POLICY STUDY
February 2025

TACKLING TAX AVOIDANCE

REFORMING CAPITAL INCOME TAXATION IN THE EU

Lauri Finér & Niko Pankka

Kalevi Sorsa Foundation

FEPS
FOUNDATION FOR EUROPEAN PROGRESSIVE STUDIES

Policy Study published in February 2025 by

THE FOUNDATION FOR EUROPEAN PROGRESSIVE STUDIES (FEPS)

European Political Foundation - Nº 4 BE 896.230.213
Avenue des Arts 46, 1000 Brussels (Belgium)
www.feps-europe.eu
@FEPS_Europe

KALEVI SORSA FOUNDATION

Siltasaarenkatu 18–20 C, 00530 Helsinki (Finland)
www.sorsafoundation.fi
@SorsaFoundation

This policy study was produced with the financial support of the European Parliament. It does not represent the view of the European Parliament.

The authors have also received financial support from the Employee Foundation and Kuluttajaosuustoiminnan säätiö foundation.

Project Coordination: Anna Kolesnichenko, Lauri Finér, Vanessa Zwisele
Review: Martti Nieminen, Sarah Godar, Tommaso Faccio, Anna Kolesnichenko, Chiara Putaturo
Copy editing: Rosalyne Cowie
Design: Triptyque
Cover photo: Shutterstock/Respiro

Suggested citation: Finér, L. & Pankka, N. (2025). ‘Tackling Tax Avoidance - Reforming Capital Income Taxation in the EU'. FEPS policy study. https://feps-europe.eu/publication/reforming-capital-income-taxation-in-the-eu/
Legal deposit registration number: D/2025/15396./09
ISBN number: 978-2-39076-014-6

TABLE OF CONTENTS

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Fostering welfare requires just and efficient taxation. Unfortunately, these targets have been undermined by tax avoidance and tax evasion related to international investment. Both multinational enterprises (MNEs) and wealthy individuals have been able to avoid tax by utilising loopholes in tax systems. These loopholes are often caused by a lack of coordination between national laws but also harmful tax practices that individual countries use to attract foreign taxpayers.

The good news is that the past decade has seen a major turn in tackling tax base erosion and harmful tax competition, mostly in the field of corporate tax. While several international reforms have made corporate tax avoidance and hiding assets offshore more difficult, capital income tax avoidance has not yet been addressed either in the EU or globally. This leaves a major risk of leaking tax bases.

This study describes the current state of capital income taxation and tax avoidance in the EU and presents policy proposals to solve current problems. The analysis is based on earlier research and analysis of the current capital income tax framework, as well as distinctive case studies that examine capital income tax regimes in 15 selected European countries.

Capital income taxation is an essential part of modern tax systems. Specifically, dividend and capital gains taxes play a significant part in progressive tax systems and are *a backstop* for earned income taxation, even in domestic situations. If the gap between earned income tax rate and integrated capital income tax rate is high, top income earners can avoid taxes by reframing their earnings as capital income.

In addition to revenue collection, the role of capital income taxation, and taxation of capital in general, is important in terms of redistribution. All taxes on capital fall mostly on the rich. This is because wealth – and thus its returns – that is, capital income, is globally concentrated. According to the World Inequality Report 2022, the global top 1% owned 38% of total household wealth in 2021. The wealth is concentrated even within the rich, as the share of the top 0.1% is 19%.

Capital income tax is not the only form of taxing capital. For instance, capital income tax is closely associated with corporate income, since dividends – subject to capital income tax – are normally distributed from corporate profits that form the tax base of corporate income tax.

Most countries also levy additional taxes on capital, such as wealth taxes, inheritance and estate taxes, as well as transfer taxes. The main difference between them and income taxes is that they are not levied on realised income but on gross or net value of assets. Therefore, these additional taxes do not take the taxpayers' ability pay into account, as income taxes normally do. As a result, revenues of these taxes are generally substantially lower than revenues from income tax, and they are used to complement rather than substitute capital income tax.

