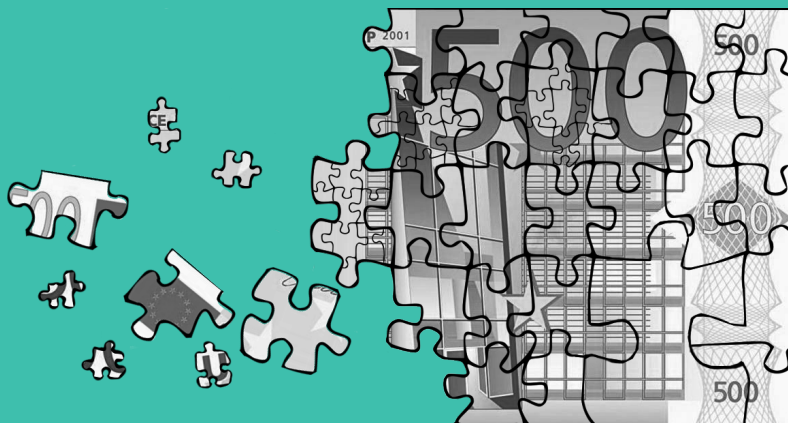


booklets

TAX JUSTICE, A GLOBAL STRUGGLE



170

Xavier Casanovas

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This booklet would not have been possible without the work that has been done during the last four years by the *Plataforma per una fiscalitat justa* (www.fiscalitatjusta.cat). This network brings together more than twenty organizations and individuals in Catalonia concerned about our tax system and the model of society which it produces. At an international level you can find the Tax Justice Network (www.taxjustice.net). I offer my profound gratitude to all those who form part of our team.

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Publisher: CRISTIANISME I JUSTÍCIA - Roger de Llúria 13 - 08010 Barcelona
+34 93 317 23 38 - info@fespinal.com - www.cristianismeijusticia.net
Printed by: Ediciones Rondas S.L. - Legal deposit: B 28646-2018
ISBN: 978-84-9730-431-3 - ISSN: 2014-6566 - ISSN (virtual edition): 2014-6574

Editor: Santi Torres i Rocaginé - Translated by Joseph Owens
Cover drawing: Ignasi Flores - Layout: Pilar Rubio Tugas
Printed on recycled paper - December 2018

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1. TAX JUSTICE AND THE MODEL OF SOCIETY WE WANT

Talking about taxes is not easy. Everybody pays them, but they are not popular. Do we pay too much? Are they truly put to good use, or could we save on them? Are they levied fairly? Does it make sense for me to pay taxes when there is so much governmental corruption? Are governments doing enough to fight against fiscal fraud?

These are questions we often ask ourselves, and the truth is that we are moving toward societies where the richest persons easily escape paying taxes, where the poor don't pay any because they can't, and where the welfare state is financed mostly by taxes on labor and consumption. We are becoming societies in which governments are fearful and lack the tools they need. They yield to the pressure of business by lowering taxes or by claiming that taxes induce the flight of capital. As a result, capital ends up imposing its own rules. Is it the case that our power to tax will progressively disappear and

be outside of democratic control? Does it not make sense for us to work for a more just tax policy, with the aim of building a society with greater human solidarity?

Cristianisme i Justícia has already dedicated the *Cuaderno* number 36 to this question. Written in the 1990s and titled *¿Pagar los impuestos...?* (Should We Pay Taxes...?)¹ it dealt with the growing tensions around and questions about a fledgling Spanish tax system, one that lacked consolidation and needed to fit better into the European framework. It is significant that we have waited 27 years before returning to this

topic. For a long time the question of tax policy has been left out of political and social debate. Only in recent years, with the impact of the economic crisis and globalization, are we again focusing on this question that is crucial for maintaining our welfare states.

1.1. Spain as an “example”

Economic growth during the years 2000-2007 produced in countries like Spain annual increases in GDP of more than 3%. On the one hand, this growth led to a notable increase in tax revenues, and on the other, it gave rise to considerable discussion, even among some parties on the left, about the need and the benefit of reducing taxes.² The global financial crisis which began in 2008 caused a sharp economic recession and a series of budgetary deficits in the public sector that caught us completely off guard. Countries with poorly designed tax policies saw their public revenues drop sharply, and the deficits kept increasing. The Spanish case was especially serious. Spain experienced a 5.1% decline in GDP between 2007 and 2013, and it saw its public income drop twice as much, about 10.6%.³ To reduce the deficit a series of reforms was introduced in 2010 in most of the countries of southern Europe. Directed by the famous “troika,” the reforms prescribed austerity and large cutbacks that fell most heavily on a public system and a welfare state that were already in a weakened condition.

When this happened, civil society began to take action, demanding that social spending be maintained and that the cutbacks be reversed. The most atten-

tion was focused on the expenditure part of the budget. To justify the cutbacks, the Spanish government launched a political campaign on the media with two familiar slogans: “We have been living beyond our possibilities,” and “We have a welfare state that we cannot afford.”⁴

In response, some organizations decided to examine the other side of the government budget, the revenue side. If we again take Spain as an “example,” we can point out a very significant fact: with respect to public expenditures, Spain is well below the Euro-zone average (4.6 points lower, in fact, with expenditures at 43.3% of GDP, while the EU average is 47.9%), but with respect to revenues, Spain is much lower still than the Euro-zone average (7.3 points lower, with government income at 38.2% of GDP compared to 45.5% in the EU generally).⁵

So is the difficulty of financing our welfare state a problem of expenditures or a problem of revenues? Is it necessary to keep cutting away at government spending, or should we rather be considering how best to increase and improve government revenues? While we are fully aware of the importance of good government in matters of spending, and we realize that some awful abuses have been committed with public monies, what we want to do in this booklet is place the emphasis squarely on the problem of revenues. As public finance professor Ignacio Zubiri informs us,⁶ our current problem is the result of badly designed fiscal and tax policies, which are based not on a sense of collective effort and responsibility but on an ethos of individualistic responsibility and a mindset of “everyone for himself.”

1.2. What model of society do we want?

One factor which has prevented people from participating in political debates is the excessively technical language often employed. That is precisely what is happening with taxes. The technical aspect gets combined with the already complex tax system, so that the whole debate ends up in the hands of experts, who see the improvement of a better tax system as mainly a problem of efficiency. They discuss the matter as if they were dealing with a mathematical equation for which there is an ideal solution. But should it be this way? If we ask, “What is the ideal level of taxation?” the answer is that there is no abstract ideal level; ideal is whatever covers the desired levels of government spending. And what is the ideal level of government spending? This is a matter of politics, and we must answer the question in political terms, not in economic or juridical terms.

We must decide about the model of the society we want, and then we can build a tax system that allows us to sustain such a model. It cannot be done the other way around.

Behind the debate about a tax system we find the debate about the model of the society we want, and we have to choose between two proposals. The first model is the one that has come to

be the European standard, the one we have known in recent decades. It is an expensive “common fund” model, based on criteria of collective responsibility which attempt to guarantee an equality of results. It is a model that provides a minimal base on which we can build a humane society: free universal education, guaranteed health care, essential social services. The second model, which exists in the U.K. and the U.S., is much cheaper and has much less of a safety net, depending as it does on purely individual responsibility. It guarantees certain minimums which allow for an equality of opportunities, but it in no way seeks an equality of results. It is a model in which those who fall by the wayside are not given much help by anybody.

