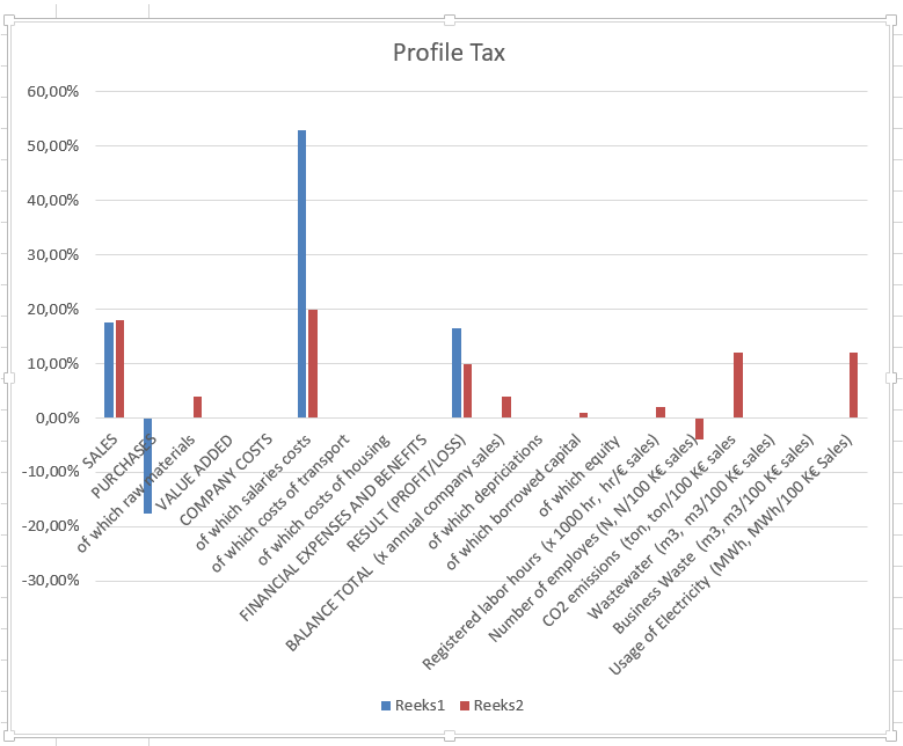


MAY 2020
TAX REFORM 2

An Europan Profile Tax for companies

How can we reform our European economy quickly into a sustainable, social and cyclic economy? Our present taxes are not suitable for our new economy. We need an alternative. A innovative tax reform for companies.

HET MENSELIJK VERMOGEN

Why Tax reform proposals of Piketty do not work!

An alternative: A Profile Tax for companies

Innovative and Effective

Easy to implement

Reforms our economy

THE HUMAN CAPACITY

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Guide into the March 2020 Issue

The second issue of "The human capacity" - magazine for imagination – also delves into the new book by Thomas Piketty "Capital and ideology" that was published in Dutch this march. In the last chapter, the writer gives a political outline of the innovations needed to reduce inequality in Europe. The contours of this sketch are further elaborated in a manifesto co-written by Thomas Piketty and published on the website www.tdem.eu. More than 100,000 people have now expressed their support by signing the manifesto. It is unclear whether this manifesto will also be continued in the form of a new social movement or a political party.

The manifesto consists of two parts: a new treaty of Europe and a new budget and taxes for Europe. The new treaty states that the participating countries of Europe, not necessarily all EU Member States, will form a new European Assembly, alongside the European Parliament, which will include national parliamentarians. The meeting will receive a new budget obtained from 4 new European taxes that are additional to the national tax systems. Spending the budget is aimed at reducing inequalities in Europe, in particular stimulating education. The four new taxes are a progressive income tax and a progressive property tax for individuals and a CO2 tax for companies and an additional tax for large companies. The ideas are daring, innovative and stimulating, but they also seem to be inspired to dovetail well with the reality of European practice. Partly because of this, they lack the power of imagination. And partly because of this, they also carry the seed for failure. More is needed to truly renew Europe. A vision that goes deeper into the structures of our societies; that give new hope and inspiration. In the coming numbers I will "amend" his ideas.