Estimates presented in the study show that globally, on average, the effective tax rates on capital income have decreased by five percentage points since 1965; meanwhile, the effective tax rate on labour has increased by over ten percentage points. The trend also indicates a decrease in the progressivity of taxation. In most countries, taxation is no longer progressive, as capital income is concentrated within the highest-earning 1%, and taxed at proportionally low rates. Currently, high-net-worth individuals effectively pay less tax than middle-class workers in many European countries. This is one reason behind the rise of wealth inequality everywhere since the 1980s.

In spite of that, the turn of the past decade in tackling tax base erosion seems to indicate a halt in the decline of capital tax revenues. In the EU, the average share of capital taxes of total revenues has increased from 19.8% in 2012 to 22.1% in 2022.

Furthermore, the EU's average personal capital income tax share of total tax revenues has increased slightly from 2.1% to 2.4%.

The common argument against taxing capital income or capital in general is that it would harm growth and investment. However, there is no unanimous evidence to support the claim. Instead, recent empirical research points the other way, as it has presented wide-ranging evidence that taxation of capital – notably of dividends – may not have much impact on investment and, therefore, on growth.

There is also similar evidence regarding other capital taxes. For one, decreasing the general corporate income tax rate does not necessarily have much impact on growth. In addition, inheritance and gift taxation may sometimes have a positive impact on business, as it could encourage transfer of its ownership to more dynamic entrepreneurs. Taxing assets can be an effective way to reallocate them to more productive uses.

"

Countries have their own tax systems, while capital is mobile and operates globally.

"

The fundamental reason for capital income tax base erosion is that countries have their own tax systems, while capital is mobile and operates globally. Cross-border harmonisation of capital income tax bases and rates is limited, even in the EU. Because of this, there are significant differences in capital income tax rates between countries but also within countries between different types of capital income. These differences offer de facto loopholes that facilitate tax avoidance. Different arrangements can be misused to apply low tax rates by shifting income type or realising income in low-tax jurisdictions.

"

Belgium, Malta, the Netherlands and Switzerland have zero or close to zero tax rates on capital gains.

"

The 15 case studies highlight various tax regimes that are used for tax avoidance. For instance, Belgium, Malta, the Netherlands and Switzerland have zero or close to zero tax rates on capital gains, which taxpayers in other EU countries can benefit from by avoiding the higher rates that would be applicable in their country of residence. Estonia and Malta, but also Finland, have very low tax rates for dividends that may cause similar problems.

The case studies also show that many countries have adopted specific investment tax regimes that foreign but sometimes also domestic taxpayers can benefit from to avoid tax. For instance, in Malta, foreign taxpayers can "purchase" a low flat 15% tax rate on most capital income by investing in local real estate worth €275,000.

The case studies also highlight good tax practices. Most countries analysed protect their tax base and tackle capital income tax avoidance with exit tax rules. Many countries, such as Denmark, Norway and larger EU economies like Germany and

France, have refrained from harmful tax measures and have in place relatively progressive taxation for owners of capital.

The study presents five essential tax policy recommendations that would tackle capital income tax base erosion and tax avoidance addressed in the study:

1) **The EU should adopt a directive establishing a minimum capital income tax rate.** The minimum tax rate would effectively end low taxation of capital income in the EU that causes most of the problems addressed in the study. It would put a floor on tax competition between countries, enhance a fair division of the tax base between countries and enhance efficiency of taxation in the European single market.

2) **The EU should adopt an anti-tax avoidance directive (ATAD) for capital income, including an exit tax rule for individuals.** This anti-tax avoidance measure would tackle tax avoidance facilitated by low-tax regimes in third countries. The directive should also lay down rules on how capital income tax base is shared between EU member states, similar to the current ATAD that covers corporate income tax.

3) **The EU should adopt a directive to tax unrealised capital gains.** Unrealised capital gains are tax exempt in nearly all countries. This is a major loophole that facilitates tax avoidance with holding companies and similar structures. They allow for deferring the realisation of income indefinitely, and thus, the income might never be taxed. Due to this, paying capital income tax is partially voluntary to high-net-worth individuals. The EU should include unrealised capital gains in the minimum tax base, as they should be taxed the same as other income types.

4) **The minimum capital income tax rate should be complemented with net wealth taxes on the ultra-rich.** Net wealth taxes on high-net-worth individuals would be efficient in tackling wealth concentration and increase the transparency of wealth.

