Tax – why is it relevant for trade unions?

Tax is coming at the forefront of all political agendas as governments are looking at ways to meet the costs of the pandemic. These discussions are taking place in a context of growing inequalities and economic resentment. A primary goal for tax is to generate revenues. Importantly, progressive taxation can also address public policies objectives and the distribution of wealth.

Business associations and multinationals have long been using their influence at all levels of governance to minimise their tax liability, which they often describe as harmful to growth and investment. Business advocacy activities can go as far as negotiating "sweet deals" directly with governments to reduce corporate tax bills. Civil society is also very active on the tax agenda, campaigning for tax justice, increased taxation of the wealthy and fairer repartition of tax revenues between countries.

The labour movement is actively cooperating with civil society organisations to call for fairer tax policies. But many trade unions have yet to develop or modernise their own strategies, pushing demands that specifically serve employment and workers' rights. The objective of this short briefing note is to provide a non-exhaustive overview of some of the reasons why trade unions should develop strategies on tax policies.

What is tax?

Tax can be defined as a compulsory payment made to the government. These payments are unrequited, meaning that tax revenues can be spent in many places for the benefit of society and not necessarily in return for individual tax payments. The different forms of taxes can be classified into the following six categories[1]:

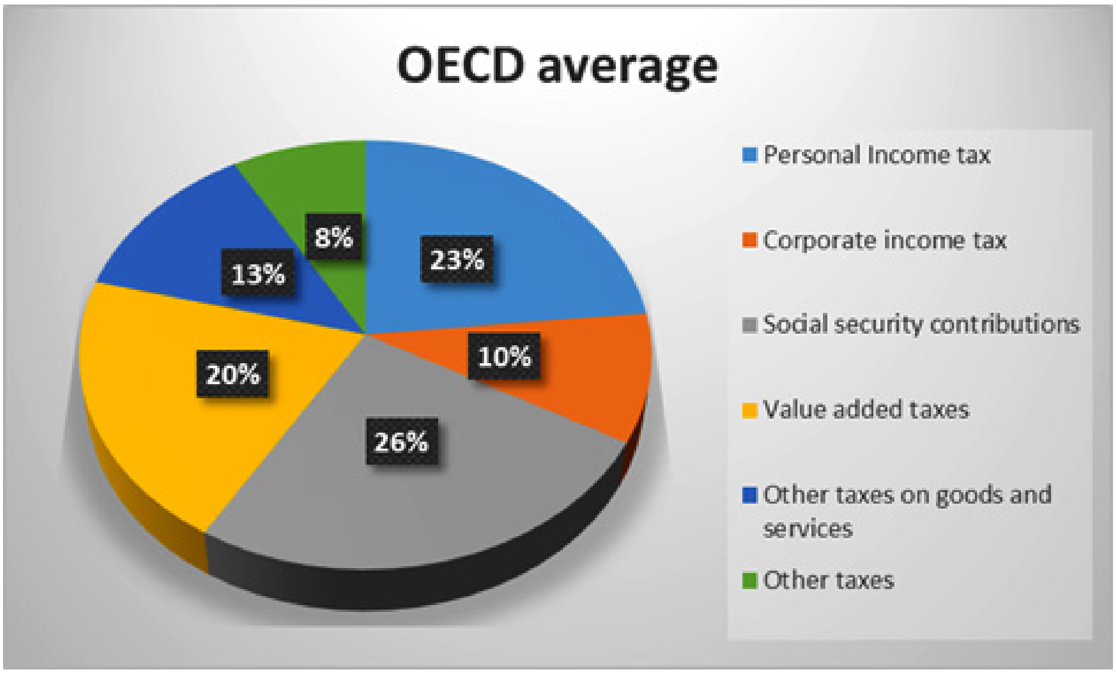
- Taxes on personal income, corporate profits and capital gains;
- Social security contributions, which can be due by employees, employers and self-employed workers. These payments confer workers an entitlement to social benefit;
- Taxes on payroll and workforce, which do not confer an entitlement to benefit;
- Taxes on property, including for instance immovable property, net wealth, inheritance, financial and capital transactions ;
- Taxes on goods and services, including for instance VAT and excise duties;
- Taxes which do not fit one of the above categories, such as those levied on a multiple base.

