

COMPETING FOR **THE RICH**

Tax exemptions and special
schemes for the rich



Authors: **Christoph Trautvetter & Eric Winkler**
Date: 2/4/2019

A report commissioned by :



The Greens/EFA group in the European parliament
www.greens-efa.eu
[@greensep](https://www.facebook.com/greensefa)
www.facebook.com/greensefa

Photos: shutterstock
Design and Layout: Aupluriel (www.aupluriel.be)

CONTENTS

Executive Summary	4
Introduction – what this study is about	6
Who are the rich?	7
How do the very rich earn their money?	8
How does tax competition on personal income work?	9
Who exploits competitive tax rates?	10
Special schemes for the rich and mobile	14
The United Kingdom	18
Ireland	20
Malta	21
The Netherlands	22
Belgium	23
France	24
Spain	25
Portugal	26
Italy	27
Cyprus	28
Other countries competing for highly-qualified employees	29
The race to the bottom with regard to personal income taxes for the rich and mobile	30
Falling headline rates	30
Other signs of harmful tax competition	31
The EU's role	38
Political solutions	40
ANNEX 1: The distribution of income and wealth in Europe	42
ANNEX 2: Overview of special schemes	44
ANNEX 3: Methodology	46

LIST OF TABLES

TABLE 1	Distribution of income and wealth in France, 2014	7
TABLE 2	Types of income and their distribution in France and the US, 2014	8
TABLE 3	Overview of special tax regimes in Europe	16
TABLE 4	Number, income and tax payments of UK non-doms	19
TABLE 5	Comparison of headline PIT rates with taxes on different kinds of income	37
GRAPH 1	Number of schemes over time	16
GRAPH 2	Development of top corporate and personal income tax rates in the EU	30
GRAPH 3	Difference between tax rates on interest income and personal income	32
GRAPH 4	Differences between tax rates on dividends plus corporate income and personal income	34
GRAPH 5	Differences between tax rates on capital gains and personal income	34
GRAPH 6	Differences in taxation between different kinds of individual income in the EU	35
GRAPH 7	Extrapolation of income inequality trends. Source: Global Inequality Report, 2018	41

Executive Summary



The social contract in the European Union is broken. Personal income tax is the largest source of revenue within the EU, raising 22% of the total tax revenue – compared to 7% for corporate income tax. Just as with corporate tax, countries within and outside the EU use their tax systems to compete for the highly skilled, rich and mobile. They do so by creating special tax regimes for those who decide to change their residence for tax purposes and, by doing so, force other countries to lower their tax rates, to introduce special exemptions for the rich and mobile at home or to create even more attractive special schemes in a destructive race to the bottom.

Such schemes have mushroomed within the EU and have become more and more damaging in recent years, fuelled by scandals and reforms that make outright tax evasion more difficult as well as by the desire to attract bankers from the UK and rich Brexiters. The effects are clearly visible: taxes on inheritance, wealth and capital income are lower than on labour in most EU countries or have even disappeared completely and, while normal EU citizens with family and job obligations across borders struggle with double taxation, some of the rich purposefully move their tax affairs around the EU to benefit from double non-taxation. But even though the European Commission first raised the point that such special schemes were potentially damaging in 2001, as far as we know this study is the first attempt to provide comprehensive information and data and to collate the existing information.

Fifteen EU countries plus several countries or territories within the European Economic Area (EEA), such as Switzerland or Gibraltar, offer special tax schemes to more than 160,000 beneficiaries. With approximately 50,000 beneficiaries each, the UK and the Netherlands offer the biggest such schemes, and both countries have a long and controversial history in this area. From public scandals in the UK it has become clear that the

scheme there has been used by multi-millionaire managers and stars as well as billionaire heirs, some of whom have lived in the UK for more than 10 or even 20 years.

In addition to exemptions from foreign capital income, the Netherlands provides special allowances relating to Dutch-sourced income worth €775 million per year, benefitting British managers of multinational companies as well as IT specialists from India. Copying from and competing with each other, Malta, Cyprus and Italy have recently introduced new schemes or extended existing ones to be ever more damaging, reducing taxation to a lump sum of €100,000 or even less, irrespective of the income earned and doing away with any requirement to actually live there. Under President Macron, France has made its scheme more attractive with the clearly stated goal of attracting bankers from the UK and out-competing Germany and others. Following increasing evidence of rich pensioners relocating to Portugal to benefit from generous tax exemptions there, Finland unilaterally cancelled its tax agreement at the beginning of 2019 – an unprecedented action between two EU member states. One of the most famous and most striking beneficiaries of the schemes is Cristiano Ronaldo from Portugal. He started his successful football career in the UK, the birthplace of special schemes and moved from there to Spain and then to Italy shortly after they too introduced special schemes of their own, taking his after-tax income to ever new heights.

Partly triggered by but going far beyond the special schemes, the data relating to personal income taxation in the EU shows clear signs of and huge potential for harmful tax competition. Average top tax rates relating to personal income in the EU fell from 47% in 1995 to 39% in 2018. This trend is being mainly driven by the introduction of flat taxes in eastern Europe that fix the income tax rate for the very rich at the same low level applied to the rest of the population – 25% in Slovakia or even

as low as 10% in Romania. But more importantly, many countries with high and progressive income taxes for the average worker introduced similarly low flat taxes and provide generous exemptions on income generated effortlessly from capital largely concentrated in the hands of the few very wealthy individuals. At the extreme, taxes on capital gains – the major sources of income for Jeff Bezos as well as many other individuals among the richest people – are on average up to 20 percent points lower than on labour. At the same time, wealth taxes have been abolished everywhere but in France in recent years, although even there the wealth tax has been weakened. Inheritance and gifts are taxed at low rates – if at all – and with generous exemptions for the heirs of businesses. Finally, big differences between overall personal income tax rates – ranging from 10% in Romania to 56% in Denmark – show a very high potential for tax competition and a race to the bottom as many special rules provide ample space for tax arbitrage and avoidance models that go beyond the scope of this study.

As mentioned above, the European Commission addressed the potentially harmful effects of special schemes for the highly skilled and rich and the risk of “*unintentional non-taxation*” in a communication in 2001. But, since then, the focus has been on corporate income tax, VAT fraud and removing double taxation with a focus on inheritance tax. As a result, some of the counter-measures against harmful competition were removed, with reference to the four basic freedoms of the European Community treaty. By contrast, recent studies by the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD) stress the importance of comprehensive taxation of capital incomes complemented by wealth and inheritance taxes – especially in ageing societies with high and increasing inequality of wealth, as is the case with most EU countries. While EU member states have a strong say in the area of direct taxes in the EU, the Treaty calls for the approximation of laws, regulations or administrative provisions that directly affect the functioning of the EU’s common market.

The social contract in the EU is broken and European citizens expect the EU to take the lead in putting a stop to tax injustice. The EU made considerable progress in the area of corporate taxation and in tackling tax evasion and tax avoidance, although there is still work to be done and key reforms remain unfinished. Now, it is time to demand a new phase in efforts to deal with unfair tax competition in the EU. Therefore, based on the Treaty provisions and the new evidence of the harmful and distortionary effects of tax competition, the European Commission should:

1. Prepare a report with reliable data on beneficiaries, costs – including cross border effects – and the legal justification for discrimination against local residents;
2. Develop an EU action plan against double non-taxation and tax avoidance in the field of personal income tax as well as international countermeasures comparable to those in the field of corporate taxation (Base Erosion and Profit Shifting (BEPS));
3. Facilitate a framework for national countermeasures that effectively target those that avoid tax without creating unnecessary burdens for those who depend on European mobility for their job or family;
4. Continue its efforts to **fight tax evasion** and money laundering to enable fairer tax systems and systematically monitor the development of (tax) competition within the EU and beyond.

In today’s Europe, these efforts are crucial if we are to safeguard the achievements of the last hundred years, to progress towards more egalitarian and democratic societies and to ensure the social cohesion that is needed to counter the rise of populism.

Introduction – what this study is about

On 15th of June 2018, Cristiano Ronaldo became the oldest player to score a World Cup hat trick in what observers describe as “one of the most entertaining World Cup matches in recent memory”. His football skills earned him the order of merit and knight award in his native Portugal, several prizes for the world’s best footballer and the man of the match award that night. His huge fan base makes him one of the most marketable individuals in the world and the world’s third best paid athlete with an estimated income of more than \$100 million per year. On the same day of the match against Spain, Spanish tax agents informed the press that Ronaldo’s lawyers had accepted a deal ending an investigation of tax evasion against him and his advisors. Between 2011 and 2014 he had allegedly used a company in the British Virgin Islands to hide his income from sponsors and evade €14.7 million of tax. According to the deal, Ronaldo would pay €18.8 million, consisting of tax repayments reduced to €5.7 million as well as interest and fines and receive a suspended prison sentence of nearly two years – just low enough for him to avoid going to jail.

Ronaldo’s case in Spain is just one of many examples of the super rich hiding their wealth and income and illegally evading tax. The reason why this study starts with Ronaldo is that he is not only one of the most prominent tax evaders, but his career - by chance or on purpose - is also a uniquely timed hat trick of legal tax avoidance, combining three of the most beneficial tax schemes for rich foreigners in Europe. In 2003, at the age of 18, he came to the UK where foreign residents do not pay tax on foreign-sourced income. In 2009, he moved to Spain a few years after a similar rule was introduced there and before the rules were tightened in 2012 and 2015. Finally, his third and most likely last transfer of his professional career took him to Italy in 2018, just a few months after it had introduced a lump sum «substitute tax» of €100,000 on foreign income for new residents.

Previous studies by the Greens/European Freedom Alliance (EFA) have demonstrated the corrosive effects of tax competition between EU member states and profit shifting carried out by big multinationals like Ikea, BASF and Zara/Inditex in an effort to minimise their corporate income tax payments. This focus on corporate income tax makes sense because its loopholes often benefit the few – usually very rich – owners of these companies at the cost of society as a whole. Mr. Ortega, for example, who owns the majority of Inditex and the family of Mr. Kamprad, the founder of Ikea, are among the richest Europeans, and even Ronaldo’s income from his sponsors benefitted from the 0% corporate income tax in the British Virgin Islands. However, this is just half of the story and the other half is too often overlooked. Corporate profits ultimately become personal income either through high salaries for the managers or as dividends or capital gains for the owners. The taxation of personal income is, therefore, the less visible and arguably more complicated but more important element for equitable taxation and a healthier society.

Before looking at the evidence and the harmful effects of tax competition on personal income tax in the EU, the following three paragraphs provide necessary background information on the rich in the EU, the composition of their income and the basic characteristics of personal income tax systems. Names and individual examples are used for illustrative purposes.

WHO ARE THE RICH?

Dividing the population into percentiles and looking at the income or the wealth of the top 1% is the most common approach to define “the rich”. The EU has roughly 400 million adults aged 20 years or above living in 220 million households. According to Eurostat, to belong to the richest 1% - 4 million people in 2.2 million households - means having a disposable (after tax) household income of €60,662 per year. While the differences between EU member states are significant - ranging from €8,435 in Romania to €127,941 in Luxembourg (see Annex 1) – the main group characteristics are most likely comparable.

The majority (and less affluent part) of the top 1% are usually made up of well-paid directors, bankers, lawyers, doctors or other self-employed professionals that could very well be your neighbours. Looking more closely at the 0.1% (the

richest 400,000 adults) or the 0.01% (the richest 40,000 adults) the amount and composition of income and even more of wealth changes radically.

At this level, comparable statistical data is no longer available for the whole of the EU. But the example of France shows that distribution of income becomes increasingly skewed at the top and that wealth is distributed even more unequally.¹ Among the top 0.001% - the 500 richest adults in France – there are highly paid athletes, stars and the managers of the biggest companies who earn salaries of more than €7.5 million, like Neymar Jr. and David Guetta as well as the CEOs of Sanofi, Renault or Dassault Systèmes. But more importantly, this group of the 0.001% with the highest income also includes the owners of big companies and other wealth such as the French investor and owner of LVMH, Bertrand Arnoult, or the heiress of L’Oréal, Françoise Bettencourt Meyer.

TABLE 1 Distribution of income and wealth in France, 2014

	Number of adults	Income threshold ¹	Average income	Income share	Average wealth	Wealth share
Total population	51,721,510	0	34,580	100%	199,807	100%
Top 10%	5,172,151	58,080	112,930	32.7%	1,104,460	55.3%
Top 1%	517,215	167,120	374,200	10.8%	4,671,251	23.4%
Top 0.1%	51,722	563,800	1,286,100	3.7%	16,392,692	8.2%
Top 0.01%	5,172	2,072,730	4,550,250	1.3%	55,338,436	2.8%
Top 0.001%	517	7,554,110	14,424,800	0.4%	182,547,296	0.9%

Source: Garbinti, Goupille-Lebret, Piketty, 2018²

¹ In some instances, e.g. France, they stem from obligations related to spectrum licenses.

HOW DO THE VERY RICH EARN THEIR MONEY?

Famous footballers and the owners of successful companies both have high levels of income but the composition of their income is very different. Broadly speaking, there are two kinds of income – income from work, including salaries and pensions, on the one hand and income from capital, including interest and dividends as well as gains in value on investments, on the other. They are both subject to personal income taxation but are often taxed according to different rules and even at different tax rates.

Jeff Bezos, the founder, major shareholder and CEO of Amazon as well as the wealthiest person on the planet and Cristiano Ronaldo are extreme examples of differing compositions of income. Nearly all of Jeff Bezos's wealth of \$157.4 billion is made up of the 16% of Amazon that he owns. According to Amazon's accounts, Mr. Bezos receives a salary of \$81,840 per year for his contributions as CEO and chairman of the board. As Amazon has so far not paid any cash dividends to its shareholders, Mr. Bezos's income is most likely mainly made up of selling his Amazon shares. According to [SEC \(US Securities and Exchange Commission\) filings](#) he has so far sold around 8,000 shares in 2018 for around \$15 million after selling about two million shares at a total price of approximately \$2.04 billion in 2017. By contrast, Cristiano Ronaldo has not made it

into the list of billionaires. A voluntary [declaration of his foreign assets](#) to the Spanish tax authorities that was made public at the beginning of 2016 contained assets worth €203 million. These assets consisted mainly of stocks and investment funds, yielding an income of 'only' €5.5 million per year according to a very rough extrapolation from the individual assets published. More importantly, [the press](#) speculates on his salary whenever one of his transfers or contract extensions takes place and put his income from his new Italian club, Juventus, at around €30 million (after tax), slightly below his previous salary at Real Madrid. On top of that, Ronaldo earns income from sponsorship contracts, personalised products and even a restaurant chain that is due to open soon. According to material from the football leaks, more than 18 million documents provided to the press apparently by a Portuguese whistleblower in early 2016, his hidden income amounted to €74.8 million between 2009 and 2014 and Forbes estimates his total pre-tax income at \$108 million (€92 million)².