In the march issue I have discussed a proposal to join income tax and capital tax into one new taxation "the property growth tax". In this second issue we will develop a new taxation of companies, that can replace Piketties proposed tax on profits of big companies and a CO2 tax.

Johannes WH Janssen

A profile Tax

A amendement on TDEM'S 'A BUDGET FOR EUROPE'

preface

Piketty and others wrote in 2018 on www.tdem.eu a manifest to transform the EU. It contains two key items: a new Treaty between European states called 'Treaty on the democratization of the economic and social government of the Union' (TDEM), and a 'budget for Europe' that will be spent by this new Assembly. The 'budget for Europe', consists, according to the manifest out of 4 taxes: a tax on the profits of large companies, a progressive income tax, a progressive property tax and a CO2 tax. These taxes already exist in individual Member States of Europe. It makes sense to "copy" them to an European scale. But the problem is, these taxes are no longer suitable for the 21st century. They have some major flaws. It would be sensible for a new Assembly to design new taxes, which on the one hand should improve relations between European citizens, government and the economy, on the other should hand give Europe its own identity and strengthens the debate within a European political space.

That is why it is imperative that the new Parliament designs new taxes, which on the one hand improve relations between European citizens, government and the economy, on the other hand give Europe its own identity and strengthen the debate within the European political area.

In the previous issue, my (first) amendment, I proposed combining European income tax and wealth tax for individuals into one new type of tax: a progressive wealth growth tax. This new tax can effectively combat inequality in Europe. In the following second proposal, I will propose to combine the tax for large companies and the CO2 tax (and other regular taxes) into a single new tax for companies: the profile tax.

Like the progressive wealth growth tax, this is a regulatory tax. It is not a neutral tax but a tax that defines the conditions under which our economy as a whole and the business sectors separately operate. Each business sector has its own profile. With the capital growth tax we regulate "how much inequality" we accept in a society. With the profile tax we regulate that transformation of the economy into a sustainable, cyclical and social economy.

With these two taxes, the new European tax system is complete.

Critics

Today's Nation States apply different taxes to businesses, such as VAT, corporate tax (taxation of corporate profits) and apply many regulations to support special policy goals such as excise duties on tobacco and gasoline, or subsidies for start-ups. Together they constitute a very complex package that determines the economic space of companies. The package causes enormous bureaucracy, is ineffective and is no longer suitable for the 21st century.

First of all, partly due to globalization, it appears that these national tax systems for companies have many gaps. Taxes are evaded relatively easily (legally and illegally). Large international companies can easily bypass the taxes because they can determine where (in which country) the profit is made.

Current taxes also do not take scale effects into account. The larger the company, the more economic power. Large companies can benefit of their scale. These benefits are not taxed in any way. The result is that large companies pay relatively less tax than small companies. In short, the tax system encourages upscaling and the creation of monopolies and impedes fair competition.

In addition, taxes and regulations have become so complex that cohesion has been lost and the flexibility to support the transition to a cyclical economy is lacking. Taxes have no function and therefore no capacity to regulate economic development. If a government wants to stimulate sectors, separate subsidy flows are usually set up, which are however very ad hoc (usually focused on a subject), of which a lot of money "leaks out" and is therefore particularly ineffective. There is absolutely no balanced tax framework that can weigh up environmental and social policy. We need a much more robust government with instruments that enable effective rules and governance.

