

PAUL MAGNETTE
and the team of the **INSTITUT**
EMILE VANDERVELDE (IEV)
with the contribution of **LOUISE FROMONT**

Tax the rich!

Today, the richest 1% of the planet alone emits more CO₂ than the poorest 66%. But it is the poorest who mostly suffer the consequences of climate change. In this chapter, the authors illustrate in detail their initiative for the introduction of a wealth tax at the European level to reorient the European Union towards a just and democratic climate transition and to restore a general balance, as there cannot be climate justice without social justice.

The EU faces major challenges, including climate change, social inequality and poverty. All these are weakening our healthcare systems and public services. The real impacts of climate change, as reflected in the increase, intensification and worsening of environmental disasters, are accelerating and being felt globally. Extreme weather events, such as floods, hurricanes and fires, are on the increase, hitting the most vulnerable populations even harder. Experts say that the situation is set to get even worse over the coming decades. Although Europe is not the most exposed continent, it is not immune. Floods, storms, droughts and other once-exceptional events are becoming increasingly frequent.

As part of the Green Deal, the EU is committed to achieving carbon neutrality by 2050. To achieve this goal, on 14 July 2021, the European Commission presented its climate package (“Fit for 55”), which included measures on an unprecedented scale, such as the introduction of a carbon tax at the EU’s borders, the extension and strengthening of the European carbon market, and a ban on the sale of internal combustion engine cars after 2035. The difficult negotiations concluded in December 2023 at COP28, and the presence at the conference of numerous lobbies, demonstrate how far we still have to go to achieve carbon neutrality, and that we must do everything we can to speed up the phasing out of fossil fuels in Europe and worldwide.

While 20% of the EU budget was allocated to climate-related projects for 2014-2020, this target has been raised to 30% for 2021-2027. However, to finance the ecological

transition, the EU needs its own substantial resources. Despite the efforts made and being a leading global economic power, the EU does not have a sufficient budget to implement support policies. We must be even more ambitious to meet our commitments and treat the climate emergency as a crisis, just as we treated the Covid crisis. If we succeeded in generating our own resources to ensure a post-Covid recovery, we can do the same to ensure the social and climate transition.

No climate justice without social justice

Today, the richest 1% of the planet alone emits more CO₂ than the poorest 66%. Yet it is the poorest who suffer most from the consequences of climate change. This kind of inequality calls for rebalancing and acceptance of greater responsibility.

Most tax systems in the EU deliberately favour the wealthiest, to the extent that this favouritism seems to have become a norm that goes unquestioned. In nearly all European countries, the wealthiest have seen a steady decline in taxation over time. In the space of 30 years, wealth tax, for example, has been abolished in all EU countries, with the notable exception of Spain. It is high time to reverse this trend: for reasons of democracy, of course, but also for economic efficiency.

A fundamental reorientation of the EU towards a just and democratic climate transition is feasible, desirable and urgent. We recommend taxing large fortunes to restore a general balance, as there can be no climate justice without social justice. A tax on the wealthiest would generate revenue within the EU to co-finance policies for the social and ecological transition and development cooperation. Policies that must, of course, consider the objective situation of each member state.

How we can get there

We have drawn up a methodical plan to get there. We registered a citizens' initiative with the European Commission, a powerful tool that allows one million European citizens to ask the European Commission to propose new legislation on a particular issue. We put together a group of organisers from seven member states, from different political and trade union backgrounds, civil society and even from millionaires' associations.¹

The first challenge was to persuade the Commission to accept this initiative, as the Commission has no powers to collect taxes as such. We worked with various experts² and developed a solid, detailed legal argument. After a month's wait, the Commission agreed

1 Besides the author of this chapter, Paul Magnette, the main signatories of this citizens' initiative are: Aurore Lalucq (MEP, France); Thomas Piketty (economist, France), Marlene Engelhorn (multimillionaire, Tax Me Now, Austria); Lars Koch (secretary general, Oxfam, Denmark); László Andor (FEPS secretary general, Hungary); Conny Reuter (global coordinator, Progressive Alliance, Germany); and Lainà Patrizio (chief economist, Finnish Confederation of Professionals STTK, Finland).