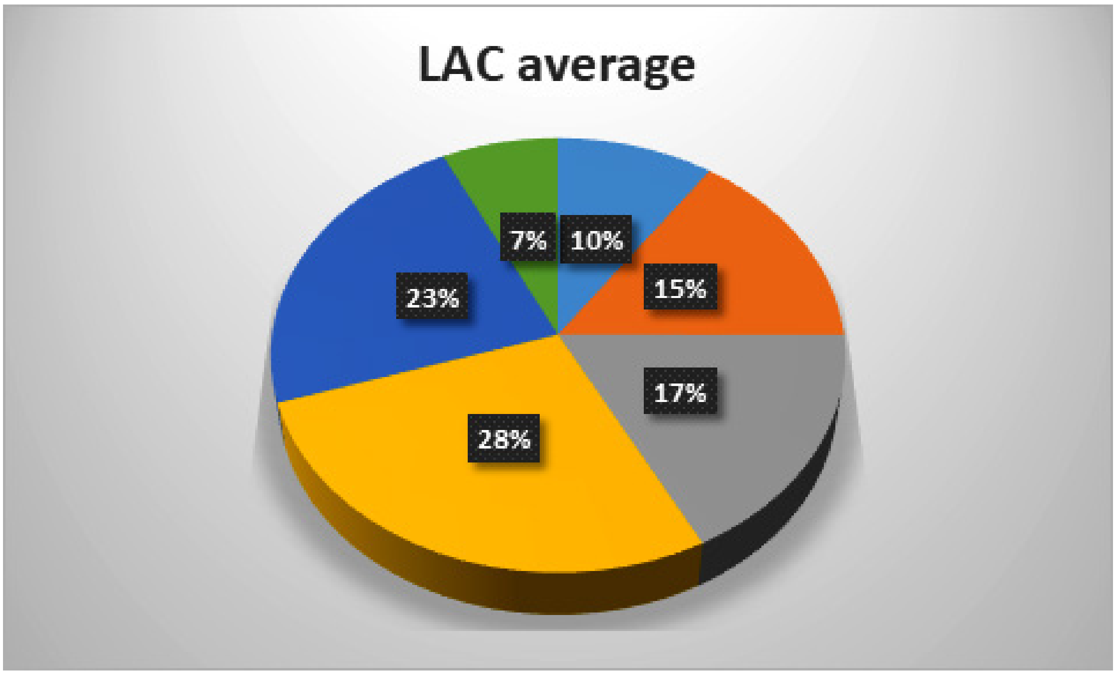
1 OECD classification

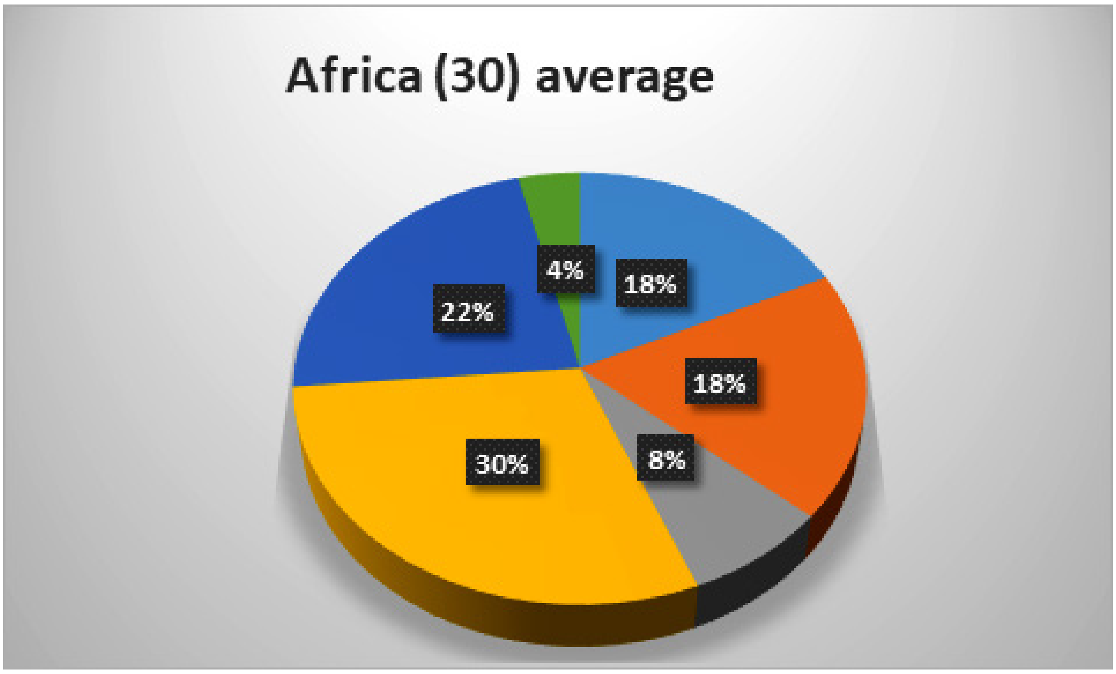
Who pays taxes?