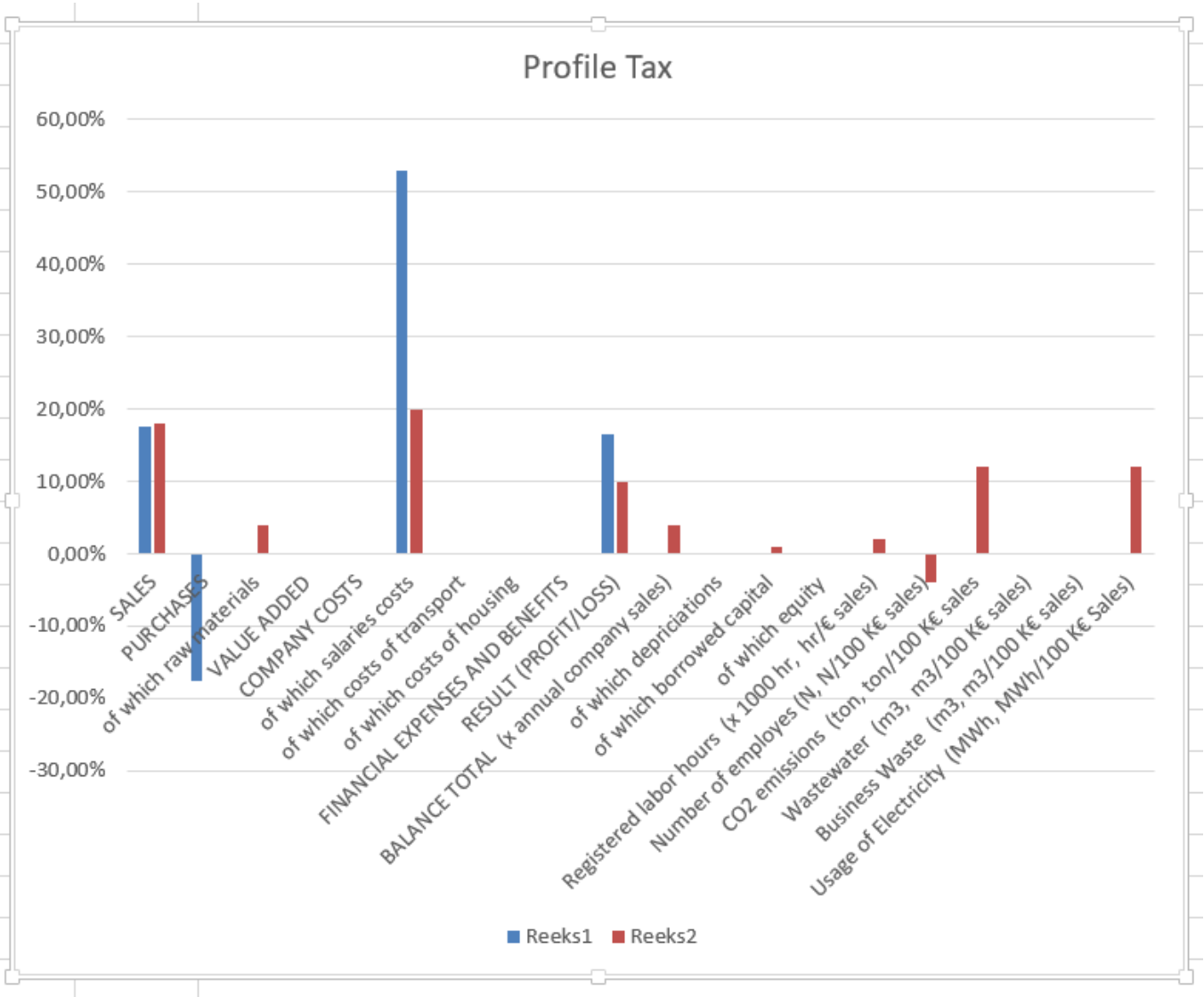
But the main problem is that these taxes are in no way capable of supporting societies in crisis situations. On the contrary. Current taxes do not stabilize but destabilize in crisis situations. The two main business taxes (VAT and VBP) are linked to labor (value added) and profit, the income of businesses. In the unstable times that we can look forward to in the coming decades, both fluctuate more strongly, causing tax revenues, and therefore also public finances, to move strongly. The fluctuations are thereby amplified. It is better to link the tax for companies more to key figures of the economic infrastructure, such as capital and turnover.