2 Among them, Louise Fromont, post-doctoral researcher and lecturer at the Université Libre de Bruxelles.

to take our project into consideration. This was a major step forward, and a sign that we can make it a reality if we mobilise on a grand scale. Just as we created the minimum tax on multinationals and windfall profits on a European level, let's introduce a tax on the wealthy!

The next logical step

In the past, wealth has been taxed under exceptional circumstances. This was the case, for example, during the two world wars: in France in 1916 and 1945; and in the US in 1942, when President Franklin D. Roosevelt introduced a tax on the highest incomes.

While past crises have called into question prevailing economic thought, more recent crises – the 2008 financial crisis, the coronavirus pandemic – have barely disturbed the economic model currently in place. The great speeches made at the time had no effect on the seemingly unshakeable, even unsinkable, neoliberal doxa. Yet the times in which we live, with their growing social injustices, widening inequalities and all kinds of imbalances, demand that leaders have the courage to bring about a paradigm shift. The climate, as well as the social emergency, must take precedence!

This paradigm shift must occur at least at the European level. Individually, member states will not be able to counteract the mechanisms of tax competition and dumping that discourage any effort to achieve justice, even if they act concertedly. The EU was created precisely to provide global solutions to help us avoid such traps.

Capitalising on momentum

The tax we are advocating for answers numerous calls from citizens, civil society, economists, scientists and elected representatives. 67% of Europeans believe that wealth should be taxed.³ They are right because the tax rate for the wealthiest is currently lower than that for the middle class, which poses various social, economic and democratic problems.

Several studies, including one conducted by the World Inequality Lab,⁴ have shown that such a tax would help in the fight against climate change.

The main aims of the EU are to promote its people's well-being, combat social exclusion, and guarantee justice and social protection for all its citizens. Its institutions are therefore committed to ensuring greater fairness, particularly in taxation. On the one hand, the Conference on the Future of Europe insisted on harmonising tax policy and using this lever to combat the environmental crisis. On the other, the future directive on establishing a global minimum rate of taxation for multinational groups demonstrates that the EU can agree on greater tax fairness.

3 Welsch, G. (2023) "'Tax the rich': La Commission européenne valide la pétition sur la taxation des grandes fortunes". *La Relève et La Peste*, 2 October.

4 Chancel, L., P. Bothe and T. Voituriez (2023) "Climate inequality report 2023: Fair taxes for a sustainable future in the Global South". World Inequality Lab Study 2023.

Just before we filed our initiative, around 30 members of the European Parliament, supported by economists, called on the EU to introduce a progressive tax on extreme wealth, using a different petition system. Finally, our initiative is gaining support worldwide. In September 2023, the G20 in New Delhi saw a major mobilisation, with Oxfam, Patriotic Millionaires, heads of state and 65 economists determined to move forward on this issue. Remember that the G20 had already agreed, in 2021, that multinationals should be subject to a minimum level of taxation. For 2024, it has also committed to making progress on taxing the wealthiest individuals.

From theory to practise

A European wealth tax would be a progressive tax on the wealth of the richest people in the EU. Revenues from this tax would be used to finance social and ecological policies, such as the energy transition, social protection and solidarity within the EU via the Recovery and Resilience Fund, Green Deal funds and the cohesion policy.

This tax would contribute to the EU's own resources, and the revenue would mean that European policies on environmental and social transition and development cooperation could be expanded and perpetuated, in co-financing with member states. This contribution would be allocated to the fight against climate change and inequality, enabling European citizens to contribute more equitably to these objectives.

A report by the EU Tax Observatory published on 23 October 2023⁵ proposed the creation of a global tax of 2% on the wealth of billionaires. According to the report, this measure would generate revenue of €40 billion in Europe! Tax revenue would be increased sevenfold. This levy would complement the 15% global minimum tax on corporate profits, launched in 2021 and set to be introduced on 1 January 2024. Other studies, such as that by the Fight Inequality Alliance, estimate that a 2% levy on millionaires and a 5% levy on billionaires could generate €2,520 billion a year worldwide.