While the examples show that even among the small group of people with very high incomes there are considerable differences from individual to individual, data from France (2012) and the US (2014) show that there is a clear trend. The richer a person is, the greater the prominence of capital income, and in particular, of capital gains, in the increase in value of investments.

TABLE 2 Types of income and their share of total annual income in France and the US, 2014

	Ronaldo (2016)	France top 1-0.1%	France top 0.1-0.01%	France top 0.01%	US top 0.001% ³	Bezos (2017)
Salary, wages, pensions	78%	56.3%	38.9	21.3%	8%	0.004%
Self-employment	15%	22.2%	19.7%	9.1%	14%	0%
Interest, dividends, real estate	8%	18.9%	31.1%	33.3%	18%	8.81%
Capital gains	-1%	2.6%	10.3%	36.3	61%	91.19% ³

Source: Garbinti, Goupille-Lebret, Piketty, 2018 and own calculations (see [Annex 2](#) and online Annex for details)

HOW DOES TAX COMPETITION ON PERSONAL INCOME WORK?

Harmful tax competition and the so-called 'race to the bottom' has been well documented for corporate income tax. Companies shift their profits and, in much rarer cases, also their activities and headquarters, to countries with lower taxes and countries outbid each other with ever lower tax rates and more generous rules to attract them, collectively eroding the ability of these countries to ensure that taxation is equitable. Tax competition on personal income has the same effect but works in a different way. To understand the difference, it is necessary to understand who has the right to tax whom. From the perspective of the asset (i.e., a house) tax can be imposed at the source of the income (i.e., where the house is located) or at the destination (i.e., where the owner of the house is located) or both. From the country perspective, there can be different interpretations of who is liable for tax there (citizens, residents, visitors) and which income is taxed (worldwide income or income earned in the territory).

Corporate income is usually taxed at the level of subsidiaries by the country where this subsidiary is resident and based on all profits booked there. Given that corporations usually consist of large numbers of subsidiaries in different territories, it is enough to shift assets (such as Apple's intellectual property), and with them profits to a subsidiary claiming tax residence in a low-tax jurisdiction to avoid tax. This shifting is often literally done with the stroke of a pen under the contract of mutually dependent subsidiaries of the same corporation.

By contrast, most individual taxpayers pay tax on their worldwide income in the country where they are resident³. Usually, tax residence is defined as the place where a person spends the greater part of the year (more than 183 days) and, as individuals, unlike corporations, can only be in one place at a

time, there is only one residence. However, things are a bit more complicated than that. Countries have many [different definitions](#) of residence for tax purposes and decide to tax some sorts of income such as salaries or rents at the source – irrespectively of where the person earning them is resident. This gives rise to conflicting claims to the right of taxation, which are dealt with in a complex network of 352 bilateral agreements – called the Double Tax Agreements (DTAs). Based on the [OECD model](#) for these agreements, most of them contain a so-called [tie-breaker clause](#) that determines where an individual should be counted as tax resident in case the national laws come to conflicting results. According to this clause, residence should be determined as:

1. The permanent home (and if there are two or none),
2. The centre of vital interests, meaning closer personal and economic relations (and if this cannot be determined),
3. The habitual abode, meaning the place where he or she spends the most time (and if there are two or none),
4. The citizenship (and if he or she has two or none),
5. To be decided by mutual agreement.

There are basically two options to avoid high taxes in this set-up of residence-based taxation of worldwide income. The first is to receive income from a country that does not tax it at the source and illegally hide it in a secret bank account that the tax agencies in the country of residence do not know about. Indeed, a detailed evaluation of the 2007 leak of bank account information belonging to 520 clients from Denmark, Sweden and Norway at the Swiss branch of HSBC showed that 90 to 95% of the accounts there were not declared to tax authorities and that the richest 0.01% owned 55.3% of the hidden wealth while owning less than 5% of non-hidden wealth. On average, they were hiding

² This figure dates back to 5th June 2018, i.e. before the contract with Juventus was signed and is based on a salary of \$61 million. In an article dated 10th July 2018 (after the Juventus transfer), Forbes uses a different number for his gross salary at Real Madrid (\$66 million) and estimates the new gross salary at Juventus as amounting to \$64 million, applying Italian's top tax rate to the estimated net salary of \$35 million.

³ Exceptions are the US and Eritrea. Until the latest tax reform in 2017, US companies were taxed on their worldwide profits (at least in theory), and the US still maintains the right to tax the income of everyone who owns a US passport no matter where the individual lives and whether the individual has other citizenships or not.

40% of their wealth just in this one bank (HSBC) of one tax haven (Switzerland).⁴ To fight this sort of tax evasion, the EU has adopted the Savings Tax Directive, which introduced a requirement for the automatic exchange of information as from 2005. It did, however, only apply to a very narrowly defined class of savings accounts, which made it easy to avoid for the rich. The EU Directive was replaced by a more comprehensive information exchange starting in more than 100 countries in 2017 or 2018. This new information exchange has led to a wave of newly reported financial accounts and voluntary disclosures. Even if several loopholes remain and anonymous accounts continue to be offered⁴, the additional pressure will most likely increase the pressure for the second option.

The second option for individuals to avoid high taxes is to acquire a new tax residence. This very often – but, as the examples in the next chapter show, not always – means moving to a country with lower taxation and leaving home. Again, Cristiano Ronaldo apparently demonstrated how to play with the residence rules. He was introduced by Real Madrid on 6th July 2009 (with only 177 days remaining that year) and quit the UK on 26th of June the same year for a holiday (with only 179 days of residence there). As he spent less than half a year (or 183 days) in any of the two countries, this might mean that he avoided residence in both. While the standard argument says that moving to another country to change tax residence is too cumbersome to happen regularly, some tax avoidance advisors see a “coming era of ‘relocation’ tax planning”.

For those who shy away both from illegal tax evasion and relocation, tax consultants might find slightly more subtle ways of reducing the personal tax rate – they might for example advise you to open a company and pay out a salary to yourself in a country where this triggers very low taxation and that has a double tax agreement with your home country that exempts such salary payments abroad from taxation at home.⁴

WHO EXPLOITS COMPETITIVE TAX RATES?

The mainlanders who have relocated are not quite Forbes-list billionaires, who have access to more complex tax strategies than leaving town. They belong to the middle class of the ultra-rich. GQ Magazine, 2018 (on a special tax scheme for US citizens in Puerto Rico)

To find evidence about the number and background of people who exploit special tax schemes and who change their home and/or tax residence to benefit from lower taxes is difficult because there is very little data about tax residences and the rich. The available data shows that more than 160,000 people are currently benefitting from special schemes within the EU (see Table 3 below) but it is not even possible to say how many of them are EU nationals. One of the most recent and striking examples is the UK’s richest man, Sir Jim Ratcliffe, who is a Brexiteer, and two more shareholders of Ineos, a Swiss-based chemical company from the UK, who recently announced that they were moving to Monaco to save up to £4 billion in tax. In fact, according to a recent news report almost a third of Britain’s billionaires had changed tax residence to a low tax domicile and the British tax administration estimated that the UK loses £1 billion per year to Monaco only.

Official data on population and migration does not look at tax residence. The EU monitors usual residence and citizenship⁵ and found that, up until 2017, between 1.4% (France) and 15.8% (Romania) of the citizens had left their home country to live in another EU member state. Data from the OECD and the World Bank track residents by their place of birth, education and employment status. It shows that mobility increased with the level of education. The share of people who were born in the EU and migrated within the EU was 4.4% for those with tertiary education and 3.4% for those with primary education. A study on the mobility of high income foreign employees in Denmark showed that they are sensitive to tax and that the tax-maximising

rate would be at 35%, which is significantly below the top personal income tax rate.

Similarly, anecdotal evidence indicates that the very rich are becoming increasingly international and plans to introduce higher taxes on income and especially on capital income or wealth can be relied on to trigger threats of the rich leaving the country. A good and recent example is the French 75% tax on incomes above €1 million introduced by François Hollande in 2012 when he was France’s President. Newspapers subsequently reported about famous tax exiles such as Gérard Depardieu or Bernard Arnault. They also cited estimates that more than 42,000 millionaires had left France since 2000. By contrast, academic studies using tax data to measure the effects of local tax reforms – for example in a US state or Spanish regions – find little mobility of millionaires. The IMF mostly confirmed this finding for the top 1% and the top 5% in 17 OECD countries.

The estimates cited in the French case were based on numbers regularly published by New World Wealth, a South African-based market research group. However, the data used is not transparent and largely drawn from a private database of 150,000 millionaires fed by interviews, newspaper reports and publicly available statistics. According to New World Wealth, the only European country that features in the worldwide top 20 with respect to wealth growth in the last ten years was Malta (+95%) – driven by migration of wealthy people – while the list of worst performers is dominated by high tax European countries including Greece (-37%), Italy (-19%), France (-11%) or Denmark (-9%). With regard to migration of millionaires in 2017, France and the UK are among the top five countries with a net outflow of 4,000 each, while Cyprus, Luxembourg, Malta, Portugal and Spain each had a net inflow of between 100 and 1,000 millionaires. Except for Luxembourg, all of them have special tax schemes for foreign tax residents.



⁴ NoMoreTax, for example, describes a scheme called “salary split” for a Belgian taxpayer using Bulgaria.

⁵ Data on the number of EU citizens living in Malta and Cyprus is missing.

Citizenship and residence by investment

Several European countries offer passports or residence permits in exchange for investments in real estate or other national assets, granting the beneficiaries free travel within the EU usually without the requirement to actually live in the chosen country – so-called ‘Golden Visas’. According to a survey for the [2018 Knight Frank wealth report](#), 20% of very wealthy Europeans are considering whether or not to obtain a second nationality, 19% are considering whether or not to emigrate permanently. As a consequence, these schemes have recently received a lot of attention. The [Tax Justice Network](#) flagged countries that combine beneficial personal income tax regimes with residence schemes for their potential to circumvent the common reporting standard on exchange of account information. [Transparency International](#) and the [European Parliament Research Service](#) published studies that added the risks of insufficient background checks and social injustices of these schemes. Finally, the [OECD](#) published a blacklist of residence schemes with low residence requirements and high tax benefits to be used for enhanced due diligence of banks as part of the common reporting standard, including Cyprus and Malta but excluding other EU countries with very similar features (e.g. Portugal).

This study adds four new crucial insights on these schemes: (1) In theory these schemes do not matter for tax as tax residence should usually be determined independently of citizenship and second residences. If individuals and banks fraudulently circumvent the common reporting standard, the focus should not be on the schemes *per se* but on a functioning cross-European oversight and exchange of information on tax residence between member states (2) These schemes are much less interesting for EU citizens as any EU citizens can freely buy houses and obtain residence in any EU country (3) Residence schemes in combination with beneficial tax regimes are more widespread than previously described and the study looks at additional schemes, additional details and additional numbers not previously identified (4) Finally, the study connects the discussion of these special tax regimes with tax competition around personal income tax leading to lower tax rates on capital income.

“ [T]he rich of today are also different from the rich of yesterday. Perhaps most noteworthy, they are becoming a transglobal community of peers who have more in common with one another than with their countrymen back home. Whether they maintain primary residences in New York or Hong Kong, Moscow or Mumbai, today’s super-rich are increasingly a nation unto themselves. [The Atlantic.](#)”



Special schemes for the rich and mobile

Special tax schemes for the rich and mobile are spreading in the EU and beyond, granting more and more generous exemptions on domestic and foreign income from salaries and even more so from capital. But so far there is very little data to estimate their harmful effects.

Historical roots in the British empire

The UK was one of the first countries in the world to introduce a personal income tax in 1799 to finance the wars against Napoleon. The respective law had at least two essential flaws that remain to this day – first, the exemption from capital gains that was abolished in the UK in 1965 after many of its colonies had copied it, and, second, the non-taxation of foreign possessions (and income from it) for people resident but not domiciled there. Throughout its evolution in case law, domicile has roughly been interpreted as the residence of the parents at birth (domicile of origin) or the place chosen with the intention to live there permanently (domicile of choice). This distinction and the related special tax schemes for people without a domicile in a particular country (so called 'non-doms') make it possible for the beneficiary to live in the UK, Ireland or Malta – the three European countries that apply this distinction – often for very long periods of time whilst paying taxes only on the income earned or transferred there. Anyone who keeps his or her investments neatly separated in Jersey or the British Virgin Islands whilst living a comfortable life in London or in the pleasant climate of Malta can thus make huge profits without paying any tax there or in any other place.

Special tax schemes helping to rebuild the Netherlands and Belgium after World War II

In the aftermath of the destruction wreaked by World War II, the Netherlands and Belgium were actively competing for foreign investors and

resorted to using tax incentives for highly skilled foreign employees to increase their attractiveness. Starting from individual rulings with investors, these schemes have become generalized in both countries over time. They now include tax-free allowances exempting about one third of salaries from income tax as well as the possibility for the beneficiaries to claim the status of non-resident for tax purposes while still living and working there. These options are available practically indefinitely in the case of Belgium and have been recently limited to being available for a period of eight years in the Netherlands. Similar to the 'non-dom' regimes in the UK, Ireland, and Malta, this allows the beneficiaries in Belgium and the Netherlands to exclude their income from foreign savings and investments from taxation. In Belgium, this even includes the foreign-source labour income.

Attracting the highly-skilled and highly-paid football players: a new wave of special tax schemes

In the 1990s, high-tax Denmark, Finland, Italy and Sweden started attracting foreign, high-skilled employees with tax incentives but with a much shorter validity of the benefits and taxing foreign-source income at the high local rates – if it was declared properly. When France introduced its special scheme for expatriates seconded to France in 2004, it was merely a tax-free allowance similar to that initially applied in the Netherlands or Sweden but France extended it to include a 50% rebate for the tax on foreign-source capital income in 2008 (still charging social security though) and included French people who had returned to live in France. With Real Madrid competing with Manchester United and other British clubs for the best paid footballers in Europe, Spain introduced its scheme for highly-skilled expatriates. It combines the reduction of tax on local employment income available in Denmark and Finland with the

full exclusion from tax of income not earned in or remitted to Spain, which is comparable to the 'non-dom' regime available in the UK. The selected duration of six years was just long enough for a station in a football career in Spain. The fact that David Beckham – at the time the best paid athlete in the world – was one of the first to profit from the scheme created public outcry and led Spain first to introduce a ceiling of €600,000 in 2010 and then to exclude athletes altogether in 2015 (while extending the scheme for expatriate managers).