So we must first decide about the model of the society we want, and then we can build a tax system that allows us to sustain such a model. It cannot be done the other way around. To cite Ignacio Zubiri again: “If we desire a robust welfare state, the first requirement is a tax system with substantial revenue capacity. For this to be possible, the tax system needs to be well designed (free of loopholes) and well managed (free of fraud), and it also needs to be seen as fair and just by the contributors. Otherwise, contributors who can will avoid paying taxes, and those who cannot will demand that the tax rates be lowered.”⁷

1.3. What is the purpose of taxes?

We would do well to pause at this point and reformulate the question: if taxes are so unpopular and politically

unpalatable, and if they have negative value from an electoral point of view, why do we want to impose them? Are they really necessary?

The tax system has only one purpose: to provide the state with the resources it needs to carry out its public policies. In a social market economy we hope that the state will be able to act, simply because we know that the market is often wrong and private initiatives do not always reach where they should. There are three principal functions we expect of government. The first is an *assigning function*: we want the state to provide resources for work in areas where private initiatives do not reach –trash collection, street lighting, etc.– and we want the state to intervene wherever the market produces monopolies. The second function is *redistribution*: the market distributes wealth, but it does not do so equitably. The state should correct the market by directing resources to where they are needed; it does this by providing universal public education, adequate health care, and direct subsidies to the most disadvantaged groups. Finally, we hope that public policies will exercise a *stabilizing function*; that is, it should cool down the economy during moments of high volatility and stimulate the economy during times of recession.

The principle of the common good requires that funds be provided for administering resources. If we agree that it is necessary to provide the resources by means of taxes, what would be the characteristics of the ideal tax system?

Professor Maite Vilalta lists six basic characteristics.⁸ First, it is necessary that the system be *sufficient*; that

is, taxes should be imposed on bases sufficiently broad to finance what we want. We cannot hope to pay for public health services by taxing just tobacco; it would be necessary to tax income or consumption in order to obtain sufficient resources. It is also necessary that the system be *equitable*; that is, the tax system should treat equal incomes in the same way: if my neighbor earns the same amount from the return on her savings as I do from the wages for my labor, he should contribute the same amount I do (but this is not what happens now, as we will explain below). A third characteristic of the ideal tax system is *efficiency*; if we establish an excessively high income tax on labor, people might end up not wanting to work for a certain wage. Fourth, the system should be administratively *simple*: payment of taxes should be made as easy as possible, and the cost of collecting them should not be higher than the revenues they generate. Fifth, the system should be *transparent* to the citizenship; there should be a clear relation between what people contribute and what they receive in return, thus generating confidence and motivating people to pay. Finally, the system should be *flexible*, that is, capable of adapting well to the different economic cycles.

1.4. Taxes: at the center of the political debate

If these characteristics were heeded and respected, then we could simply center the political debate on giving final definition to the tax system and to the model of society we want. But

unfortunately that is not the case. Taxes are too often utilized for electoral purposes, and in most cases quite irresponsibly, thus creating tremendous confusion between the technical debate and the political debate and converting both of them into fodder for electoral campaigns.

When elections draw near, lower taxes are announced. Lowering the income tax gives workers the sensation of a wage increase, thus producing “economic euphoria.” But once in power, the parties, whatever their

creed and contrary to what they promised in the campaign, become aware of the difficulties of balancing a budget; they then carry out small fiscal reforms which raise taxes and increase revenues—at least until a new electoral cycle begins.

Such political ploys produce tremendous resentment toward the tax system. The people see no clear option for a humane social model, and they are made to believe that the resources do not exist to make their political desires a reality.

2. INEQUALITY AND TAX POLICY

We have seen that taxes are not an end in themselves but are rather a means that allows us to build more just societies. The objective, therefore, is not to reap revenues in order to inflate the state as much as possible; it is rather to be able to implement redistributive policies that will help prevent the steady growth of inequality.

Reducing inequality is part of the current agenda of governments and civil society around the world. In 2015 the U.N. agreed on a set of *sustainable development objectives*, which are strategic priorities for global efforts until 2030. The tenth objective is to “reduce inequality both between countries and within them.” It should be observed that between 1990 and 2010 “income inequality increased 11% in developing countries, with the result that the great majority of people in those countries –more than 75% of the world’s population– now find themselves living in societies where incomes are

much less equally distributed than they were in the decade of the 1990s.”⁹

Recent years have produced an abundance of economic literature which explains the causes of this inequality and the consequences it has on our society and the economy. Joseph Stiglitz in his book, *The Price of Inequality: 1% of the Population Has What the 99% Needs*,¹⁰ explains how the market tends to create oligopolies and to accumulate wealth in very few hands, and how government policies and international institutions often accentuate this same tendency. Stiglitz concludes that inequality does harm to

the economic system itself because it impedes growth and puts democracy at risk. Writing in the *New York Times*, another Nobel prize winner, Paul Krugman, calls the extreme increase in inequality, especially in the U.S., the “great divergence.”

Since the start of the crisis in Spain the number of the very rich¹¹—those having assets of more than a million dollars, excluding their principal residence— has grown by 40%. At the same time the number of persons living under the poverty threshold—those who cannot cover their basic needs— has increased to one in every four persons. High-ranking executives of companies on the IBEX 35 have incomes 104 times greater than the average income of all workers. In 2013 the incomes of executives were only 74 times greater.¹² Warnings about this increase in inequality come not only from social organizations but also from the International Monetary Fund, which stated in a recent report: “The genuine engine of economic growth is the improvement of the living conditions of persons of the lower and middle classes.”¹³

There are two ways to fight against such inequality: by “predistributive” measures and by “redistributive” measures. The former are those that act *before* the market distributes wealth; they include labor policies, minimum wages, occupational programs, etc. The latter are those that act *after* the market has distributed wealth, by trying to palliate the negative effects. Fiscal policy plays a key role in financing redistributive measures. It is therefore evident that we need a just tax system that reduces the inequalities now being

generated by the economic system. But can we truly claim that our current tax system is helping to correct inequalities?

2.1. An ever more regressive tax system

Let us look again at the Spanish case. Article 31.1 of the Spanish Constitution established the following: “All persons, according to their economic ability, will contribute to the maintenance of public expenditures by means of a just tributary system based on progressive principles of equality that should never have confiscatory aims.” At the very center of our tax system, then, is the principle of equality and progressivity. This principle means that those who have more are asked to contribute more to the fiscal effort. At the same time, taxes should never be confiscatory, but the line dividing what is confiscatory and what is not is very fine; the distinction is difficult to define and is constantly debated.

At the very center of our tax system, then, is the principle of equality and progressivity.

The principle of progressivity need not apply to every type of tax but should apply to the tax system as a whole. If we examine the current tax system, we see that in recent years we have enacted increasingly regressive taxes for a number of reasons.