Amendment: a Profile tax for companies.

Replace the European tax for large companies and the CO2 tax with a profile tax, for each business sector.

The profile tax is based on a fiscal profile that consists of a set of tax percentages for key figures of a company recorded in the company's extensive annual accounts. The

purpose of the profile tax is to pass on the social costs (social and environmental costs) of consumption and productivity increase in a balanced way to the business sector. The fiscal profile for a business sector requires the financial key figures of the annual accounts supplemented with environmental and social key figures, which must be stated in each annual account and which can each be taxed at a tax rate. Because business sectors are very different, we have to draw up a separate profile for each business sector, based on the same collection of company key figures. The example below shows the key figures and the rate percentage per key figure. This example is a considered proposal, but can of course still be adapted in many ways.



Explanation
The profile must contain indicators for all production factors (labor, capital and nature). The emphasis of our current taxes is strongly on the labor factor. In the profile tax not only labor (usually derived from the Profit and Loss account) but also key figures for capital (often derived from the balance sheet) and the environment (usually hidden somewhere in the paper annual accounts) . In the example, from left to right, key figures are for (added) labor, capital and the environment.

The example shows two profiles - a red series and a blue series - in one scheme. The blue series is the profile that is created when we convert all current taxes, corporation tax, VAT, employer contributions, wage tax, excise duties and subsidies into a profile that aims for as few shifts in the tax burden as possible (conversion profile). The red series is the fiscal profile that distributes the tax burden more evenly across all production factors. This schematic presentation clearly shows the differences between the profiles. The profile tax provides us with an effective instrument for making coherence and an integrated assessment of the development of the economy. There is a maximum regulatory effect of this tax system. Despite the large number of key figures that can be included in this assessment, the profile load will be more effective than existing taxes.

A profile tax can easily start with tariff percentages for only a few key figures and can be gradually expanded by including existing taxes, excise duties and subsidies in the profile tax.

The tax assessment of a company based on the profile of the sector to which the company belongs is definitively determined after the adoption of the company's annual accounts. Companies receive a provisional assessment in advance, which must be paid in monthly installments.

The data of the example is based on the Dutch situation. Because there are large differences per business sector, the profiles must also be drawn up per business sector. Here I show an example of the IT sector. A generic profile for all sectors is impossible and undesirable. For example, for the tobacco industry, we process the tobacco excise tax by introducing a higher tax rate on the turnover of tobacco companies.

In order to make a good comparison of the tax burden on labor, capital and the environment, it is further necessary to include employee contributions and employee wage tax in the conversion. We determine the tax rate in the fiscal profile on the wage bill by looking at how much tax must be levied on the total wage costs to retain the NET wages of the employees. The wedge between gross and net wages of employees is therefore "transferred" to the employer side. Macroscopically nothing changes net. However, on microscopic level of individual companies, shifts are inevitable.

The most striking aspect of the conversion profile is that labor is heavily taxed (value added tax and wage bill both pressure on labor) and that rates for capital and environmental indicators are minimal. If we include all kinds of government subsidies, on balance capital is even taxed negatively.

The ultimate goal should be a more equal tax burden for all factors of production (the red series) that we will explain point by point. The profile creates the preconditions within which companies operate. It changes the relationships between labor, capital and the environment. Entrepreneurs will of course still strive for profit maximization, but due to the changing preconditions, this will "automatically" lead to a sustainable and social economy, because that will also yield the highest profit.

A profile tax is not only an effective government instrument to regulate the economy, but it also has major benefits for the business community itself. The administrative actions for that one integral tax are a fraction of the bureaucratic burden that companies face today.