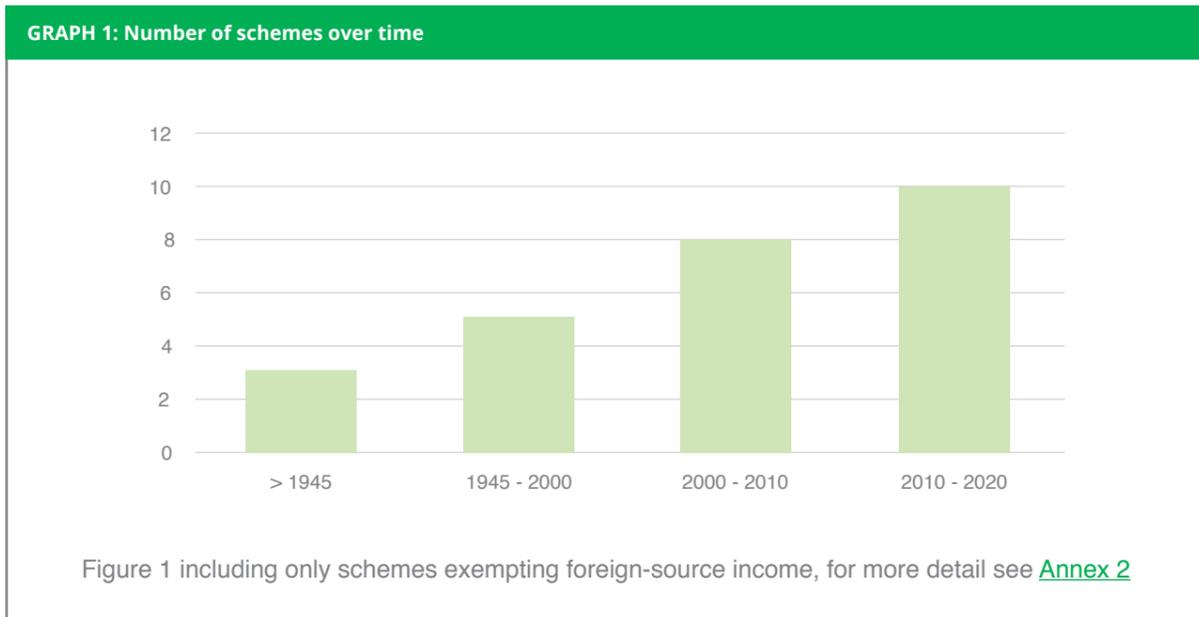
More and more aggressive: Portugal, Malta, Italy and Cyprus competing for the most attractive scheme

The Portuguese scheme introduced in 2009 was similar to the Spanish in its basic design – with a tax reduction for local employment income and the exclusion of foreign-source income – but had two main differences. First, athletes and footballers were not allowed to benefit from the reduced tax rates on local employment from the outset but can, to this day, benefit from the exclusion from taxation of their foreign-source income as long as it does not come from a tax haven or a country that has no right to tax it⁶. Second, and new in the EU, buying or renting a house in Portugal was enough to become tax resident and obtain the special tax privileges as a non-habitual resident – an idea that was duly optimised in the Maltese residence for investment schemes. Applications for the Portuguese scheme took off after 2012 when it was confirmed that foreign pensions were also excluded from tax and some very well paid retirees from Finland and Sweden caused diplomatic tensions, although they were not the biggest group of beneficiaries at the time.

Challenges to the UK's 'non-dom' regime and Brexit-induced competition

In the meantime, several scandals in the UK prompted the UK Government to restrict its scheme. Those scandals included the heir of the Swedish inventor of Tetra Pak, who was living in his UK castle, paying very little tax, members of the House of Lords claiming 'non-dom' status and a British employee of HSBC claiming only a temporary relocation after more than ten years living and working in London and despite becoming the bank's CEO. As a reaction, the UK introduced a minimum tax, forced members of parliament to be domiciled in the UK and most recently introduced the concept of deemed domicile. The new concept of deemed domicile declares that anyone who has been resident in the UK in 15 out of 20 years is fully liable to UK tax. The British restrictions and the approach of Brexit might have prompted Cyprus to create arguably the most beneficial scheme for the very rich and mobile with high capital incomes – with virtually no tax and minimal payments even for remitted income combined with a short residence requirement of only two months. Cyprus's approach makes even the new Italian scheme, with its lump sum payment of €100,000, look unattractive unless that is a cost you are ready to pay for the Italian *dolce vita* (a lifestyle based on enjoying life to the full), or there is a football club willing to pay astronomical salaries until your retirement.

⁶ The Portuguese tax haven list includes 81 territories, mainly small island states but also countries like Panama, United Arab Emirates, Liechtenstein, Lebanon (see: [Portaria n.150/2004, February 13](#))



To this day, data are still missing

Throughout this competition for the highly-skilled as well as the rich and mobile, there is one constant – the lack of reliable data to judge its effects both within the countries introducing the schemes and externally. When the German Parliament raised the issue in 2018, the [German Government provided](#) a short profile for each scheme within the EU but no data on either beneficiaries or the costs of the scheme. To our knowledge, this study is the first attempt to collate the existing information. The UK and the Netherlands have recently published detailed statistics about the number and backgrounds of its tax expatriates that seem to put them at the top of the competition with about 55,000 each. For the other countries there are only very sporadic and partly outdated figures from parliamentary debates, press reports or other public sources. While Ireland provided data for this study, Maltese authorities stated that they did not have the information “readily available”.

TABLE 3 Number of beneficiaries

Country	Beneficiaries
Netherlands	56,431
United Kingdom	54,700
Belgium	17,683 ⁷
France	11,070
Portugal	10,684
Ireland ('non-dom')	7,262
Spain	1,960
Italy (new)	160
Malta	No data
Cyprus	No data
>160,000	

Comment: For more details see [Annex 2](#)

Official estimates put the cost of the tax schemes at €1 billion (Belgium), €775 million (Netherlands) and €433 million (Portugal) per year but none of these figures contains any information on the revenue forgone due to the exemption of foreign-source income. Most likely, the respective tax agencies do not even have the necessary data to make an estimate because reporting of foreign assets is not required in most cases. One press article quoting Finnish sources puts the costs of untaxed Finnish pensions transferred to Portugal at €6 million per year – which most likely is not even the tip of the iceberg.

Given all of the above, the – voluntary – declaration of Ronaldo in 2016 and the results of the court case against him might very well remain the best existing sources to have an idea of the costs even if there is still too much information missing to make a reliable estimate. €150 million of dividends paid out of profits from the British Virgin Islands from selling his image rights possibly taxed at 0%

and transferred free of withholding tax to the Swiss bank account would amount to €63 million at the Spanish rate of 42%. His income from capital gains, dividends and interest - roughly estimated at €4.3 million, based on the portfolio reported in the news in 2016 - would amount to another €1 million of tax annually at the Spanish rate of 23%. The actual amount of taxes paid does, however, depend on a complex web of tax treaties and withholding taxes in the places of his investments. What seems very likely is that only a small part of his income was uncovered in the Spanish court case and the Italian lump sum of €100,000 looks more attractive than expected from this perspective.

For the following country profiles we have only selected those special regimes that grant extensive exemptions for foreign income and have excluded those that merely provide allowances for relocation expenses or a temporarily reduced income tax on a local salary because the latter are arguably less harmful for international tax competition.

⁷ This number was produced by the Belgian court of auditors in 2003. A request concerning the current status of the Belgian scheme and the current number of beneficiaries was not answered by the Belgian Government.

THE UNITED KINGDOM



The scheme

- ✓ Non-dom/remittance basis
- ✓ Since 1799

Beneficiaries

- ✓ 54,700 in 2015/2016
- ✓ Billionaires, sports stars, etc.

The UK Prime Minister and Chancellor of the Exchequer William Pitt the Younger oversaw the invention of the 'non-dom' tax scheme as long ago as 1799. The exclusion of foreign possessions in the calculation of tax liabilities for residents who are not domiciled in the UK has survived with minor changes until today. In simple terms, anyone who was not born to British-domiciled parents or has managed to convince the British courts that all ties to the UK were broken with the unlimited intention to settle somewhere else (non-domiciled) can live in the UK (resident). Those taxpayers not domiciled but resident can choose to pay no tax on income from outside the UK as long as it is not sent to, received or used in the UK (remitted). In this case, only income from employment, business or investments in the UK is taxed at the standard rates applicable there and - unlike for the normal resident in the UK - the rest of the worldwide income remains untaxed in the UK.

Among the reported British non-doms were sports stars like Andre Agassi, Lewis Hamilton and most likely Cristiano Ronaldo, business people like Lakshmi Mittal or Stuart Gulliver and even political figures from whom one would expect deep attachment to their dominion such as Lord Paul and Lord Ashcroft (House of Lords) or Mark Carney (Governor of the Bank of England). Of the ten wealthiest families living in the UK, only two and a half were born there. In 2002, a long article

by the Guardian newspaper painted a picture of Hans Rausing, a Swedish heir of Tetra Pak and at the time the richest man in the UK. He had lived in a palace in Sussex for more than 20 years but managed to avoid taxes on several billion pounds of gains and investment returns that he made from selling his shares in Tetra Pak thanks to his status as a 'non-dom'. The article goes on to show that, through offshore companies and trusts, he managed to remit any amount of capital tax-free and would only pay tax on those remittances that he deliberately dedicate to taxation for fairness reasons. One year later, Stuart Gulliver came back to the UK, where he was born, raised and educated, after working for HSBC in the Middle East and Hong Kong. However, despite continuing to live and work in London from 2003 to 2018, and despite becoming CEO of HSBC in the UK, he decided that Hong Kong would remain his domicile of choice. In 2016, According to court documents, he argued that the British tax agency had no right to review his domicile after having approved his Hong Kong domicile of choice on his arrival based on him saying that he was coming for a temporary placement of two years.

Despite cases like this, the UK has only very reluctantly restricted its 'non-dom' benefits, including the following changes:

- **2008** - Introduction of a minimum charge of £30,000 on foreign income for those persons resident in the UK for more than seven out of nine years;
- **2010** - Requiring members of parliament to be domiciled in the UK;
- **2012** - Introduction of another minimum charge of £50,000 for residents of more than 12 out of 14 years. Introduction of the possibility to invest foreign income tax-free in the UK via Business Investment Relief;
- **2013** - Introduction of a new statutory residence test extending the criteria for qualification as a UK resident for tax purposes;

- **2015** - Introduction of a new charge of £90,000 for those residing in the UK for more than 17 out of 20 years.
- **2017** - Introduction of deemed domicile for taxpayers with British domicile of origin living in the UK and taxpayers having lived in the UK for more than 15 out of the last 20 years. This was combined with generous transition rules allowing for the revaluation of assets and booking of all the gains before becoming liable to UK capital gains tax (rebasings). Moreover, additional rules allowed the tax-free separation of offshore assets that become liable to tax from those that do not (cleansing of mixed funds) while keeping exemptions for assets put into offshore trusts before 2017.

The UK published statistics on the number of tax payers and their UK tax payments of non-domiciled UK residents for the first time in 2017. There were a total of 54,700 beneficiaries of the scheme for the tax year 2015/16, up from 48,500 for the tax year 2008/09. They were largely living in London (35,800), resident in the UK for less than seven years (50,400) and paid a total of £6.98 billion of contributions in the UK. The statistics neither contain information on the income earned or remitted to the UK nor information on the volume of unremitted foreign income and wealth. Combining the reported tax and contributions with the British top tax rates yields a total UK income of roughly £120 billion and an average of £290,000.

TABLE 4 Number, income and tax payments of UK 'non-doms'

Time of residence	Tax payers	Tax and contributions		Extrapolated UK income	
		Total	Average	Total	Average
Less than 7 years	50,400	6,982,000,000	138,532	83,279,365,079	165,237
7 to 11 years	1,300	527,000,000	405,385	9,250,000,000	711,538
12 to 16 years	900	458,000,000	508,889	8,557,142,857	950,794
17 years or more	2,100	1,119,000,000	532,857	18,726,984,127	891,761
Total	54,700	9,086,000,000	166,106	119,813,492,063	219,037

Source: HMRC, 2018 and own calculations

IRELAND



The scheme

- ✓ Non-dom/remittance basis
- ✓ Inherited from the UK
- ✓ Special: failed domicile levy for non-resident Irish

Beneficiaries

- ✓ 7,262 (2016), growing

"Ireland offers a potential solution to UK 'non-doms' [...] Moreover Ireland boasts superb infrastructure, air connections, a first class education system and a mature residential property market, all of which are important considerations for someone basing themselves in Ireland." [Maples and Calder](#), international law firm

Ireland's Income Tax Act of 1967 contains a [clause](#) (76 (2)) on remittance- basis taxation for non-domiciled tax residents using the concept of foreign securities and possessions inherited from the UK. Ireland has slightly restricted its scheme by excluding income from foreign employment received or performed in Ireland (2006), by excluding non-resident Irish citizens and later non-resident Irish domiciles as well as by charging a [rather unsuccessful domicile levy](#) on them (2010). The Irish Government also closed a loophole that allowed the tax-free [remittance](#) of foreign income through loans or gifts to spouses and civil partners (2013). On the other hand, Ireland extended the kinds of income sourced in the UK falling within the scope of the remittance basis (2008) and promotes itself as an alternative to the UK without the complicated residence test applicable there. Ordinary [tax residence](#) in Ireland is acquired after

three years of physical residence - staying in Ireland for either 183 days per year or 280 days over two years - and can be kept for three years after leaving. As in the UK, [domicile](#) is not defined in tax law but is generally acquired at birth (usually it is the domicile of the father) and kept until an individual chooses to move to another country with the intention of staying there permanently. Also similar to the UK, capital acquired before becoming an Irish tax resident or income already taxed abroad can be [remitted](#) free of tax to Ireland.

In 2006, there were [3,998 taxpayers and their spouses](#) claiming remittance basis in Ireland and their [tax liability](#) was estimated to be €77 million in 2010, with no one paying income tax above €1 million. Asked in the Irish Parliament whether he was considering abolishing the non-domicile regime, the acting finance minister at that time, Michael Noonan, [answered](#) "[t]here can be many valid reasons why a person resident in Ireland would not be domiciled here and avail of the remittance basis" and otherwise avoided the question. By 2016 – the last year with available data – the number had increased to 7,262 tax units (taxpayers and spouses) of whom only a small minority declared remitted income of €100,000-500,000 (447) or above €500,000 (56 tax units)⁸. Whether this trend has continued or even accelerated following Brexit remains to be seen.

The Special Assignee Relief Programme (SARP)

Another attempt to attract well-paid foreigners and multinational corporations to Ireland was the special assignee relief program (SARP) introduced in 2012 and extended until 2020. It is available for employees that fulfill specific criteria. First of all, they must be sent by a company incorporated in a country with which Ireland has a double tax treaty or an information exchange agreement. Second, they must have been sent to work in Ireland for at least six months, earning a minimum gross salary of €75,000. Third, the tax exemptions only apply if the employees have not been tax residents in Ireland for the last five years.

MALTA



The scheme

- ✓ Non-dom/remittance basis
- ✓ Inherited from the UK
- ✓ Special: Residence by investment

Beneficiaries

- ✓ Unknown, scandals around Citizenship by Investment

"So, if the tax changes erode the attractiveness of the UK as a place for non-doms to live, is there a viable alternative and where will this non-dom 'flight of capital' flow to? Malta is consistently ranked as one of the best places in the World to live and offers a high quality Mediterranean lifestyle in a stress-free environment. Malta is a member of the EU and operates a favourable tax regime for individuals and businesses alike." [Finance Malta](#) – a public-private initiative to promote Malta as a financial centre.

