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Position Paper

Empowering Youth through Fair and Green Tax Policy

european youth forum

Contents

Introduction

Young Europeans are significantly impacted by the climate and biodiversity crises, negative effects of economic austerity measures[1], and increasing inequality. A reform of tax policy can help to tackle these intertwined problems. In this paper, the European Youth Forum lays out the foundations for a tax system that promotes fairness, inclusivity in society and environmental sustainability, particularly addressing the challenges faced by young people in Europe.

The current tax systems in the European Union (EU) and beyond fail to meet youth's challenges adequately. These systems struggle to generate sufficient revenue and to develop climate finance, do not address inequality effectively, fail to reprice environmentally damaging activities properly, and lack fair representation for young people in tax policy decisions. Excessive reliance on labour taxes and insufficient use of environmental taxes exacerbate these issues, hindering governments from funding essential public services and sustainable investments.

This paper is necessary and timely for two key reasons. First, it aligns with the European Youth Forum's 2024-2028 strategic plan, which calls for European institutions to adopt a fair and sustainable tax system that reflects the needs of young people. Second, the European Union's new fiscal rules, combined with high levels of public debt in some Member States, require reduced deficits[2]. This creates a challenge to ensure sufficient funding for the green transition and civil society, including youth organisations. To avoid austerity measures that disproportionately impact young people and future generations, new revenue sources must be identified. Reforming the current tax systems is therefore crucial to achieving fiscal stability while fostering sustainability and opportunity for all, particularly for the younger population.

Principles of a Tax System that works for Youth

This section outlines the general characteristics of a tax system that would help remedy the current challenges faced by young people. A youth-friendly tax system should be based on the following principles: fairness and justice; economic soundness; inclusivity and representation; and sustainability.

Fairness and Justice: a fair and just tax system should be well-balanced and distribute the fiscal effort equitably based on the taxpayer's ability to pay, ensure intergenerational equality and be underpinned by an intersectional approach.

Economic Soundness: an economically sound tax system is one that contributes to the sustainability of public finance, encourages sustainable innovation and climate finance, and creates decent jobs, particularly for young people.

Inclusivity, Representation and Good Governance: a tax system that works for young people must be inclusive and representative. This means that it is transparent, easily accessible for citizens, and shaped by empowered young people, with meaningful youth participation and inclusion in decision-making.

Sustainability: a tax system should embody environmental sustainability both in terms of what is taxed, who is taxed and how revenues are spent, including the polluter pays principle, incentivising future-proofing behaviours, and sustainable public investments.

1 https://www.youthforum.org/files/GenerationAusterity.pdf

2 Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97

Policy Recommendations

The following policy recommendations span across many levels of government, from local to national and international. While many taxes are levied at the national or local level, there are various levels of governance that offer opportunities for improvement:

- National governments: they perform a key role in determining the tax regime. To a large degree, they are free to choose their own corporate and individual taxes.
- The European Union: taxation is a prerogative of the Member States, the EU having only limited competencies. Yet, the EU can have an important role in levying taxes, increasing its own resources and fostering multilateral cooperation. An example of this is the plastic taxes that came into force in 2021.
- International Organisations (e.g., the United Nations, OECD): in December 2023, the United Nations General Assembly passed a historic resolution commencing work on a UN tax convention, which could allow for a genuinely representative process at the UN that reflects the needs of countries and people around the world.

I. Green Tax Reform

I. Shifting the tax burden from labour to environmental taxation

The current imbalance in our tax system, where labour is taxed proportionately more heavily than resource extraction or polluting activities, is a significant concern. This discrepancy not only undermines the principle of fairness in taxation but also fails to incentivise sustainable economic activities.

- We call on the EU, its Member States and all European countries to set country-specific goals to increase the share of environmental taxes collected[3], and decrease the burden of such taxation placed upon personal income overall.

II. Tax on resource extraction and fossil fuel levy

In 2021, a mere 3.5% of total environmental tax revenue was attributed to resource and pollution taxes while 78% rested on energy and 18% on transport (EU averages)[4]. Taxes on resource extraction can act as a disincentive, encouraging companies to adopt more sustainable practices or reduce their environmental impact. In addition, they also generate revenues that can finance essential ecological and social transition investments that may not be financially viable through private finance alone.

- We urge the EU, its Member States and all European countries to adopt a tax on the extraction of non-renewable natural resources within their territories.
- Due to the relatively limited extraction of fossil fuels within the EU, we recommend that the EU engages in diplomatic efforts at the UN level to establish a global fossil fuel levy.