5) **The scope the EU Code of Conduct on Business Taxation should be extended to include capital income taxation.** Currently, the Code of Conduct only assesses tax measures in the field of corporate income tax. However, harmful capital income tax practices in member states may also significantly distort the single market. Therefore, the scope of the Code of Conduct should be extended to capital income taxation.

1. INTRODUCTION

1. INTRODUCTION

Taxation shapes our societies, as it is a key measure in funding welfare services and green investment, as well as in redistributing income and wealth. A better future requires a just and efficient tax system both nationally and globally. Unfortunately, a lack of coordination between national tax regimes and harmful tax competition between countries have compromised these targets by facilitating tax avoidance and tax evasion. This has put into question countries' ability to tax mobile capital in an effective manner. Additionally, national governments have too often introduced tax reforms that favour the wealthy and refrained from tackling tax avoidance that benefits the few. This has resulted in the concentration of wealth globally and undermined the ability of national governments to finance reforms that enhance their citizens' welfare.

However, the past decade has seen a major turn in tackling *harmful tax competition*,[1] as well as international tax avoidance and tax evasion by corporations and individuals. The recent reforms of the international tax regime have been the most substantial since the League of Nations initial tax conventions in the 1920s. The main focus of these reforms has been in tackling profit shifting by MNEs, as well as base-eroding harmful tax competition. In addition, countries have adopted measures for cross-border administrative cooperation, such as automatic exchange of financial account information to prevent tax evasion related to individuals' offshore investment.

The EU has been at the forefront of this development, having a significant role in the global tax negotiations facilitated by the Organisation for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting Project (BEPS) and the OECD Inclusive Framework.[2] The EU has also implemented international agreements in a harmonised way. The BEPS measures were introduced in the EU by adopting the ATAD for corporations in 2016.

A major breakthrough was accomplished in October 2021, when over 135 jurisdiction countries joined the OECD two-pillar solution, whose second pillar introduced 15% minimum corporate income tax rate for large MNEs. The EU countries were among the first to implement the global deal by adopting a directive on the minimum corporate income tax rate in December 2022. The directive has been applied since the beginning of 2024.

The OECD has estimated that the minimum tax will halve profit shifting globally and that the share of low-tax profits will shrink by as much as 80% in the coming years.[3] In addition, the EU Tax Observatory has estimated that tax evasion related to household financial wealth held offshore could have already fallen by two thirds due to automatic exchange of bank account information. Information exchange between tax administrations has been conducted between more than a hundred countries since 2017 based on the OECD Common Reporting Standard (CRS).[4]

This shift in limiting tax competition gives national governments more leeway to increase taxes on corporate profits and capital, if they wish to do so. The share of capital taxes of total tax revenues has already increased in the past few years (see Section 2.2). The decline of capital taxes that has continued for decades – sometimes called the *race to the bottom* – may finally have been called off. This trend could also challenge the evolution of wealth concentration that has continued globally since the early 1980s.

Even if recent developments have been encouraging, several loopholes remain in the international tax regime. The advanced administrative cooperation in tax matters has made tax evasion related to international investment more difficult. Consequently, it is substantially more difficult to evade personal taxes from capital income.

However, measures adopted against *tax evasion* do not yet concern personal income *tax avoidance*. In addition, the recent focus of tax base harmonisation in the EU has mainly been focused on corporate taxation (see Section 3).[5] This increases the profitability of capital income tax avoidance in proportion to corporate tax arrangements. As a consequence, harmful tax competition might shift to individuals' capital income taxation, as taxation of dividends and capital gains are complementing forms of taxing corporate profits. Evidence of such development has already been seen in several European countries.[6]

This development follows the fundamental logic of mobile capital: it seeks out and flows through the most profitable loopholes. In this case, assistance by tax advisors who earn by gaining a share of their clients' tax savings is a crucial issue. The opening of global capital markets and digitalisation have also decreased the costs of tax avoidance arrangements and increased the profitability of tax advisory business. Today, it is possible to establish holding companies offshore in just a few clicks and with a couple of hundred euros. Digitalisation also facilitates packaging and scaling up of tax avoidance arrangements, which makes it profitable for tax advisors to sell them to smaller clients. Similar income-shifting arrangements can be used in many different businesses, which decreases the administrative transaction costs per arrangement significantly.