Malta's [income tax act](#) of 1949 (4. (1)g) excludes persons not domiciled in Malta from paying tax on all capital gains as well as on income arising outside Malta unless received there. Until 2004, Malta tightened some of its rules in order to enter the European Union. These changes, however, mainly focused on corporate tax and left the exemption for non-domiciled persons largely unchanged. Besides the option of obtaining [ordinary residence](#) by being physically present in Malta for more than 183 days per year, Malta has recently introduced various special tax schemes including for:

- High-net worth individuals ([2011](#))
- Retirees who remit all pensions to Malta and where pensions make up at least 75% of their income ([2012](#))

- Residence Programme ([2014](#))
- UN pensions ([2015](#))

These schemes usually require investment in property (€220,000-400,000) and come with a fee (€2,500-6,000) as well as a minimum tax (€5,000-20,000) with slightly different rules for EU nationals and third country applicants. Potential beneficiaries have to apply through a recognised Maltese agent and pass a fit and proper test regarding any potential criminal record that they might have. They have, however, two significant advantages compared to ordinary residence (which also distinguishes the Maltese from the UK model):

1. Tax on any foreign income remitted to Malta is reduced to 15% (as compared to the normal income tax rate of up to 35%)
2. There is [no requirement](#) to be physically present in Malta for 183 days or more. It is enough to not be physically present in any other country for 183 days or more.

There are also programmes for highly-qualified persons ([2011](#)) and employees in the field of innovation and creativity ([2013](#)) with minimum employment income requirements of initially €75,000 and €45,000 respectively. As with the other special tax schemes, they are open to non-domiciled taxpayers only and waive the taxation of foreign income for three years. Malta also has a controversial citizenship-by-investment programme. There are allegations that individuals from international sanctions' lists and potential criminals and money-launderers passed the fit and proper test. Others refer to fees and payments to registered agents being diverted to the prime minister's chief of staff through a company in the British Virgin Islands and bank accounts at Pilatus bank as well as profits generated by the foreign investments being unaccounted for.⁶

Asked for information on the number of beneficiaries, on 20.11.2018, the Maltese Ministry of Finance stated that they "do not have the information readily available" and stressed that Freedom of Information requests are only available to Malta residents.

⁸ Data provided by the Irish Revenue Commissioners on 06.11.2018. For more details, see the Statistical Annex.

THE NETHERLANDS



The scheme

- ✓ 30%-regeling, koppeling met Artikel 2.6 - buitenlandse belastingplichtige
- ✓ Going back to post-WWII
- ✓ Special: benefitting companies AND/OR their employees

Beneficiaries

- ✓ 56,431 (2015) – highest number
- ✓ Costs of €775 million

With the aim of attracting US companies, the Netherlands individually granted them preferential tax treatment of their expatriate staff after World War II. This practice was first adopted as a general rule at the end of the 1950s and officially announced in a public resolution of 1986. The rule allows the deduction of a flat-percentage allowance from the salary of highly-skilled employees hired or seconded from outside the Netherlands. In 2001, beneficiaries of the scheme were also granted the opportunity to tax their capital, savings and investment income (Box 2 and Box 3) as non-resident – meaning that only Dutch-sourced income would be taxed. In 2012, the scheme was reformed to limit some excesses, including reducing the duration from ten to eight years, further reduced by the years of tax residence in the Netherlands in the 25 years (previously ten years) before applying for the scheme. Furthermore, a minimum salary of €37,000 (€28,125 for graduates under 30 years old) was introduced as a definition of the highly-skilled element. Finally, residents from within 150km of the Dutch border were excluded.

A [review of the scheme in 2016/17](#) found it to be effective and efficient in attracting highly-skilled employees and foreign investors to the Netherlands

but too generous for taxpayers with high income (above €100,000) and too long compared to other comparable schemes. The review found that there were approximately 56,431 beneficiaries in total (of which 15,343 were new in 2015) leading to a €775 million loss of direct income tax revenue. The review also provides detailed information on the beneficiaries:

- Nationality – about one third of them were European, with the majority coming from the UK, France, Germany and increasing numbers of beneficiaries coming from Italy and Spain;
- Duration – only 10% of beneficiaries were using the scheme for more than seven years;
- Occupation – with 25% managers, 40% technical specialists, 20% others and a very high proportion of German university staff, British managers and Indian IT engineers;
- Income – median income being €52,000 and the average €84,000, with 7,500 beneficiaries having an income of €100,000-500,000 and the income of 435 beneficiaries exceeding €500,000, with average salaries highest for staff in holding companies;
- Employers – with beneficiaries spread among 17,162 companies but the majority concentrated in 171 (1% of) companies employing a total of 43% of the beneficiaries.

The review also estimated the real cost of relocation for expats and concluded that the allowance by far exceeds the actual costs for beneficiaries with an income above €100,000. Consequently, with increasing income, beneficiaries reported the growing importance of the scheme for their decision to relocate to the Netherlands. An interesting element not discussed in any of the documents of the other schemes was the distribution of the benefits among employers and employees. According to a survey conducted, employers kept the total amount of the tax benefit using it as a subsidy of labour costs, while in the rest of the cases the benefit was shared between employers and employees. The review did not contain any information on the foreign-source income of the beneficiaries.

BELGIUM



The scheme

- ✓ Régime spécial d'imposition pour les cadres étrangers
- ✓ Special: Based on the administrative decision of 1983

Beneficiaries

- ✓ 17,683 and costs of €1.14 billion (2000)

[Belgium](#) introduced a special tax scheme for foreign executives in 1960 and, in 1983, the Belgian Government introduced an amended tax circular (Ci.RH.624/325.294) with the explicit aim of making Belgium an attractive place for investors. The scheme is available to non-Belgian citizens, who are working as managers or highly-skilled staff and were hired from abroad or seconded to temporarily work in Belgium without having been tax resident there before. The tax circular does not mention the duration of the benefit. The scheme is granted after a successful application and results in the person being treated as non-resident. This means that only Belgian-sourced employment and capital income is taxed. Also, some foreign dividends are subject to Belgian withholding tax if remitted directly to a Belgian bank account and if the respective Double Tax Agreement (DTA) permits such a tax.

In 2003, the Belgian court of auditors concluded that:

- The legality of the scheme was questionable because it is based on an administrative circular instead of a legislative act and violates several residence provisions enacted after the circular;
- The scheme might be considered harmful tax competition by the European Union;
- The controls were insufficient;
- The scheme was too generous in comparison to others and could in some cases lead to quasi-complete tax exemption for an unlimited period;
- The direct costs of the scheme were €1.14 billion for a total of 17,683 beneficiaries in 2000. This calculation only includes lost revenue from foreign-source labour income, excluding foreign-source capital income.⁷

According to a [comparative study](#) by the French administration published in 2016, the Belgian scheme was modified in 2014 and, according to an [HR company from Brussels](#), the status of non-resident with residence in Belgium was abolished by law on 8th of May 2014 (see also tax circular [41/2015](#)). Nevertheless, the EY [Worldwide Tax and Immigration Guide](#) as well as the [German Government](#) continue to list the Belgian scheme in its overview in 2018. A request for clarification as part of this study and a freedom of information request concerning the status and number of beneficiaries of the scheme has not been answered by the Belgian Government.

Belgium also offers non-resident treatment to certain employees of the European institutions, the NATO and diplomatic missions.

FRANCE



The scheme

- ✓ Les impatriés (Art 80ter + 155B, CGI)
- ✓ Special: duty to pay social security in France

Beneficiaries

- ✓ 11,070 (2013)
- ✓ Brexit bankers and Marco Balotelli

When France introduced its special scheme for expatriates seconded to France in 2004, it was merely a tax-free allowance similar to that initially applied in the Netherlands or Sweden exempting certain compensation items related to relocation from tax. In 2008, France extended it to include a 50% rebate for the tax on foreign-source capital income (still charging social security though), extended the list of beneficiaries and included French repatriates. Just in time to attract bankers preparing for Brexit, the 2017 finance bill has further increased the attractiveness of the scheme by extending its application from five to eight years

and by granting exemptions from payroll tax to the employers. Foreign property is also not subject to the wealth tax for the first five years of residence in France.⁹ Talking at a [meeting of international finance in 2017](#) France's Prime Minister announced that France was aiming to make the in-patriate regime the most attractive in Europe to increase the attractiveness of Paris as an alternative to London. At the end of 2018, the French Parliament [adopted](#) further measures to make a return to Paris more attractive for Brexit bankers.

According to a [study](#) by the French General Inspectorate of Finance published in 2016, there were 11,070 beneficiaries in 2013 compared to 7,350 in 2007 at a cost of 135 million euro to the French taxpayer. Marco Balotelli would lose the benefits when [moving from Nice to Marseille](#) because the French scheme is tied to the employer (even though since 2015 not to a specific job there). One [press article](#) estimates that around 3,500 bankers are waiting to return to France following Brexit. A [study of PwC](#) comparing France with Germany (that does not have a special regime) and the Netherlands (that has one) comes to the conclusion that France continues to be less attractive due to the high social security contributions (that are capped in Germany) and the special scheme continues to be much less attractive than those offered in Malta, Cyprus or Italy.

⁹ For a more detailed overview see: <http://www.galahad-legal.com/en/our-publications/inpatriates-tax-regime-after-2017-finance-bill-increasingly-attractive-mechanism>

SPAIN



The scheme

- ✓ Régimen especial aplicable a los trabajadores desplazados a territorio español (IRPF)
- ✓ Combines reduced tax rate and exemption of foreign-source income

Beneficiaries

- ✓ 1.960 in 2007
- ✓ David Beckham and LaLiga

Unlike the UK, Ireland and Malta, Spanish law does not use the concept of domicile. Nevertheless, in 2004, the so-called 'Beckham law' introduced a loophole that could compete at least to some degree with the British remittance basis taxation – just in time for David Beckham, who had relocated from Manchester United (UK) to Real Madrid (Spain) in mid-2003. Under this scheme, taxpayers who had not been resident in Spain for the last ten years and came to work there under an employment contract of a Spanish company could choose to be taxed as non-residents for a total of six years. This meant that their Spanish-source income was taxed at a flat rate of 24% (against a top rate of 44%) while their foreign-source income was not taxed at all in Spain. The scheme was reformed in 2009 due to intense public pressure and with the support of the Federación de Accionistas y Socios del Fútbol Español (FASFE) but was opposed by the Liga de Fútbol Profesional (LFP), who even considered a strike. From the tax year 2010 onwards a ceiling of €600,000 was introduced for salaries that could benefit from the lower flat tax and footballers and other professional athletes were excluded from the scheme altogether in 2015, with generous transition periods for work contracts signed before the changes in both cases. On the other hand, the

changes in 2015 (see [here](#) and [here](#)) weakened the requirements for the employment contract and extended the scheme for managers. Most importantly, the potential damage from not taxing foreign-source income, especially capital income, has not been addressed at all.

According to the Spanish Union of Tax Inspectors (GESTHA) the rule was initially justified by the desire to attract managers and scientists and, with them, the headquarters of multinationals and research institutions but it instead mainly benefited the Spanish football clubs. As salaries for footballers are negotiated on an after-tax basis, GESTHA demonstrates that, based on a net salary of €11.6 million, Spain lost - and Real Madrid saved - tax payments worth €17.5 million for the three years in which David Beckham had been tax resident in Spain (2004-2006) just in this one case. A study by Kleven et al. (2013) estimates that the 'Beckham law' increased the number of [foreign footballers](#) in the Spanish *La Liga* [Spain's top football division] by 50% in comparison to developments in all other major European leagues.⁸

Looking again at Beckham, according to a [news report](#), he earned about €16 million from other sources on top of his salary from Real Madrid. Some of this income most likely came from marketing rights held outside Spain (exempted from tax) and possibly some Spanish real estate or investment (taxable under Spanish wealth tax) in 2004. As beneficiaries of the scheme are not obliged to declare foreign wealth and income there is a high risk of misuse around exemption of foreign-source income, as several recent court cases against footballers, including that of [Cristiano Ronaldo](#), have shown. When a change in wealth tax rules for non-residents effectively abolished most of the tax duties in Madrid and other communities in 2015, the number of taxpayers declaring Spanish assets doubled and the declared amount nearly tripled but there is no information on the share of scheme beneficiaries in this increase. Finally, the [only information](#) on the number of scheme beneficiaries, citing sources from Spain's Ministry of Finance, put the number at 1,960 for 2008, including 43 footballers and 17 managers declaring more than €600,000 of income.

PORTUGAL



The scheme

- ✓ Residentes não habituais
- ✓ Reduced rates on income for highly-skilled, exemption of foreign-source income for all
- ✓ New: residence through ownership of house/rent

Beneficiaries

- ✓ 10,684 (end 2016), cost of €433 million per year (2017)
- ✓ Growing quickly, reportedly thanks to Nordic pensioners

"If you've already been here on holiday, why don't you stay to live? Imagine living in a country where you can find a huge diversity of landscapes and environments in a small area: sandy beaches as far as the eye can see, golden plains and mountains, vibrant and cosmopolitan cities and a millennial heritage." [Living in Portugal](#), official website of the Portuguese Tourist Board and dedicated to residential tourism

Portugal joined the competition for foreigners in 2009 with a [law](#) that was explicitly inspired by Switzerland and the UK. It is available to taxpayers working in fields of high added value who have not been resident in Portugal for the last five years and move to Portugal or buy or rent a house that could be used as a residence. The [special status](#) is available for ten years, offers a flat tax of 20% on Portuguese income (compared to a top tax rate of 48%) and largely excludes foreign income from Portuguese taxation unless it was earned in a tax haven. Unlike in Spain, footballers and athletes were never included in the list of high value added activities and can therefore not benefit from the 20% flat tax. They can, nevertheless, benefit from

the exemption of foreign income. An amendment in 2012 clarified that all pension payments were included and the introduction of a minimum tax was discussed in the budget proposal of 2018 but ultimately rejected.

