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# **A FAIRER TAX SYSTEM**

## FOR COMBATING CRISIS

ANALYSES & PROPOSALS

JUNE 2010

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## PREAMBLE

In September 2007, at the initiative of the CGT Federation of Finance, a brochure entitled “*La fiscalité au cœur de la crise des finances publiques*”<sup>(1)</sup>, was widely diffused. This spotlight on a worn liberal tax system listed the proposals for CGT (General Confederation of Labour) to improve economic efficiency and social tax burden of fiscal nature.

In 2008, the international financial crisis broke out and settled, destabilizing the budgets of the Western States, including the European ones. These States have rescued their failing banking systems by using public money therefore revealing, beyond the incompetence or the dishonesty of certain financial managers, the systemic nature of the financial crisis and thus confirming the diagnosis of a crisis in public funding, in a context of excessive deficits and debt.

The competition between social-productive systems place employees in the front line and imposes precariousness as a universal rule of management, undermining the achievements in social protection. The weakness in employment and wages remains the number one problem in France.

## 1 — HAS NOBODY SEEN THE CRISIS COMING?!

The complacency of the States, of their leaders, of liberal economists and mainstream media to markets have muted the analysis and proposals by the trade unionists, anti-globalization activists and some economists announcing the crisis. No one is surprised to see bankers, insurers, speculators defending their own financial interests and thus marginalizing the unions.

Another thing is to hear consultants, experts, economists and leaders declare that no one had seen the crisis coming.

Henceforth, ultra-liberal economists are trying to sell a kind of capitalism that to be perfect needs the end of the mission of public services, a high level of social protection, PAYG pensions (pay as you go schemes) and officers' pensions.

They tell us that the old-fashioned social and popular ideas have completed their historic path as probably the end of the cold war finished History<sup>(2)</sup>. In short, more market still to solve the contradictions of the market.

Yet, the consequences of housing bubbles, mortgages, excessive debt of households had

**Subprime:** a credit that appeared in the United States, the rate of which is time-varying and guaranteed on the borrower's goods. Its lies in the fact of giving to people the value of their houses with important risks of fluctuation in real estate prices.

**Stockholders' equity:** the difference between what a company but also a bank owns (buildings, cash, equipment) and its debts. The capital provides a guarantee in case of financial problems.

**Short sale:** a short sale occurs when a property is sold and the lender agrees to accept a discounted payoff, meaning the lender will release the lien that is secured to the property upon receipt of less money than is actually owed

**Leveraged buyout:** a mechanism of acquiring a controlling interest in a company's equity (in English LBO) where the investors do not have the necessary capital. The purchase is therefore partially on credit. The profitability of the company must then be greater than the cost of credit.

1 – « *La fiscalité au cœur de la crise des finances publiques* », la CGT Recherche et renouveau syndical , IRES Sept. 2007

2 – Cf. Francis Fukuyama, who declared the end of History after the Fall of the Berlin Wall in 1989

been identified. Financial speculation is inherently anti-social (research for growing leverage effects is irrational in terms of industrial investment and socio-economic objectives).

Since 2005, the criminal dimension of subprime held by banks (aimed at trapping the poor by stealing their assets) had been described.<sup>(3)</sup> One recalls that a finance minister proposed to adapt in France the subprimes under the rechargeable mortgage credit payments under the pretext that French households were not sufficiently due.

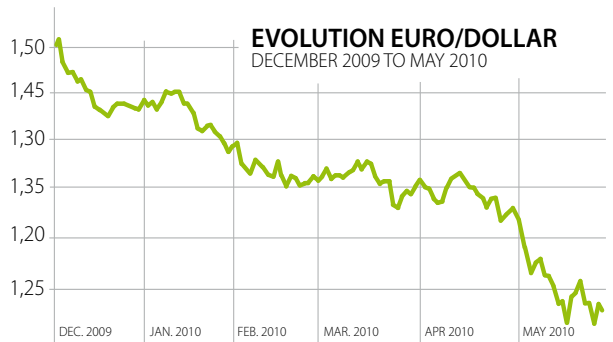
Employees are entitled to demand to public authorities the regulation of financial instability that is specific to capitalism. This concerns the level of bank capital, control of derivatives, short sales, securitization, limited leverage, taxation of all financial transactions, the modulation rates of bank credit, international taxation that are worthy of the name.

But leading politicians, financiers and the media tell us that competition between social-productive systems is inevitable and will be even more violent with the rise of emerging countries. The increase in living standards and consume like the western model is a legitimate wish of developing countries and the least developed countries. Alone, we cannot regulate international finance.

There is no answer both at International, European and national level than single reactions from the different trade union organisations.

**The cart before the horse: currency before social and tax harmonisation**

The euro is a young currency and therefore subject to attacks by anglo-saxon hedge funds speculators. Was it reasonable to establish a common currency in some States while en-



couraging fiscal and social competition among their economies<sup>(4)</sup> ?

In the absence of a common economic governance and harmonization, employees bear the brunt of financial engineering. Many have bet on the structuring of currency by pushing to harmonisation between the States. We finally understood that the possible collapse of the common currency is no longer a fiction.

Investors' demands in terms of sovereign debt (public debt from budget deficits) are related to economic fundamentals of the States, hence the growing gap in rates between countries. And recurrent speculative attacks against the strength of the currency oblige the States in better economic conditions to support countries like Greece, maybe Portugal soon or even Spain.

European authorities want to establish an internal failure system such as the IMF does at international level. And the ECB is asked to buy the public debt of failing states.

3 - Dymski, "Financial globalization, social exclusion and financial crisis", 2005

4 - "The introduction of a single currency is impossible without the prior establishment of a political Europe on a democratic basis; it should act as the perfect culmination of the European construction", Combats pour l'Europe, Maurice Allais, Nobel Prize in Economics

Beyond European structural responses to maintain the European currency, budget requirements of the EU monitors are on the lower level of wages and social protection, starting with the workers' salaries pensions that are in sights of.

The States considered expensive will be imposed by European authorities a deflationary policy: decrease of the value of assets and real wages.

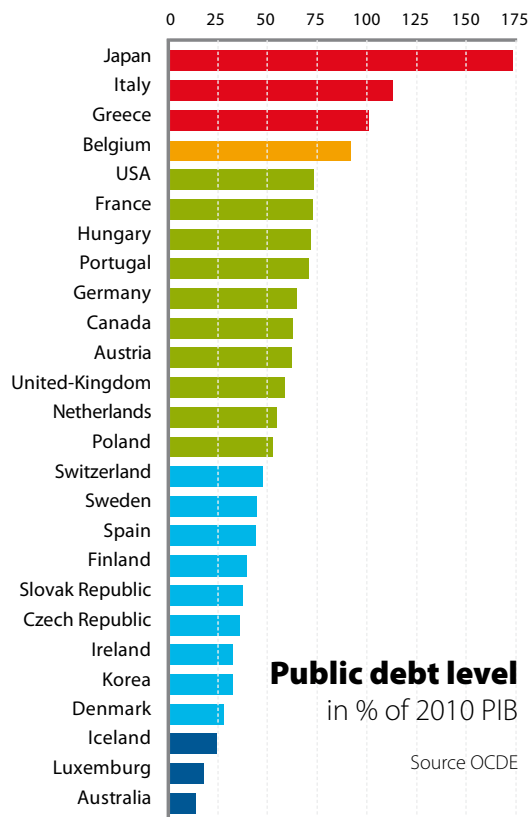
No real budget coordination, no credible economic governance for European States invited to compete at social and fiscal level. After Greece, attacked on its sovereign debt, Spain, Portugal and Italy are concerned.

Speculators calmed down whenever active workers and people in retirement are cut down in wages and pensions. Why France, with budgetary problems (whose debt is 60% owned by non-residents) would escape to the purge demanded by those who are responsible for the crisis? French promise to reduce its public deficit by acting on expenditure is a first sign.

Economic press reassures us that markets are relieved after the introduction, on May 10, 2010, of the support plan of 750 billion € from the member states of the euro area, the ECB and the IMF.

We have not forgotten that these same markets are responsible for the financial crisis that caused the massive debt of the States that were told to come to the rescue of their banks. Everything happens as if the markets, the speculators and the rating agencies played against the people.

Ultimately, the single currency without political governance has a structural liberal effect: in the absence of common or convergent social and fiscal rules having increased social dumping.



European workers, who are not responsible at all for the financial speculation and tax evasion in their respective countries, struggle to preserve their legitimate rights.

**IMF:** The International Monetary Fund is composed of 186 Countries. Its role is to "promote international monetary cooperation, to ensure financial stability, facilitate international trade, contributing to a high level of employment, economic stability and poverty reduction".

**ECB:** The European Central Bank is the central bank of the European Union. Its main mission consists in maintaining the price stability within the Euro area and, therefore, in preserving the purchasing power of the euro. The Euro area comprises the sixteen countries of the European Union that have introduced the euro since 1999.

## 2 — THE LIBERAL MANAGEMENT FAILURE

### 2.1 – FINANCIAL SPECULATION HAS NOT DECREASED

The problems posed to humanity nowadays in terms of needs - health, education, environment, climate change, peace - are often worsened by financial globalization.

Whereas the heads of State have called on “moralising the capitalism” there is no evidence that the financial crisis has changed the behaviour of speculators on the lookout for bargains in their attacks against sovereign debt. Employees’ anger is not heard by the leaders. The essence of the structure of tax burden in OECD countries remains born by consumers and employees. There is no evidence that the taxation of transnational corporations or the richest people’s assets are being reformed.

