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Give the billions to the millions

The EU urgently needs a tax on capital gains

Capital gains are one of the main sources of inequality in our economy and they go largely untaxed. But what are they? Who makes them? And why is taxing them a key tool in the fight for economic justice? Hopefully in the next paragraphs we will be able to give you an insight into the topic and by the time you finish reading, you will be ready to join us in the fight for a tax on capital gains in Europe.

So what are capital gains and why do they matter?

A capital gain is the profit someone makes when the value of something they own increases in comparison to what they initially bought it for. There are realised and unrealised capital gains, this depends on whether you have sold your asset and got the money for the extra value (realised) or if you are still holding on to the asset while its value increases (unrealised).

So, for example, someone who buys several houses and sees their value increase from the original price of €200,000 to €500,000 is experiencing an unrealised capital gain of €300,000. If and when they sell the houses for the new price, they will have a realised capital gain of €300,000 per house.

The interesting thing about these capital gains is that they can be higher than someone's yearly salary, and while a worker's salary comes with an income tax that they pay every month, taxes on capital gains are much lower. So while a worker earning €30,000 as their yearly gross salary will pay on average 39% in taxes and social security, the person who made €300,000 in profit from selling a house will barely pay any taxes for that profit, on average 19% in the EU but with the exemptions and the loopholes, it could be as little as 0%.

So why do capital gains matter? You guessed it, because it is mainly rich people making them.

We are in the midst of an economic crisis, we seem to never learn from the mistakes of the past, we see banking volatility, inflation caused by the greed of corporations and families still struggling to make ends meet. And in the middle of all of this, there are people who are making their pockets deeper and who will be paying very little taxes on all the profits that they made.

Because, sure, capital gains are made when the value of a physical asset goes up (think of a house, a luxury bag, jewellery, art, etc), but capital gains can also be made when the value of a financial asset goes up. An example of this is the value of the stocks and shares of a company. So, let's look back at the super profits that some corporations and who has actually profited from them. Maybe by now you have guessed who actually takes those profits home. Indeed it is the shareholders of those companies. Those shareholders are the ones that collect their dividends every quarter, the ones that are profiting off a crisis, the same ones that are making thousands of euros on capital gains and they are paying very little to no taxes on them.

With our current system, the worker of an energy company will be paying taxes on their annual salary, but a shareholder of that same company will be paying little to no taxes on the profits they make on those shares (regardless of whether they sell them or not). And once again, the rich get richer by playing a system that favours them. Because we know that it is the top 10% of households that own shares and stocks of companies, and we also know that the price of stock prices has gone up quicker than salaries or house prices.

Oxfam already showed us in their yearly inequality report, since the start of the pandemic, the gap between the top 1% and the 99% has increased. And if you want to see just how bad the wealth gap is, just know that for every 100 euro created in the European economy between 2020 and 2021, 44 euros went to the richest 1% and 9.6 euros to the bottom 90%. In other words, the richest 1% made 4.5 times more wealth than the bottom 90% of EU citizens between 2020 and 2021.

The one thing that we know for sure is that this huge difference in what the rich are making does not come from their salaries. It comes from their investments and it comes from the capital gains that they are making from those investments. We know that the majority of the population do not have 5 apartments under their name, own diamonds in a Swiss safe or have shares in the biggest pharma companies. And with labour being taxed at an average of 39% versus a less-than-realistic tax average of 19% for capital gains, it's easy to see how shareholders are milking the system. On top of it, in countries like Denmark it's the richest 1% who receive more than half of all capital gains made in the country. Another example is France, where the top 0.01% receive 60% of their income from capital and this capital mostly consists of financial assets like listed shares or stocks.

So what can we do? What do we want?

The answer therefore is obvious. We need to tax both realised and unrealised capital gains!

Most EU countries either don't do it or allow too many loopholes to pay even lower rates. So, for example, while in Germany a single worker with no children that earns an average wage is taxed at 47,8%[1] and in Belgium even above 50%, countries such as Belgium, Luxembourg, Slovenia, Slovakia and Czechia are tax havens for capital gains with a rate of 0%. It is not a coincidence that some French billionaires own their assets in Belgium. And that's just for realised capital gains, when it comes to unrealised capital gains, barely any EU countries taxes them.

And we are not alone. In March 2023, President Joe Biden proposed to tax realised capital gains at the same level as wages; increasing the capital gains tax rate from 20% to 39%.

In the EU we need to move in the same direction. And we have to do it urgently. We can't allow an EU that gives more power to shareholders than to workers.

This is why as Greens/EFA we ask the European Commission to establish a real and minimum tax on capital gains in the EU. This tax would affect both the realised and unrealised capital gains of listed shares, meaning it would apply to the shares of publicly owned multinationals. We have said it time and time again, the richest households make the majority of their wealth out of the capital gains from financial assets like shares.

Our proposal is simple and works on a basic rule of thumb. Labour cannot continue being taxed higher than capital. The 90% cannot be paying while the richest profit. We want to bring forward a minimum tax of 40% on capital gains. This is the first step to make sure that we combat inequality and the one sure step to put workers at the centre and stop protecting shareholders. Let's see what this would look like in practice. If we take the capital gains of the traded shares of the most polluting companies (Exxon, Shell, Total and BP), we can get almost 140 billion USD with our tax[2]. This is almost 3 times the Spanish public expenditure on education. And this is just coming from 4 companies.

The potential of our tax is huge and we know that the EU needs that money, people need that money. If we are serious about protecting the vulnerable and having an EU that works for the people, we need to invest in them. The revenues from having our capital gains tax would highly benefit both the EU budget and Member States' budget to fight inequality in both levels.

Our proposal should bring urgent fairness to our societies. Wealth needs to be better taxed and redistributed. We can't live in societies where the wealthiest 10% own more than half of the total wealth. We can't live in societies where we are prioritising the rich over the people that actually make our societies work. We can't live in societies where teachers, nurses, bus drivers or construction workers are taxed 2 to 3 times more than shareholders. It's time to change the system and bring in a fair shareholder tax.

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[1] This percentage is based on the tax wedge methodology used by the OECD. The tax wedge is defined as total taxes on labour paid by both employees and employers, minus family benefits, as a percentage of labour costs. When looking solely at the net average tax paid by workers, the average number for Germany would be around 36% (containing social contributions).

[2] The calculation was made comparing the increase of the market capitalisation of all four companies between the end of 2021 and the end of 2022. All four companies have seen their share value increase significantly in 2022. Their shares have continuously increased in 2023 as well.

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