With a cost of €433 million (2017), the [Portuguese Directorate-General for Budgets](#) estimates the special regime to be the most expensive tax subsidy in Portugal. According to [parliamentary records](#) and official information obtained by journalists, uptake increased significantly after 2013 (1,300 requests), with 3,730 beneficiaries registered by the end of [2014](#) and a total of 10,684 by the end of [2016](#). An audit of the programme by the Portuguese Government in 2015 has [not been published](#) to date. Finland and Sweden contest the scheme due to pensioners from these countries moving to Portugal. After the relocation to Portugal of three retired [Finnish CEOs](#), with pensions estimated to be between €400,000-600,000, was published in 2015, Finland renegotiated its double taxation agreement with Portugal to retain the rights to tax pension payments originating from Finland. Given that Portugal has not yet adopted the new agreement, Finland has unilaterally [cancelled](#) the old one without agreeing on a [new version](#) beginning in January 2019 - a very unusual situation for two EU member states. Finland reportedly estimates the revenue lost from the pension payments to be €6 million per year but referred to the case more as a [matter of principle](#). Sweden has reportedly also raised the issue of untaxed pensions at the EU Economic and Financial Affairs (ECOFIN) Council meeting in February 2017 but is [continuing its negotiations](#) with Portugal in an effort to find a solution. Considering that, at the end of 2014, only 1,068 of the 3,730 beneficiaries were pensioners (by comparison with 957 self-employed individuals benefitting from the 20% flat tax and 1,603 taxpayers benefitting from the exemption of foreign income) the focus of the discussion on pensioners seems misplaced. Questioned about European pressure, Portugal's finance minister, who is the current president of the Eurogroup, answered that criticism in a very concise and terse manner. [According to him](#), Portugal was not the country that benefitted the most and deserved most attention in a very diversified European tax landscape that needed slow and consensual reforms.

ITALY



The scheme

- ✓ Regime opzionale di imposizione sostitutiva per I nuovi residenti
- ✓ Special: lump sum taxation with reporting requirement

Beneficiaries

- ✓ 160 applications mainly from UK (mid-2018)

"With the aim of favouring investments and consumption Italy has also introduced incentives for those who move to Italy regardless of the performance of a specific work activity." [Italian tax agency](#)

Italy has provided tax incentives to highly-qualified foreigners relocating to Italy since 2010 but joined the list of countries with potentially harmful tax competition mainly through the offer of a lump sum tax of €100,000 on foreign income (dubbed 'salva paperoni' or aid package for Scrooge McDuck). [This scheme](#) is available to persons who were not tax resident in Italy for nine out of the last ten years and who become resident in Italy either by living there for more than 183 days per year or by registering in the register of the resident population. Provided that their foreign income is high enough to make a [lump-sum](#) payment of €100,000 look attractive, beneficiaries can benefit from the lump sum payment for a total of 15 years for all foreign income or for income from countries of their choice. The only exemptions are capital gains of certain investments, which are liable to tax during the first five years of relocation.

In the budget law of 2017, the scheme was introduced together with other measures to promote foreign investment in Italy and justified with the argument that it attracted money from the

rich to Italy that was used for the purposes of buying goods and services. Apart from one amendment attempting to make the tax progressive, it faced [little discussion](#) in Italy's Parliament. The [initial proposal](#) contained no details on the expected cost-benefit and the [annual report](#) of tax incentives does not quantify the cost of the scheme. However, according to [preliminary data](#) published in April 2018, Italy had received 160 applications, of which 55 came from the UK, 30 from Switzerland, 23 from France as well as from Belgium, Spain, USA, Germany and Singapore. Cristiano Ronaldo will most likely apply and be admissible to the scheme. In this case, he would have to pay the full amount of tax on his salary from Juventus football club. The scheme could still favour him, because, according to our estimations, more than half of his income would come from foreign-sourced investment and possibly from his sponsorship contracts and would only be taxed at the lump sum amount of €100,000.

Italy also tried to attract foreign investors with a citizenship by investment scheme as well as by increasing tax certainty and responsiveness through guaranteeing [advance tax rulings](#) within 120 days. On the other hand, Italy has extended taxation of its residents that do not benefit from the scheme to include a 0.76% tax on real estate held abroad (2012) and a tax of 0.20% on financial assets held abroad (also 2012).

CYPRUS¹⁰



The scheme

- ✓ Artificial non-dom
- ✓ Special: only two months of physical presence required, very low remittance taxation

Beneficiaries

- ✓ Unknown, famous for cash from Russia, Middle East and Asia

“With a strategic geographical location in the middle of three continents, namely Asia, Europe and Africa, Cyprus is the third largest island in the Mediterranean Sea and the natural gateway to the Middle East. With a size that is big enough to be called cosmopolitan, at the same time, small enough to be regarded as the ideal place to raise a family. An island which enjoys more than 300 days of sunshine yearly, with mild winters and the largest number of blue flag beaches per coastal line in the world! A sovereign European country with a cultural heritage so rich that is lost in the centuries, yet an island that patiently awaits to be explored and re-discovered, offering an unparalleled level of quality of life which is second to none.” KPMG, 2018⁹

Cyprus introduced the concept of **domicile** and exempted non-domiciled tax residents from paying national security contributions in 2015. Cyprus also introduced a **new residence rule** that reduces the required presence to obtain tax residency to two months in 2017. We could not identify reliable information about other requirements for tax

residency but, according to **one source**, they seem to include a local residence (bought or rented), proof of income from non-employment sources exceeding €6,000 per month and/or Cypriot social security contributions of at least €1,258 through a company or a trade registered in Cyprus. Notwithstanding these requirements, the Cypriot scheme combines the following advantages that arguably make it the cheapest and most beneficial scheme throughout Europe:

1. No residence requirement – it is enough to spend 60 days on Cyprus and not more than 183 days in any other country (comparable to Malta);
2. No taxation of remittances or income derived from Cyprus – unlike in the UK, Ireland or Malta, all income, whether remitted or not and derived from Cyprus or not, is free of taxation. The only exemptions are income from Cypriot employment and real estate (special deductions are available) and overseas pensions above €3,420 per month, which are taxed at 5% (lump sum distributions are **not taxed**).
3. No minimum tax or application fees – This criterion possibly reduces the costs of the scheme to expenditure for rent and social security contributions.

In its **European semester report** for 2018, the European Commission criticised Cyprus (together with several other EU countries) for harmful tax practices with regard to corporate taxation. Concerning personal income tax, it merely praises the positive contribution of citizenship schemes linked to real estate investment but seems to refer mainly to the inflow of cash from Russia, Asia and the Middle East¹⁰. One **unverifiable source** notes that the special tax regime was restricted, due to high demand, in July 2018.

OTHER COUNTRIES COMPETING FOR HIGHLY-QUALIFIED EMPLOYEES

Apart from the schemes outlined in the previous chapters that grant broad exemptions for foreign income, other EU countries provide similar schemes with more narrowly defined tax benefits targeted at highly-qualified employees. Ireland, Italy and Malta have special tax schemes for highly-qualified employees in addition to, and partly pre-dating the other special tax schemes. Although the special tax schemes in Portugal and Spain provide more general exemptions, they were originally meant to target highly-qualified employees.

Apart from the countries mentioned above:

- Three countries grant tax-free allowances for expats as a flat share of the income ranging from 25% (Sweden) to 30% (Austria) and up to 46% (Luxembourg);
- Two countries offer reduced flat rate taxes on domestic income (Denmark and Finland);
- France grants several allowances plus a 50% tax rebate on foreign-source income.

The global competition for the highly-skilled has been the subject of OECD reports and discussions in 2001¹¹, 2008¹² and 2011¹³. While tax played no role in 2001 and was only mentioned by Australia and Finland in 2008, it was the focus of the 2011 report. At that time, there were tax concessions for highly skilled workers in 16 OECD countries (of which 12 are from the EU). In response to the OECD survey, the countries listed various arguments for the tax concession, including:

- The ability to maintain high taxes despite pressure from global competition;
- The substitution for expatriation costs and social security benefits not accessible for expatriates;
- A reduction of complexity;
- An increase in attractiveness compared to other countries or competitive pressure from other countries;
- The hope for knowledge spillovers and alleviation of skill shortages;
- A fiscal gain;
- The hope to attract the headquarters of multinational companies.

Nevertheless, the OECD argued that the special schemes are complex and costly in comparison to the low take-up figures (1,850 researchers in Italy between 2004 and 2006, 750 experts per year in Sweden, 320-350 in Finland and 2,184 in Denmark) and that other labour market policies might be more effective.

¹⁰ As Cypriot laws are only available in Greek, this case study relies exclusively on private sources available in English, trying to cross-check them against each other as far as possible.

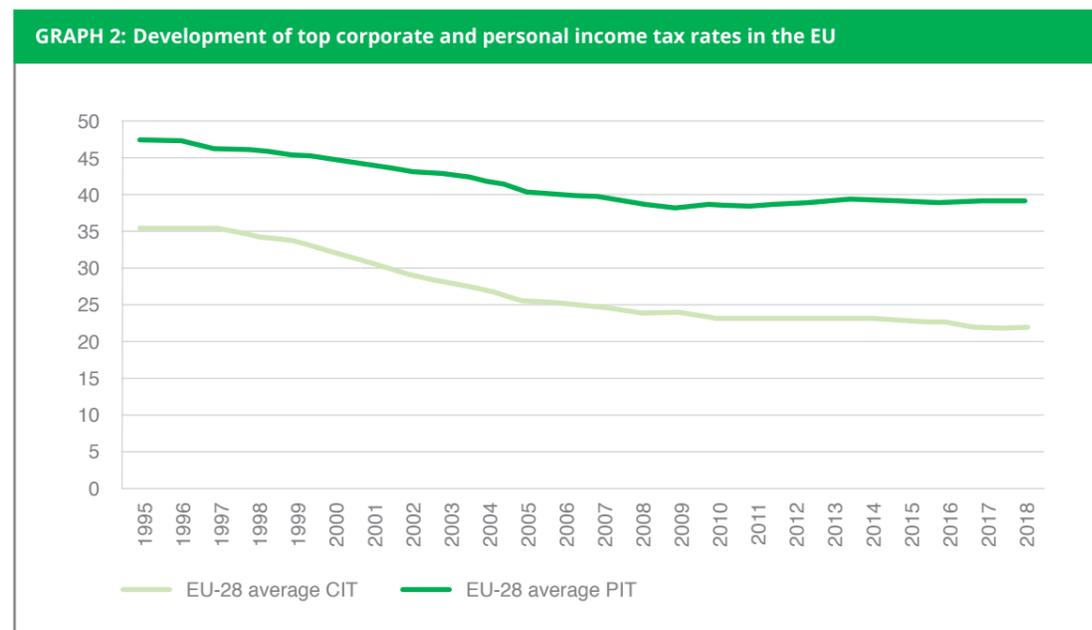
The race to the bottom with regard to personal income taxes for the rich and mobile

Personal income tax is the most important source of revenue within the EU, on average responsible for 22.3% of the total tax revenue – the remainder being shared between social security contributions, taxes on goods and services (VAT, etc.), payroll, property and, last but not least, corporate income with only 7.3% of total revenue. Even though the revenue share of personal income tax varies considerably within the EU – between 10% in Slovakia and 53% in Denmark – all EU member states rely heavily on it.¹¹ As the previous chapter has shown, special tax schemes create unfair benefits for the few rich and mobile but the schemes have another, potentially much more harmful effect. They increase the pressure for EU member states to enter harmful tax competition that leads to lower tax rates for capital income of the wealthy and lower top tax rates for high incomes at the cost of higher tax rates for the average employee.

The standard model of tax competition argues that states compete over mobile tax bases, leading them to lower the statutory and effective tax rates to attract taxpayers. In theory, this trend could lead to a ‘race to the bottom’ in tax rates and revenues, endangering the provision of public goods by the state. One empirical observation following from this theory would be the gradual decline of tax rates.

FALLING HEADLINE RATES

At first sight, tax competition on personal income tax seems to be weaker than for corporate income tax. Between 1995 and 2018 the average corporate income tax (CIT) rates in the EU fell from 35% to 21.9%. The average top statutory personal income tax (PIT) rate also fell from 47.2% in 1995 to 38% in 2009, but then increased slightly to 39% (Graph 2).



Only Greece, Portugal, Latvia and the UK had higher top income rates in 2018 compared to 1995, but 15 countries increased their rates after the financial crisis. By contrast, ten mainly eastern and south eastern European countries (plus Denmark and Belgium) cut their top rates (Annex 1).

Flat taxes in eastern Europe

Most eastern European countries have a different approach to taxation. Their overall tax income compared to Gross Domestic Product (GDP) is lower than the EU average and relies more on consumption. They usually combine low corporate income taxes with low personal income taxes. One notable feature is the widespread use of flat taxes – i.e., one tax rate irrespective of the level of income instead of a progressively increasing rate.

First introduced in Latvia, Lithuania and Estonia in 1994, the flat tax has spread to Romania (2005), Bulgaria (2008), the Czech Republic (2008) and Hungary (2012). Italy is currently considering following suit. Going against this trend, Latvia re-introduced a progressive income tax in 2017. Unlike Monaco and several international tax havens, no European country has so far abolished personal income tax, but, with a rate of 10%, Romania and Bulgaria have come closest.

“ Capital income, including profits, interest, and capital gains, is distributed more unequally than labour income and has risen over the past few decades. Moreover, capital income is often taxed at a lower rate than labour income, reducing overall tax progressivity across all incomes. IMF, 2017 ”

OTHER SIGNS OF HARMFUL TAX COMPETITION

Even if the reduction of top tax rates has been slower and less pronounced than for corporate income tax, there might be even more problematic tax competition hidden behind those top headline rates for personal income taxes. The headline rates presented in the previous chapter usually apply to income from employment and, depending on the country, usually start somewhere slightly above the average salary. But they do not always apply to interest, dividends and capital gains even though these are the income categories that are most important to the very rich. To promote savings and investments or to decrease the likelihood of evasion, governments often exempt certain kinds of income or tax it at lower rates. Table 4 below provides an overview of tax rates in Europe for the different kinds of income.

Capital gains of private individuals, such as the profits that Jeff Bezos makes from the rising value of Amazon’s shares, are arguably the most important source of income for many of the very rich. Nevertheless, capital gains tax is lower than the top rate for other kinds of personal income in 19 EU countries:

- Cyprus and Belgium exempt nearly all capital gains from tax, with some exceptions, including local housing;
- Many countries, including Greece, Croatia, the Netherlands, Slovenia, the UK, Spain, Finland, Latvia, Ireland and Poland, tax capital gains at a flat tax below the top personal income tax rate;

¹¹ For more details, see data in the Annex and <https://data.oecd.org/tax/tax-revenue.htm#indicator-chart>

- In some countries, only certain kinds of capital gains are taxed at a lower rate or are exempted from tax altogether. Bulgaria, the Czech Republic, Lithuania, Slovakia, Croatia and Greece exempt gains on listed securities after a minimum holding period of one or more years. Germany, France, Italy, Poland and Slovakia do the same for privately-held residential properties. Austria and Germany tax capital gains on listed shares at a lower flat rate which, in Austria, also applies to capital gains from the sale of real estate tax; Portugal charges a flat rate of 28% on all gains from securities and excludes 50% of the gains on real estate from tax;
- Several countries grant concessions for employee stock options (e.g., Belgium, Denmark, France, Ireland, Italy, Spain, UK);
- France is the only country that charges social security contributions on capital gains.