III. Excise taxes on polluting luxury activities

Excise taxes on polluting activities send a clear message: consuming goods and services harmful to the environment comes at a cost. By making polluting luxury products more expensive, and with earmarking towards the development and support of alternatives, these taxes drive individuals and businesses towards cleaner options, ultimately reducing overall pollution levels.

Additionally, taxing luxury consumption tackles inequality head-on[5]. It means that wealthy individuals who indulge in luxury items contribute more to public finances, allowing for a fairer redistribution of wealth. Moreover, taxing luxury goods promotes ethical consumer behaviour, encouraging a shift towards

3 We use Eurostat's definition: *An environmental tax is a tax on something that has a proven, specific negative impact on the environment. The tax base can be a physical unit, for example litres of gasoline, or a proxy of a physical unit, for example taxes on nuclear power stations. The tax is always a monetary amount, such as euros.*

4 Taxation and Customs Union | European Commission

5 In Europe, a person from the richest 1 percent emits on average 14 times more carbon (CO_2) than a person in the bottom 50 percent. See *Oxfam International (2023), Climate Equality: A planet for the 99%*

sustainable and socially responsible purchasing decisions that benefit everyone.

- We call on the EU, its Member States and all European countries to tax highly emitting means of luxury transport, such as private aeroplanes or yachts, through a sales tax and travel-based taxes.

- We call on the EU, its Member States and all European countries to lower taxes on sustainable transport such as trains and local public transport and increase taxes on aviation and other unsustainable means of transport.

IV. Removing Harmful Subsidies

Subsidies can effectively function as a form of "negative tax" by providing financial assistance or benefits to certain industries, sectors, or individuals. Fossil fuel companies and other highly polluting industries currently benefit from enormous subsidies, despite the EU's commitment to phasing out environmentally harmful subsidies, including those to fossil fuels, by 2020.[6]

- We urge the EU and its Member States to immediately follow up on these commitments and all European countries to remove all direct and indirect subsidies for all fossil fuels, including gas.

II. Youth-friendly Tax Reform

I. Standardisation and simplification in the European Union

The free movement of people in the European Union is hampered by bureaucratic impediments, uneasy transnational collaboration and the lack of common standards. As young people committed to the continuation of the European project, we call on EU institutions and Member States to take the following measures, to ensure every young person in Europe can benefit from the European promise:

- The implementation of a common EU-wide tax year for personal taxation, that aligns with the calendar year (1st Jan - 31st Dec).

- The use of common terminology and definitions in national regulations around taxation to avoid situations where tax jargon has different meanings in different jurisdictions.

- The use of a common EU tax residency test, designed such that an individual is always a tax resident of precisely one country: never multiple and never zero.

- The introduction of an EU-wide digital value-added tax (VAT) administration platform to complement national systems, allowing SMEs to more easily administer cross-border VAT.

II. Improved efficiency and digitisation

We call on the EU and its Member States for:

- The implementation of an EU-wide database of individual taxpayers to streamline cross-border tax administration and avoid tax evasion. This can be done on an opt-in basis, for the protection of personal data rights.

- The implementation of paperless/online filing systems by all European countries for personal taxation to ensure efficiency and enhance the user experience in filing their tax returns. This should be done with consideration for the environmental impact of digitisation, using for example energy efficient cloud-computing technologies.

III. Youth-specific tax exemptions

Implementing youth-specific tax exemptions can significantly promote financial independence among young adults. Certain EU Member States, like Portugal and Poland, already have regulations that provide tax relief up to a specified age.

We call on the EU, its Member States, and all European countries to follow these examples and:

- Adopt an income tax exemption for young employees, up to a certain maximum annual income determined by the average salary and costs of living in the specific country case.

6 Roadmap to a resource efficient Europe, Communication from the Commission, COM(2011) 571 final, 52011DC0571 - EN - EUR-Lex

- Implement a Green Youth Tax Credit that provides tax incentives for companies hiring young people in green jobs or sustainability-focused roles.

IV. Youth participation and empowerment

Young people should be included meaningfully in the development of fiscal policy, from revenue to spending, and be able to communicate to authorities what the priorities are in their communities. They should be given the knowledge and tools needed to navigate the tax system as individuals and understand the complexities of the collective consequences of political decisions.