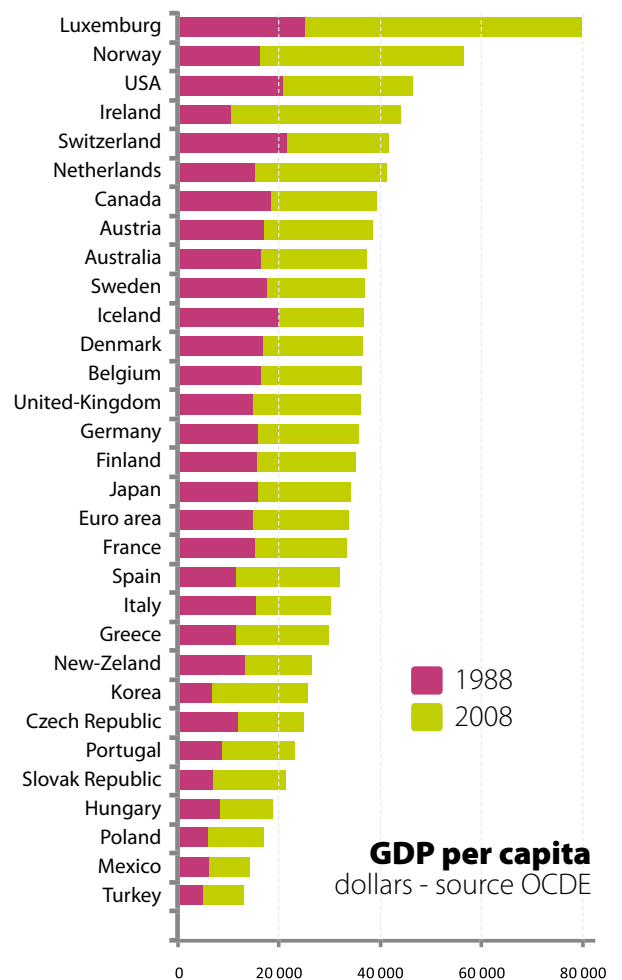
Faced with the wrath of populations, the leaders make promises to regulate the financial system. And bankers and insurers are already alarmed by the new prudential rules.

The international press welcomes in a premature way the news that are announcing during the international meetings – G20, IMF, ECOFIN... – on possible taxation of banks, financial transactions, Basel 2 banking regulations, Basel 3, muzzled tax havens, combating international fraud evasion.

**The sudden enthusiasm of some leaders on a tax on foreign exchange transactions is strange.**

The idea that the tax on foreign exchange transactions is not a Tobin tax is defended by its promoters. The purpose of the tax on foreign exchange transactions is to apply a minimum tax in order to finance development projects for international public good.

Like the tax on airline tickets launched in France in 2006, leaving some hundreds of millions of dollars to finance the campaign against pandemics, the tax on foreign exchange transactions would be assigned to finance global issues (climate change, natural disasters ...) and



**OECD** : Organisation for Economic Co-operation and Development. It brings together the governments committed to “the principles of democracy and market economy”.

**Basel II and Basel III**: Following the first Basel Capital Accord in 1988, Basel II (2004) set prudential standards for banks in particular as regards credit risk relating to bank capital. Basel III agreements should establish new criteria for 1 January 2013.

**ECOFIN** : Economic and Financial Affairs Council which includes the finance ministers of the Member States of the European Union. The ECOFIN decides on legislation for economic and financial issues.

**Tobin Tax** : Proposed in 1972 by James Tobin, Nobel laureate in economics, even if he took a step back regarding this idea, it seeks to tax international currency transactions in order to limit short-term speculation. One idea also taken by ATTAC (Association for a tax on financial transactions and aid for citizens), its rate could therefore be 0.1%.

managed by the UNDP (United Nations Development Programme)

The frightening spectre of the Tobin Tax is eliminated to reassure bankers and speculators who will not be touched at all. On the contrary, the tax on foreign exchange transactions will be their good action.

This would be a painless contribution with a percentage of 0.005% on individual transactions of foreign currency that would be collected by the centralized compensation structures.

It would bring in about \$33 billion, but still too weak to transform the market behaviour.<sup>(5)</sup>

It should have no noticeable effect on financial transactions, according to the Secretary General of the United Nations, Ban Ki-Moon. It would in no way disturb the market. In such a point that Brussels is considering to introduce a tax on foreign exchange transactions in Europe.

However, the objective of taxing speculative financial transactions defended by CGT is not issuing an extra soul to management and speculators. This taxation should not be part of marginal environmental or charity budgets that are presently too low.

Instead, taxation on financial transactions should slow down the flow of speculative capital and sanction the financing of the global

economy. Socio-economic and environmental objectives depend on paid work rehabilitation and a better distribution of wealth.

Thus, the CGT will continue to promote effective harmonization of European tax systems in order to put an end to internal tax havens and dumping.

### **The projects for taxation of banks ... for the rescuing of banks**

Projects for taxation of banks or of the financial sector, including insurance, are under study.

#### **The different projects**

**The German project** is similar to a new mechanism for regulating the financial system. The tax would feed an emergency fund in case of crisis (€ 1.2bn), with scale based on financial risks; the accountability of leaders is evoked.

**The United States Project** consists of a tax at the rate of 0.15% of banks' balance sheets or 117 billion \$/12 years. It would feed an inter-banks fund transfer system (\*).

The report by Jean-François Lepetit on "*the regulation of financial players and systemic markets*" clarifies **the French position**. The principle of national taxation awaiting its international expansion was introduced to the Senate in February 2010: "*currency transactions ... tiny rate (0.05%) and quasi indolore ... with the exception of relationship with tax havens (0.1%)*". However, one can doubt on the economic and social efficiency of such a tax, once it must be harmless for being accepted by markets. The project of budget law for 2011 would be a tax based on banks' balance sheets. Paris is expecting € 1 billion of income.

5 - Summary of the North-South Institute, November 6, 2008 the tax on currency transactions, a bold idea for the financing of development

**GAFI or FATF** : the Groupe d'Action financière (Financial Action Task Force on Money Laundering) is an intergovernmental body for developing and promoting national and international policies in order to fight against money laundering and terrorist financing. It is therefore a decision-making body that makes efforts to generate the needed political will to reform laws and regulations in this ground.

**Interbank Fund** : fund that guarantees the savers' deposits in banks

with a little delay, entangled in a heavy and inefficient tax legislation.

The tax and legal havens are one of the major causes of the global financial crisis. Tax evasion, money laundering from fraud and crime (sale of weapons, drugs, prostitution, corruption) are rationally managed by banks and insurance companies in their seats or subsidiaries located in tax and legal havens.

**The European Union has also drafted a report on this topic** in preparation. We are talking of creating a network of funds set up by the States. The European Parliament asked the Commission to study the impact of a global tax on financial transactions.

The G20, in their meeting in London in April 2009, "scolded" tax havens and classified them, according to their opacity, into black and grey list. This shows, should it be needed, any relative efficiency of the Financial Action Task Force (FATF)\*, since 1989.

**The IMF's report** refers, among others, the problem of traders' bonuses. The IMF, strongly against a tobin-type tax<sup>(\*)</sup> on transactions, proposes two types of taxes. One tax entitled "contribution to financial stability", whose base might be the balance sheets of banks and that would function as a VAT.

Foundations and trusts continue to prosper in some untouchable U.S. States or in the Channel Islands. These structures act as nominees and protect the real holders of assets. We are aware that 12 signing of agreements of exchange of information would be sufficient to "launder" tax havens, some of which did not hesitate to share between them.

In this regard, employees are well placed to know who ultimately pays the VAT. Its assignment is not established. A second tax on financial activities assigned to the State budgets that would be based on the important financial income. We think of the traders.

Thus, the last officially uncooperative tax havens represent 0.25% of offshore finance market<sup>(\*)</sup>. Clearly, the injurious lists of the OECD do

Do employees have anything to expect from the G20 held in Toronto in June 2010 after all?

**2.2 – TAX AND LEGAL HAVENS**

Following the scandals of tax havens revealed by the acquisition by Germany of fraudsters' files protected by Swiss banks, also France took the same steps although





not relate to 99.75% of tax evasion. In practice, the NCCT (non-cooperative countries and territories) refuse any lifting of secrecy without any evidence provided by the requesting country. As a result, tax evasion continues to be so massive as before.

### Tax evasion hits the poor and the emerging countries first

Tax evasion is however not limited to Western countries. Instead, tax evasion is massive in poor and emerging countries. 20% of the deposits of tax haven countries come from developing countries, i.e., between 2200 and 2400 billion \$/year.

At the European level, the 3rd directive on money laundering, which compels the legal professions to report suspicions of money laundering and tax evasion did not please the legal lobbies, namely the French ones that keep protecting their fiscal area anyway.

Moreover, nothing happens on the forehead of transfer prices of the transnational groups that continue to locate their profits where the corporate tax is attractive.

In Europe, Microsoft has confined its patents in Ireland where royalties are taxed to 12.5% instead of 33.33% like in France.

### Bank secrecy is largely preserved

The European Commission considered tax avoidance through tax havens to about 2.5% of GDP. France, meanwhile, estimates a revenue loss of 10% or a range of 30 to 50 billion €.

Is the applied French list of tax havens, sup-

**Finance offshore** : This term refers to companies whose head office is based in a State of fiscal compliance while the fiscal activity of this same company is mainly set in another country.

posed to be reviewed annually, more efficient than international grey listing? Everyone wishes so.

An information report by the National Assembly in September 2009, having remained a dead letter so far, proposed to strengthen financial and banking regulation by making public the links of listed companies and their subsidiaries with tax havens and non-cooperative territories.

A regulatory and legal framework has been proposed. This particularly requires the prohibition of marketing of savings products, the providers of which pass through non-cooperative territories, prohibiting access to French territorial waters of convenience.

**France, meanwhile, estimates a revenue loss, due to tax evasion of 10% or a range of 30 to 50 billion €**

But above this the report suggests to "give the administration the means to detect and to punish fraud and tax evasion". This requires implementing new reporting requirements, to extend the presumption of tax evasion and increase the control means including the setting up of a legal tax service. The "new world order" that was to emerge from the G20 in London in April 2009 has failed.

### 2.3 – IN EUROPE, ENDLESS COMPETITION PROMOTED BY THE EUROPEAN TREATIES IN FORCE

*"The competition between social protection systems will be stronger, not only towards the non-European world but also inside Europe...Compe-*

*tion between tax systems is needed, like between national social protection systems... There will be no backwards, it's final" – free translation.<sup>(6)</sup>*

This comment of a former head of the Bundesbank illustrates the precedent conditions imposed by the implementation of the Euro.

