GMS Flash Alert

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European Union - Seeks Minimum CGT, Wealth Tax, Curbs on Personal Tax Concessions

The European Parliament Committee on Economic and Monetary Affairs (ECON Committee) has voted overwhelmingly[1] in favour of a report[2] which, among other matters, calls for:

- introducing a minimum rate of capital gains tax within the bloc;
- reversing the trend to reduce taxes on top earners;
- introducing net wealth taxes by member states, applying to portfolio assets above a certain threshold, succession planning, property and luxury goods;
- reporting and sharing of information concerning any tax avoidance arrangements of high-net-wealth individuals;
- prohibiting tax regimes aimed at attracting high-net-wealth individuals, by expanding the scope of the Code of Conduct on Business Taxation; and
- co-ordinating efforts at an EU level to prevent tax evasion and avoidance of personal taxes in the single market.

The report also highlights the harmful nature of various special tax regimes recently enacted in some member states specifically to attract "digital nomads," high-earners of foreign income, pensioners, and the very wealthy.

WHY THIS MATTERS

The announcement is important for mobility managers for a number of reasons:

- Higher taxes on top earners and the abolition of special tax incentives for inbound moves could result in higher costs for equalised programmes and deferred compensation schemes;
- Senior executives moving into the EU region will be concerned about higher taxes on top earners, capital gains and wealth, potentially making such moves less attractive; and

- Curtailment of tax regimes targeted at digital nomads could make remote work even more complex from a tax perspective.

KPMG INSIGHTS

We expect to see further momentum build in the EU Parliament to reform and expand the Code of Conduct for Business Taxation, after a number of unsuccessful attempts. Amending the Code to encompass the above-mentioned recommendations, and others, would be a first step towards a potential EU directive on one or more of the matters raised.

It was only a matter of time before the EU shifted its focus from base erosion and profit shifting (BEPS) and corporate tax avoidance to harmful tax practices concerning personal taxation and highly-mobile top earners and the very wealthy.

Depending on the alignment of the EU member states for future work, the material propositions in the report could develop into a recommendation from the EU Commission to the member states and possibly into a proposal for a new directive.

However, it is also important to highlight that close cooperation between tax authorities and exchange of information might well be at the forefront of a discussion about preferential tax regimes. This has been highlighted for many years as a path towards achieving more transparency, and ultimately reaching targets for an economically more balanced region.

National tax regimes designed to attract high earning and wealthy individuals cause distortion in the single market and the free movement of labour and capital, which is a serious concern of the European Parliament.

This author and KPMG professional Daida Hadzic jointly published an article on this topic ("Special Tax Regimes for Mobile Individuals and Their Impact on the EU's Single Market") in *Bloomberg Tax* (online) last August which provides further insights. (*Please note that by clicking on this link you are leaving the KPMG website for an external site, that KPMG is not affiliated with nor is its content endorsed by KPMG. The use of the external site and its content may be subject to the terms of use and/or privacy policies of its owner or operator*.)

FOOTNOTES:

1 Report adopted in vote of 21 March 2023: 46 in favour, 7 abstentions, none against.

2 The report was originally published in October 2022 and will be updated to reflect suggestions by various parliamentary committees.

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