GRAPH 3: Differences between tax rates on capital gains and personal income



The Dutch “fun box”

The Netherlands has three boxes with different kinds of income and different rules for each of them. Box 3 contains income from savings and investments – exempting substantial shareholdings above 5%. Instead of taxing actual income from interest, dividends and capital gains, this income is taxed at 30% based on a deemed return between 1.63% and 5.39% depending on the level of income. For savings and investments valued at €1 million (net of liabilities) the tax is $0.3 \times 0.0539 \times 1,000,000 = \text{€}16,170$, irrespective of whether your stocks gained an average 37.82% per year over the last ten years (like Amazon) or lost an average of 16.67% (like Deutsche Bank). There is a partial non-resident status for highly-qualified expatriates covering Box 2 and Box 3 income for up to eight years. Besides, non-residents do not pay tax on Box 3 income from the Netherlands with the exception of housing and a 15% withholding tax on dividends.

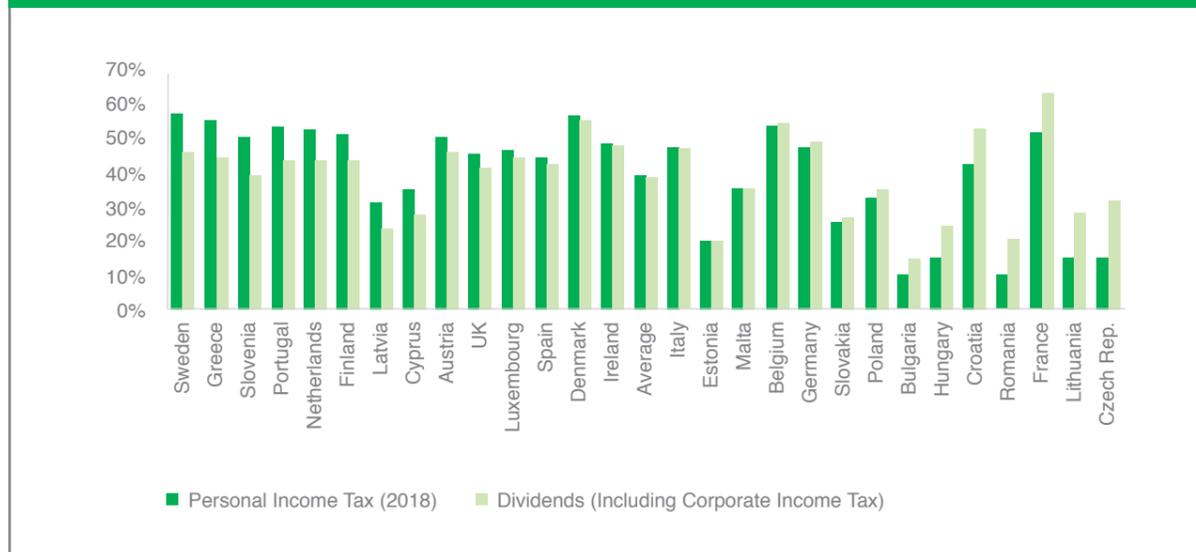
Dividends are taxed on average at 23.78%, but, once these tax charges are combined with the corporate income tax, the total average rate of 38.6% comes very close to the overall rate for personal income (39.42%). Most countries that reduced their top personal income tax rate after the financial crisis did not reduce the rate on dividends and/or corporate income at the same level or even increased it. This effectively reduced the gap between the two or even led to higher rates for the latter. At the same time, some countries lowered their tax rates on dividends with slower or no reduction of personal income tax rates. These developments created (UK, Ireland, Luxembourg, Spain) or increased (Sweden, Portugal, Slovenia, Cyprus, Netherlands) the gap between PIT tax rates and rates on dividends and corporate income. Corporate income tax is important for the taxation of retained earnings and a comparable rate is essential because shifting between personal and corporate income is very easy for many taxpayers. Ronaldo, like any other owner of a company, can choose whether he pays himself a higher salary or makes a higher profit to pay higher dividends. European countries have very different approaches on how to combine the taxation of corporate and dividend income.

Most European countries first charge a tax on corporate profits and then tax the distribution of these profits again at a personal level – but at a lower rate. The resulting rates can be higher (especially in flat tax countries, France and for high-income earners in Denmark), comparable (Germany, Italy, etc.) or lower (Sweden, Slovenia, etc.). Among the countries deviating from this general rule are the following:

- Estonia does not charge any corporate income tax unless the profit is distributed to shareholders;
- In Belgium, Italy, Cyprus and Malta a notional interest deduction allows companies to reduce their taxable profits based on an assumed interest rate on their shareholders' equity, reducing the effective tax rate paid by shareholders;
- The tax dividend income in the Netherlands is based on a deemed return and withheld at the level of the distributing company, favouring those shareholders with higher returns. According to one report, the Netherlands has also allowed at least one big Dutch company to partly pay its dividends tax-free outside the Netherlands and is considering whether or not to abolish dividend tax completely (see Box 3);
- Malta has a corporate income tax of 35% and applies a system of full imputation. Shareholders who are not tax resident in Malta can claim a refund of 6/7 of the corporate income tax paid by the Maltese company, reducing the combined tax rate from 35% to 5%. Maltese tax residents can offset their entire tax liability and pay no additional personal income tax.

For the very rich, the effective tax rate on dividends most likely looks radically different due to various loopholes that go beyond the scope of this study. For example, many wealthy business owners collect their dividend income in holding companies and family offices and in many countries therefore do not pay any dividend tax until dividends are finally distributed. The recent scandal of Cum-Ex across Europe even shows that some very rich taxpayers reclaimed dividend tax that they never paid – which means that, instead of simply not paying any tax, they might have actually made money at the expense of all other taxpayers.

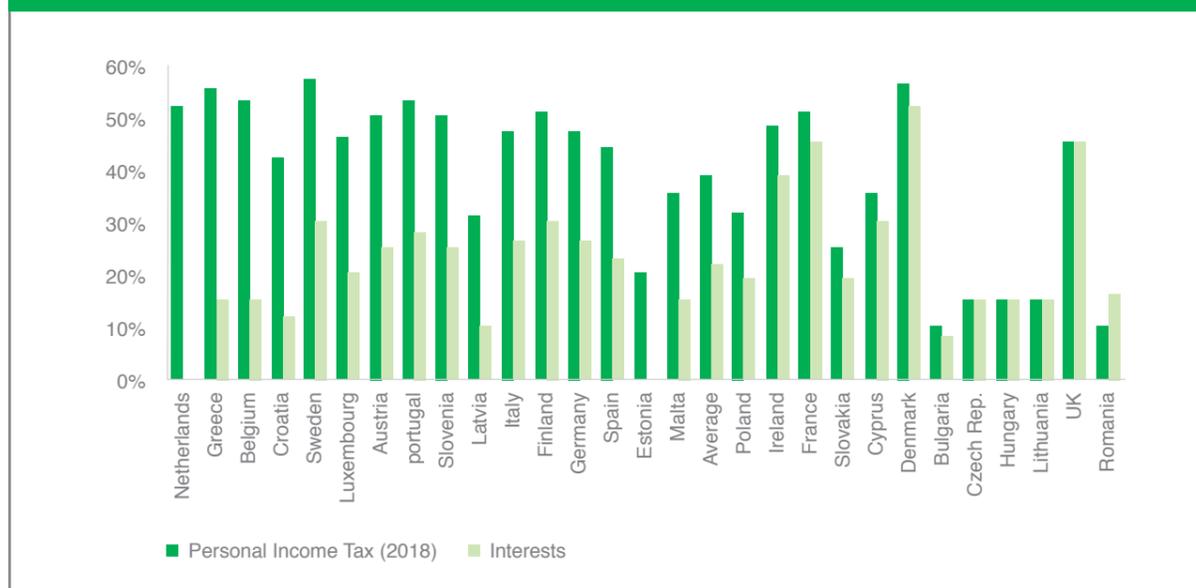
GRAPH 4: Differences between tax rates on dividends plus corporate income and personal income



Interest on, for example, bank accounts, government or corporate bonds, is taxed at 22.08% on average. 23 out of 28 EU member states charge lower tax rates on interest income than on personal income (Graph 4). However, on average, tax rates on interest have increased faster than the overall PIT rates since the financial crisis (Annex 1). Germany is the only country that significantly increased the spread between the taxation of interest and other personal income by introducing a special tax for capital income. France,

on the other hand, abolished this kind of special tax and consequently taxes interest like employment, including social security contributions. Estonia completely excluded interest payments from the European Economic Area from taxation until 2017. The Netherlands taxes interest – like all other income from savings and investment – at 30%, based on a deemed yield between 1.63 and 5.39% (compare Box 3).

GRAPH 5: Differences between tax rates on interest income and personal income

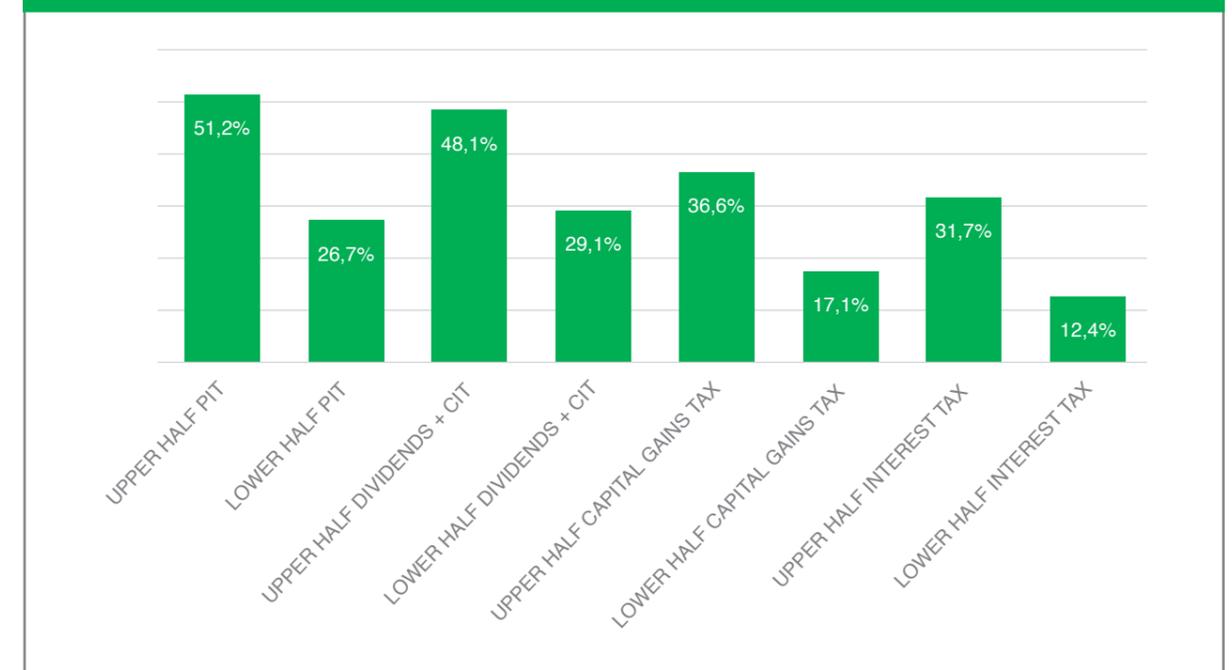


Wealth and inheritance taxes do not tax the income from wealth (i.e., interest, dividends, capital gains) but are based on the stock of wealth. The **IMF** argues that wealth taxes could be a possible fix to the comparably low taxation of capital income. Likewise, the **OECD** concludes that broad-based taxation of capital income complemented by a well-designed inheritance and gift tax would be preferable to a wealth tax but that, in the absence of the former, the taxation of wealth might be a valuable substitute. To date, France is the only country charging a comprehensive wealth tax while Spain still has one but suspended the collection of it. Other countries, such as Austria (1994), Germany and Denmark (1997), the Netherlands (2001), Finland and Luxembourg (2006) and Sweden (2007) abolished their wealth taxes recently. France taxes wealth exceeding the value of €800,000 with a rate of 0.5% increasing to 1.5% for wealth over €10 million. Concerning inheritance tax, the **European Commission** held a public consultation in 2010 and published an in-depth impact assessment on the issues of double taxation due to crossborder inheritance in 2011.

The impact assessment contains a helpful and very detailed overview of the different tax systems but is focused only at removing double taxation and does not address double non-taxation or harmful tax competition.

Overall, Graph 6 shows that there are significant differences in the taxation of personal income between EU countries both for the overall rates and between the different kinds of income. The averages for the 14 countries with the highest rates and the 14 countries with the lowest rates differ by about 20% over all kinds of income. In nearly all countries, the top PIT rate applied to employment income is higher than for most other kinds of income – with the exception of the eastern European countries with flat taxes, France and, to some degree, Denmark (Table 4). Consequently, the averages decrease for all groups from employment to business income, capital gains and interest except for business income, where the combination with corporate income taxes has a positive effect on the lower half of the countries.

GRAPH 6: Differences in taxation¹² between different kinds of individual income in the EU



¹² For the purposes of comparison, the upper half countries are always the 14 countries with the highest rates for this specific tax (i.e. the 14 countries with the highest tax on capital gains have an average rate of 36.63% while the lower half has an average of 17.14%).