This kind of tax reform does not aim at a substantial increase in tax revenues, but is aimed at a reorganization of economic activities. (but I will come back to this in my next amendment, on basic income). Effective tax management opts for "push" and "pull". The oil sector will receive an additional tax rate on the use of fossil raw materials, while at the same time the sales tax on the sold solar panels will be reduced. By adjusting the push and pull factors, a balance is created that time enables a rapid economic reorganization. In the fiscal profile of the high-productivity IT sector, we introduce "balance" by introducing a negative tax rate on working hours per turnover and employee per turnover (the inverse of productivity). An increase in productivity in the IT sector therefore leads to a higher tax revenue. The "strongest shoulders carry the heaviest loads." Of course we will have to make the switch from blue to red profile in small steps. We want to transform the economy, but not destroy it. The profile tax is a powerful yet subtle tool for taking these steps.

Is it unjust if the government taxes business sectors differently? Is it incorrect if large companies have to pay a higher tax rate on profit than small companies? How do we avoid distortions of competition between sectors and between countries if different tariffs are used? Market purists will reject this government interference in economic preconditions. A government must be "neutral" and treat all companies equally. In reality, "equal treatment" is a fiction. The government taxation is not neutral. It already "regulates" a lot through excise duties (on alcohol and tobacco, for example), subsidies, tariff differentiation for large and small consumers, and many other details in tax legislation. In fact, favorable tax arrangements are being made with companies to "bring in" jobs from large companies. In addition, tax havens and tax structures offer countless possibilities to avoid the tax. Effectively, multinationals already pay much less tax than smaller companies. What this proposal for a profile tax does is turning the

grown but hidden practice into a transparent and clear policy that democracy decides on. The distribution of the tax burden over factors of production and business sectors - fair or not - becomes part of political decision-making.

Another argument that market purists are only too happy to put forward is the economic damage that will result from companies with relatively high tax rates fleeing the country. However, there is no reason to be guided by fear. On the contrary, the fiscal profile provides absolute certainty to companies, which the government sets as preconditions. Within these preconditions, companies will be able to develop their businesses without fear of major changes. Security and stability is one of the most important 'business conditions' for companies. The transformation of the economy is inevitable. The country that can carry out the transformation with guarantees of stability will have a great attraction for companies. I also predict that the importance of bringing in a multinational company within national borders will fall sharply for the simple reason that these companies will not generate employment and / or economic growth in the near future. The accent of the economy will shift from consumption to participation in the 21st century. Culture, education, care, management, welfare, sport, policy, politics and democracy will become the new growth sectors. The profile tax is the means to shift the focus of economic growth by taxing consumptive sectors and of course reducing employment within these sectors and at the same time, increasing employment in participative sectors by reducing taxation on these sectors.

Finally, let me discuss in detail the elements of my proposal (the red series). The profile of this series includes the following elements:

- VAT, the value added tax will lapse. The (former) sales tax, so without deduction of the VAT charged to the company, is introduced.
- The profit tax is reduced. Instead, the sales tax is increased. It is important that the tax burden is placed on the place where the turnover is made, because that turnover cannot be 'moved', such as the profit. This prevents tax avoidance.
- The turnover tax is sector dependent. Because the differences between sectors are large, a fiscal profile tailored to each sector must be drawn up.
- The sales tax is progressive. Large companies pay more than small companies. The current market mechanism with its uneven distribution of the tax burden "forces" entrepreneurs to "maximize" the size of businesses at the expense of smaller companies. But companies that grow too big monopolize the market and undermine competition. Due to a progressive sales tax, from a certain size, economies of scale of mergers are completely "taxed away" so that it is no longer profitable for companies to grow.
- The progressive nature of the sales tax in the fiscal profile makes many supervisory organizations that monitor the existence of sufficient competition in the market obsolete, because the progressive sales tax maximizes the size and therefore, with the right regulation, there is always a multitude of companies will continue to exist and healthy competition will not be jeopardized.
- The deduction of turnover tax on the purchase of goods and services may continue to exist for selective goods and services.