The weight of the middle and lower classes in our tax system

At the present time, some 73% of tax revenues come from two types of taxes: those on the incomes of individuals and those on consumption (VAT). The remaining 27% of revenues comes from taxes on corporations (11%), special taxes (also 11%), and various other taxes.

The personal income tax is a direct tax; that is, it is adjusted to the economic levels of those who pay it and so can be defined by progressive criteria. The VAT is an indirect tax; that is, it does not consider whether those who pay it have high incomes or low incomes but depends solely on the consumers' purchasing power. The VAT is consequently a regressive tax since middle-income people dedicate almost all their income to consumption, whereas high-income people dedicate a good part of their income to savings.¹⁴ In Spain the revenues from indirect taxes –among which we include the special taxes, such as those on tobacco, alcohol, fuels, etc.– increased 10 points between 2007 and 2015, passing from 36% to 46% of total tax revenues.¹⁵

A recent study on taxes paid by Spanish households states that “for the population in general, the effective average tax rate –that is, the proportion of gross income paid in taxes– increases with income, but there is one exception: the rate paid by the poorest 20% of households. This rate paid by this group is surpassed only by the rate paid by the richest 10% of households. This unusual situation is basically due to the weight of indirect taxes (especially the VAT) and social fees.”¹⁶ In other words, the

poorest 20% of households –those earning less than 11,584 Euros a year– pay 28.2% of their income in taxes and fees. All the households with higher incomes have rates lower than that. The only households having a higher tax rate are those earning more than 62,447 Euros a year: these are the wealthiest 10% of households, and they pay at most 33.1% of their income in taxes.

The report goes on to confirm what we were saying: “All the indirect taxes are in effect regressive. These taxes have in general increased the inequality of households by 4.02%. Among the indirect taxes, the VAT is the one that has the most disequalizing effect. Because of its high volume this tax increase the inequality of household incomes by some 3.1%.”¹⁷

The VAT stands in stark contrast with other taxes. For example, both the tax on wealth and the tax on inheritances and donations are highly progressive, but the revenues produced by them are small since they affect only the very rich. The wealth tax was eliminated in 2008 and then partially restored in 2011, but with different applications in different regions. In Catalonia, for example, revenues from it dropped 72%, and communities like Madrid were totally exempt from the tax. In 2010 the tax on inheritances and donations was eliminated and then partially restored four years later. In Catalonia, revenues from the tax dropped by 80%.¹⁸

Corporate taxes

Special mention should be made of the tax on business profits. In the past ten years we have gone from having

a nominal general tax rate of up to 35% for large businesses and 25% for small- and medium-sized businesses to having a single rate of up to 25% for all businesses irrespective of size, with a few exceptions. The Socialist Party enacted the first tax reduction, and the Popular Party the second. In the former case the slogan was “Lower taxes is what leftists do,”¹⁹ and in the latter the cant was: “Since effective revenues are not going up, we are lowering tax rates so that they’ll be closer to the actual revenues we’re getting.”

The result is that the corporate tax has gone from producing 21% of total tax revenues in 2007 to producing only 13% in 2015. In 2007 Spain collected 4.5% of its GDP in corporate taxes, partly because of the real estate bubble, but in 2015 it collected only 2.3% of GDP, relegating us to last place in Europe.²⁰

As a result, even though corporate profits have already returned to the pre-crisis levels of 2007, the revenues generated by the corporate taxes has fallen to half of what it used to be.²¹

Labor income versus investment income. The unfairness of the dual income tax.

Starting in 2006 Spain began to differentiate between income from capital—the economic returns on savings—and income from labor, that is, wages and salaries. The nominal rates of tax on these two types of income are totally different. Since the last tax reform, income from savings is taxed at a rate of only 21% while income from labor is taxed at a rate of up to 45%.

This difference runs counter to the principle of equity in the tax system: that equal incomes should be taxed exactly the same amount. An example may help to clarify the difference: if I meet my neighbor in the elevator, and he tells me that he receives 20,000 Euros a year in dividends produced by stock shares, then I would hope that my neighbor would pay the same amount of taxes as I do on the 20,000 Euros I earn for my labor. As many studies show, however, the reality is quite different.²²

There are many arguments for and against different taxation of incomes depending on their source, but as A. Durán-Sindreu states: “Favorable treatment is one thing, but serious violation of fairness is quite another. A difference of 24.5 points between the maximum marginal tax rates on savings income and other tax rates is without a doubt an unjustified violation of fairness.”²³

The principal argument used to defend this difference in treatment is that there is double taxation: the returns on capital have already been taxed by the prior levy of the corporate tax. However, the present design of investment vehicles allows the payment of corporate taxes to be put off with great facility. Another reason adduced is that capital is always able to go elsewhere. This point is also addressed by A. Durán-Sindreu: “Accepting this argument means also accepting the unjustified penalization of incomes that cannot easily ‘go elsewhere,’ especially incomes from labor.”²⁴

A final proof of unfairness is that, while taxes on labor are 100% declared and paid (that is, there is no tax evasions), the average percentage of

declaration and payment of taxes on other incomes, including the income from savings, oscillates between just 44% and 55%.²⁵

The colander of tax deductions

Tax deductions are legal mechanisms which allow taxpayers to lower the amount they pay by means of exemptions and allowances. These deductions make the tax system into a type of Swiss cheese, full of holes: it gives the impression of being massive, but the amount of cheese is less than it seems.

For example, investing in a pension fund allows a taxpayer to reduce the income tax he pays. But who benefits from a measure such as this? Studies show that the wealthiest 10% of Spanish taxpayers reaped 77% of the benefits of the pension fund deduction in 2014.

While government expenditure policies –for example, guaranteeing minimum incomes– are constantly under examination and subject to accusations of misuse, there is no clear and transparent procedure for establishing the criteria for authorizing tax deductions. There is a certain consensus that it would be much fairer to eliminate most of these deductions in order to collect more revenues, and then to distribute that money, if necessary, through public assistance and other transfers, which can be more focused and so would allow better control of the use of available resources.

In 2016, personal income tax deductions amounted to 14.8 billion Euros, representing 18.6% of the total

income tax revenues. Corporate tax deductions amounted to 3.8 billion Euros, some 15% of total corporate tax revenues.²⁶

Summing up...

Because of the complexity of the tax system, we have left many elements out of our analysis, but the conclusion is clear: the most recent economic cycle has produced a steadily more regressive tax system, and it is putting strong pressure on the middle and lower classes. To build a more just tax system we need a profound fiscal reform, one that eliminates exemptions and allowances and revises tax structures so that those who have more pay more.

This clearly national scheme run by the government is of course affected by other important factors which greatly influence many economic decisions today: these factors are globalization, the lack of fiscal coordination at the global level, and declining competitiveness. We will treat these topics in the following sections.

