EU countries competing for wealthy individuals (2/23/19)

Over 160,000 people in almost 20 EEA countries are avoiding their fair share of local income tax by enjoying special tax schemes for individuals willing to change their tax residence. In the fight for tax revenues, more and more member states are introducing special exemptions to attract the rich and mobile. This article summarises the main takeaways from a recent study.

In April 2019, the Greens/EFA group in the European Parliament presented "Competing for the rich: Tax exemptions and special schemes for the rich," a new study revealing how EU governments purposefully compete with each other for attracting wealthy individuals through tax breaks and other preferential treatment.[1]

The EU average top tax rate on personal income fell from 47% in 1995 to 39% in 2018. This trend is due to many eastern European countries having introduced flat taxes payable by the very rich and the rest at the same low rates (e.g. 25% in Slovakia and even 10% in Romania).

Competition for wealthy individuals has especially increased in the context of Brexit being identified as a key factor pushing the race to the bottom on personal tax rates.

The report mentions France as a country deliberately seeking to increase the attractiveness of Paris as an alternative to London for bankers and financiers by removing wealth taxes, and Italy having started a tax scheme after the Brexit vote with UK residents making up a third of its new users. Brexit is also suggested as having prompted Cyprus to create arguably the most beneficial scheme for the very rich and mobile with high capital incomes – with virtually no tax.

Presented exactly three years after the Panama Papers leaks, the study notes that personal income tax is the EU's largest source of revenue, raising 22% of the total tax revenue compared to 7% for corporate income tax. However, lower tax rates, special exemptions and favourable residence rules for the highly skilled, rich and mobile have mushroomed across the EU in recent years. The report suggests that 160,000 people are benefitting from special schemes in the EU to avoid paying their fair share of local income tax. The main culprits of tax injustice are the Netherlands and the UK, each having over 50,000 beneficiaries of questionable residence rules.

Several European countries offer passports or residence permits in exchange for investments in real estate or other national assets, granting the beneficiaries free travel in the EU, usually without requiring them to actually live in the chosen country (the so-called golden visas). According to a 2018 survey, 20% of very wealthy Europeans are considering obtaining a second nationality, with 19% considering emigrating permanently.

An opposite lesson from the Panama Papers

It seems the member states have learnt the opposite lesson of the Panama Papers and are desperate to transform themselves into tax havens to attract the super-rich.

While EU citizens have spent the last three years demanding tax justice, the member states have been increasing inequality by competing to give preferential treatment to the wealthiest one percent. The very notion of European solidarity forming the basis of the EU treaties is completely undermined by different governments providing various options for legitimate tax avoidance.

With the EU losing up to 190 billion euros a year to tax avoidance, the authors of the report believe the EU should –

- continue its efforts to fight tax evasion and money laundering to enable fairer tax systems and regularly monitor the development of tax competition within and outside the EU, and
- develop an EU action plan against double non-taxation and tax avoidance in the field of personal income tax as well as international countermeasures comparable to those in the field of corporate taxation (BEPS).

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[1] http://extranet.greens-efa-service.eu/public/media/file/1/5920