We therefore call upon the EU, its Member States and all European countries for:

- An introductory education programme in secondary education on the practicalities of taxation to be made available to students and any other citizen that needs resources on taxation.

- The implementation of participatory budgeting at all levels of government, starting with the local level, ensuring young people are meaningfully included in the process.

- The involvement of youth civil society in the governance of national and EU-level funding programmes. This should happen through the establishment of a mechanism to regularly gather the input of representative youth civil society platforms on the functioning of national and EU youth funding programmes - such as Erasmus+ and European Solidarity Corps.

- The creation of meaningful youth involvement mechanisms in international fiscal and financial institutions like the IMF, OECD and World Bank, with adequate representation of young people from all continents.

- All new fiscal legislation to undergo a Youth Test, an impact assessment on how a given legislation impacts the lives of young people now and in the future. This consists of five phases: assessment of the relevancy of a proposal for youth; consultation with youth experts; impact analysis; implementation of mitigation measures if a negative impact is shown; transparency - or the publication of the results of the youth test so that youth representatives and institutions can see the results.

III. Fair Tax Reform

I. Wealth Tax

The introduction of a wealth tax would not only help to fight rampant inequality in Europe but also bolster the Union's own resources, enabling the amplification and perpetuation of European ecological and social transition efforts, along with development cooperation policies, in collaboration with Member States. The generated revenue could be instrumental in combating climate change and inequality, ensuring that European citizens contribute their fair share toward these crucial objectives. European countries could collect substantial revenue through a modest tax on the wealthiest 0.5% of individuals. According to a study by the European Parliamentary group "Greens/ EFA", even a tax rate ranging from 1.7% to 3.5% has the potential to generate as much as €213.3 billion.[7]

- We call on the European Commission to draft a proposal for a directive introducing a European excess wealth tax, leveraging Article 115 TFEU. This article empowers the Council, with unanimous agreement, to enact directives harmonising national laws, particularly in direct taxation, which directly impact the internal market's establishment or functioning.

- We call upon the European Commission to propose an amendment to Council Decision 2020/2053 of 14 December 2020, governing the system of own resources of the European Union, drawing on Article 311(3) TFEU. This amendment aims to enable the European wealth tax to contribute to the EU's system of own resources.

- The new resources generated through the excess wealth tax should be directed towards fostering a fair environmental and social transition and funding Union and Member States' policies aligned with this objective, such as the Green Deal and the Paris agreement.

7 https://extranet.greens-efa-service.eu/public/media/file/1/8513

II. Progressive income taxes

Progressive[8] taxation is crucial for fairness. An efficient income tax system can increase public consent and address inequalities effectively.

- We call upon national governments to increase the number of income tax brackets, smoothening the scale and raising its highest figure to cover more high-income earners. This will ensure that the middle class is not taxed at the same rate as the top 10% and ensure a fairer distribution of the tax burden across income levels.

- We call upon national governments to raise the marginal income tax rates significantly, to smoothen income inequalities.

- We call on national governments to assess the feasibility and impact of phasing out personal income tax in the long term.

III. Corporate taxes and closing loopholes

On 1 January 2024, new EU rules came into effect introducing a minimum rate of effective taxation of 15% for multinational companies. Yet, aggressive tax planning still helps multinational companies pay very low tax rates through base erosion and profit shifting[9]. This must be addressed at the global level as well as by the EU and national governments.

- We call upon the EU, its Member States and all European countries to advocate for the transfer of global tax leadership from the OECD to the UN, with a proper structure for ensuring youth representation in decision making processes. By leveraging the UN's global membership, commitment to public transparency, and robust human rights legal frameworks, as well as its technical expertise, we can establish a more sustainable platform for achieving effective tax solutions.

- We urge the EU, its Member States and all European countries to push forward with proposals addressing automatic exchange of information (where countries share data automatically), beneficial ownership (revealing the true owners of assets and companies), country-by-country reporting (multinational corporations disclosing financial data for each country they operate in), and unitary taxation (taxing multinational corporations based on their global profits rather than just profits in individual countries) to enhance transparency, combat tax evasion, and ensure fair taxation across borders.

IV. Windfall profit taxes

Windfall profits occur when companies significantly increase their earnings due to external factors, such as sudden rises in energy prices, which are often transferred to consumers. Windfall profit taxes can help to create a more fair distribution of those costs, with the generated revenue being used for the implementation of measures such as investments in cleaner energy or monetary relief for those affected by higher prices.