2.2. Globalization as the origin of the change of cycle

Nowadays it is generally recognized that tax systems played a key role in helping the Western countries recover from the aftermath of the Second World War. The new social contract that arose from postwar agreements, the need for resources, and a strong sense of solidarity –all these gave rise to the magnificent thirty-year period that saw the greatest growth and redis-

tribution of wealth that we have known in recent history. During the 1980s, after the petroleum crisis, there was a reduction of overall tax rates: even though the more regressive indirect taxes (like the VAT) were increased, direct taxes (for example, on income) were lowered.

To build a more just
tax system we need
a reform that eliminates
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However, what shook the world's tax system most severely was what we call globalization. Studies show that between 1994 and 2007 the OECD countries responded to globalization by increasing taxes for the middle classes and reducing them for businesses and high-income individuals.²⁷

*The impossibility of tax
harmonization in the face of reduced
national sovereignty*

The so-called trilemma of Rodrik has become very well-known.²⁸ Harvard University professor Dani Rodrik has demonstrated the paradoxical tension created when a society tries to maintain simultaneously three key elements of the modern nation-state: democracy, sovereignty, and economic globalization. The three elements cannot

all exist at the same time. When we have democratic systems based on the sovereignty of nations that regulate and decide their own affairs, economic integration at the global level becomes impossible. The alternative is for nations to cede their sovereignty to supra-national bodies which create regulations and set the rules of the game democratically in the new context of globalization. Despite efforts to maintain national sovereignty in the context of globalization as it now exists, there is clearly a loss of national control over regulatory decisions. We have seen clear examples of this tension in the present European political crisis.

It seems, then, that in the context of globalization the only way to overcome this trilemma is to require a fiscal union or some type of coordination at the global level which allows the three concepts to coexist. Unfortunately, our present reality is something very different.

Tax race to the bottom

Tax competition between countries is leading to what has been called the "tax race to the bottom," in which each country seeks to attract capital and talent by offering tax policies that are more attractive than those of competing countries. Such competition is bound to end up with minimal tax rates, resulting in sharply reduced revenues for the public treasury. The only ones who benefit from such competition are the capitalists.

There are two taxes that figure most prominently in this tax race, the one levied on the profits of corporate and

the one levied on the financial returns from the investments of individual persons. The tax on corporate profits has a very clear trend: the average business tax rate in EU countries during the 1980s was almost 50%. However, by the year 2000 the EU-28 countries had an average tax rate on corporate profits of only 32%, and by 2016 it had descended to 23%. In Spain the corporate tax has dropped from 35% to 25% over the last ten years. The most exceptional case in the EU is Ireland: with a corporate tax of only 12.5%, it has become the favorite destination for all the technological multinationals that want to operate in Europe.

While this general panorama may follow a clear economic logic, it will lead to disastrous results. Almost all studies conclude that a 10-point reduction in the corporate tax in a given country will produce an increase in investments that can reach 33%.²⁹ The evidence is clear that this logic of tax reduction will inevitably lead to a reduction in tax revenues in all countries.

Another example is what happened after the U.K. voted to leave the EU. For weeks afterward, we could hear the declarations of EU economy ministers offering tax reductions to financial companies located in London but desirous of moving to another EU country. Speaking to various media, some investment-bank spokespersons were almost cynical in their judgments: "It's almost an auction to see which country can offer the most tax benefits within the European regulatory framework. The problem is how to explain why this is happening, given the context of a general increase in taxes and severe cutbacks in social spending in those same countries."³⁰

2.3. Evasion, avoidance and havens

If there is any key element in the struggle for a tax justice, it is the condemnation of fiscal fraud and tax avoidance. We want to make it clear that these two terms refer to two different things even though they are often used indistinguishably.

Tax Evasion

We understand fiscal fraud or tax evasion to mean all illegal behavior which seeks to escape from payment of taxes. To a large extent, fiscal fraud is related to the size of a country's underground economy, which is made up of all the economic transactions that are not declared to the public treasury. In the case of Spain, various reports calculate the underground economy to be about 20% of GDP, resulting in fiscal fraud of somewhere between 60 and 90 billion Euros a year. If we consider Europe as a whole, countries in the south like Greece and Italy have a similar level of underground economy, whereas countries like France and Germany estimate their underground economy to be about 12%.³¹

Economist Gabriel Zucman, of UC Berkeley, calculates that some 6.3 trillion dollars circulate in the world outside the control of public treasuries; that is the equivalent of about 10% of total world GDP.³² A recent study of developed countries, using data from the documents recently leaked in Switzerland and Panama, estimates that countries like Sweden, Norway, and Denmark have an average tax evasion of 3% for all income groups, but that

the evasion jumps to 30% for those belonging to the richest 0.01% of the population.³³

Fiscal fraud is one of the principal ways by which African governments lose revenues. Two years ago the High-Level Panel on Illicit Financial Flows in Africa concluded that some 40 billion dollars disappear annually on this continent through illicit financial flows of large companies.³⁴ If these corporations had paid the taxes incumbent upon them, the national treasuries would have received an additional 6 billion dollars.

Tax Avoidance

Tax avoidance is a more diffuse term than fiscal fraud; there is no good juridical definition. What we mean by tax avoidance is all those practices which corporation use to pay the minimum possible amount of taxes while remaining within the limits of legality. Such practices are technically legitimate and therefore difficult to prosecute, but their legitimacy becomes questionable when companies take full advantage of all the many lacunae, clauses, and exemptions permitted by the law. The behavior of companies is also questionable when they advantage of different fiscal regimes at the international level, creating extremely complicated corporate structures designed to minimize tax payment or, in some cases, to pay no taxes at all. These maneuvers have been called “optimization practices” or “aggressive tax planning,” and they have been widely denounced since they are a clear abuse of the law.

Tax avoidance is currently a major problem in many countries, which have seen their revenues decline but have been unable to do anything to prevent it.

Tax Havens

Both tax evasion and tax avoidance are made possible by the existence of the tax haven. Once again, we are discussing a concept that is used a great deal but is very controversial. Juridically a tax haven is able to operate because of its opacity; that is, it is a country which offers little or no information about financial transactions, or which refuses to reveal the identity of the owners and administrators of accounts and businesses. A country may also be considered a tax haven if it levels little or no taxes. Still, there is no unanimity with regard to the juridical definition. Every nation draws up a list of the countries considered tax haven and determines the fiscal regimen that will applied to persons or business that have investments in them. But each country does so according to its own criteria, which often relate more to diplomatic questions or commercial relations than to any real determination to forbid or restrict forms of fiscal fraud and tax avoidance.

Often a company based in a tax haven is called an “offshore” company because many of the territories offering such special advantages are islands.

In the case of Spain, the inclusion of a country on the list of tax haven depends on whether an agreement exists not to impose double taxation and whether there is transparency of infor-

mation. In the case of Panama, for example, the European Commission considers it a tax haven, but it was removed from the Spanish list in 2010 when Prime Minister Zapatero ceded to the pressure of big construction firms like Sacyr and FCC, which were hoping to win contracts for widening the Canal.