The criteria for defining the 'ultra-rich' would vary from one member country to another, due to the economic, fiscal and social differences between member states. In Belgium, for example, we propose that anyone with assets of €1.25 million in addition to their main residence and assets allocated to their business should be liable for the tax referred to here.

Three legislative stages

The citizens' initiative we are tabling, with a view to establishing a European wealth tax to finance the social and environmental transition, is consistent with the recent development of EU tax policy. It also aligns with the interinstitutional agreement of 13 April 2016 on better law making, as it aims to focus European action on achieving its environmental and social objectives.

5 Alstadsæter, A., S. Godar, P. et al. (2023) "Global tax evasion report 2024". EU Tax Observatory.

Individuals' wealth is currently taxed nationally. However, several member states have abolished or cut national wealth taxes over the last 30 years, while the economic environment has become more globalised and mobile, and individuals' wealth has often been spread across the territories of different member states.

The divergence of national tax systems leads to de facto distortions between the tax policies pursued by member states. This directly impacts financing strategies, cooperation between the EU and its member states, and hampering the pursuit of EU objectives with respect to the environmental and social transition and development cooperation.

The citizens' initiative we are submitting is in line with the principles of subsidiarity⁶ and proportionality.⁷ From a legislative viewpoint, the proposed tax on excess wealth will require three steps: (1) the creation of the tax as such at the EU level; (2) the allocation of the tax revenues, in whole or in part, to the EU budget; and (3) the creation of a fund or the modification of legislation on existing funds.

Step 1: The EU has the power to harmonise direct and indirect taxation. The basis of its competence is to be mainly found in Articles 113⁸ and 115⁹ of the Treaty on the Functioning of the EU (TFEU).¹⁰ As the wealth tax is direct, Article 115 TFEU could provide a basis for jurisdiction. In particular, this provision was used by the European Commission for the directive on the establishment of a global minimum level of taxation for multinational groups in the EU.¹¹ The introduction of a wealth tax is necessary to ensure the proper functioning of the internal market, given the differences in legislation between member states and the disparities in wealth within the Union.¹² The introduction of a European wealth tax would help prevent tax competition within the EU. In other words, within the internal market, common strategic approaches and coordinated action are required to optimise the positive impact of taxation on excess wealth. Given that the ultra-rich can make use of tax schemes

6 Insofar as the EU does not have exclusive competence.

7 The principle of subsidiarity implies that "the Union shall act only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the member states, either at central level or at regional and local level, but can rather, by reason of the scale or effects of the proposed action, be better achieved at Union level" (Article 5(3)(1) TEU). The principle of proportionality implies that "the content and form of Union action shall not exceed what is necessary to achieve the objectives of the Treaties" (Article 5(4)(1) TEU).

8 "The Council shall, acting unanimously in accordance with a special legislative procedure and after consulting the European Parliament and the Economic and Social Committee, adopt provisions for the harmonisation of legislation concerning turnover taxes, excise duties and other forms of indirect taxation to the extent that such harmonisation is necessary to ensure the establishment and the functioning of the internal market and to avoid distortion of competition".

9 "Without prejudice to Article 114, the Council shall, acting unanimously in accordance with a special legislative procedure and after consulting the European Parliament and the Economic and Social Committee, issue directives for the approximation of such laws, regulations or administrative provisions of the member states as directly affect the establishment or functioning of the internal market".

10 There is also a legal basis in Article 192(2) TFEU, with regards to environmental matters.

11 Council Directive (EU) 2022/2523 of 14 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the EU. OJ L 328, 22.12.2022, p. 1.

12 For a study on the subject, see E. Pichet (2007) "The economic consequences of the French wealth tax". *La Revue de Droit Fiscal*, 14: 5.

designed to evade tax and/or expatriate their capital, there must be no disparities in the way the rules are applied.

Step 2: The plan to create a tax on excess wealth will involve using the revenue from the tax as the Union's own resources. Specifically, member states will be responsible for collecting the wealth tax, all or part of which will then be passed onto the EU as its own resources.¹³ This step requires an amendment to Council Decision 2020/2053 of 14 December 2020 on the system of own resources of the EU and repealing Decision 2014/335/EU.¹⁴ This amendment should be made on the basis of Article 311(3) TFEU.

