year that "Member States' budgets rely heavily on labour taxes, including social contributions, which provide more than 50% of the overall tax revenue in the EU-27"[5].

5. Reducing income tax is good for economic growth[6], due to the generation of a virtuous economic circle where consumption increases and employment opportunities are generated, thus generating more income for families, less subsidises payable by the government and more tax revenues for the government.

6. Tax is a Member State competency[7]. As a consequence, most measures will be required to be implemented by Member States' governments with close cooperation between Member States. European authorities alone cannot tackle this problem but can play a key part in coordinating.

7. Youth unemployment (i.e. unemployment of those younger than 25 years) in the EU stood at 17% in 2021[8]. This data shows that unemployment is a problematic structural problem in some countries where the economic consequences of Covid-19 where much bigger than in the average of the EU countries (e.g. Spain, Greece or Italy). Therefore, youth unemployment is another important issue that the relevant measures will need to tackle.

8. EU funds are underutilised by some Member States due to bottlenecks arising from bureaucratic and administrative hurdles (e.g. Spain, Italy and France)[9]. This means that EU funds directed at promoting certain industries or projects are not being as effective as planned. This is a key factor in connection with the Next Generation EU funds, which may be affected by this issue that will need to be solved.

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[5] "Communication from the Commission to the European Parliament and the Council: Business Taxation for the 21st Century", European Commission, May 18, 2021. From: https://ec.europa.eu/taxation_customs/system/files/2021-05/communication_on_business_taxation_for_the_21st_century.pdf
[6] "Growth-oriented Tax Policy Reform Recommendations", OECD, 2010. From: https://www.oecd.org/berlin/46391708.pdf
[7] "Direct taxation: personal and company taxation", European Parliament, 2010. From: https://www.europarl.europa.eu/ftu/pdf/en/FTU_2.6.10.pdf
[8] "Youth unemployment rate in EU member states as of June 2021", Statista. From: https://www.statista.com/statistics/266228/youth-unemployment-rate-in-eu-countries/
[9] "EU recovery plan faces bottleneck, economists warn", Mehreen Khan, Davide Ghiglione and Ian Mount, Financial Times, January 5, 2021. From: https://www.ft.com/content/9fb2f320-6a37-421d-b738-196d3e736bae

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Acknowledging that:

1. The EU Commission noted last year that income tax constituting 50% of the overall tax mix is not sustainable in light of megatrends such as demographic changes and climate change and we therefore need to broaden the tax base[10].

2. An income tax cut can be more helpful to a young person than a rent supplement or an energy credit as there is more economic liberty and freedom in tax cuts than in subsidies[11].

3. The most sustainable way to generate wealth in the country is to ease the tax burden on citizens so that they can manage their money themselves. It will increase private investment, consumption and attract foreign capital.

4. Public investments and public debt levels should always keep future generations and the intergenerational contract in mind such that they aren't wasted on capital projects that yield little future benefit or result in debt burdens that need to be passed onto future generations.

YEPP calls for:

1. EU member states to make progressive income tax cuts in countries that have progressive taxation systems. Lowering income taxes nationally should be done in a manner in which it doesn't give rise to the need for fiscal transfers to compensate for reduced national revenues.

2. The Public Prosecutor's Office of the EU to initiate an investigation on all funds used by Member States to support specific companies when there is suspicions of misuse of public EU funds and consider the establishment of a complaint procedure in this sense.

3. Countries to focus their investments in sectors that will boost the productivity of the economy, future competitiveness, and the green and digital transition.

4. Public debt to be reduced to sustainable levels.

[10] *Vid.* footnote 5.
[11] "Better use of energy taxes could strengthen developing country finances while cutting pollution", OECD, January 25, 2021. From: https://www.oecd.org/newsroom/better-use-of-energy-taxes-could-strengthen-developing-country-finances-while-cutting-pollution.htm

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5. Prioritise tax cuts for young people over direct subsidies in order to:

    1. help to create new job opportunities,
    2. increase savings capacity,
    3. reduce market distortions, and
    4. generate less incentive to live a life subsidised by the state.

6. The Member States to take the necessary actions to make sure their national youth unemployment rate is no higher than the national average unemployment rate.

7. Increase the take up of available national and EU funds to support youth participation in the labour market through better advertisement of the relevant targets, clearer guidelines for application and less bureaucratic barriers to reduce the underutilisation of EU funds.

8. Enhance the existing administrative cooperation in direct taxation[12] at EU level to cover best practices in terms of tax incentives and promote a moderate fiscal policy establishing –as a non-binding threshold- certain maximum levels of percentages on income tax, above which, it can be considered that the income tax is excessive and is damaging the national economy.

[12] "Administrative cooperation in (direct) taxation in the EU", European Commission. From: https://ec.europa.eu/taxation_customs/taxation-1/tax-co-operation-and-control/general-overview/enhanced-administrative-cooperation-field-direct-taxation_en