As an example of windfall profit taxes, following record profits by fossil fuel majors and certain state-owned companies in 2022, temporary taxes on windfall profits were coordinated at the EU level and implemented nationally through the Council Regulation on an emergency intervention to address high energy prices. These taxes aimed to generate revenue primarily for supporting households affected by soaring energy costs.

As the taxes implemented temporarily had a positive impact on said households, including importantly young people living in poverty, the Youth Forum recommends the implementation of a more permanent mechanism, and therefore:

- We urge the EU to introduce a windfall profit tax that applies to all current and future profits absorbing a high proportion of all profits beyond a certain

8 A tax involving a tax rate that increases or progresses as taxable income increases is called "progressive", as opposed to "regressive". It imposes a lower tax rate on low-income earners and a higher rate on those with higher incomes. This can be contrasted with a regressive tax that is applied uniformly across all ranges of income, which can affect low-income earners more severely, or a flat tax such as VAT that is applied to everyone uniformly and hence does not reduce inequality.

9 Domestic tax base erosion and profit shifting (BEPS) relates to tax planning strategies that multinational enterprises use to exploit loopholes in tax rules to artificially shift profits to low or no-tax locations as a way to avoid paying tax. More info at Base erosion and profit shifting (BEPS) | OECD

technology-specific price threshold, contingent on a minimum percentage of companies' turnover.

V. Financial Transaction Tax (FTT)

Financial liberalisation since the 1970s has led to a significant increase in transaction volumes. Between 1975 and 2015, while global GDP grew by a factor of 15, stock market capitalisation increased by a factor of 50 and total financial transactions by a factor of 300[10]. Despite the scale of financial flows, they are rarely subject to taxation.

The financial transaction tax (FTT) is based on a straightforward principle: applying a very low tax rate on a large volume of financial transactions can generate significant revenue without adversely affecting market functions or the economy.

- We call on the European Council to reconsider the Commission's proposal for a Council Directive 2013/0045 of February 2013, following the so-called 'enhanced cooperation procedure' with 10 Member States. This proposal involves a minimum 0.1 % tax rate for transactions in all types of financial instruments, except for derivatives which would be subject to a minimum 0.01 % tax rate.

- We call on all stakeholders to include in any FTT policymaking process robust anti-relocation and anti-abuse rules, given that financial markets exhibit a complex and adaptive behaviour that often seeks to navigate around existing regulatory frameworks.

- Such a reform should aim to follow the principles established in this paper. In order to be fair, it should not target the regular bank transactions of middle-class and working class households.

VI. Smarter Consumption Taxes

Value Added Tax (VAT) is not a progressive tax with its flat rates applying to all goods and services that are bought and sold, no matter the wealth and revenue of the buyer. This makes it one of the taxes young people are most confronted with. It is, however, a very important source of revenue for European countries. Every year, about €1 trillion is collected in the EU in VAT revenue alone, making it the third-highest tax revenue raiser in the EU on average, behind social contributions and the personal income tax[11].

Reforming VAT could help maintain its role as a significant revenue source while aligning more closely with the principles outlined in this paper. Goods and services are already subject to different tax rates. Reduced rates usually apply to basic necessities such as food, water, or medicine, as well as to activities the state wishes to incentivise, such as housing construction or renovation. Different tax rates for various goods and services could make VAT fairer, more ecological, inclusive, and acceptable.

We therefore call on all European countries to:

- Take into account the environmental impact of goods and services when deciding on the VAT rate to apply to them based on greenhouse gas emissions, air and water pollution, land use and land use change.

- Charge the lowest possible VAT rate on basic necessities, pharmaceuticals, books, educational materials, all educational activities run by non profit and volunteer led youth work organisations, and public transport.

- Charge the lowest possible VAT taxes on sexual and reproductive health goods, including period products, to ensure their equitable and safe access for all.

- Charge a high VAT rate on luxury goods to increase the progressivity and acceptability of this tax.

We call on the European Commission at the point that the EU VAT directive is reformed to allow full VAT exemptions on more basic necessities, such as sexual and reproductive health goods, including period products, to ensure their equitable and safe access for all.

10 Gunther Capelle-Blancard, The Financial Transaction Tax: a really good idea, Presentation to the scientific advisory board of the french public market authority, October 2017

11 European Parliament Research Service, VAT in the digital age - Legislation in progress, 2023,

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