The European Treaties in force – Maastricht 1992, Amsterdam 1997, Nice 2001, Lisbon 2007 (as well as the project of constitutional treaty of 2005 refused by the French people) – have adopted the principles of the WTO (World Trade Organisation) and the IMF (International Monetary Fund):

free movement of capital, goods, services, people, with a further freedom of corporate settlement in the European space hardly defended by the legal rules of the ECJ (European Court of Justice).

At the same time, the unanimity rule for tax prevents or slows the laborious attempts to harmonize, like the Common Consolidated Corporate Tax Base (CCCTB). Finally social protection and funding remain the responsibility of national States.

The European leaders have always been aware that Europe would first work as a competitive battle field at the economic and social level

**OMC or WTO** : The World Trade Organisation (Organisation Mondiale du Commerce) consists of 153 member states. *"It's an organization for liberalizing trade. It's a forum for governments to negotiate trade agreements. It's a place for them to settle trade disputes"* (source: <http://www.wto.org>).

even before enrolling in international competition.

In this regard, the new growth strategy known as Europe 2020 EU Strategy proposed by the European Commission continued the liberal structural reforms: *"This is a reduction in social protection and pension systems. There is no reason why this crisis is expected to confirm further deregulation, job precarisation and privatization of public services ... EU 2020 does not refer to taxation, the taxation on financial transactions and the ability to have a solidarity fund for countries in crisis. But we must strengthen governance and see how to improve taxation and issue Eurobonds"* – free translation.<sup>(7)</sup>

## **2.4 – IN FRANCE, A SHARE OF NEGATIVE ADDED VALUE TO EMPLOYEES AND FAVOURABLE BUDGETARY GUIDELINES TO THE WEALTHIEST ONES**

INSEE has produced several papers on the evolution of the very high wages in the private sector, on income and household heritage, or even on inequalities in living standards and poverty.<sup>(8)</sup> These studies show that the number of people with very high income has boomed.

The beneficiaries are representatives of finance, of Board and of the wholesale trade, but primarily leaders and financiers. The number of people earning more than € 500 000 per year has increased by 70% between 2004 and 2007. Thanks to the set of tax shelters, their average tax rate is rather low, i.e., around 20%. We are far from reaching the tax shield.

The structure of the income of the wealthiest

6 - Hans Tietmeyer (Bundesbank), International Herald Tribune August 23, 1999 quoted by B. Cassen (statement at a meeting on the 10th of April 2010 in Paris)

7 - Joël Decaillon, Deputy Secretary General of ETUC, April 2010

8 - The very high wages of private sector, April 2010, INSEE etc.

people between 2004 and 2007 shows that it was the heritage income that increased the most (+46%), or windfall revenues as the capital gains or the purchase option (+55%). Labour income increased by only 11% in this period of 4 years for 90% of households by only 9% less than inflation, which was 9.9% over the same period.

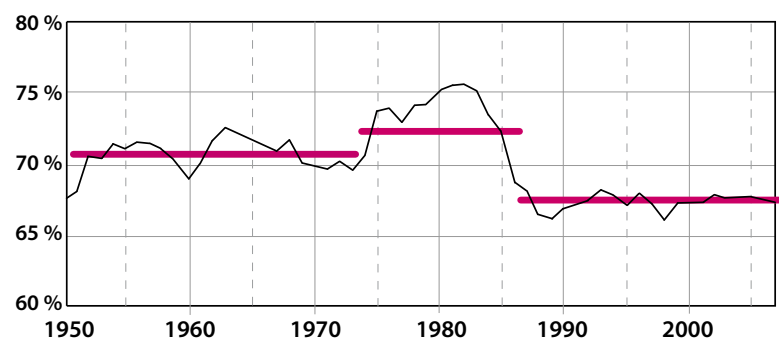
**2.4.1 – The battle for the distribution of wealth**

The increase in inequality of received income and even more on in owned heritage that is observed in a similar manner in other OECD countries, is not a coincidence. In fact, it comes from the choices of economic leaders.

The Cotis report that would clarify the debate on the share of value added did not clarify anything after all. For Medef the distribution of value added is a theme among others in the corporates' projects such as investment or training.

This is a central question for CGT. It does not arise in terms of profit-sharing as the Government wishes to confine the debate but sharing the created wealth, that is, the purchasing power of wages and the socialized wage that is social protection.

Share of wages in value added non-financial corporations



Employees have lost about ten points in value added between 1982 and 1989. The 2000s reported a significant increase in the share of dividends in added value. In 2007, the amount of dividends paid to shareholders (227 billion €) exceeds that of investment (209 billion €).

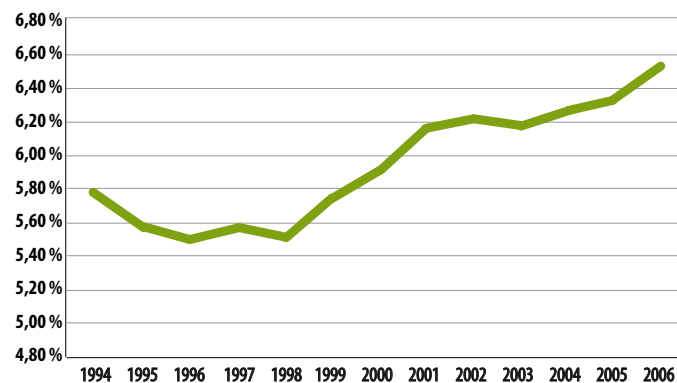
A shareholder who appropriates the wealth produced by wage labour on national soil is often the speculator who plays on the international competition, causing the relocation of industries.

**2.4.2 – Indirect taxation is the leading budget source**

France has taken the historical choice to structure its taxes from indirect taxes. This budget choice, not challenged by the governing parties for 30 years, reflects the mistrust of leaders towards a people who are known for their rebellious nature and illustrates the centrality of the State that decides the common good.

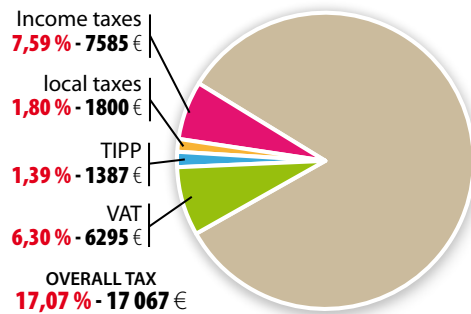
The characteristics of deductions are known. Chargeable to consumers only, indirect taxes are collected at the same time of the expenditure. They are considered easy to collect and mostly painless.

VAT, TIPP, some taxes of environmental or budgetary nature of fossil energy consumption, the social VAT that reappears at the social scene

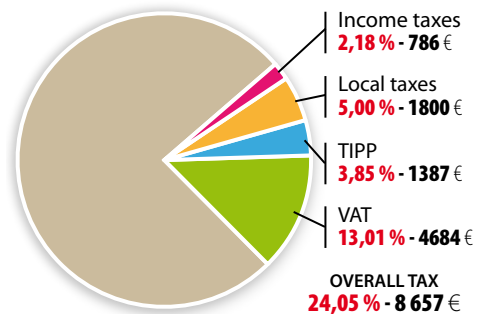


Share of wages in the highest total payroll

Tax expenditure of a couple with 2 children  
(Net income of € 100,000 annually)



Tax expenditure of a couple with 2 children  
(Net income of € 36,000 annually)



These figures, calculated on the basis of INSEE Sources, show that the percentage of overall tax is not necessarily higher when we have significant revenue. Especially since wealthy households often make investments to reduce their income tax (see example below).

of the budgetary debate are also considered to be theoretically neutral in economic terms, because they don't lower neither capital nor investment nor wealthy household's savings. Indirect taxation improves the balance of trade by promoting exports and penalizing imports.<sup>(9)</sup>

Indirect taxation affects the purchase power of households only. By increasing their indirect taxes, the European States compress their con-

sumption. Germany, by increasing its standard rate of VAT by three percentage points in 2007 (1 point assigned to social protection and 2 points to budget) competes with its European partners.

It should be also noted that the intra-community VAT is massively defrauded by the European operators. End of 2009, a new fraud on the quota market of CO2 evaluated at 5 billion € was revealed for the main countries, including 1.4 billion € for France.

	Reduce rate	Normal rate
Luxemburg	06/12/10	15
Spain	7	16
United-Kingdom	5	17,5
Germany	7	19
Romania	9	19
France	5,5	19,6
Bulgaria	7	20
Portugal	05/12/10	20
Slovenia	8,5	20
Greece	10	21
Ireland	13,5	21
Poland	7	22
Denmark	-	25
Sweden	06/12/10	25

Examples of VAT rates in Europe in 2010

Finally, one cannot eliminate physical control at boundaries and keep an economic logic of uncontrollable exports and imports at the same time.

Clearly, either the VAT is applicable in the European area as in the domestic space<sup>(10)</sup> and requires a harmonized corporate tax audit, or physical checks at the borders are restored.

### 2.4.3 – The budgetary mechanism

The 2010 budget, executed in March, provides net revenues of:

- VAT : 126,5 billion €
- Income tax: 49 billion €

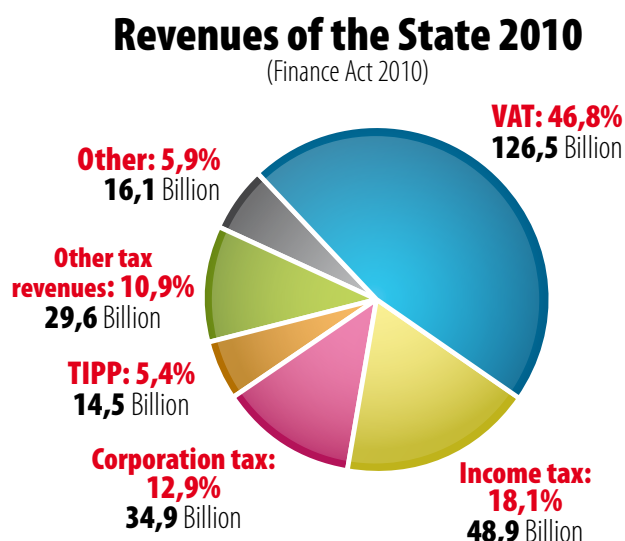
9 - Exports and intra-community supplies are VAT-free as opposed to imports.