Therefore, in the coming years, the focus of international tax cooperation and harmonisation should be more on capital income taxation of individuals. The recent proposals to tax the ultra-rich based on the value of their net wealth would appropriately complement these discussions. Such a proposal of a global 2% minimum net wealth tax for billionaires was discussed at the G20 high-level meetings hosted by Brazil in the summer and autumn of 2024.[7]

This study seeks to supplement these proposals by identifying loopholes and asymmetries of national capital income tax regimes in Europe, with an objective to discuss how capital income taxation should be harmonised and developed in the EU. Section 2 of the study describes the role of capital income taxation in the tax system, and Section 3 presents the current problems of capital income taxation based on earlier research and the current international legal framework. Case studies on 15 different European tax regimes are presented in Section 4.

Finally, Section 5 concludes by addressing how the loopholes and asymmetries discussed in the study could be tackled. These policy recommendations include the means to harmonise capital income taxation in the EU, as well as measures that could be adopted nationally. The policy recommendations also discuss alternative means of taxing capital in the EU, such as wealth taxes and corporate income taxation, as well as the possibility of complementing the EU's own resources by capital taxes.

2. WHAT IS CAPITAL INCOME TAXATION?

2. WHAT IS CAPITAL INCOME TAXATION?

2.1 The role of capital income taxation in financing budgets and redistribution

Capital income tax is levied on individuals' net capital income, which means expenses incurred in generating the income are deducted from the gross income. The different types of capital income are classified in international tax treaties that govern taxation in cross-border situations and national laws (see Section 3). They include recurring returns from capital, such as dividends, interest payments, rents, investment fund returns ("profit shares") and royalties, as well as one-off capital gains from sales of assets. The case studies in Section 4 discuss all these income types, except royalties that are mostly accrued by corporations instead of households, which are the main subject of this study. Rents from real estate are not discussed in this study either, as its focus is on income based on corporate profits.[8]

Capital income taxation plays a role in all four main purposes of tax: collecting revenue; redistribution; steering behaviour; and representation of citizens (see Box 1). This section discusses the first two more thoroughly: capital income tax in terms of revenue and redistribution. These purposes could be considered most relevant, specifically in the context of capital income taxation, although capital income taxation could also be considered a Pigouvian tax, as described later in the section.

BOX 1. The four Rs of tax.

Taxation has four main purposes or benefits; these are often called the *four Rs of tax*.[9] The first and perhaps the main purpose of tax is collecting *revenue* to fund public services, investment and subsidies, as well as social benefits. In other words, taxation is an essential tool to transfer resources in a society.