Economies in Africa, Latin America and the Caribbean, and Asia and the Pacific rely more on revenue from taxes on goods and services and corporate income taxes, whereas OECD countries rely more on revenue from social security contributions and personal income taxes.

Figure: tax structures for the OECD, LAC and Africa Source, OECD (2018)







Why should trade union care about tax?

To tackle inequalities. Tax is known to affect many aspects of social welfare. Public spending funds fundamental services such as free health, education, childcare, subsidised housing. In the absence of sufficient tax revenues budgetary restrictions kick in, leading to privatisation and major cuts to public services. This is affecting more those living in poverty or low incomes than the wealthy.

Trade unions have long mobilised against austerity measures, calling for more and more progressive taxation to redistribute revenues with a view to tackle inequalities and promote fairness in our societies.

To restore progressive taxation. Progressive taxation seeks to apply higher rates on the highest incomes. Prevailing policies tend to do the opposite. According to the "trickle-down" economic theory, advantages for corporations and the wealthy are assumed to stimulate business investment. These advantages take the form of tax cuts, general or targeted (including exemptions), generating extra cash for businesses and investors. In the same logic, consumption taxes such as VAT are often considered as less harmful for growth as they have less impact on business' investment. There is a lot of evidence that – partly because of the types of taxes that apply, richer people are better able to avoid tax than poorer people.

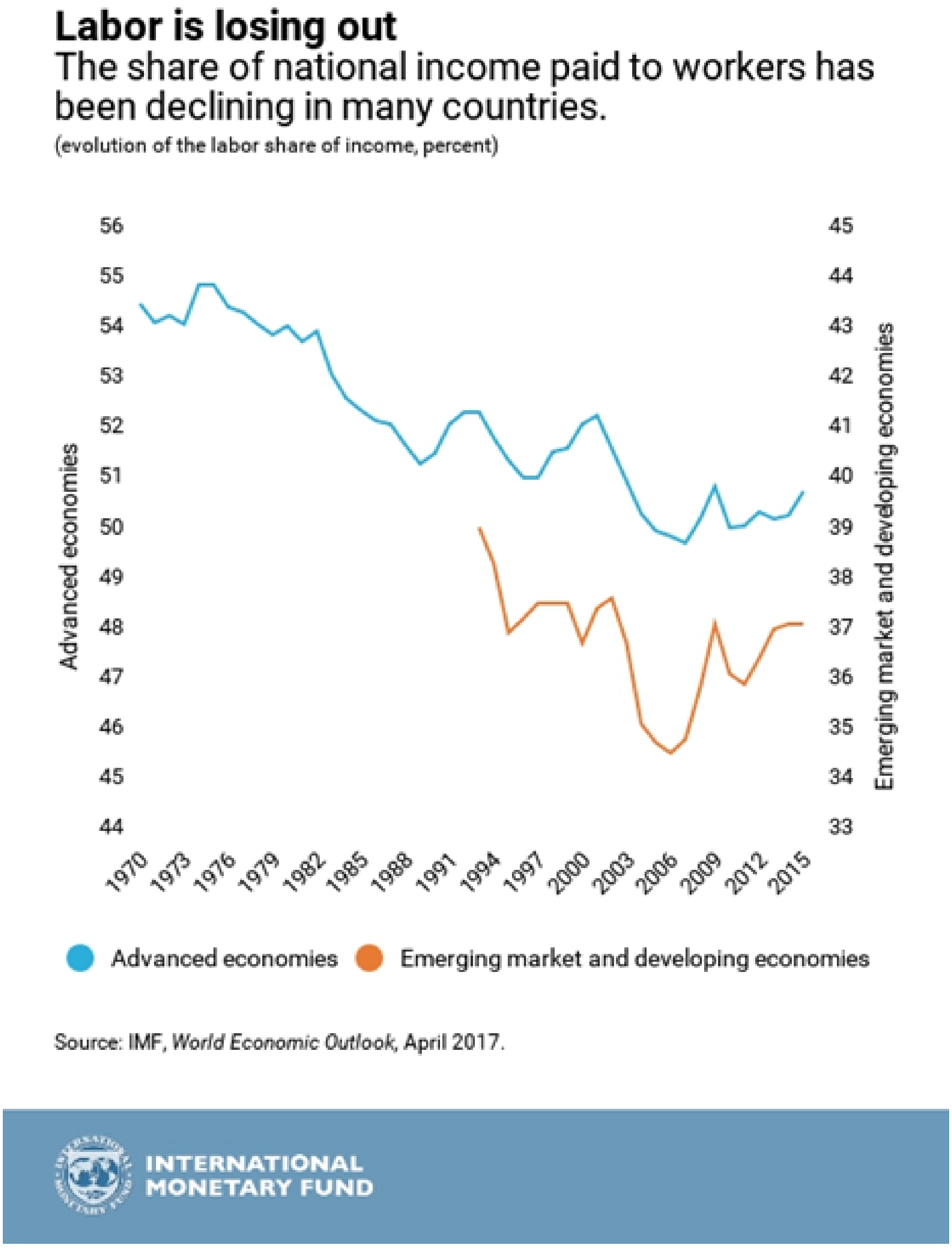
Workers are paying a double price for such policies. First, public budgets are shrinking, leading to austerity measures and insufficient investment into public services and social protection regimes. Second, the tax burden is being shifted away from the wealthiest incomes towards individual households and workers.