10 - VAT is normally collected by the seller and the taxable supplier.

- Corporate tax: 35 billion €
- TIPP (short for "Taxe intérieure de consommation sur les produits pétroliers" - the main tax levied in France on certain petroleum products) : 14,5 billion €
- and a deficit of 149 billion € (the interest burden of debt would be 43 billion €). The primary balance of budget is in deficit (net tax revenue 169 billion € – net expenditure 322 billion € ; excluding debt burden a surplus primary balance is a measure of fiscal balance.

The budget deficit of € 149 billion € represents threefold the product of the income tax and exceeds almost all indirect budgets (VAT 126.5 billion € + TIPP 14.5 billion € or 141 billion €).

The conditions of the financial crisis prompted the government to the budget impasse on corporate tax (the product of the corporate tax is divided by two) by reimbursing in 2009 the tax credits in advance, namely backward reports on losses from previous years, by getting research tax credit flowing again without control.



At the same time, the ideological choice taken in 2007 to lower the income tax and inheritance of the richest - the tax package of the Tèpa Law - seriously destabilizes the budget balance that is already precarious.

Thus, the tax burden will be exercised more heavily on household consumption and local budgets (the state's abundant budget of communities of 50 billion €/year). At most, the mediated communication of the government refers to a decrease in tax shelters for 4 or 6 billion € over two years while preserving the wealthiest people's field.

### Weapons are refurbished

Thus, the CSG (General social contribution - a French tax set up in November 16, 1990, which participates in the financing of social security), that, together with the VAT, is the major household, would be well merged with the income tax by inoculating it with its considered painless character of withholding at the source.

Widespread across OECD countries it is considered as the most acceptable because taxpayer employees receive an annual overpayment check: in fact, deductions often exceed the final amount of tax. The goal then is to force otherwise prepare household to tax deductions and social mass.

### 2.4.4 – Too much tax exemptions for lobbies and companies

A tax expenditure, or "tax shelter", is an opt-out provision of law conforming to the common law resulting in loss of revenue.<sup>(11)</sup>

For 2010, Bercy evaluates 468 tax expenditures to 74.8 billion €, of which 37.5 of income tax and 17,2 of VAT.

11 - See Tax Exemption, 21st report of the Council Tax 2003.

## THE 16 MOST EXPENSIVE TAX EXPENDITURES

- **VAT rate at 5,5 % on work:** 5,1 billion €: this measure whose effectiveness is questionable at an exorbitant cost.
- **Research tax credit:** 4 billion €: increased from 2 billion € before 2008 to 4 billion € in 2009 and certainly more, the research tax credit is a "disguised drop of corporate tax" according to the Court of Auditors. Private research expenditures are lower in France than in comparable countries. The state replaces the shareholder to fund research.
- **Earned income tax:** 3,2 billion €. Criticized by the CGT, since the State by setting up this negative income tax for the benefit of poorer workers replaces itself the employer. The negative income taxes were first created in the US because the wages of unskilled workers do not allow them to survive.
- **Life insurance:** 3 billion €. This costly tax shelter pays a savings managed by banks and insurance. Long-term savings are essential to the financing of the economy and must be oriented towards existing people's savings funds (French regulated savings account) or to be created as the industry savings books, as proposed by the CGT. It should be noted that the savings of "livret A" (the most used French regulated and tax-free savings account) is used to finance social housing.
- **VAT rate at 5,5 % for catering:** 3 billion €: long-standing campaign promise by Jacques Chirac and followed by Nicolas Sarkozy. Expensive, without measurable economic effect on employment.
- **10% reduction on pensions and retirement:** 2,6 billion €. This measure is regularly criticized by the Senate Conservatives. The CGT considers it to be maintained.
- **Tax credit related to energy savings in the main house:** 2,6 billion €. Example of tax incentive, claimed by fitters and manufacturers, the environmental impact of these devices is not proven. In any case the desired effect of these tax measures must be evaluated every year.
- **Exemption of certain health insurance contracts:** 2,2 billion €
- **Tax credit for home-workers:** 1,75 billion €. This provision is coupled to the reduction of tax for home-workers. The benefit of credit conditions is restrictive; its base is more social than the reduction that in principle benefits taxpayers.
- **Exemption of certain family benefits, for disabled adults, orphans...:** 1,6 billion €. These measures, whose effects must be nevertheless measured, are social tax exemptions understandable all over the world.
- **half additional share for taxpayers raising one child:** 1,56 billion €. The withdrawal of this provision in three years has been criticized by the CGT.
- **5,5 % rate for the provision of accommodation in hotels:** 1,56 billion €. As for work or catering, this exceptional measure at normal rate of VAT could be reported.
- **Tax credit for interest on loans for the main residence:** 1,5 billion €. Claimed by the building employers' lobby, this measure is not a provision in the benefit of social housing. Intended for the first-time homeowners, its budgetary impact could quickly double. From 280 million euro in 2008, it will increase to nearly 3 billion € in 2013. Moreover, it is not decisive for the purchase of the property.

- **Tax reduction for some individuals employing a home worker:** 1,25 billion €. Created by a left-wing government grounded on undeclared work in private homes and expanded later, this expensive measure is not subject to accurate assessment. It seems that it has mainly helped to bring many of the costs with house staff at the expense of the State.

- **Tax reduction for some elderly and disabled people...:** 1, 25 billion €. Social measure.

- **Overtime exemption (Tepa Law):** 1,2 billion €. Expensive provision and no economic effect. Ideological Tepa Law's measures appear over time.

These examples are valued around € 37 billion, if we consider that purely social provisions (about € 10 billion) are to maintain. Reduced rate of VAT reverted to normal rate would generate a new revenue (€ 10 billion).

Other measures need to be reduced and accurately assessed in what concerns their economic and social efficiency.

Given the magnitude of speculators' manoeuvres in what concerns sovereign debt, France is not spared. The Prime Minister, as in many European countries, declares rigor in order to give guarantees of reliability to speculators. Therefore, the draft budget law for 2011 will feature tax shelters planned up to 5 billion €. The conference on deficits (May 20, 2010) has officially recorded the balanced budget rules.

The upper limit on tax shelters had been set at 25 000 € + 10 % of taxable income for 2009 and 20 000 € + 8 % of taxable income for 2010. This reduction in tax shelters of wealthiest people (more than 160 000 € of household income) has only reported 22 millions, meaning almost

nothing. Some speak of a masterstroke: a percentage decrease (- 10 % for instance) or a decrease in the ceiling.

#### 2.4.5 – Taxation of richest people: the TEPA Law

Work, employment, purchase power: the contents of the law is contrary to what it means. After three years of functioning, the presidential welcome gift – the Tepa Law 2007 – became an economic contradiction.

The purchasing power of employees and pensioners is falling. The number of unemployed has soared<sup>(12)</sup>. Only the return on heritage and wealth are rising and the latter one is preserved by tax shield.

#### Ideological strategy: working harder to earn less

The two socio-economic oriented provisions are inefficient. The tax and social exemption of work overtime in place of real hires means a costly failure about € 1.2 billion for 2010.

Tax credit on interest on loans granted, in principle, for low-income households is increasingly costly to the budget (€ 1.5 billion for 2010) and only bring benefits to households that would have anyway made their investments after all. It works like a "deadweight effect" for creditworthy households.

The other patronage measures are fully operating. Before 2007, nearly 90% of households were already largely exempt from inheritance and gift taxes. Tepa Law brought tax deductions to € 150,000 (€ 156,974 for 2010) in direct line every 6 years.

12 - 712 000 additional job applicants in 2009, INSEE, unemployment rate 10% BIT, long-term unemployment 1.3 million people



Family fortunes can be transmitted over time without tax. The profoundly anti-economic development of this reduction in tax inheritance and donations has been widely described in the literature, including in the USA.

The reduction in TFR for a maximum of € 50 000 invested in SMEs cuts this tax revenues by almost 700 million euro. This provision is highly questionable since it allows to transform the tax liability of a natural person into financial assets. It has in addition been led by holding managers that do not invest or may have invested in real estate sometimes.

**Tax shield**

Established in 2006 by Villepin government with a rate of 60%, it was reduced to 50% by Tupa Law (13).

In 2008, 18,893 beneficiaries were reimbursed of 578 million euro, in 2009, 16,350 beneficiaries for the amount of \$ 585 million. The Minister mentioned 700 million for 2010.

By the way, that 834 shield beneficiaries liable for the ISF (French wealth tax paid by individuals and couples holding a net taxable wealth exceeding 800 euro) have a higher heritage than € 15.53 million (Carrez report on Public Finance). The 10 largest beneficiaries received an average of 7.7 million euro.

Best of: 14 profit tax-shield taxpayers have a higher heritage than 16 million euro and have a

lower income than a beneficiary of the RSA (Active Solidarity Revenue). All of these taxpayers will be reimbursed for future increases in social contributions, local tax or income tax.

Year	Total	Beneficiaries	Average
2007	246 Billion €	15 066	€ 16328.00
2008	578 Billion €	18 893	€ 30 593.00
2009	585 Billion €	16 350	€ 35 780.00
2010	700 Billion €	Estimation of the Ministry	

Evolution of the tax shield from 2007 to 2010

At the same time, the Government goes through the employees' pockets employees by imposing daily benefits up to 50% (100 millions of return) and removes into three years the additional half-unit allowance for single parents (almost 1 billion in due course).

A proposal steadily advanced in liberal circles is bargaining: suppression of tax shield + suppression of ISF against a marginal portion of the income tax of 45 or 48 %. Obviously unacceptable.