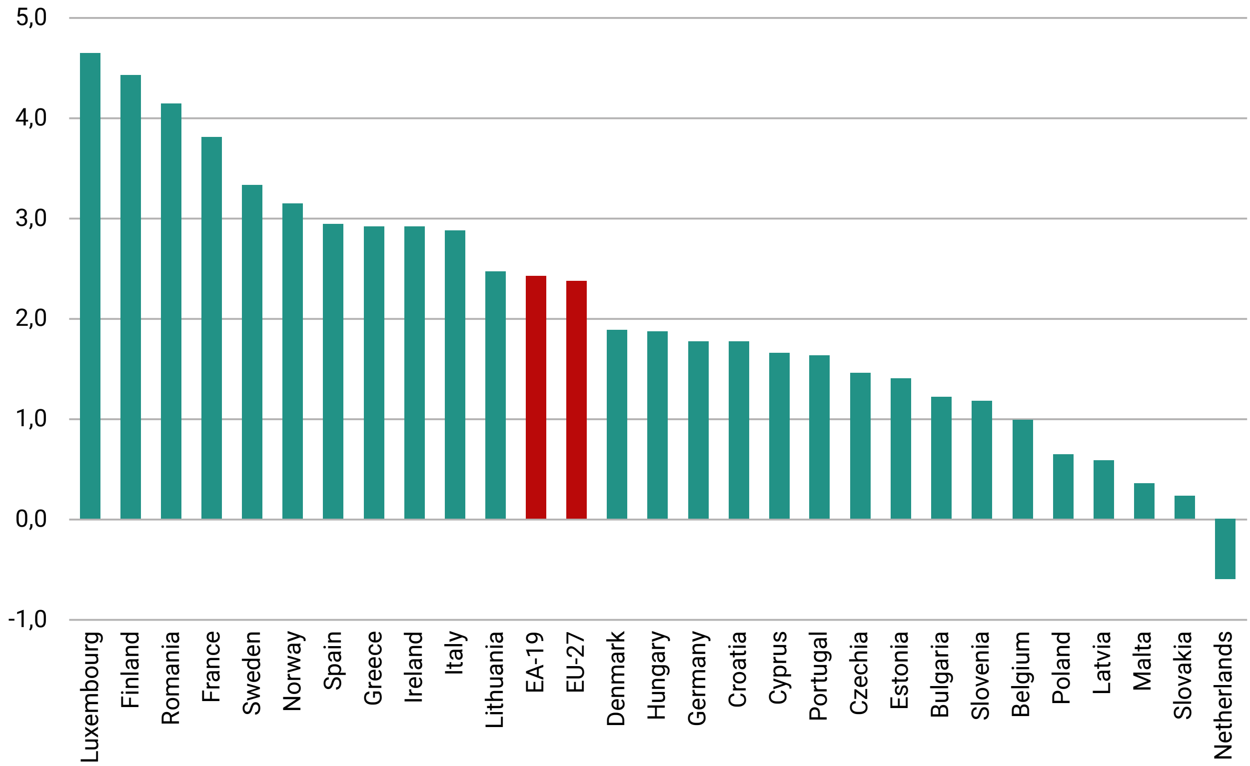
This is linked to the second purpose of tax: *redistribution*. Taxation is an integral part of income transfer systems that are necessary to tackle inequality and poverty. In most countries, personal income taxation is at least partially progressive, which means those with higher income and wealth pay proportionally higher tax. This is in accordance with the *ability-to-pay principle* of taxation. However, it should be stressed that tax systems as a whole are not usually progressive, as high capital incomes are taxed at relatively low tax rates (see Section 2.2).[10]

The third purpose of tax, *repricing*, denotes the steering role of taxation. For example, higher so-called *Pigouvian taxes* could be levied on harmful activities to tackle *negative externalities*, and tax subsidies could be used to endorse *positive externalities*. Carbon taxes are a common example of such steering taxes.

The fourth function of taxation, *representation*, refers to the role of taxation in *the social contract*. Taxation makes politicians accountable to taxpayers, whose resources the government utilises.

In 2022, on average, 2.4% of tax revenue in EU countries derived from personal capital income taxation (see Figure 1). The share has slightly risen in the past decade, from 2.1% in 2012. The share varies significantly between member states, shifting from a decrease of 0.6% in the Netherlands and to an increase of 4.7% in Luxembourg.[11] In proportion to GDP, capital income taxes in the EU were, on average, 1.0% in 2022 in comparison to 0.8% a decade earlier.

FIGURE 1. Households' income taxes on capital in 2022 (% of total taxation, EU27 and Norway).