TABLE 5 Comparison of headline PIT rates with taxes on different kinds of income
(see Annex 2 for Methodology and online Annex for details)

Country	PIT	Δ2007	Interest	Δ2007	vs PIT	Div (+CIT)	Δ2007	vs PIT	CGT (share)	CGT (RE)	Δ2007	vs PIT (min)	Wealth tax	Inheritance
Austria	50%	0%	25%	0%	-25%	45.6%	1.9%	-4.4%	27.5%	27.5%	-6%	-22,5%	until 1994	until 2008
Belgium	53%	-0.6%	15%	0%	-38.2%	53.8%	3.3%	0.6%	0%	0%	0%	-53%		1%
Bulgaria	10%	-14%	8%	8%	-2%	14.5%	-1.8%	4.5%	10%	10%	10%	0%		0%
Croatia	42%	-10.6%	12%	12%	-30.5%	52.3%	n.a.	9.8%	12%	12%	12%	-30%		4%
Cyprus	35%	5%	30%	30%	-5%	27.4%	3.9%	-7.6%	0%	20%	0%	-35%		none
Czech Rep.	15%	-17%	15%	0%	0%	31.2%	-4.3%	16.2%	15%	15%	15%	0%		none
Denmark	56%	-6.5%	52%	-7.1%	-3.9%	54.8%	-2.5%	-1%	42%	42%	-1%	-14%	until 1997	15%
Estonia	20%	-2%	0%	0%	-20%	20%	-2%	0%	20%	20%	-2%	0%		none
Finland	51%	0.7%	30%	2%	-21.1%	43%	2.5%	-8.1%	34%	34%	6%	-17%	until 2001	19%
France	51%	6%	45%	18%	-6.5%	62.3%	4.9%	10.8%	50.5%	0%	-27%	-51%	1.5%	45%
Germany	47%	0%	26.4%	-21.1%	-21.1%	48.3%	-4.9%	0.9%	25%	0%	-42%	-47%	until 1997	30%
Greece	55%	15%	15%	5%	-40%	44%	19%	-11%	15%	15%	15%	-40%		10%
Hungary	15%	-25%	15%	-5%	0%	24.2%	-24.6%	9.2%	15%	15%	-10%	0%		0%
Ireland	48%	7%	39%	19%	-9%	47.5%	-0.9%	-0.5%	33%	33%	13%	-15%		33%
Italy	47%	2.3%	26%	-1%	-21.2%	46.9%	-1.5%	-0.3%	43%	0%	-43%	-47%		4%
Latvia	31%	6.4%	10%	10%	-21.4%	23.5%	8.5%	-7.9%	15%	15%	15%	-16%		none
Lithuania	15%	-12%	15%	15%	0%	27.8%	-2.6%	12.8%	15%	15%	-12%	0%		0%
Luxembourg	46%	6.8%	20%	10%	-25.8%	43.8%	0.4%	-2%	45.8%	45,8%	6.8%	0%	until 2001	0%
Malta	35%	0%	15%	0%	-20%	35%	0%	0%	35%	35%	23%	0%		2%
Netherlands	52%	-0.1%	0%	0%	-52%	43%	-1.1%	-9%	25%	30%	25%	-27%	until 2001	20%
Poland	32%	-8%	19%	0%	-13%	34.4%	0%	2.4%	19%	0%	-19%	-32%		0%
Portugal	53%	11%	28%	8%	-25%	43.2%	2%	-9.8%	48%	48%	38%	-5%		0%
Romania	10%	-6%	16%	0%	6%	20.2%	-9.2%	10.2%	16%	16%	16%	6%		none
Slovakia	25%	6%	19%	0%	-6%	26.5%	7.5%	1.5%	25%	0%	-19%	-25%		until 2004
Slovenia	50%	9%	25%	10%	-25%	39.3%	0.9%	-10.8%	25%	25%	5%	-25%		0%
Spain	44%	0.5%	23%	5%	-20.5%	42.1%	-2.5%	-1.4%	23%	23%	5%	-21%	suspended	40%
Sweden	57%	0.6%	30%	0%	-27.1%	45.4%	-4.2%	-11.7%	30%	22%	-8%	-35%	until 2007	until 2004
UK	45%	5%	45%	5%	0%	40.9%	-6.6%	-4.1%	20%	28%	-20%	-25%		40%
Average	39%	-0.7%	22.1%	4.4%	-16.9%	38.6%	-0.5%	-0.4%	24,4%	19,5%	-0.1%	-19,5%		13.2%

THE EU'S ROLE

EU member states are not the only source of tax competition. The European Union is surrounded by several countries with very competitive tax rates on personal income as well as special regimes for foreigners:

- Monaco charges no tax on personal income, including capital gains, and finances itself mainly through the 30% VAT from foreign millionaires who have to spend at least six months there;
- Switzerland offers a lump sum scheme for foreign income and has no inheritance tax;
- Gibraltar has a lump sum scheme for High Net Worth Individuals (HNWIs) and high level executives with specialist skills;
- Israel recently introduced a favourable scheme for new residents;
- Others such as Jersey, the Isle of Man, Liechtenstein, Montserrat or Andorra offer generous exemptions.

Securing residency in these countries is usually very easy for EU citizens (even though slightly more difficult than within the EU). But there is one main advantage of staying in the EU from a tax perspective; national tax rules are limited by the fundamental freedoms provided for in the EC Treaty. As a consequence, transfers across EU borders are often free of withholding taxes (e.g., dividend payments according to the EU's parent-subsidiary Directive) and national defence mechanisms cannot discriminate against EU citizens or countries. Exit taxes are an example of such a defence mechanism (applied, among others, by Germany, France and Denmark), according to which capital gains on assets have to be taxed when the taxpayer moves out of the country. The French exit tax was found to violate the EU's principles of freedom of movement. Germany changed its exit tax after an infringement procedure with the European Union's Court of Justice so that, for people moving to the EU, the tax duty is deferred until the person leaves the EU or sells the assets.

In addition to the basic freedoms and to some degree as basis and balancing factor, Article 94 of the EC Treaty very generally calls for the approximation of laws, regulations or administrative provisions that directly affect the functioning of the common market. With regard to tax harmonisation, the Treaty explicitly mentions indirect taxes but not direct taxes (income and corporate taxes). In interpreting these basic rules, the European Commission has a long history of activity around direct taxes but mainly focused on corporation tax – with some exceptions. Furthermore, both Treaty and the court recognise a right to limit the basic freedoms in case of misuse and in particular to fight tax evasion and avoid double non-taxation. A long list of cases shows that the EU plays a significant role in the field of taxation.

In 2001, the European Commission published a communication to the European Parliament and the Council on the priorities regarding tax policy. It is very unambitious on personal income tax but mentions the need to discuss whether special tax regimes for highly-skilled expatriates should be considered harmful tax practices under the Code of Conduct. Without mentioning the special regimes, in its resolution on the communication, the European Parliament noted that *“although the tax sovereignty of the Member States is important, the integration and globalisation of markets has resulted in a situation where efficient tax raising within the borders of the nation state has become difficult”*. But, to show how much political positions have changed since, the Parliament seemed to consider tax competition to *“be an effective instrument for reducing a high level of taxation”* and demanded an *“intensified removal of discrimination, double taxation and administrative barriers”*. With regard to personal income tax, the main outcome of this process was the dysfunctional EU Savings Tax Directive.

In 2011, the European Commission published a communication on double taxation in the EU's single market followed by recommendations and detailed considerations on how to avoid double taxation of inheritances. Both focus exclusively on removing discrimination and other problems of

double taxation in crossborder cases and do not look at the potential double non-taxation arising from special regimes, differing national rules or the existing bilateral Double Taxation Agreements (DTAs). Nevertheless, the documents are a useful guide for a detailed understanding of the big variation in national rules and the considerations around the EU's policy options. The Commission chose the following preferred policy options:

- a. Publication of principles for non-discriminatory tax systems to raise awareness among EU citizens and assist EU member states as to how to bring their tax rules into line with EU law;
- b. Recommendations for (unilateral) national provisions that would make national tax laws interact more coherently.

The Commission concluded that these approaches would help to improve the *status quo* and that there was some – even if limited – space for EU action. The Commission cites a failed attempt¹⁴ to harmonise income tax at the EU level in 1968 as an argument against more far-reaching options.

In 2012, the EU agreed on an action plan against tax fraud and tax evasion that contained considerable progress in terms of the promotion of automatic exchange of information as well as in terms of cooperation with third countries (i.e. non-EU countries) alongside a strong focus on

VAT fraud and corporation tax.¹⁵ The automatic exchange of information was adopted in 2015 and is one criterion of the EU list of non-cooperative jurisdictions for tax purposes. The other two criteria refer to harmful tax practices and anti-avoidance measures only concerning corporate taxation. Also in 2015, the European Commission published a report on tax reforms in EU member states that argues for a reduction in taxes on labour in exchange for higher taxes on real estate, inheritance or pollution but largely ignores personal income taxes on capital income and the specific issues of tax evasion and double non-taxation.¹⁶ In the 2018 European semester reports, the EU has for the first time listed harmful tax practices in its member states but this is still limited to corporate taxation only. Finally, in 2015 and 2018 the EU agreed on further measures against money laundering with increased transparency requirements that might help the fight against tax evasion. A common list that requires tax evasion to be included in the list of predicate offences is still under negotiation. These developments show that, after recognising the harmful effects of tax competition in the area of corporate tax, the European Commission and the European Parliament need to acknowledge the similarly if not more harmful effects of tax competition in the area of personal income tax and need to start tackling the issue of special schemes for foreign income.

Political solutions

Even though the competence of the EU in matters of personal income tax is somewhat limited and decisive action is hampered by the consensus principle, the EU has an important role to play. As part of its role to boost harmonisation and to ensure the functioning of the common market as well as to limit the misuse of basic freedoms, it has a wide range of tools at its disposal. We therefore propose the following steps that the EU should take to address the issue of harmful tax competition on personal income tax:

The EU should work towards **harmonising existing rules and developing a common EU framework against double non-taxation** and tax avoidance in the field of personal income tax and towards reducing the pressure for tax competition. The European Commission should therefore:

- Prepare a report containing reliable data on the volume and effects of existing special tax regimes, extending existing national cost-benefit analyses (e.g., the Netherlands, Portugal) to include the crossborder effects, especially the costs of the foreign-source income exemption and evaluating the issue of discrimination against local residents due to crossborder schemes;
- Develop an action plan for fairer personal income taxation and develop international counter-measures against harmful tax competition at the level of UN, G20 and/or OECD comparable to the one on corporate income taxes;
- Exert pressure on the UK (with the biggest scheme) and Switzerland to abandon or amend their harmful schemes as part of the Brexit negotiations within the EEA principles;
- Include harmful tax practices concerning personal income taxes in its European semester reports and other policy documents such as the taxation papers;
- Extend automatic information exchange to include tax residences granted by EU member

states and create a register of tax residences for banks, insurances and other financial firms to verify self-certification by customers;

- Expand on the proposals made in its 2015 report to shift taxation from employment to wealth, inheritance and other less distortive taxes;
- Develop a shared policy on the migration of highly-qualified employees and improve the shared rules on permanent residence in Europe;
- Enforce anti-trust and other policies to reduce the concentration of wealth and income in the hands of the few at the cost of the majority.

The EU should enable and **facilitate national counter-measures** that effectively target those that avoid tax without creating unnecessary burdens for those who depend on mobility within the EU for their job or family.

There are a variety of national and bilateral counter-measures against double non-taxation often contested by courts in the EU and sometimes by the Commission:

- Several countries continue to consider citizens and residents who move their residence to tax havens as tax residents for some years or until they provide specific evidence of their non-residence. Italy fixes a four-year period based on a rather comprehensive **list of tax havens** but excludes all EU countries and special regimes. Germany determines the tax consequences for each taxpayer on a case-by-case basis. In its DTA with Switzerland, Germany **retains the right** to tax the income of any taxpayer who moves to Switzerland as long as there remains a potential residence in Germany.
- Several countries, such as France and Germany, tax capital gains when a taxpayer shifts his or her tax residence to another country. After these rules were contested

under the EU's rules for freedom of movement, Germany introduced a rule according to which capital gains are evaluated at the time of departure but deferred for relocations to EU countries, creating loopholes that can be solved only through EU cooperation.

- Many countries charge withholding taxes for income created in their territories with the option for refunds for non-residents. These are, however, very prone to gaming and arbitrage and need EU coordination, as several **cases of fraud** have shown.

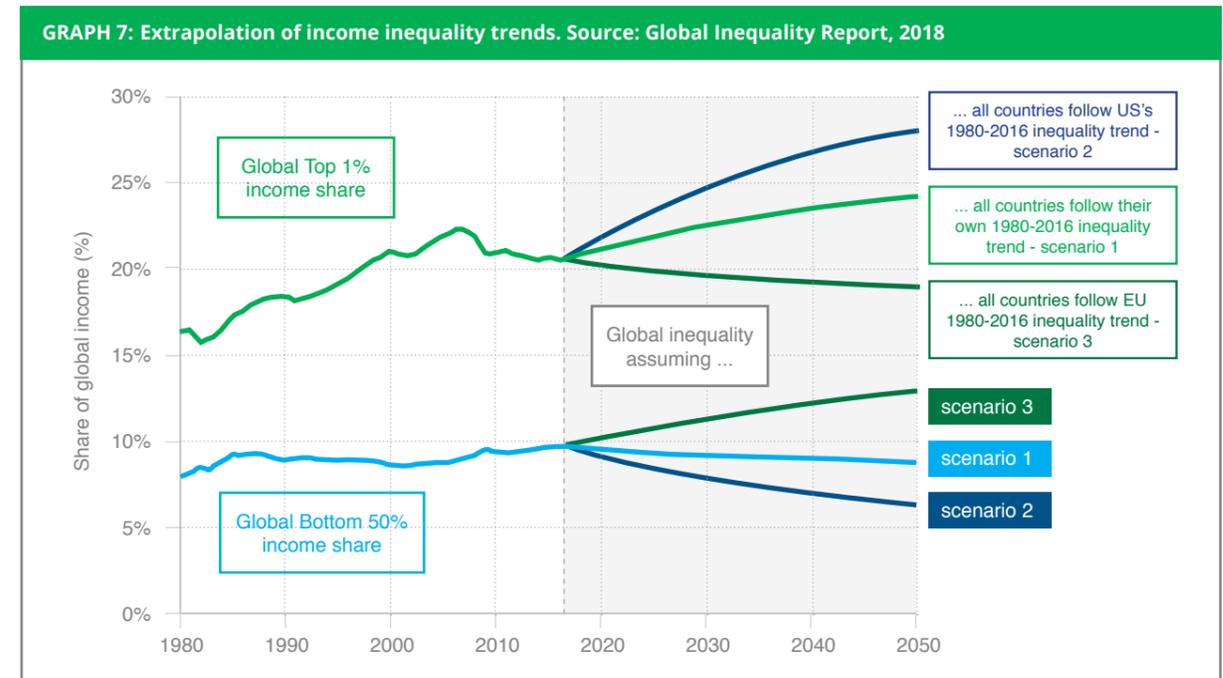
The European Commission should help EU member states ensure compliance with EU law and collect good practices and develop a shared set of anti-avoidance provisions in line with the four EU freedoms.

The EU should continue its efforts to fight tax evasion and money laundering.

Automatic exchange of information, transparency of beneficial ownership and the fight against non-cooperative jurisdictions are important elements to tackle tax evasion and the race to the bottom in personal income tax. Further steps should include:

- Ensuring that new loopholes around the automatic exchange of information are swiftly closed and that the reporting banks are monitored carefully. As experience with big money laundering scandals in several EU countries has shown, this should involve enhanced oversight for intermediaries and banks at the EU level (for more information, see Knobel, 2018);
- Ensuring that residence and citizenship by investment programmes in the EU are not misused to avoid reporting requirements and taxes;
- Ensuring worldwide participation in the automatic exchange of information, especially from the US;
- Making tax evasion a predicate crime for money laundering in all EU countries – as has been done in the EU's 4th Anti-money laundering Directive for serious tax offences;
- Widening beneficial ownership transparency, registration and financial reporting requirements for investment funds and other financial assets.

Finally, if the EU completes its homework, it can make a major contribution towards **fighting global inequality** and towards making the world a better place for the vast majority of its inhabitants.