The European Commission has recently published a pan-European blacklist of tax haven, which includes thirty countries or territories that are considered uncooperative in the fight against tax evasion and tax avoidance.³⁵ They are countries that appear on at least ten national lists of the E.U. member states. Four of the tax haven are located in Europe: Andorra, Monaco, Liechtenstein, and the Isle of Guernsey, a British territory in the English Channel. The European Commission has asked all thirty countries to carry out a series of financial reforms and to increase transparency if they want to be taken off the definitive list, which was due to be published before the end of 2017. Unfortunately, though it was to be expected, this list does not include countries with low tax rates or those which practice fiscal dumping, such as Ireland and Luxembourg. Oxfam Intermon, however, has include them in its report on the 15 most aggressive tax haven.

The recent report from Oxfam Intermon, titled *Tax Illusion*,³⁶ asserted that 34 of the 35 companies on the IBEX 35 have offices in one or more tax haven; in fact, they have 810 subsidiaries located there, and that number increased by 44% between 2012 and 2013. According to the official statistics of the Ministry of Economy and Competitiveness, 26% of Spanish foreign investment

consists of loans of parent companies in Spain to their subsidiaries.

The existence of war lords, drug traffickers, extortionists, and mafias that traffic in persons is possible only because of the existence of tax haven whose activities are secret and immune to prosecution.

#LuxLeaks, #PanamaPapers

As their production processes have spread out geographically, the multinational corporations have been able to locate the most fiscally sensitive parts of their business in the countries that are most advantageous for them. Using what they call “tax engineering,” they manage to earn most of their profits in the countries with the lowest corporate. For example, they can transfer part of their profits to a region where there is no tax on patents, and at the same time they can manipulate transfer fees –the prices charged among subsidiaries of the same corporate group– in the way that best suits them.

Between 2005 and 2016
Luxembourg’s tax practices
resulted in a loss of about
317 million Euros for other
EU countries.

The complex business configurations of technological giants like Google, Facebook, and Apple were the first to awaken suspicions about increased tax avoidance. By 2012 the public be-

gan to become aware of the ways in which the multinationals were able to minimize their tax bill by locating their European operations in Ireland.

The first major scandal in recent history was the case of #LuxLeaks, which was uncovered in November 2014. When an employee leaked documents of the consulting firm PriceWaterhouseCoopers, it became known that between 2002 and 2010 the Luxembourg government had signed closed agreements with businesses, allowing them to establish their tax offices in that country in exchange for the companies' payment of mutually agreed taxes. This practice, known as "tax rulings," allowed for the establishment of what we might call "a la carte" fiscal measures. Benefiting from these agreements were some 340 businesses, including well-known names such as Pepsi, IKEA, and Deutsche Bank. These companies paid an average tax rate of 2% on profits when the nominal rate at that time in Luxembourg was 28%. At that time the prime minister was Jean Claude Juncker, who has been president of the European Commission since 2014. The European Parliament set up a commission to investigate this matter. It is estimated that between 2005 and 2016 Luxembourg's tax practices resulted in a loss of about 317 million Euros for other EU countries.

Another major international scandal was the famous leaking of the "Panama Papers" in April 2016 by a consortium of international journalists. Some eleven million documents of the law firm of Mossack Fonseca were made public, and they showed that many well-known persons in politics, sports, and other spheres had set up businesses in Pan-

ama. This massive leak brought about the resignation of the Icelandic prime minister and the Spanish minister of industry, José Manuel Soria. To commemorate the event, April 3rd has been designated as the day of global action against tax haven.³⁷

The following are some of the common practices that facilitate tax avoidance in the global economy: paying different prices for transfers within the same business group, making intragroup loans in countries where a financial deficit allows businesses to pay fewer taxes or delay payment, and minimizing the payment of royalties by using the trade name within the same business group or in related interests located in tax haven.

The existence of such practices obviously requires not only the compliance of legislators who create regulations that leave large gaps in the tax system but also the connivance and assistance of the large consulting and legal firms that advise the process and make it possible.³⁸

And what is Spain's role in tax avoidance?

According to the estimates of G. Zucman, Spain's public coffers have suffered the loss of some 144 billion Euros because of undeclared funds that Spaniards have deposited in tax haven. Moreover, Spain has its own financial and business instruments which allow businesses to elude tax payments.

The SICAV "variable capital investment society" is a well-known juridical figure that is widely used in our country. It pay taxes at a rate of only 1%, the same as for investment funds,

and it lends itself to fraudulent use: 80% of the SICAV have fewer than 150 shareholders and so are considered family-owned businesses rather than corporations. Moreover, although they are true businesses, they are not controlled by the Tax Agency but are instead under the supervision of the National Stock Market Commission. At the end of 2016 there were more than 3,000 SICAV with assets valued at more than 32 billion Euros.

The ETVES “entities for holding foreign stocks” are another of the black holes that make Spain a small “tax haven” for the investments of foreign firms. The great attraction of these black holes is that they exempt dividends and profits from taxes. Thanks to this instrument, foreign capital pays no taxes on profits earned abroad, neither

when they enter nor when they leave the Spanish nation; in fact, foreign capital can even receive government assistance and rebates for its declared losses. Other countries have already denounced the existence of these “entities for holding foreign stocks” since they make Spain a tax haven for the purpose of attracting foreign capital.³⁹

For example, it was thanks to such entities that Vodafone could deduct 1,043 billion Euros in financial costs for the years 2003 and 2004. This maneuver allowed the company to register 210 million Euros in *negative* taxes, which were in effect funds that the national treasury owed to the company. Much the same story could be told of Microsoft, Hewlett Packard, Pepsi, Starbucks, Morgan Stanley, and others.⁴⁰

3. REASONS FOR A MORE JUST TAX POLICY

As we were saying in the first chapter, the debate about the foundations of tax policy is directly related to the model of society we desire. A society concerned about guaranteeing social equality and decent minimal living standards will need to redistribute wealth and establish public policies based on a tax system that obeys criteria of justice and progressiveness.

But let us not fool ourselves: taxes are a means for redistributing wealth, and such redistribution is not voluntary: it's imposed by the government. In this regard there inevitably arise many questions that bring us back to the key issue: the ethical basis for taxes. In societies that are becoming ever more individualistic and socially fragmented, there is a need for more education to help people understand that renouncing a certain level of wealth and economic freedom is essential if we want to have a society where everyone can live decently and walk the streets without fear.

On the one hand, taxes have been questioned, criticized, and denounced by the more liberal sectors that are crit-

ical of government; they consider taxes an assault on private property and simply ineffective, since they remove wealth from those who are most capable of increasing it. On the other hand, taxes are condemned by openly anti-capitalist groups that consider them a way to soothe our guilty conscience while at the same time avoiding debate about how the current system allows capital to exploit labor.

In our day and age it is impossible to think of a mixed market economy without a tax system that compensates for the inequalities that the system itself generates, but it is also true that the growth of fraud and avoidance, along with the global dynamic of fiscal

dumping, call into question the actual ability of the existing tax systems to redistribute wealth.

Many questions are therefore raised about the basis and the justification of taxes: are they the best mechanism for redistributing wealth? is their obligatory nature justified? how can the tension between freedom and obligation be resolved?