For CGT, the removal of the tax shield is obvious and is progressing, namely into people's power. The keeping of the TFR must be accompanied by an increase in the progressivity of the income tax through the creation of additional units for the highest incomes.

**2.5 – STRUCTURAL REFORMS STANDING ON TAX LEVERAGE: LOLF(\*) AND RGPO,**

13 - Direct taxes paid by a taxpayer may not exceed 50% of its revenues ; Article 1 of the General Tax Code (income tax, ISF - short for "Impôt de Solidarité sur la Fortune", wealth tax -, property taxes and housing tax of the primary residence, and CSG - short for "Contribution Sociale Généralisée", supplementary social security contribution - and CRDS - short for "Contribution au remboursement de la dette sociale" - The social debt repayment contribution -)

(\*) LOLF (recent French legislation governing public finance )  
 (\*) RGPO (short for "révision générale des prélèvements obligatoires", general review of tax burden)  
 (\*) RGPP (short for "Révision Générale des Politiques Publiques", General review of public policy)  
 (\*) Reate (short for "Réforme de l'Administration Territoriale de l'État", Reform of Territorial Administration of the State)



## RGPP, REATE AND FUTURE LOLF OR OND FOR LOCAL COMMUNITY

The provisions to reduce the scope of the State will play full advantage of the crisis to boost social policy setbacks. It's a matter of giving guarantees of reliability to international speculators.

The project law of finance for 2011 will be drawn from the three-year planning act (2011-2013) and the framework letter by the Prime Minister. It appears that operational costs will be frozen for three years. Public job losses will continue at the rate of non-replacement of one retiring employee out of two, or more indeed as in Bercy where 2/3 of the departures have never been replaced.

### RGPO and RGPP

The general theory revision of tax deductions is an ideological offspring of neo-liberal Anglo-Saxon policies. The socio-productive model inherited from the national resistance council should be eliminated. Contributory pension scheme, social security and the Statutes of public service are covered.

Social and tax charges are under budgetary constraints. The withdrawal of public sector jobs and the tightening of missions allow the adjustment of deductions. However, social demand explodes as alternative wages and incomes are too low.

The general revision of public policies aims at reducing the scope of public service missions. The spiral is theoretically endless: less taxes, fewer public services. In order to serve election clients and rich people, the Tèpa Law virtually eliminates the inheritance and donation taxes,

the tax shield reimburses tax and social security contributions.

### LOLF: the key of RGPP

The LOLF (organic law on finance laws) of 1 August 2001 applies to any administration since 2006. Inspired by the corporate accounting systems, this budgetary tool is meant to streamline the budget public spending for the sake of performance. Sets of indicators have mainly the effect of retaining only the purpose of the compression of salary expenditures of the State by removing the socio-economic efficiency of missions.<sup>(14)</sup>

Huge computer programs entrusted in part to private companies, namely Chorus (€ 1.1 billion over 5 years) for budget management and Copernic (€ 1.8 billion for 2001-2012) for DGFIP (Direction Générale des Finances Publiques – “Directorate General for Public Accounting”) are the state of a complicated financial abuse when compared to the modest results achieved.<sup>(15)</sup>

The different mergers of government treasury and tax administration into a DGFIP or into National Public Administrations and of ASSEDEC (Associations for Employment in Industry and Commerce) into a job center are examples of these restructurings.

**Conseil des prélèvements obligatoires (Council of compulsory levies)** : Set up by Law No. 2005-358 of 20 April 2005, it was replaced in the Council Tax. It is responsible for assessing the evolution and the economic, social and budget impact of all taxation. It is responsible for making recommendations on any matter relating to taxation. He hands each year to the President of the Republic and to Parliament a report on its performance.

14 - Asymmetric fungibility can replace salary expenditures by other public spending but not vice versa.

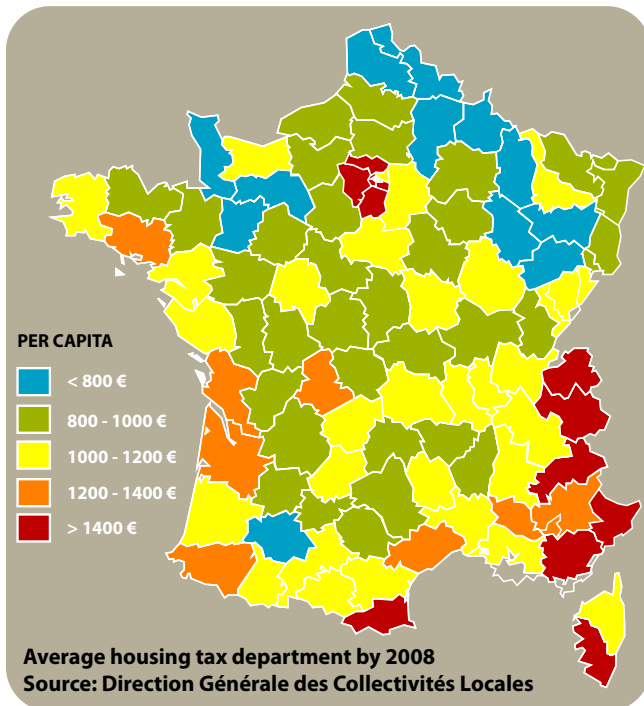
15 - Information report on the management of the Copernic Programme, Senate October 2009.

**The budgets of local and regional authorities and local tax system from the standpoint of the crisis**

The Conseil des prélèvements obligatoires (Council tax burden) released its report on local taxes. After the removal of business tax on January 1, 2010 with a budget cost of € 12 billion in 2010 and € 4 billion in subsequent years, the CPO reiterated what everyone knows: complex Tax, difficult to read, unfair for modest taxpayers and poor communities.

The four oldest are overstretched: housing tax, property tax on the built and un-built and business tax replaced by territorial economic contribution. Equalization, meaning solidarity between communities, is particularly inefficient.

In 2008, local finance represents 11% of national wealth and 21.5% of public spending with € 203 billion.



Local taxation has increased from 3.6% of GDP in 1982 to 5.8% in 2008, meaning € 102.5 billion (that is, twice the revenue from personal income tax).

**Local taxation is unfair and regressive**

One in five households does not pay the housing tax due to the lack of income. Because of tax exemptions and reductions, one in two households pays for the housing tax at full rate: the same proportion of households paying off the income tax.

Worse, housing-tax is regressive, meaning that low-income households and middle incomes pay proportionately to a heavier tax than wealthy households. Escalation plays only for households receiving important family allowances. (See chart on page 12).

Rental values used to establish the housing-tax and property tax on the built have not been reassessed since 1970.

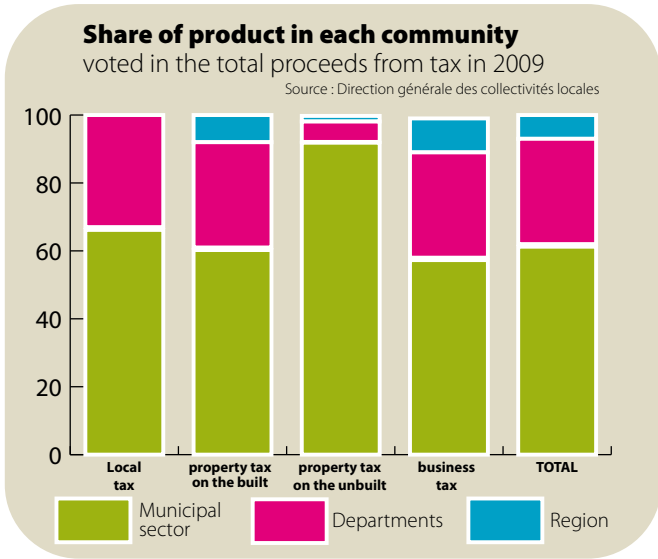
This obsolescence of the bases is the source of injustice in the distribution of the tax burden transferred to the average household.

**Equalization does not reduce inequalities between communities**

Fiscal capacity<sup>(16)</sup> ranges from simple to double between regions (€ 67 in Corsica), 111 in Upper Normandy, from simple to four-fold between departments (€ 296 in Creuse, 1069 in Paris) and from 1 to 1000 between the municipalities.

The Finance Committee of the National Assembly noted the inadequacy of the "Fonds départementaux de péréquation de la taxe professionnelle" (local funds for equalization of business

16 - Theoretical product of the tax base of the community obtained by applying national average rates; this product is added to the block operating.



tax) and the “*fonds de solidarité des communes de l’île de France*” (local solidarity funds for Île de France).

If the regional space and EPCI (“*établissements publics de coopération intercommunaux*” – Public Establishments for Cooperation between Communes) appear as the natural boundaries of Equalization, more binding fiscal measures will be needed to reduce inequalities between communities.

The CPO is opposed to the specialization of local taxes by level of community (eg. housing-tax to local property tax or departments etc.). It advocates the introduction of a share of income in the basis of local taxation, to revise the land base every 5 years from market values recorded during the transfer, to strengthen the equalization between communities.

**Compress social demands with decreasing budgets**

Further to the crisis, the government accelerates the worst-case scenarios: the freezing of € 50 billion in grants and tax allowances to communities.

Many of the departments that handle the most expensive social spending (including income

support, self personalized assistance...) will no longer provide the necessary funding to insecure households.

Especially since property taxation is a crucial source of budget departments. The transfer of skills held in the context of decentralization – railways, schools and colleges etc – are no longer funded to meet the needs.

**The Réate is a LOLF for collectivities**

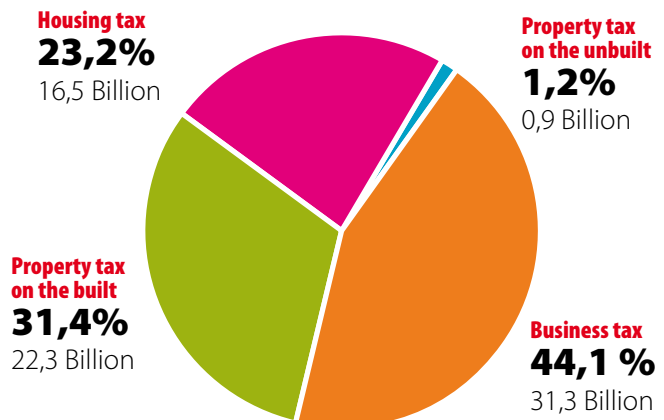
The reform of territorial administration of the State (Réate) is a logic variation of RGPP. It is the region where State Laws are decided in the territories.