- But for the purchase of raw materials, there will be a positive 4% rate on the value of purchased raw materials. Under the current system, a company can deduct VAT on the purchase of raw materials (so in fact a negative rate). In the red profile, no deduction is introduced for raw materials, but a storage percentage. This encourages companies to purchase as few raw materials as possible and to recover as many raw materials as possible from used goods and waste.
- The abolition of VAT, the value added tax, ie the - disconnection between sales and purchasing - is necessary to shorten production chains, and to allow companies to work with 'permanent staff' again. Long chains become economically unprofitable because each chain pays tax again on part of the turnover of the previous chain. Shortening production chains is necessary for the environment. If producers and consumers trade directly (without brokering), the price will remain low, mobility (transport of goods) will decrease and the local economy will strengthen.
- There are more than 1 million self-employed persons in the Netherlands. Single companies that are cheaper for many companies than employees. This disconnection makes freelancers more expensive and makes it attractive for companies to recruit and retain people.
- A progressive rate on the balance sheet total will be included in the profile. The balance sheet total is an index of capital for the size of a company. Large companies have to bear the heaviest burdens.
- A progressive rate on borrowed capital has been included in the profile. This adjusts the ratio between equity and debt.
- European CO2 emissions trading is being replaced by a CO2 tax rate. The consumption of fossil fuels leads to CO2 emissions that are taxed progressively here. The starting point is that larger companies must be able to emit relatively less emissions. That is why they are charged extra to maintain the balance with smaller companies. If they fail to improve their environmental performance, they will have to pay relatively more tax.
- In this fiscal profile for the IT sector, we are introducing a progressive rate on labor productivity. With this we rearrange the balance between the sectors. The IT sector is very profitable and innovative. This will support other more labor-intensive sectors financially and we will strengthen the global structure of the economy and the balance between the sectors.
- Just like the current employed person's tax credit, a deductible item in the income tax, we also want to structurally stimulate labor participation in the new profile (the red series). This can be done by norming a negative tax rate in the profile on the number of employees. There is a need for a real culture change in companies on this point. The companies become a social workplace where people work together. Employees become shareholders. Sustainability becomes an integral feature of the company. By default, the focus will be on reuse. CEO rewards go down because of the wealth growth tax (see my first amendment).
- We are introducing an extra energy tax for companies to stimulate the economy economically

APPENDIX

DATASET of profile tax for a business sector and calculation of the tax amount payable for a fictitious company from this sector.