3.1. The ethical basis for taxes

A quick review of the history of taxation will help us understand how the ethical justification of taxes evolved. In ancient times taxes were clearly linked to the yoke imposed by empires, which oppressed the communities they conquered. However, from the earliest times the Jewish people understood the role of tribute as a means for redistributing wealth: the purpose of the tithe was to help “the Levites, the aliens, the orphans, and the widows, so that they might eat their fill within your towns” (Deut 26,11). Perhaps one of the first debates about the justice or injustice of paying taxes is to be found in the famous gospel passage where the Jewish leaders tested Jesus by asking whether it was necessary to pay taxes to Caesar or not. The answer of Jesus is well known: “Give to the emperor the things that are the emperor’s, and to God the things that are God’s” (Mark 12,17). Beginning in the fourth century, scholars began to conceive of taxes as the compensation paid by individuals for the benefits they receive from society. By the thirteenth century Thomism was for the first time defining the characteristics that a tax system

needed to have in order to be considered just: the taxes should be levied on those who have capacity to pay them, and the revenues received should be dedicated to the common good.

Are the taxes the best mechanism for redistributing wealth? Is their obligatory nature justified? How can the tension between freedom and obligation be resolved?

Thus, the payment of taxes became established; in fact, taxes became a guaranteed way to maintain monarchies and absolute governments. In more recent centuries, since the beginning of the Modern Age, there has been a reconsideration and revision of the ethical basis for taxation. Of course, the ethical debate around taxation cannot be separated from the ethical debate around private property. The new ideology of liberalism sought to justify the payment of taxes as a way of guaranteeing freedom and individual rights. Rousseau understood taxation as voluntary and free, a natural consequence of a freely established social contract; taxes were therefore obligatory but subject to the social contract. Adam Smith, for his part, saw taxation as the means for guaranteeing private property and the administration of justice and for sustaining the institutions needed to protect those individual freedoms that could not be guaranteed just

by one's own individual efforts. Nevertheless, liberal ideology is clearly opposed to the use of tax revenues as a means for inflating the role of government. As we said above, it was only with the capitalist depression of 1929 and the Second World War that tax revenues came to be considered an important instrument for moderating the social pact established between capital and labor. In fact, this thesis became part of Christian social thought, which holds to the principle of the universal destiny of goods and therefore defends the subordination of the right to private property to other more fundamental human rights. Taxes are a means to alleviate this tension.⁴¹

3.2. Contemporary tax morality

“Tax morality,” which is a concept studied and debated in the fields of political science and sociology, is currently understood as the will on the part of citizens and businesses to pay taxes. A low level of tax morality would indicate little will to pay taxes: there is reluctance or refusal to pay, and many attempt to non-compliance. A high level of morality tax would indicate a responsible society that is ready to pay taxes: people value the tax system as an appropriate means for redistributing wealth.

Recent cases of fiscal fraud and tax avoidance, and the resulting shortfall of government revenues, have brought about changes in the morality tax of different countries. In some cases, like the Spanish one, a notable change took place between 2013 and 2016: the percentage of citizens who considered

taxes necessary rose from 46.7% to 55.6%. At the same time, when asked whether society benefited from the taxes, 63% of those surveyed responded that the benefit was little or nothing, and 61% claimed that they were paying too much in taxes. As regards tax evasion, the percentage of those who thought it was very high practically doubled, from 33.8% in 2008 to 66.8% in 2016, and the percentage of those who believed that the government did very little to fight against fraud rose from 9.9% to 21.6%.⁴²

3.3. Two recent views: Piketty versus Sloterijk

In recent years the French economist Thomas Piketty is the scholar who has most successfully demonstrated the need to place hefty taxes on wealth as a whole. Piketty proposes not a radical change in capitalism but simply a reform: “The lack of limits on accumulation led to radical solutions at the end of the 20th century. The challenge today is to respond in ways that are more peaceful than warfare and more effective than communism. ... The question of equitable tax policy –agreeing about who pays what and by what criteria– has always been at the center of political conflict.”⁴³

In considering the low rate of economic growth at the global level and the grossly unequal distribution of wealth in favor of what he calls patrimonial capitalism, Piketty proposes a progressive annual tax on wealth that would reach a maximum of 2%, combined with an income tax that would reach a maximum of 80%. As unbelievable as such taxes may

seem, we should remember that when Roosevelt became president in 1932, the income tax levied on the richest citizens of the United States was 25%; it rose to 91% in 1941 and was maintained that level until 1964.

The question of equitable tax policy –agreeing about who pays what and by what criteria– has always been at the center of political conflict.

Despite much opposition, Piketty asserts: “I want to be optimistic, since economic and democratic principles are pushing society toward more progressive tax policies regarding patrimony. If we want to continue to have a patrimonial middle class and if we want to give those starting from zero some access to patrimony, then we need a tax system that will give them that opportunity.”⁴⁴ Piketty’s view is that there is no other solution if capitalism is not to devour itself.

Diametrically opposed to this French economist we find the German philosopher Peter Sloterdijk, who holds that governments’ ability to increase taxes has reached its limit. He belongs to the school that talks about the “gift economy,” which teaches that in a democratic society there is no sense in forcing people to pay taxes since forced payment makes the taxpayer feel guilty and indebted with respect to the government: the taxpayer is always under suspicion of doing

something wrong. Sloterdijk therefore recommends a system of voluntary tax payment, accompanied by a cultural revolution.⁴⁵ He proposes replacing *eros*, the insatiable desire for possession and control that now dominates human beings, with *thymos*, the far nobler sentiment of pride and courage that characterizes those persons who give of themselves freely.

Sloterdijk bases his theories on the attitude of the great entrepreneurs –like Microsoft founder Bill Gates or Spanish business Amancio Ortega– who, having reached a certain level of wealth, feel impelled to give part of their wealth away and are proud to do so. In response to such gestures Piketty himself states: “Private generosity? Often those who donate to foundations still maintain control of the funds. It is not enough to say that one’s private interest is in the ‘general interest,’ whatever that may be.”⁴⁶ Sloterdijk’s position can obviously be criticized, but he is probably right when he says that the fiscal exhaustion of the middle classes and the impossibility of getting the rich to pay their share will force the debate and the political struggle onto new terrains, which will allow us to escape from the current dead-end.

After examining the thought of these two authors, Slovenian philosopher S. Zizek states that they both share two premises: 1) the capitalist structures need to be maintained because they provide the only efficient way to produce wealth, and 2) there is a need to correct for the existing inequalities. The problem is that the solutions proposed by the two authors –direct taxes imposed on accumulated wealth and voluntary contributions of

the very rich— are utopian in the most literal sense of the term. The first proposal, taxes on wealth, would require a world government with the power and authority to impose such a measure; the second, voluntary contributions, seems to forget that the engine that moves capitalism is competition, an arena in which some win and some lose, and that generosity finds little space there except perhaps for a few leftover crumbs. What is truly utopian, argues Žižek, is the continued insistence on “imagining global capitalism just as we know it today.”⁴⁷

3.4. Taxation, the purpose of labor, and basic income

What will most likely oblige us to reform tax systems is the structural unemployment and the disappearance of jobs, which result from the so-called fourth industrial revolution: the digital revolution. Some are even calling for a tax on robots in order to compensate for job loss. If we understand robots as the fixed capital of a company, such a tax would be simply a better, more thorough way of taxing the returns on capital and on business profits.