Following the transfer of powers to the regions, the last remnants of state administration are grouped into DIRRECTE (“*direction régionale de l’entreprise, de la concurrence du travail et de l’emploi régional*” – office of the company, competitive labor and employment), French territorial division having mixed ministerial local managements.

The CGT Federation of Finance is against RÉATE, whose main objective is to dismantle and make disappear the State public national administra-

**Distribution of taxes in the product of local direct taxation** voted in 2009

Source : Direction générale des collectivités locales



tions whose missions are essential for the image of economic development and economic protection of consumers.

3000 territorial councillors will replace the 4037 general councillors and regional councillors in 1880.

The widespread of inter-communality, the creation of cities, the removal of the clause of general jurisdiction for departments and regions, are associated with the removal of business tax as from 1 January 2010 and its transformation into a territorial economic contribution based on a corporate land contribution (CFE - cotisation foncière des entreprises) and a contribution on corporate value-added (cotisation sur la valeur ajoutée des entreprises - CVAE).

**The control of local resources by the State: the territorial economic contribution**

The territorial economic contribution consists of two branches: the CFE and the CVAE. The corporate land contribution is based on the rental value of companies with a reduction of 30% of industrial rents. A minimum land contribution (cotisation foncière) is established. Under the 2010 transition year, the CFE and the CVAE are perceived to the budget and the communities will receive compensation relay. In the following years, municipalities and inter-

municipalities will receive a portion of the CFE, 26.5% of the CVAE.

They will also receive a portion of the new overall tax rate on business networks (IFER).

The department will collect 48.5% of the CVAE and 1/3 of the IFER. The region has 25% of the CVAE and part of the IFER.

Structural reforms are well ahead of optional merger/absorption of departments and regions: the social to the departments and the economy to regions.

In practice, the regions have no more fiscal autonomy because their resources are determined by the scales of State; their only fiscal flexibility is the Domestic Tax on Petroleum Products (TIPP) adjustable according to French administrative regions.

**GAFI or FATF** : the Groupe d'Action financière (Financial Action Task Force on Money Laundering) is an intergovernmental body for developing and promoting national and international policies in order to fight against money laundering and terrorist financing. It is therefore a decision-making body that makes efforts to generate the needed political will to reform laws and regulations in this ground.

**Inter bank Fund**: Fund that guarantees the savers' deposits in banks.

### 3 — WHICH ANSWERS FOR STAFF ORGANIZATIONS? CGT PROPOSALS

The purpose of economic activity is to meet economic and social needs. «In this regard, the concerted development of human capacity worldwide is a priority. The implementation of the Global Jobs Pact developed as part of the International Labour Organisation should be the tool. (free translation of the original French text: *“Dans cette perspective, le développement concerté des capacités humaines partout dans le monde est une priorité. La mise en œuvre du Pacte mondial pour l’emploi élaboré dans le cadre de l’Organisation Internationale du Travail doit en être l’outil”*<sup>(17)</sup>)

This approach can act as a thread to develop tax proposals for discussion.

#### 3.1 – WORLD TAXES IN THE INTEREST OF PEOPLE

Bank lobbies and transnational groups have something to do with the status quo of the States on taxes.

They move their productions and profits according to the requirements of shareholders (relocation and transfer pricing). They play a major role in the worsening of climate change by increasing trade and unnecessary transport.

#### Taxing all financial transactions worldwide

To impose mobile tax base, a tax on currency transaction affected by a painless rat is not enough. For the CGT a tax on all financial transactions (taxe sur toutes les transactions financières – TTF) of any kind is needed.

This tax is twofold: to return to finance global public goods and sanctions of speculation in order to bring the market of goods and services closer to its direct funding.

The leaders do not intend to take sanctions against the market. Projects for the taxation of banks are insurance or budget devices.

A transaction tax is necessary and more urgent than the taxation of banks themselves; the banks will always put up with a new tax on consumers; such taxation will have little effect on systemic speculation. A transaction tax should have a dissuasive role; it concerns to sanctioning anti-social and anti-economic speculation.

A tax on financial transactions may initially appear as mandatory financial compensation of social and environmental damage of financial markets. It also appears to be incompatible with the preservation of bank secrecy and tax havens.

Without giving any figures, the TTF must be defended as the beginning of an international tax structure; therefore, one can imagine that it is designed to become more important in the future in terms of volume and differentiated rates.

A tax on financial transactions, coupled with the prohibition of tax havens would contain speculation and drain capital to productive investment. This tax on financial transactions must be global.

At first, individual countries and the European Union as such should prohibit any financial

17 - «10 propositions pour sortir de la crise sans recommencer comme avant !» Nasser Mansouri-Guilani Jean-Christophe Le Duigou, les éditions de l’atelier, October 2009

relation of banks and insurance companies operating on European soil with tax havens

Finally, we cannot imagine a tax reform of the international financial system without reviewing all tax deductions: corporate tax<sup>(18)</sup> and individual (income tax and wealth tax, namely).

### International environmental taxation

A joint international environmental taxation to regulation in order to finance the preservation of the global environment is not utopian. It is needed. It supports the notion of global public good: air, water, food, health, education etc. The notion of global public good implies a democratic management of these goods since their access should be guaranteed for all. At the same time they cannot be monopolized by a minority.

The failure of the establishment of a carbon tax in France that exists to different degrees in the Scandinavian countries, Germany and the UK shows the need for fair distribution of the tax in order that it be useful and accepted.

At international level, other tracks than market quotas should be sought. In any case they must be strictly controlled to prevent massive fraud found in the European Union since 2009.

The feasibility of overall taxation is proven. However, the social and economic dimension cannot be discharged. On the contrary, the economic utility of a readily comprehensible overall taxation - financing and preserving global public goods - is accompanied by its social utility, the democratic management of public goods by the people.

Finally, the creation of global taxes coupled with regulations and international standards (tax on financial transactions, environmental taxation) return to the question of their allocation, use and democratic control.

### The role of the International Trade Union Confederation

The International Trade Union Confederation (ITUC) can play a leading role in this overall approach to a regulatory and useful taxation. It headlined one of its first reports in June 2007: *"Quand la banque gagne à tous les coups : fonds à capital-risque et fonds spéculatifs, le nouveau capitalisme de casino"* (When the bank wins every time: venture capital funds and hedge funds, the new Casino Capitalism – free translation). And its report published in October 2009 highlighted the central role of employment in response to the crisis.

For the ITUC (International Trade Union Confederation), a tax on financial transactions should be a tool for financing global public goods and social consequences of climate change.

### 3.2 – PROHIBITION OF TAX HAVENS

As we can see, the issues of taxation affect all economic regulations of socio-productive systems.

To siphon off the tax base of the neighbours by lowering rates or closing the eyes to tax havens and uncooperative jurisdictions to attract business and rich people destabilizes social budgets of neighbours but can only go forward against States that, by doing so, increase the damaging effects of tax competition.

18 - « Les prélèvements obligatoires des entreprises dans une économie globalisée » Rapport du Conseil des prélèvements obligatoires octobre 2009

The fight against corruption and tax evasion should be conducted at international level as firmly in poor and emerging countries than elsewhere. This is one of the keys to escape from poverty by stopping the looting of raw materials. Taxation can involve economic tools of regulation.

### 3.3 – FOR A EUROPEAN TAX SYSTEM

Europe 2020 project aiming at *“an intelligent, sustainable and job-rich employment”* is planning to increase research, investment, employment rates of women and men, and incorporates the environmental commitments of the *“three 20”*<sup>(19)</sup>. Europe 2020 is doomed the same fate as the defunct Lisbon Strategy, which had dismissed social and tax harmonization as a major objective.

European tax harmonization with solidarity redistribution mechanisms is imperative. It conditions the existence of the European project.

#### 3.3.1 – The euro, a currency serving people

European states that do not share the euro have not been spared by the crisis or have even suffered more heavily (Iceland, UK ...). The structuring character of new financial regulations in Europe (a European debt agency), a European rating agency, the prohibition of CDS<sup>(20)</sup> could be a first step towards fiscal and social harmonization that would take into account the needs of employees.

The euro is a factor of integration of the States for a peaceful Europe. But the European cur-

rency has counterproductive effects for those States weakened by the global financial crisis. The debt has become very expensive for the States as they can not devalue to restore competitiveness. In addition, international currencies driven by domestic banks, dollar, yen, yuan, compete each other by playing upon their respective parities.

#### European countries are doubly vulnerable.

Financial solidarity between European states must be exercised in loans, refinancing, issuing of euro bonds and loans at European level. These are the expectations of countries in difficulties such as Greece, today, and probably Spain or Portugal tomorrow. And why not Italy or France in case growth be not sustainable in the coming months. The role of the ECB in this regard is not satisfactory. Guardian of the doctrine of equilibrium<sup>(21)</sup> - debt, inflation and budget deficit - it seems outdated before the recession in most European countries in a globalized economy. Summed to acquire the sovereign debt on the secondary market, after the Greek crisis, it is normal that it is controlled by the states.

Community rules should incorporate stringent prudential financial standards in order to safeguard and advance the European socio-economic model: social and environment protection, modern public services, investment in new technologies, training.

#### 3.3.2 – An European carbon tax...

Rejected by the Constitutional Council end-December 2009, put away in oblivion in March

19 - 20% of greenhouse gas emissions increased to - 30% if international engagement, + 20% renewable energies + 20% energy efficiency

20 - Credit default swap: highly speculative financial derivatives

21 - Stability and Growth Pact



2010, the carbon tax emerged as an additional quasi-tax to TIPP paid by captive consumers exempting many lobbies of employers to start with large companies already spoiled by the abolition of business tax. The carbon tax would have brought 2 billion € to the state.