The distribution of income and wealth in Europe (see online Annex for more details)

	2018_all	2017_adults	2017_hh	1% (hh)	0,01% (hh)	Start >1%_hh	Share >1%	Billionaires (Forbes)
Germany	82,850,000	67,300,216	40,722,600	407,226	4,072	77,812	5.1%	Beate Aister & Karl Albrecht Jr., supermarkets (\$29,8bn)
France	67,221,943	50,575,120	29,314,400	293,144	2,931	88,713	6.2%	Bernard Arnould, LVMH (\$72bn)
UK	66,186,444	50,339,199	28,822,300	288,223	2,882	78,214	5.4%	Hinduja family, diversified (\$19.5bn)
Italy	60,483,973	49,518,057	25,864,700	258,647	2,586	61,448	4.8%	Giovanni Ferrero, chocolates (\$23bn)
Spain	46,659,302	37,299,833	18,512,500	185,125	1,851	52,787	4.6%	Amancio Ortega, Inditex (\$70bn)
Poland	37,976,687	30,335,433	14,465,800	144,658	1,447	20,618	4.1%	Dominika & Sebastian Kluczyk, diversified (\$3.8bn)
Romania	19,523,621	15,512,496	7,481,900	74,819	748	8,435	4.4%	Ion Tiriac, banking, insurance (\$1.2bn)
Netherlands	17,118,084	13,264,334	7,819,000	78,190	782	75,824	4.5%	Charlene de Cavalho-Heineken, Heineken (\$15.8bn)
Belgium	11,413,058	8,790,919	4,761,700	47,617	476	65,014	3.9%	Albert Frere, investments (\$6.2bn)
Greece	10,738,868	8,675,497	4,393,900	43,939	439	30,275	5.7%	Spiro Latsis, banking, shipping (\$3.2bn)
Czech Rep.	10,610,055	8,472,872	4,697,800	46,978	470	25,067	4.3%	Petr Kellner, banking (\$15.5bn)
Portugal	10,291,027	8,308,992	4,102,700	41,027	410	39,112	5%	Maria Fernanda Amorim, energy, investments (\$5.1bn)
Sweden	10,120,242	7,704,547	4,862,700	48,627	486	71,844	5.1%	Stefan Persson, H&M (\$16.8bn)
Hungary	9,778,371	7,881,627	4,131,400	41,314	413	16,030	4.4%	Sandor Czanyi, fin./real estate (\$1.1bn)
Austria	8,822,267	7,055,140	3,889,100	38,891	389	73,379	4.7%	Dietrich Mateschitz, Red Bull (\$23bn)
Bulgaria	7,050,034	5,791,244	2,905,400	29,054	291	16,182	6.8%	
Denmark	5,781,190	4,437,851	2,395,900	23,959	240	86,083	7.2%	Anders Holch Povlsen, fashion (\$7.4bn)
Finland	5,513,130	4,310,455	2,655,500	26,555	266	78,016	4.2%	Antti Herlin, elevators (\$4.2bn)
Slovakia	5,443,120	4,317,361	1,874,500	18,745	187	19,210	3.7%	Ivan Chrenko, real estate (\$1.3bn)
Ireland	4,838,259	3,468,710	1,798,400	17,984	180	81,334	5.1%	Pallonji Mistry, construction (\$17.8bn)
Croatia	4,105,493	3,325,982	1,471,600	14,716	147	18,166	3.7%	
Lithuania	2,808,901	2,272,731	1,357,000	13,570	136	27,197	5.5%	
Slovenia	2,066,880	1,663,703	881,100	8,811	88	33,659	3.7%	
Latvia	1,934,379	1,560,730	850,100	8,501	85	27,116	4.8%	
Estonia	1,319,133	1,042,480	584,000	5,840	58	30,635	3.6%	
Cyprus	864,236	665,053	317,800	3,178	32	60,330	6.5%	John Fredriksen, shipping (\$7bn)
Luxembourg	602,005	461,496	242,400	2,424	24	127,941	4.6%	
Malta	475,701	371,839	150,200	1,502	15	46,691	4.3%	
EU - Total	512,596,403	404,723,917	221,326,200	2,213,262	22,133	60,662		

Overview of special schemes (see online Annex for more details)

Country	Start	Foreign-source exemption	Allowance	Lower tax	Duration	Condition1 (before)	Condition2 (labour market)	Condition3 (residence)	Last change	Beneficiaries
United Kingdom	1799	Not remit, investment income			15y	non-dom		Statutory residence test	2017 (deemed domicile, etc.)	54,700 (2017)
Ireland (non-dom)	1799	Not remit			unlimited	5y non-res, non-dom		183 days or 280 days in 2y		7,262 (2016)
Malta (non-dom)	1949	Not remit, capital gains exempted			unlimited	non-dom		183 days or investment	2011-15 (residence by investment, pension schemes)	
Netherlands	post-war	Full (since 2001)	30%		8y	no prior residence in NL or within 150km	Salary >€37,000/28,125, scarce skill	183 days	2012 (min. salary, 150km rule, cut to 8y)	56,431 (2015)
Belgium	1960	Full, no Belgian account	costs		unlimited	not Belgian, non-res	Foreign executives, specialists or researchers	no family, temporarily	1983 (formalised)	17,683 (2000)
Denmark	1991			-25%	5y	10y non-res	Researchers or salaries >DKK 63,700 per month	183 days		2,184 (2010)
Finland	1999			-16%	4y	5y non-res, not Finnish	Expert, salary >€5,800 per month	183 days		320-350 p.a. (2010)
Italy (old)	1999		up to 90%		4-5y	2-5y non-res	Highly-qualified, inpatriates	183 days or register	2011/15 (coverage extended)	1,850 (2004-06)
Sweden	2001		25% + school		3y	5y non-res	Salary above SEK 89,600 per month or expert	2 days per week for 6 months, real home		750 p.a. (2010)
France	2004	50% + Social security (since 2008)	Lump-sum/30%		8y	5y non-res	Salary excluding allowance same as lowest comparable national salary, hired abroad	183 days	2017 (extended to 8y)	11,070 (2013)
Spain	2005	Full, not remit		-20%	6y	10y non-res	Highly-skilled	183 days	2015 (exclusion of athletes)	1,960 (2007)
Portugal	2009	If potentially taxed		-30%	10y	5y non-res	Scientists, artists, technical experts	Investment/rent	2018 (rejection of minimum tax)	10,684 (2016)
Malta (workers)	2011	Not remit			3y		Salary above €75,000/45,000	183 days		
Luxembourg	2011		up to 46% + school		5y		Expert secondment	6 months or perm. res	2013/14 (simplified application)	
Ireland (SARP)	2012		30%		2020	5y non-res	Salary above €75,000	183 days or 280 days in 2y	2015 (extended to 2020, no ceiling)	
Cyprus	2015	Full			unlimited	non-dom		2 months	2017 (2m residence)	
Austria	2015		30%		5y	5y non-res	Scientists, sportspeople, artists	183 days		
Italy (new)	2017	Lump -sum €100			15	9/10y non-res		183 days or register		160 (April 2018)

How to read this table

Benefits of the scheme (columns 3-5):

- The most harmful schemes exclude foreign-source income from taxation either fully or only special types of income and usually as long as it is not remitted (i.e. transferred) to the country of residence
- Schemes to attract highly-skilled employees often provide a tax-free allowance for repatriation costs either as a lump sum or as a share of the income
- Some schemes lower local income tax rates

Conditions of the scheme (columns 6-9):

- Special tax schemes are usually available for a limited time;
- The benefits are usually limited to those who have moved to the country recently (and have not been resident there for a certain amount of time) and in a few cases exclude nationals or are based on the British common law concept of 'non-dom';
- Some schemes are limited to certain professions or highly-skilled employees, mostly defined using income thresholds;
- Tax residence is usually obtained after living in the respective country for more than half a year (183 days) but in some countries this can be avoided.

This Annex provides a short overview about the methodology and definitions applied throughout the study. Further details can be found in the detailed statistical Annex available online.

Income composition of Bezos and Ronaldo

TABLE 2

Information on the income composition of Jeff Bezos is based on the annual accounts of Amazon (2017) and the US Securities and Exchange Commission (SEC) filings of his dealings in Amazon stock. We further calculated the difference between his wealth stated by Forbes (real time data) and the value of his Amazon stock (daily average stock price combined with latest SEC filing on number of shares) to obtain an estimate of his remaining wealth. For purely illustrative purposes, we calculated his income from interest and dividends to be 3% of this remaining wealth. Information on the income composition of Cristiano Ronaldo is based on a newspaper article ([Tribuna Espresso, 2016](#)) that provides selected information on his investments based on a voluntary publication of his declaration of assets to the Spanish tax authorities. We split the revealed wealth equally between stocks and debt notes/investment funds. We then used real rates for the three stocks identified with name and number and assumed rates of return for the remaining asset classes and extrapolated the final results. As a consequence, these are purely illustrative and do not aim to provide an accurate picture of his real capital income.

Selection of special schemes for analysis

TABLE 3

The initial selection was based on the Tax Justice Network's [financial secrecy index](#) for 2018, in particular Key Financial Secrecy Indicator (KFSI) 12, indicator 435. This indicator measures whether the country has a comprehensive personal income tax, including worldwide income, without opt-outs or special regimes and taxing all kinds of income (for more details see their [methodology](#)). Based on in-depth country analysis from EY's [Worldwide Personal Tax and Immigration Guide](#) we identified special regimes in two countries with a positive rating for indicator 435 (France, Spain) and two countries with special regimes that had received a negative rating for other reasons (Belgium, Netherlands). Based on an [older study by the OECD](#) on schemes for attracting highly-skilled foreigners we identified additional schemes in Finland, Sweden, Denmark, Luxembourg and Austria but did not include these schemes in our analysis because they concern income from national labour and do not cover income from foreign capital income.

Overview of tax rates

(Race to the bottom (pp 33ff))

A detailed and comprehensive analysis and comparison of tax regimes across countries is a nearly impossible task due to the huge number of special rules that exist. Our comparison draws from various secondary sources and contains additional simplifications in various places. Headline rates for PIT are taken from taxation trends in Europe ([Eurostat, 2018](#)). The EU database on tax also contains detailed country information but this information is not readily comparable. We therefore use data from a comparison of EU countries published annually by the German Ministry of Finance (see [BMF, 2018](#) for the latest version). This comparison contains information on taxation of interest and dividends. For **capital gains** there are various comparative studies including the publication of the BMF and others by OECD and EY. Nevertheless, all these comparisons had significant gaps. We therefore compiled our own data based on the detailed country analyses prepared by EY. Making this data comparable required several simplifying assumptions. The online statistical annex contains a detailed overview of our results, the assumptions made as well as comparisons to the other studies mentioned above. Finally, the BMF does not look at inheritance and wealth tax and we compiled both manually, again drawing on EY's country analysis and further research. Inheritance taxes vary widely, depending on the degree of relationship and size of inheritance. We used data for direct inheritance (parent to child) and set €1 million as a cut-off figure (apart from Germany, no country has progressive rates beyond this point).

- ¹ Alvaredo, Facundo/Chancel, Lucas/Piketty, Thomas/Saez, Emmanuel/Zucman, Gabriel, 2017: Global Inequality Dynamics: New Findings from WID.World, in: National Bureau of Economic Research Working Paper 23772. Available online at: <https://wid.world/document/f-alvaredo-l-chancel-t-piketty-e-saez-g-zucman-global-inequality-dynamics-new-findings-wid-world-2017/> [last access: 7 September 2018].
- ² Garbinti, Bertrand/Goupille-Lebret, Jonathan/Piketty, Thomas, 2018: Income inequality in France, 1900–2014: Evidence from Distributional National Accounts (DINA). Journal of Public Economics, Vol 162, June 2018. Available online at: <https://www.sciencedirect.com/science/article/pii/S0047272718300124?via%3Dihub#ec0010>
- ³ IRS, 2018: Individual Income Tax Returns for the Tax Year 2014. <https://www.irs.gov/pub/irs-soi/14in03etr.xls> [last access: 26 September 2018]
- ⁴ Alstadsæter, Annette/Johannesen, Niels/Zucman, Gabriel, 2018: Tax Evasion and Inequality, in: Working Paper. Available online at: <http://gabriel-zucman.eu/files/AJZ2017.pdf> [last access: 7 September 2018].
- ⁵ Knobel, Andreas, 2018: Reporting taxation: Analysing loopholes in the EU's automatic exchange of information and how to close them. Commissioned by the Greens/EFA in the European Parliament. Available online at: <http://extranet.greens-efa-service.eu/public/media/file/1/5729> [last access: 13.02.2019]
- ⁶ Transparency International, 2018: European Getaway: Inside the murky world of golden visas. Available online at : http://files.transparency.org/content/download/2321/14306/file/2018_report_GoldenVisas_English.pdf [last acces: 20 November 2018]
- ⁷ Court des Comptes, 2003: Le régime special de taxation des cadres étrangers. Rapport de la Cour des comptes transmis à la Chambre des représentants. Available online at: <http://bit.do/court-de-comptes> [last access: 7 September 2018].
- ⁸ Kleven, Henrik Jacobsen/Landais, Camille/Saez, Emmanuel, 2013: Taxation and International Migration of Superstars: Evidence from the European Football Market, in: American Economic Review 103(5), pp. 1892-1924.
- ⁹ KPMG, 2018: Cyprus Tax Residency and Non-Dom Rules. Available online at: <http://bit.do/cyprus-tax-residency-and-non-dom-rules> [last access: 7 September 2018].
- ¹⁰ European Commission, 2018: Commission Staff Working Document. Country Report Cyprus 2018 Including an in Depth Review in the prevention and correction of macroeconomic imbalance, in: 2018 European Semester: Country Reports. Available online at: <http://bit.do/report-cyprus> [last access: 7 September 2018].
- ¹¹ OECD, 2001: International Mobility of the Highly Skilled, in: OECD Proceedings. DOI: 10.1787/9789264196087-en. Online available at: <http://bit.do/international-mobility> [last access: 7 September 2018].
- ¹² OECD, 2008: The Global Competition for Talent: Mobility of the Highly Skilled. ISBN: 978-92-64-04774-7. Available online at: <http://bit.do/global-competition-for-talent> [last access: 7 September 2018].
- ¹³ OECD, 2011: Taxation and Employment, in: OECD Tax Policy Studies No.21. DOI: 10.1787/97892641200808-en. Available online at: https://read.oecd-ilibrary.org/taxation/taxation-and-employment_97892641200808-en#page1 [last access: 7 September 2018].
- ¹⁴ European Commission, 1968: Avant-projet 1968 de convention européenne sur la double imposition (Convention multilatérale entre les Etats membres des Communautés européennes, relative à la prévention de la double imposition du revenu et de la fortune et à l'assistance administrative mutuelle en matière d'impôts directs). 11414/XIV/68-F of 1 July 1968
- ¹⁵ European Commission, 2012: Communication from the Commission to the European Parliament and the Council. An Action Plan to strengthen the Fight against Tax Fraud and Tax Evasion. Available online at: <http://bit.do/action-plan-tax-evasion> [last access: 7 September 2018].
- ¹⁶ European Commission, 2015: Tax Reforms in EU Member States: 2015 Report, in: Taxation Papers Working Paper N. 58 – 2015. DOI: 10.2778/252251. Available online at: <http://bit.do/tax-reform> [last access: 7 September 2018].





60 rue Wiertz/Wiertzstraat 60
1047 Brussels, Belgium
www.greens-efa.eu
contactgreens@ep.europa.eu