What is certainly true is that, in our present economic situation, the returns on capital in the advanced economies are growing faster than the returns on labor. This circumstance requires innovative measures since the returns on capital can easily escape taxation. It is only when we seek to guarantee people a basic minimum standard of living and assure them their rights, regardless of their participation in the labor market, that we will understand the fundamental importance of a universal basic income—or at least some form of minimal income for everyone. Thus far, all proposals for financing a universal basic income involve a fiscal reform with high tax rates; such a reform is hard to defend politically given the general resistance to any increase at all in taxes. However, if we fail to overcome the present difficulty in collecting taxes on capital and corporate profits, we will never be able to implement a basic minimum income, no matter how much we increase tax rates or how progressive we make the present system. In any case, this is the debate now going on; we must engage in it as earnestly and energetically as possible, and make sure that the tax system is part of the debate.

4. PROPOSALS FOR ADVANCING TOWARD A MORE FAIR TAXATION

Having reached this point, we dare to make the claim that the struggle for tax justice is today inescapable, not only to assure the proper development of the countries of the global south but also to prevent the more developed economies from stagnating or grievously exacerbating the inequality that already exists.

We propose, then, to update the proposals which will facilitate a just tax policy, first, by recalling the recurrent historical demands of social movements and, second, by proposing creative responses to the fiscal deficits that have ballooned in the context of globalization.

4.1. Making accumulated wealth pay taxes

The first great challenge is finding the best way to tax accumulated wealth and the profits produced by capital. In a globalized world, capital can always find some way to avoid paying taxes. As a result, the current attempts to tax

profits and accumulated wealth have mostly failed.

As we saw in the last chapter, the most ambitious proposal is that of Piketty: he calls for a tax on global wealth, which would require a very high level of coordination among governments. Such a tax would require a worldwide registry of patrimony: “During the French Revolution the taxation of property, the right of succession, and the creation of a land register were a means of keeping track of properties, asserting property rights, and having them publicly respected. ... In the global financial capitalism of today, there is no worldwide financial register, not even in the European Union. The president of the French Re-

public does not even know whether his minister of finance has a Swiss bank account. ... This situation of extreme opacity is not healthy either for democracy or for financial regulation.”⁴⁸

The tax on wealth or patrimony has been gradually eliminated in various European countries; it exists now only in Norway and France. It was eliminated in Spain in 2010, though it has been re-established as a temporary measure.

Nevertheless, there are some local fiscal experiments in Spain that are worthy of study. For example, in 2013 Guipúzcoa introduced a new tax on wealth and large fortunes⁴⁹ for the purpose of preventing avoidance of the tax on patrimony. The new tax had three specific characteristics: first, it reduced the maximum tax rate from 2.5% to 1%; second, it broadened the tax base by eliminating the so-called tax shield; and third, it eliminated exemptions on tax payments by family businesses and converted them into allowances. This measure is excellent since it seeks to widen the base of taxation by requiring all patrimony to be subject to taxation. At the same time, by converting exemptions into allowances, it creates an effective register of all the patrimony that exists in the territory, and it also avoids confusion between the genuine small family businesses and the large multinationals that register as such but actually play in a totally different league (for example, El Corte Inglés or Inditex).

This tax has affected only 7,818 persons, which is 1.1% of the population of Guipúzcoa, those with net assets of more than one million Euros. Among those, 2% have fortunes greater than 10 million Euros and account for 20% of the declared wealth. The new tax

has nearly doubled revenues, while the number of those paying the tax has increased by only a little over a thousand.

The implementation of this new tax belies the belief that it would cause capital flight. Only 49 of those on whom the tax was levied chose to change their place of residence, and of those, half would have been paying *less* under the new tax formula, so it cannot be concluded that they left because of the fiscal pressure. This fact is remarkable since there is fierce competition among localities with respect to the tax on patrimony. The Community of Madrid, for example, grants a total exemption. Despite the success of the Guipúzcoa experiment with regard to revenues, the tax was eliminated in 2015 due to a new correlation of political forces.

Catalonia recently passed another measure which taxes the “non-productive assets of businesses.” The measure is aimed at eliminating the fraud connected with personal patrimony that is disguised as business property.

4.2. Tax and the speculative economy

The tax on international financial transactions, also known as the Tobin tax, is perhaps one of the oldest efforts in the struggle for a more just tax policy. In 1972 the Nobel-prize-winning economist James Tobin expounded a proposal for taxing currency exchange transactions in order to restrain the excessive mobility of capital. During the 1990s the proposal was strongly advocated by organizations such as the ATTAC,⁵⁰ with the aim not of capturing revenues but of discouraging fi-

nancial speculation and improving the efficiency of the financial market itself. Though the proposal received wide backing from civil society, it was not seriously considered by governments until the global financial crisis of 2008. The proposal put forward at that time consisted of a tiny tax of 0.05% on speculative financial transactions. Though small, that tax would collect 400 billion dollars, which would be dedicated to elimination of poverty and to adaptation for climate change.

In 2011 the EU passed a provision that levied a 0.1% tax on stock transactions and a 0.01% tax on derivatives trade. The measure was expected to provide 35 billion Euros, which would be used in Europe. Since some countries (like the UK and Luxembourg) were opposed to the tax, a mechanism of cooperation was launched which would have allowed at least ten countries of the EU to apply the tax in 2014.⁵¹ The proposal has been repeatedly debated in each meeting of the Ecofin (which brings together the EU ministers of economy), but the decision keeps getting put off. The tax proposal is not expected to be implemented until 2018, though some countries (like Italy and France) have already imposed it.

4.3. The needed harmonization of the corporation tax

One area where real progress has been made in recent years is in the harmonization of the tax on businesses. In 2013 the OECD present the BEPS project, which aims to coordinate the definition of corporate taxes in all member countries so that multinational firms cannot

take advantage of the diversity of legislation in different countries to reduce their tax base.

The project has been extended to the European level under the leadership of the European Commission, which at the moment has is considering two proposals: first, the BICCCIS project, established in 2011 and revived in 2016, would set up a single Europe-wide norm for the corporate tax; and second, all companies with more than 750 million Euros in revenues would have to file a “Country-by-Country Report” specifying in detailed (not consolidated) fashion the revenues, the number of employees, the returns, and the taxes paid in each country where they operate. Such information is necessary in order to detect fiscal fraud and tax avoidance.

This is certainly good news, and further progress is required along these lines if governments are to stop the massive avoidance of business taxes in all parts of the world. Nevertheless, the progress is very slow and suffers from two major flaws: 1) the information that the companies offer in the “Country-by-Country Report” will not be in the public domain, and 2) no serious thought has been given to a single Europe-wide tax rate. As a result, countries are free to establish whatever rates they want, and there is not even a minimum rate, which would be desirable.