In any case, fossil fuels are depleted. Some countries were able to take the opportunity to build an industrial production of alternative renewable energy.

The CGT, with ETUC, supports the creation of an European carbon tax that does not punish captive consumers that are often rural and insecure households. It could even include the financing of the modernization of public transport networks.

**... Including at borders?**

“Carbon leakage” is known as the relocation of European economic activities due to environmental dumping. Beyond the technical difficulties and evaluation of carbon goods and services, produced or imported, a carbon inclusion mechanism should be applied to such imports that do not meet environmental and social criteria defined internationally.

**3.3.3 – A mandatory common base for the Corporate Income Tax**

A stronger tax competition between European states than that with third countries brings disastrous consequences on budgets. The weight of the corporate tax in the resources of States continues to decline: around 2.5% of GDP in France, 1.3% in Germany.

The nominal rates fell by 14 points in 20 years reducing the corporate tax to 33.33%. Effective rates after various deductions, depreciation allowances, etc. are even lower.

Tax bases are moth-eaten, the effective rates are much lower than nominal rates: less than 29% in France. France is characterized by a narrow base and high nominal rates unlike its European counterparts whose tax base was broadened and rates lowered.

The project CCCTB (Common Consolidated Corporate Tax), that has been debated for years in Brussels and which has met with strong opposition from the accession and Anglo-Saxon countries, should be implemented. The CCCTB would be included in a draft European directive end-2008.

Companies liable to corporate tax on companies of a same group and having seat in different Member States of the European Union (EU), would determine their tax base under the same rules to release a single taxable income at the level of the group distributed among the States, according to an allocation and local tax rate. The advantage of such a measure would be the disappearance of transfer prices that siphon off the neighbours’ tax base.

However on behalf of tax competition rates would remain a national responsibility which is not a guarantee of harmonization.

**... And harmonized rates**

The binding character of CCCTB for all companies operating in several States should be accompanied by a narrow range of rates or even of a single rate. Finally, one can imagine that a fraction of this deduction supplies the EU budget.

It will be recalled that the EU budget is mainly funded by the VAT and therefore by the consumption tax, it would not be unusual that large companies are involved in direct financing of the community project.



### 3.3.4 – Enhanced cooperation

Although this device is provided by the European treaties, no enhanced cooperation has emerged.

The CGT supports the use of enhanced cooperation in tax matters whether in what concerns the basis of tax assessment, rates or procedures.

The context of the global financial crisis and presently attacks against sovereign debt of some States urges the use of harmonisation tools bringing together volunteer States.

### 3.3.5 – The European Trade Union Confederation and tax instruments

In 2006 before the outbreak of financial crisis, Secretary General of ETUC denouncing the “casino economy” observed that “the violence of the system had been radicalized”.<sup>(22)</sup>

The CES (short for Conseil Économique et Social, the third constitutional assembly of the French Republic) continues its analysis and proposals for tax harmonization at EU level whether it’s to tax financial transactions or to harmonize the environmental taxation.

European workers have everything to gain in fighting unit employees’ organizations to defend their social protection systems.

### 3.4 – A FAIR TAX SYSTEM TO PROTECT AND REVITALIZE THE FRENCH BUDGET

The crisis of public finances does not come from the expenditure but from resources. Expenditure may well be a constant review and

savings, but no need for a RGPP whose only real purpose is to remove public employment.

For ten years the tax cuts have represented 3.5 to 4 percentage points of GDP, that is 60 to 70 billion €. This downward movement of deductions could be observed in all European countries. So the problem is not to reduce worker’s salaries and pensions but to urge those who have to pay the taxes to do so (this is still Greece’s major problem). The issue of fair tax system refers to the monitoring of the tax, therefore to the legal instruments and human resources.

#### 3.4.1 – Corporate compulsory deductions play a secondary role in the attractiveness of the Territory<sup>(23)</sup>

The economic attractiveness in the global competition is primarily based on human and geographic factors, on the quality of the structure of the productive apparatus and finally of the full cost of work. The loss of competitiveness of France is due to the insufficient number of ETI (mid-size companies), investment, research and private development.

For the Council of compulsory levies (Conseil des prélèvements obligatoires), corporate tax and social contributions appear to be higher in France than in other comparable countries. However, the comparison is difficult because funding for additional social protection is not evaluated in comparable countries.

It is only a nominal rate of corporate tax rate (33.33%) and a narrow base, revenues are lower than elsewhere. The trend towards corporate tax exemption is powerful in France. The example of the rise of the research tax credit is

22 - Liberation 5 october 2006

23 - Tax and social security contributions in a globalized economy.

worrying to the point of alarming some representatives of the majority in the parliamentary finance committees.

For CPO, the research tax credit (more than € 4 billion in 2010) is a clearly disguised lowering of corporate tax focused on large companies.<sup>(24)</sup> The CPO report stresses that the tax exemption and reduction of corporate social security contributions have not proved their economic efficiency (reduced VAT rates, relief of € 30 billion in social security contributions). The absurd consequence is that the ETI (mid-size companies) that cannot maximize their profit as tax-TGE (very large companies) and that have lack of capital are much more taxed than others.

**We are talking again of LBO (still the LBOs)**

The tax debt (reduction in taxation of the capital gains and deductibility of interest on loans) promotes financial arrangements to the detriment of productive investment, the dismantling of viable companies and penalizes innovative companies.

For the CGT LBO system is a social and economic calamity. There is an urgent need for the obligation to reveal tax optimization schemes; it is already in place in the USA or UK. The non-deductibility of interest on loans would divert the speculators from the LBO system.

The CPO recommends, like other comparable countries, to broaden the base of the corporate tax and to lower the nominal interest rate (33.33%). Clearly this is meant to remove the very advantageous declining balance, to level

out the deductibility of loan interest, to review the group scheme and the parent company regime. In addition, a review of land rental values is needed. Finally, the CPO recommends to put an end to the cuts to social contributions to 1.3 Smic ("Salaire Minimum Interprofessionnel" – Guaranteed Minimum Wage) or to concentrate the tool on SMEs and the ETI.

For the CGT, the cuts to social contributions should be progressively phased out. 65 billion € of aid to enterprises is too much. Even the OECD recommends to remove them for funding lower tax and social security contributions... The corporate tax could be adjusted according to the choice of the company management in terms of employment, investment, distribution of dividends.

**3.4.2 – Reduce indirect tax for consumers**

To restore the purchasing power we can also reduce the VAT. Target a rate cut for human consumption may be coupled with the restoring of the normal rate for catering. A zero rate could be applied to essential goods like in the UK.

Lowering VAT rates is possible if a tax reform place the income tax in the center of deductions. This would incorporate all the incomes, namely those of capital taxed at strongly progressive rates.

**3.4.3 – Total review of tax system: the debate on tax shelters re-launched<sup>(25)</sup>**

From a budgetary cost estimated around 75 billion € for 2010, there were 468 tax shelters in

24 - Economist Pisany-Ferry has even referred to CIR (Research Tax Credit) as a subsidy to financial holding companies

25 - Information report on tax shelters; National Assembly, June 2008; assessment report on the use and economic and social impact of the arrangements allowing taxpayers to reduce their income tax for an unlimited amount remitted by the Government to finance committees of French National Assembly and the Senate, April 2008

2010, of which more than half relates to income tax. Income tax has become an instrument of economic policy and should become the pivot of budgetary resource.

But the cost is focused on about forty measures. However, some tax expenditures have an essential social need, others maintainable economic purpose. Some of the most expensive devices are to be reviewed.

In terms of income tax, the employment bonus (PPE –Prime pour l'Emploi) (4.23 billion € in 2008) - a negative tax criticized by CGT due to its character of replacement to employee income - as well as the deduction on retirement pensions and food (2.67 billion € expected in 2010), or exemptions from certain family benefits (€ 1.6 billion in 2010) have an identified social motivation.

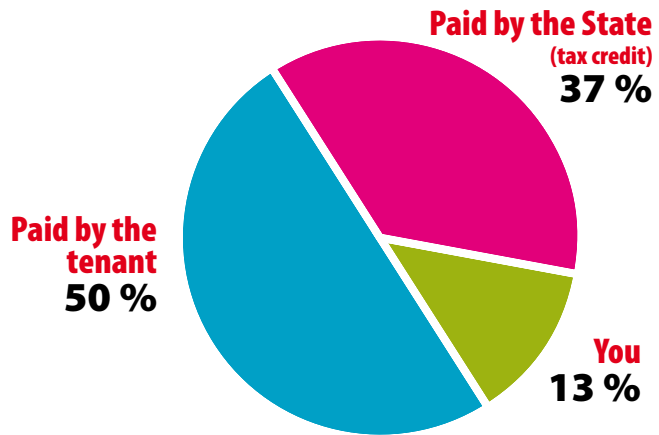
On the other hand it seems at least questionable the cost of the tax exemption for life insurance (€ 3 billion €) or the tax allowance on some distributed income (€ 1.8 billion €).

As for the Scellier tax reduction, which functions as a subsidy for rental investors up to 25% of the purchase price, it works as a social housing policy. This tax reduction is unacceptable.

A Tropa measure like the tax credit on interest loan for the purchase of a main residence will cost € 3 billion € to budget in stride (1 billion € in 2009). Deadweight effect for the purchasers, it does not benefit low-income households. The government wants to replace it with a single payment, not on the basis of better justice, but because this election promise is too expensive.

In terms of VAT, the effectiveness of lower interest rates for home improvement work (5.4 billion € in 2008, € 5.15 billion € expected in 2010) set up to safeguard employment in the building industry does not convince the Court of

**Scellier law** : what it says on the ads of companies specializing



Auditors. As for the reduced rate to restaurants (3 billion €) it is simply a tax gift to elections. The commitments of the profession in terms of employment have been violated.