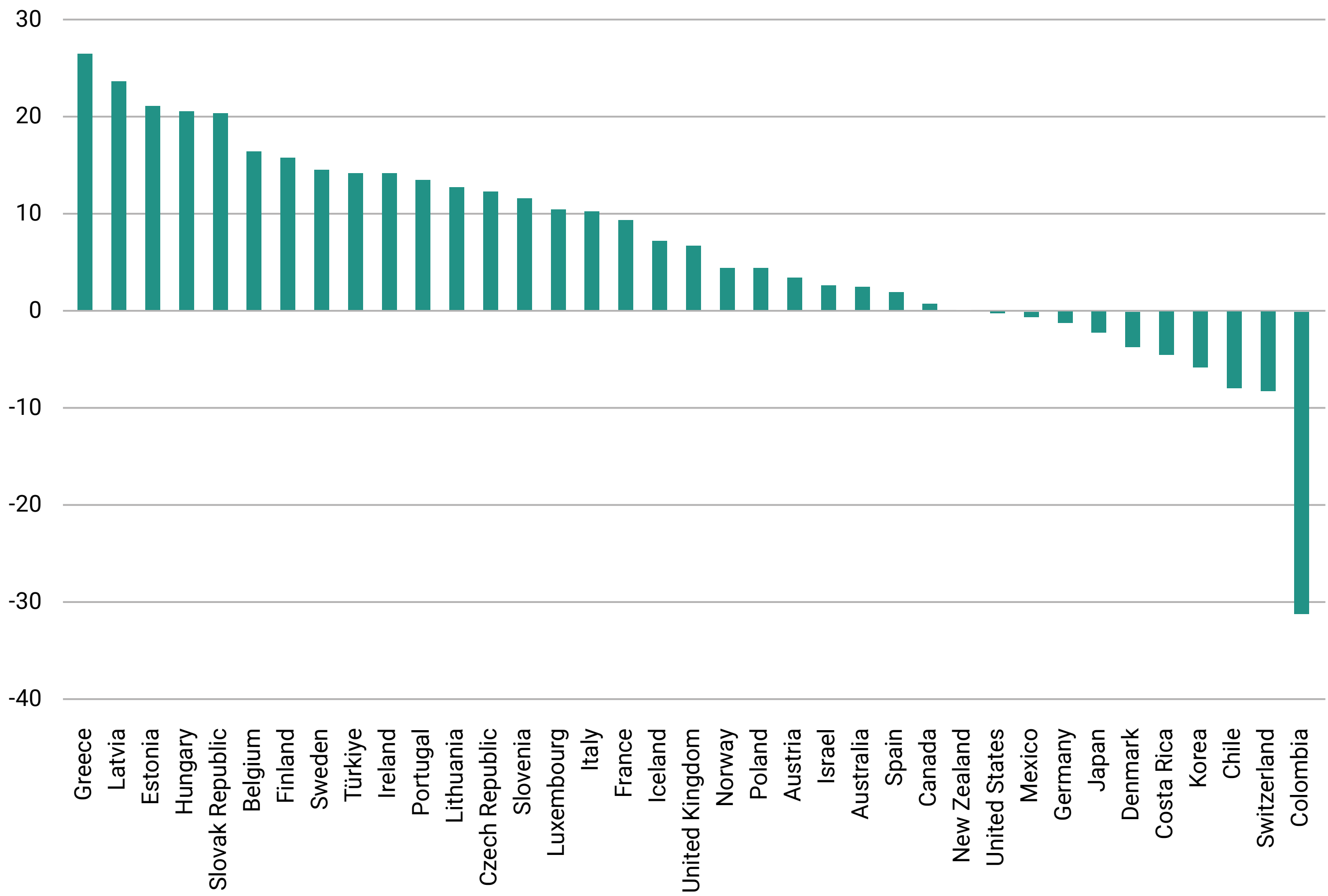
Data on Croatia has lower reliability. Source: European Commission (2024): Data on Taxation Trends.

It can be said that personal capital income taxation generates significant tax revenue but is not its largest source. However, the significance of personal capital income taxation in revenue collection is far greater than its direct revenues. Capital income taxation, more specifically dividend and capital gains taxes, play a significant role in progressive income tax systems and constitute *a backstop* for earned income taxation.

A progressive earned income tax needs capital income tax as a backstop because high-earning individuals can avoid taxes by shifting their earnings to capital income in countries where the gap between earned income tax rate and integrated capital income tax rate is high. This is because, in most countries, taxation of capital and earned income is at least partially differentiated. Many high-earning individuals have the chance to withdraw their employment income through their holding companies instead of through a salary and will take advantage if capital income is taxed less than directly paid salaries.[12] This advantage not only affects self-employed or owner managers, but also normal employees, for example, medical companies have established holding companies for their doctors to attract and incentivise them with lower taxation on their labour.[13]

This kind of tax planning or tax avoidance, called *income shifting*, is common in many countries where effective *integrated tax rates* on dividends are lower than income tax, on average, and high wages (see Figure 2 and Box 2).[14] The integrated dividend tax rate stands for the combined effective corporate income tax and dividend tax, as generally both need to be paid if income is shifted through a holding company instead of a direct salary. It should be noted that other tax-planning arrangements, or simply retaining profits in a holding company, could also be used to avoid the dividend tax (see Section 3.3).