4.4. The struggle against tax evasion and the end of the tax havens

There is need for strong political determination in the struggle to end tax

evasion, but such determination is lacking in those who have the power to act. There is an evident need, for example, for official reports on the impact of fraud. It is scandalous that a country like Spain publishes no information at all about the scale of fiscal fraud or the impact it has on our economy. We realize that we would only be talking of statistical approximations, not exact figures, but if there is little political will to elaborate a good diagnosis of the problem, then there will be even less will to combat the fraud. A very helpful measure would be simply calculating the Tax Gap, that is, the difference between what the law says should be collected and what is actually collected.

Another useful step would be increasing the resources of the tax-collection agencies. Spain has only 26,231 internal revenue workers, one for every 2,081 inhabitants, putting it in last place in Europe. Countries like Portugal, Austria, and Finland have twice as many internal revenue workers per capita as Spain, and countries like Germany, Belgium, Poland, and the Czech Republic have three or four times as many.⁵² The Spanish Tax-Collection Agency carries out about 100,000 audits a year, which bring in 10 billion Euros. The Agency's Office for International Taxation carried out 200 audits of large corporations, which yielded an extra 1.3 billion Euros from the taxable base of these companies. More resources need to be dedicated to closely tracking the movements of gigantic fortunes and international corporations, and not only the dealings of the petty defrauders.

But none of this will make any sense if we do not first do away once and for

all with the tax haven. The Europe Commission's decision to draw up a joint list of tax haven is good news, but it will not be sufficient if countries like Holland and Luxembourg are not included. Moreover, 2017 was supposed to be the year when banking secrecy ended in the European Union. Luxembourg and Austria, the only countries that still permitted secrecy, finally yielded to the other member nations and agreed to implement the system, already in place in 54 countries of the OECD, which guarantees automatic exchange of fiscal information.

There is a need, however, for more firmness. Perhaps, as Zucman proposes, there should be a specific treaty with regard to the commercial exchanges with these countries, one that imposes taxes or tariffs equivalent to the economic losses caused by their tax systems.

Tax haven

Another initiative related to the previous point is what has been called the "free zones."⁵³ Such a "free zone" seeks to limit government relations with firms that operate in the tax haven. The proposal is aimed at preventing public contracts, which account for 25% of the national economy, from being awarded to companies that operate fraudulently in tax haven. The reason is evident: the companies that operate in the tax haven do serious harm to the companies that act responsibly in fiscal matters, since their non-payment of taxes allows them to compete unfairly by charging lower prices.

At the present time, more than sixty municipalities throughout Spain

have declared themselves zones that are “free” of tax haven, and cities like Barcelona have already begun to change the conditions for awarding public contracts. Before being granted such contracts, companies are obliged to present information about the tax haven in which they operate. Should the information be faulty, the municipalities are empowered to rescind any contract granted.

But it is evident that further action is needed: the European directives should be modified so as to incorporate the criteria of corporate fiscal responsibility with regard to public contracts in all of Europe.

4.5. The importance of good tax pedagogy

What is probably most important of all is the moral dimension of this debate. A true commitment to tax justice requires, first of all, a higher level of tax morality in our societies. People have become very disillusioned because of the many cases of corruption, along with the scandals of tax fraud and tax avoidance linked to big companies and media celebrities. To those cases we can add political practices like the tax amnesties, which allow defrauders to go scot free without demanding anything in return. When tax cheats end up paying less than they should, the message sent out to the public is clear: the tax system has two measuring sticks,

one for the rich and one for the rest of us.

These abuses produce ever greater disaffection among honest taxpayers, making them skeptical about the possibility of a responsible tax culture and discouraging them from paying their own taxes.

Many cases that can be cited, including the tax evasion perpetrated by soccer stars like Messi and Cristiano Ronaldo and the schemes of other sports figures, such as those who changed their fiscal residence in Andorra. Even well-known politicians and economists have been discovered with accounts in tax haven, like Rodrigo Rato, Emilio Botín, and many others.

Mostly likely it will be necessary to create more rigorous penal codes, suppress the five-year statute of limitations, eliminate writs of absolution, and even pass new legislation prohibiting financial counselors from offering services that contribute to fiscal fraud. We need public figures to set good example so that people will come to understand that a sound tax system is central to the rule of law.

At the same time, good civic education will help our children and young people understand the real costs of the services they enjoy, such as health care and education. We must teach young people, even while they are in school, the principles of responsibility and tax justice. A good education will help them realize that paying taxes is one of the most vital duties we have in our society.

5. CONCLUSION

In the pages of this booklet we have explained the great need for tax justice, but we have also shown how difficult it is to achieve them. Nowadays it is very to defend the existing tax systems given the systematic corruption, the institutionalized greed, and the ethos of “everyone for himself.” That is why I have decided to end this essay by quoting a letter sent to me by a friend a year ago. The letter is a call to responsibility and a testimony to the great value that taxes possess:

“About ten days ago my cousin Martí disappeared while he was fishing on the Costa Brava. Martí was a happy, dedicated person. There is no need to describe our sadness at his disappearance. Everyone can imagine what it is like.

“For a whole week they searched for him, but to no avail: firefighters, police officers, civil patrols, and the coast guard took part, using every technical and human means possible. Besides their marvelous professionalism and the sympathy they showed the family, their operations drew heavily on public funds.

“I’m very happy to be living in a society where the citizens, at some point in their history, agreed to the idea that

it was better to deal communally with some things (not a few) and to pay for them collectively so that everyone would benefit from them, irrespective of how much they contributed. It was wonderful that Martí (or any person) could receive the focused attention of the whole of society in a moment like this.

“Think about that fact the next time you have to pay your income tax, the next time someone asks you to write an invoice without the VAT (or you’re tempted to ask for one), the next time you have to hire someone in your business, etc. Think about that.

“We are well aware that there are persons in government offices who

rob from the funds they control or who waste many resources. We know that there are multinational corporations that practice a refined type of tax avoidance that is legal. But if we, for our part, want a cohesive society strong in solidarity and rich in happiness, we cannot fall into the trap of being like them.

“I am happy to be living in a society that believes in the redistribution of wealth. To be sure, there are imperfections of every sort, but that’s why the case of Martí is important. In the search for him there were no co-pays, no deductibles, no charges of any sort. 99% of our people would never be able to pay for the cost of that operation out of their own pocket.

“As I come to the end, I want to thank everybody. I want to thank all of you who by your taxes made it possible for such an intensive search to be carried out in the hope of finding Martí. Until we meet again, Martí!”

How many stories like this could be told every day, from such different spheres of human activity as health care, education, emergencies, social assistance, transportation, and so on? Indeed, when we talk about taxes, we are talking about making all these stories possible.

Certainly, the achievement of a just tax policy today will require that us not only to arm ourselves with arguments but also to organize citizens’ advocacy movements. We will need to carry out the intensive labor of educating people in tax matters. Most especially, we must demand that government administrations adopt bold measures and provide exemplary leadership in the global struggle for a tax justice model. As has happened at other times in history, we will have to move beyond the concepts of present-day law and close the gap between legality and what is truly ethical and fair.

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N. 170, December 2018

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