In terms of corporate tax, the research tax credit (RTC) has become one of the leading business tax expenditures (about € 4 billion € in 2010), with the exemption of capital gains (12.5 billion € in 2008, 6.1 billion € in 2009). Both tax expenditures do not convince the Tax Burden Council anymore about tax burden considering the research tax credit as a disguised decrease of the corporate tax.

For the CGT, there is the need to limit the tax shelters to their social or economic proven, therefore evaluated, benefit.

**3.4.4 – For a fairer taxation of individuals**

With the exception of people's savings (books) all financial products and capital gains of a similar nature should be taxed at the progressive income tax. It must find a strong progressiveness that has been undermined for twenty years.

This could mean about a dozen tranche with a marginal income tax rate well

Current tax rate by income brackets	Example of income brackets fairer	BEFORE	AFTER
from 0 to 5874 € - 0.00% from 5875 to 11719 € - 5.50% from 11720 to 26029 € - 14.00% from 26030 to 69783 € - 30.00% more than 69783 € - 40.00%	from 0 à 5874 € - 1.00% from 5875 à 11719 € - 6.50% from 11720 à 26029 € - 15.00% from 26030 à 40000 € - 30.00% from 40001 à 60000 € - 40.00% from 60001 à 90000 € - 50.00% from 90001 à 140000 € - 60.00% more than 140001 € - 75.00%	<b>Couple 2 children Income € 40,000</b>  Income tax - 1082 € 5.5% VAT (food) - 294 € 19.6% VAT (classic) - 4207 €	<b>Couple 2 children Income : € 40,000</b>  Income tax - 1442 € 0% VAT (food) - 0 € 15.0% VAT (classic) - 3219 € <b>Total : 922 € less</b>
<b>VAT rate on each product</b> classic VAT - 19.6 % food VAT - 5.5 % (except alcohol)	<b>Example of reduction of VAT rate</b> classic VAT - 15.0 % food VAT - 0 %	<b>Single Income € 13,000</b>  Income tax - 47 € 5,5% VAT (food) - 119 € 19.6% VAT (classic) - 1532 €	<b>Single Income € 13,000</b>  Income tax - 222 € 0% VAT (food) - 0 € 15% VAT (classic) - 1172 € <b>Total : 304 € less</b>

above to 60%; confiscatory rates can be assigned to speculative transactions.<sup>(26)</sup> In this spirit the stock options should be imposed on the income tax at progressive rates.

Almost half of households whose incomes are too low to settle the income tax pay, however, the CSG which is a proportional deduction.

The property taxation should be reformed thus improving its redistributive aspect: strong progressive inheritance tax, gift tax and the wealth tax. The abolition of TEPA Law is obviously imperative.

### 3.5 – FOR LOCAL TAXATION SOLIDARITY

The crisis of financial capitalism does not spare the budgets of local communities. Beyond the skills transfer poorly endowed by the State, it imposes an unprecedented fiscal discipline. The territorial employment is the first target as well as Social Welfare (RSA, Personal Autonomy Allowance) managed by the departments. Simulations of the consequences of the removal of

business tax reveal very important lacks for many communes<sup>(\*)</sup>. The CGT has proposed the transformation of the business rate into a tax for employment and development of local areas. It would have two branches: the first one would be composed by a base of the property value of housing (land rental value), property value of goods and movable property, added value and finally an environmental criterion. The second one would tax the company's financial assets.

This last tax revenue would feed a national equalization fund of the business tax. The value set for the government reform is not satisfactory, meaning that it does not accept, for instance, the available wages of agency workers as they contribute to the creation of wealth in the company as well as employees under labour contract.

The key to solidarity among local governments lies on the level of needed and compulsory equalization. The per capita fiscal capacity does

26 - A marginal income tax of 90% was applied in the U.S. after the war.

(\*) A commune is an administrative division, consisting of a clearly defined territory, which is usually part of a town, an entire city or a village.

**NOTICE OF 2011  
INCOME TAX**  
(Income in 2010)



DIRECTION GÉNÉRALE  
DES FINANCES PUBLIQUES

CDI DE LATHUNE  
3 RUE DU FRIC  
75000 PARIS

**COUPLE: 2 CHILDREN**  
**WAGES: 50 000 €**  
**INVESTMENT INCOME: 100 000 €**

M OU MME POGNON ROGER  
15 RUE DE L'ÉVASION  
92200 NEUILLY / SEINE

PAYABLE TAX		REDUCTIONS	
<b>INITIAL AMOUNT :</b>	<b>14 780 €</b>	New rental investment: Scellier Law	<b>8 333 €</b>
<b>TOTAL REDUCTION :</b>	<b>14 683 €</b>	Credit care expenses for children under 7 years	<b>1 500 €</b>
<b>OWING NET TAX :</b>	<b>97 €</b>	Home based self employment credit	<b>3 600 €</b>
		Subscriptions for FCP (Common Investment Funds) units in innovation	<b>1 250 €</b>
		<b>TOTAL REDUCTIONS</b>	<b>14 683 €</b>

This is a simulation made at: [www.impots.gouv.fr](http://www.impots.gouv.fr).

not seem a sufficient allocation key. Other instruments such as Human Development Index, sustainable development criteria and level of training may be considered.

For this, we must think differently about the base of local taxes such as the thousand tax or the property tax. It should take into account of income in local taxation.

**3.6 – AN EFFICIENT STRUGGLE AGAINST FRAUD**

External tax auditing of companies is not satisfactory. Formalist and procedural to excess it becomes gradually emptied of its effectiveness. Moreover, the MEDEF (Trade union of big French companies) did not make a mistake when suggesting in veiled terms outsourcing among auditors of the external fiscal control becoming a kind financial auditor.<sup>(27)</sup>

The tax administration was sized in order to efficiently check the employees; it is not properly equipped in the legal, technological and hu-

man plan for fighting against corporate fraud and most particularly international fraud of big companies too often hidden under tax optimization.

The lack of harmonization of control procedures at European level refers to the poverty and political weakness of the European community. The resignation of tax authorities is in the light of the inability of European states to react against the diktats of speculation and markets.

The forthcoming setting up of a legal tax service (SEJUF) operating with legal police tax officials under the Ministry of Internal Affairs would be in the right direction if the entire procedure was entrusted to justice in order to bring penalty of tax evasion at the same level as what is practiced in Germany.

27 - Increased number of indicators, charters, certification of the brigades, the 'state of the art' of auditing.

## STRUCTURING PROPOSALS

Taxation is the worst and the best instrument of public finances.

The worst is when it acts as the "driving force" of the liberal reform of the state (tax exemption of cross-border companies, income and well-off households, extension of the tax burden on consumption and local taxpayers, declining tax autonomy of communities) and the best when it finances public goods and the needs of the population (environmental public services), when it corrects the inequalities (strong progressivity of direct taxes, low indirect proportional taxes), when it promotes sustainable economic growth.

The analysis of the French tax system shows that it has a little of all, which highlights a clear liberal ideological orientation: a less and less redistributive and solidary tax system.

Taxation is therefore at the heart of social democracy. International context and the competition between socio-productive systems certainly have an influence on States' budget choices; yet, liberal ideological orientation of anti-social budget choices that have been followed for many years has shown its ineffectiveness: the corporate tax exemption and wealthier households are anti-economic.

The new economy requires new models of growth as a professional social security, a new status of wage labour, and new economic and financial instruments such as public financial division and development divisions with their local councils for job security.

To achieve these goals of solidarity and economic efficiency, we must make taxes fairer and more efficient.

## CONCLUSION

Excerpt from the book “10 propositions pour sortir de la crise” (“10 proposals to end up with the crisis”) by Nasser Mansouri-Gilani and Jean-Christophe Le Duigou published by Éditions de l’atelier.

*« Une réforme fiscale est indispensable. Elle doit permettre à l’impôt de retrouver ses trois fonctions principales: financer la production de biens publics répondant à l’intérêt général et aux besoins de la population, assurer l’équité en corrigeant les inégalités engendrées par la répartition primaire des revenus, participer à la politique économique en favorisant une croissance efficace et durable. Face à la concurrence fiscale, un modèle fiscal européen est concevable. La prise en compte de la diversité et des spécificités des systèmes sociaux justifie que chaque pays soit libre de déterminer son niveau global d’imposition. En revanche, ce modèle suppose de s’entendre sur une harmonisation réelle des assiettes fiscales, voire celle des taux d’imposition des revenus de capitaux mobiliers, pour bannir au sein de l’Union européenne les pratiques actuelles de dumping vis-à-vis des particuliers comme des entreprises. »*

*- Tax reform is essential. It must allow the tax to recover its three main functions: financing the public goods meeting the interest and needs of the population; ensuring equity by correcting the inequalities created by the primary distribution of income; participating in economic policy by promoting efficient and sustainable growth. For dealing with tax competition, an European tax model is conceivable. Taking into account the diversity and specificities of social systems justifies that each country is free to determine its overall level of taxation. However, this model assumes agreement on a real harmonization of tax bases or the tax rates on income from movable capital, in order to ban European Union’s current practice of dumping vis-à-vis individuals and businesses. - free translation*

### THE CGT FEDERATION OF FINANCE PROPOSES THE FOLLOWING ISSUES FOR DEBATE:

#### **A – at International and European level:**

- creation of a tax on financial transactions for sanctioning speculation,
- banning of tax havens,
- setting up of an international and European environmental tax rate,
- harmonisation of European taxation (tax base and rates),
- enhanced cooperation for procedures and tax control.

#### **B – at national level:**

- to bring the income tax back to the centre of taxation by making it more progressive,
- completely review the tax shelters
- to modulate corporate taxes based on employment and investment
- to abolish the TEPA Law,
- to restore a highly progressive property taxation (inheritance and wealth taxes)
- lower indirect taxes, especially VAT.

#### **C – at local level:**

- to revise rental values for modernizing the local tax base,
- to take into account the income in the basis of local taxation,
- to consider corporate financial assets for the contribution of enterprises,
- to implement new systems for local and regional equalization.

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