Trade unions have therefore a clear interest in tax reforms implementing a higher taxation of top incomes and wealth taxes.

To reduce the income gap between workers and high earners. Labour's share of income refers to the amount of national income paid to workers in the form of wages and benefits. Whilst the benefits of increased productivity has been going to capital, the labour share of income has been steadily declining globally. This increasing gap between capital and labour incomes is associated with growing inequalities in our societies. In other words, the wealthy are getting richer and this is feeding economic resentment and drive to populism.

Tax policies can play a key role to reduce the income gap by increasing the tax liability of capital owners. In addition, tax policies can specifically target multinationals with quasi monopolistic market power with a view to tackle economic rents and their adverse impact on employment, or activities like speculative financial trading that only tend to be conducted by the rich.

Trade unions should therefore consider how to push for reforms such as taxes on capital gains and dividends, as well as excess profit taxes in a bid to reduce income inequalities.



To ensure a fairer share of corporate wealth with the workforce. Companies engaged in aggressive corporate tax planning extract profits from workplaces and send them to tax havens. In the absence of sufficient liquidities and business investment, financial accounts are plundered, wages are kept artificially low and working conditions precarious.

Corporate tax policies can help ensuring that a healthy level of cash remains in the company for the benefits of workers and long-term governance. In this regard, the ITUC lays down key trade unions demands in its briefing note "Fair Corporate Taxation".

To discourage harmful activities … and to incentivise beneficial ones. Taxation is often used to put a price on harmful, socially undesirable, activities with a view to discourage them. This is the case for instance of taxes imposed on products with a negative health impact (e.g. tobacco, alcohol, junk food). Taxation can also help tackling the financialisation of the economy, and its adverse impact on real economy and employment. A financial transaction tax can limit the profitability of speculative trading. Its adoption, however, remains politically difficult and trade unions' mobilisation is essential for the implementation of ambitious reforms.

Importantly, tax policies have a fundamental role to play to discourage activities harmful to the environment. Carbon taxes, emission trading schemes and carbon border adjustment mechanisms constitute a clear incentive for individuals, firms and countries to reduce greenhouse gas. Some of these policies can have side effects on workers and vulnerable households. A fundamental goal for trade unions is therefore to ensure that tax policies fully embrace Just Transition principles, securing workers' rights and livelihoods in the shift to a greener economy.

Taxation can also incentivise behaviours beneficial to employment. Tax credits and corporate tax breaks can be relied upon to promote decent work, training of workers, investment into R&D etc. Vigilance is required on the concrete implementation of such policies in order to guarantee that tax benefits do reach the workers, and do not simply turn into extra cash for shareholders.

Trade unions' full involvement in the design of behavioural taxation will help them better influence and anticipate impact on production and employment. Trade unions' involvement can also guide the reflection on how to redistribute revenue gains among the most vulnerable regions and households.

Where are tax policies decided?

The 2008 financial crisis, budget crisis and a growing intolerance to tax dodging brought about a new agenda for international tax cooperation. Enhanced international coordination is indeed required to curb corporate tax avoidance and tax evasion by firms and individuals. Such activities are indeed taking place on a global scale and required concerted action between countries.

Countries negotiate tax policies with cross-border implications within the OECD, the United Nations and the European Union. All three organisations have issued instruments binding upon the ratifying countries. They can also produce influential guidelines and recommendations.

How can trade union take ownership of the tax agenda?

The labour movement has a significant role to play to increase the pressure for more progressive taxation. This briefing note has provided a high-level overview of the areas that trade unions can explore for policy advocacy strategies at national and international level.

Trade unions can also achieve practical change at company level by more systematically requesting and decrypting financial information. Basic knowledge on the effective tax payments of a company can come as a useful leverage in collective bargaining strategies.