FIGURE 2. Difference in tax rate for wage income and integrated dividend income in OECD countries in 2021 (percentage points).



Difference in effective tax rates (percentage points) when total labour cost or shareholder profits are five times the average wage. Integrated dividend tax rate includes corporate income tax and capital income tax on dividends. Source: OECD (Hourani et al. 2023).

Earned income tax revenues are also at risk if capital income tax is not at a sufficient level.

Therefore, earned income tax revenues are also at risk if capital income tax is not at a sufficient level. This is important, as earned income forms the most important base for tax revenue in most countries, with just over half of tax revenues, at 50.6%, on average, in the EU in 2022. Sufficiently high capital income tax secures these revenues as the necessary backstop: more and more high-earning individuals avoid taxes by shifting their earnings into capital income when the gap between earned income tax rate and integrated capital income tax rate increases.

Box 2. Business taxation systems differ between countries.

Nearly all countries apply double-level taxation on corporate profits of limited companies. This means that the profits are taxed both when the corporation makes them and when they are distributed to shareholders as dividends. However, unincorporated businesses, such as sole proprietors and partnerships, are usually taxed only at the level of the individual owner or entrepreneur. In this single-level taxation system, the income is deemed to pass directly to through to individual. However, there are important exceptions to this division between the two taxation systems. For instance, many countries have anti-tax avoidance laws that allow for the taxation of undistributed corporate profits as the income of individual owner in some circumstances.[15]

The different taxation of different corporate forms might lead to different tax rates for similar types of businesses. This could also facilitate tax avoidance. In a single-level taxation system, the individual is usually subject to normal personal income taxation, which is often progressive. In two-level taxation, the corporate income tax rates are usually flat, but the taxation of dividend income, that is, capital income, varies considerably between countries. Generally, the difference in tax rates between different corporate forms is compensated for by either relatively low capital income tax rates or crediting the corporate tax from personal income tax. Due to this, two-level taxation of profits usually does not necessarily lead to higher effective taxation compared to single-level taxation. Instead, two-level taxation is often more attractive, and larger businesses nearly everywhere are incorporated. Therefore, the focus of this study is mostly on the taxation of capital income from incorporated businesses.

Many countries have so-called classical dividend taxation systems, where there is no specific relief from personal income tax based on the income tax paid by the corporation prior to distributing dividends. However, some countries have full (e.g., Australia) or partial (e.g., Canada) dividend imputation, which means income tax paid by the corporation is credited from the capital income tax of the individual receiving the dividend.[16]