SECTOR:	IT branche	Company		Profile Tax A (blue)				Profile Tax B (red)			
		My-company		CONVERSION PROFILE				SOCIAL,SUSTAINABLE,CYCLIC			
production factor	Key figures	Financial Statement 2020		Sales smaller then	Normal	Sales higher then	tax to pay	Sales smaller then	Normal	Sales higher then	tax to pay
	(x €100.000,-)	*54*	*(=100)*	*10*		*1000*		*10*		*1000*	
LABOR/ Profis and Losses	SALES	54	100,0	17,53%	17,53%	17,53%	17,53	13,00%	18,00%	23,00%	18,00
	PURCHASES		39,0	-17,53%	-17,53%	-17,53%	-6,84	0,00%	0,00%	0,00%	0,00
	of which raw materials		5,0	0,00%	0,00%	0,00%	0,00	4,00%	4,00%	4,00%	0,20
	VALUE ADDED		61,0	0,00%	0,00%	0,00%	0,00	0,00%	0,00%	0,00%	0,00
	COMPANY COSTS		45,0	0,00%	0,00%	0,00%	0,00	0,00%	0,00%	0,00%	0,00
	of which salaries costs		30,0	53,00%	53,00%	53,00%	15,90	20,00%	20,00%	20,00%	6,00
	of which costs of transport		4,0	0,00%	0,00%	0,00%	0,00	0,00%	0,00%	0,00%	0,00
	of which costs of housing		4,0	0,00%	0,00%	0,00%	0,00	0,00%	0,00%	0,00%	0,00
	FINANCIAL EXPENSES AND BENEFITS		3,0	0,00%	0,00%	0,00%	0,00	0,00%	0,00%	0,00%	0,00
	RESULT (PROFIT/LOSS)		13,0	16,50%	16,50%	16,50%	2,15	10,00%	10,00%	10,00%	1,30
CAPITAL/ Balance sheet	BALANCE TOTAL (x annual company sales)	1,35	135,0	0,00%	0,00%	0,00%	0,00	0,00%	4,00%	8,00%	5,40
	of which depriciations		8,0	0,00%	0,00%	0,00%	0,00	0,00%	0,00%	0,00%	0,00
	of which borrowed capital		10,0	0,00%	0,00%	0,00%	0,00	0,00%	1,00%	2,00%	0,10
	of which equity		30,0	0,00%	0,00%	0,00%	0,00	0,00%	0,00%	0,00%	0,00
ENVIRONMENTAL AND SOCIAL FIGURES	Registered labor hours (x 1000 hr, hr/€ sales)	11	2,0	0,00%	0,00%	0,00%	0,00	2,00%	2,00%	2,00%	0,04
	Number of employes (N, N/100 K€ sales)	23	0,4	0,00%	0,00%	0,00%	0,00	-2,00%	-4,00%	-6,00%	-0,02
	CO2 emissions (ton, ton/100 K€ sales	12	0,2	0,00%	0,00%	0,00%	0,00	10,00%	12,00%	16,00%	0,03
	Wastewater (m3, m3/100 K€ sales)	78	1,4	0,00%	0,00%	0,00%	0,00	0,00%	0,00%	0,00%	0,00
	Business Waste (m3, m3/100 K€ sales)	40	0,7	0,00%	0,00%	0,00%	0,00	0,00%	0,00%	0,00%	0,00
	Usage of Electricity (MWh, MWh/100 K€ Sales)	28	0,5	0,00%	0,00%	0,00%	0,00	12,00%	12,00%	12,00%	0,06
	TOTAL AMOUNT OF TAX ON SALES-TOTAL		100				28,74				31,11

Explanation:

- The tax percentages of the two fiscal profiles (gray) are percentages that are levied on the amount of the relevant key figure.
- There are 3 columns: the first column is the percentages for a small business. The second column for an average company. The third column for a large company.
- For the profile tax we use the system that tax is levied on the value of the key figure. In the conversion profile, we must therefore first add the "old" tax to the turnover, because then calculate the tax percentage that is required to "keep" the old turnover. 17.35% = 21 / (100 + 21) * 100%
- The annual accounts of each company (orange) are normalized. The values of the key figures are expressed in the second column as a percentage of the annual turnover.
- The tax percentage on the wage bill in profile A also includes the wage tax of employees. After deduction of the tax, the net wages of employees remain.
- The balance sheet total is measured in numbers of times annual turnover. The amounts of the balance sheet items are again percentages of the balance sheet total and can therefore also be converted to a percentage of the annual turnover.
- The tax rates of social and environmental key figures of the company are levied on normalized numbers that arise by dividing the values by the annual turnover of the company. These normalized numbers provide an indication of a company's social and environmental performance. In theory, a company that is 2 x (2x as much turnover) will have 2 x as many

employees, 2 will emit as much CO2, 2 x as much waste, 2 x as much energy. The normalized key figures are then the same for both companies. If there is relatively less emissions, the normalized number will decrease.

- For a company, each percentage in the annual accounts is multiplied by the index number, which results in a percentage over the annual turnover. The partial percentages are added that ultimately yield the final percentage (blue columns, total load in the black cell), which is the definitive tax assessment.