The creation of a new own resource for the EU is also necessary to consolidate and strengthen the measures taken by the EU to finance the NextGenerationEU recovery plan, and to ensure fairness in tax matters concerning the new own resources of the EU. Specifically:

- 1) In its conclusions of July 2020, the European Council asked the Commission to reform the own resources system and introduce new own resources.
- 2) In July 2020, the European Commission published a set of acts promoting fair, efficient and sustainable taxation. In two communications, it stressed the need to combat tax fraud and evasion, particularly in relation to personal income tax.¹⁵
- 3) In a resolution of 10 May 2023, the European Parliament considered that the Union "needs to reassess the Union's system of own resources, by exploiting the full potential of new genuine own resources in order to assure sustainable financing of the Union budget in the long term".¹⁶
- 4) Without mentioning the introduction of a wealth tax, the Council of the EU has adopted a stance favouring 'fair' taxation. With regard to direct taxation, while the Council "reiterates that direct taxation is a matter of national competence of member states", it "considers that a well-functioning and competitive EU Single Market could justify coordinated actions where it will be necessary to adjust the taxation framework to fit a modern and increasingly digitalised economy, both at global and at EU level".¹⁷

13 In particular, this is the pattern that seems to be emerging for the taxation of multinational groups in the EU. See the European Commission press release: "The Commission proposes the next generation of EU own resources". Brussels, 22 December 2021. See also the Commission's proposed amendment: "Proposal for a Council Decision amending Decision (EU, Euratom) 2020/2053 on the system of own resources of the European Union". COM(2021)570 final, Brussels, 22 December 2021.

14 OJ L 424, 15.12.2020, p. 1.

15 Commission communication, "Action plan for fair and simple taxation supporting the recovery strategy". COM(2020) 312 final, Brussels, 15 July 2020; Commission communication, "Tax good governance in the EU and beyond". COM(2020) 313 final, Brussels, 15 July 2020.

16 European Parliament resolution of 10 May 2023 on own resources: "A new start for EU finances, a new start for Europe". P9_TA(2023)0195, point E.

17 "Council conclusions on fair and effective taxation in times of recovery, tax challenges linked to digitalisation and tax good governance in the EU and beyond". 13350/20, Brussels, 27 November 2020, point 13.

- 5) The work of the Conference on the Future of Europe includes a section on budgetary and fiscal policies. The final report proposes strengthening tax harmonisation within member states, notably with a view to preventing tax fraud and evasion, and preventing tax havens within Europe.¹⁸
- 6) In March 2023, around 100 members of the European Parliament, supported by economists, called for the introduction of a progressive international tax on extreme wealth.¹⁹

Step 3: Lastly, the new own resources derived from a tax on excess wealth should be allocated to a fair ecological and social transition, via existing funds, notably by amending Regulations 2021/1056 and 2021/241. Such a solution involves amending the acts governing certain existing funds. In line with our proposal's objectives, the instrument of choice is a regulation to be adopted by the European Parliament and the Council in accordance with the ordinary legislative procedure.²⁰

One million signatures across Europe!

We must mobilise citizens, civil society, trade unions and our sister parties to get things moving and obtain a million signatures across the EU. We need your help to ensure this initiative is examined by the European Commission. If we garner enough support, the European Commission will have six months in which to act, and will have to provide a clear list of measures to be adopted and a precise timetable for their implementation. Let's seize this opportunity to get things moving and bring social justice across the EU!

¹⁸ See "Rapport sur les résultats finaux". Conférence sur l'avenir de l'Europe, May 2022.

¹⁹ Zucman, G. (2023) "Global taxation on the ultra-rich: 'What we have managed to do for multinationals, we must do for excess wealth'", *Le Monde*, 14 March. Freely accessible at <https://gabriel-zucman.eu/taxation-mondiale/>.

²⁰ In this respect, several legal bases in the treaties can be used: Article 175 TFEU, in particular subsection 3, for social cohesion; Article 192(1) TFEU, for environmental provisions; Article 149 TFEU, for employment; Article 153 TFEU, for social policy; and Article 209 TFEU, for development cooperation.