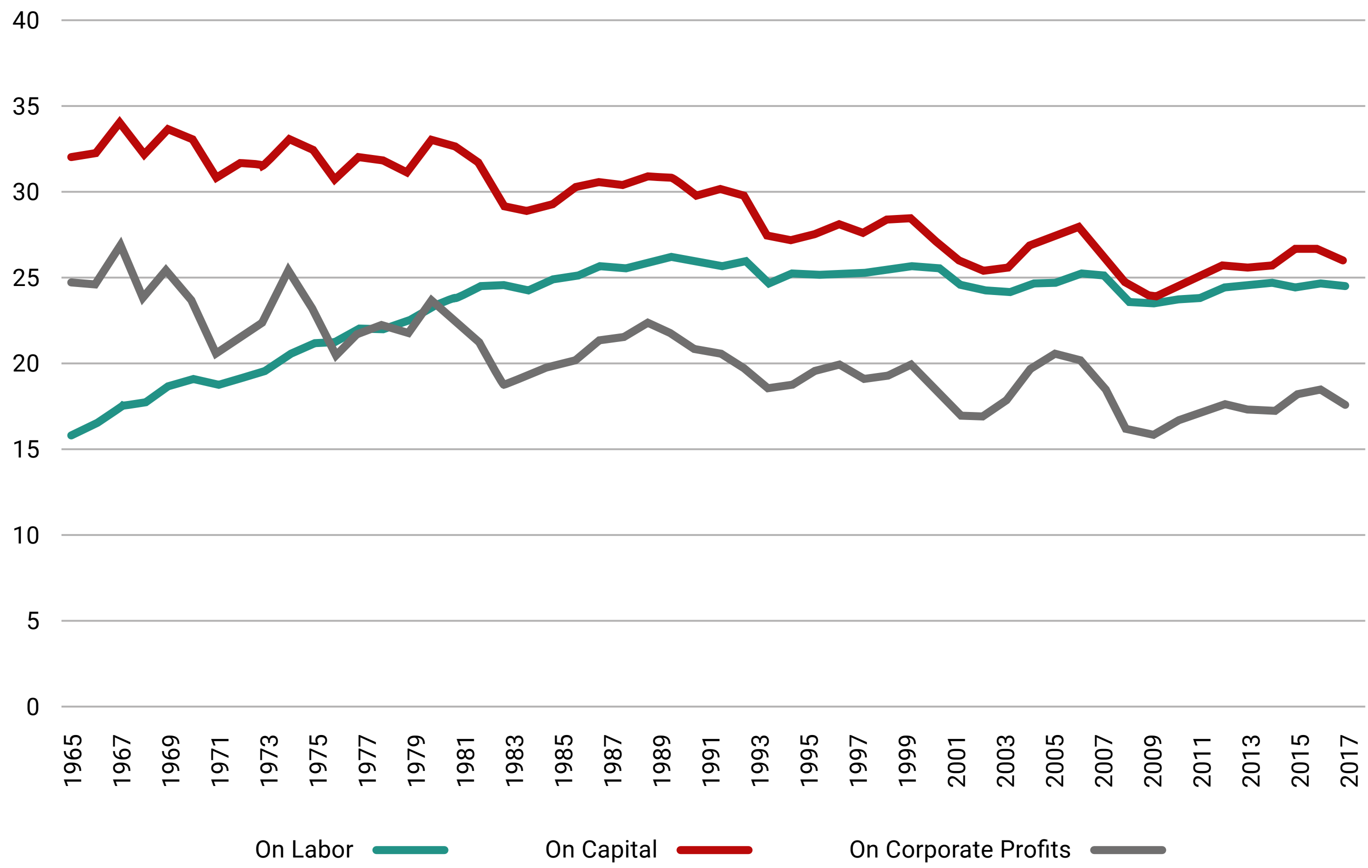
Dividends and other capital income are subject to flat or progressive tax rates, usually depending on whether the country has a dual income or comprehensive income tax system. Most countries have a comprehensive tax system, where both earned and capital income are taxed at the same rates. For instance, the Nordic countries have dual income tax systems, where earned income is taxed at a progressive rate and capital income at a more or less flat rate. Due to different tax treatment of different income types, dual income tax systems are more vulnerable to tax avoidance by income shifting (see Section 3.3.). However, this behaviour is also relatively common in countries with comprehensive tax systems; they usually have exceptions where flat or lower tax rates are applied to some types of capital income.

The role of capital income taxation is perhaps even more important in terms of redistribution. This is because wealth – and thus its returns – are globally concentrated at the top of wealth distribution. According to the World Inequality Report 2022, the global top 1% owned 38% of total household wealth in 2021.[17] The wealth is concentrated even within the rich, as the share of the top 0.1% is 19%.

Wealth inequality is generally high within all countries, but the concentration levels vary. In western countries, the top 10% wealth share varies generally between 45% and 70%, whereas in BRICS countries the share is above 55%, with as much as 85% in South Africa.[18] Wealth is concentrated mostly to the top 1%. The share was, on average, 22% in western Europe, 36% in the USA and nearly 40% in BRICS countries. The concentration of wealth also means that for the highest-earning 1% capital income is the most significant source of income, whereas all the others live mostly on earned income.[19]

Wealth inequality within countries has generally risen all over since 1980s, which reflects the increased corporate profits share of GDP, as well as a reduction of taxes on capital in proportion to other taxes. A well-known study has estimated that globally, on average, the effective tax rates on corporate profits and other capital income have decreased by five percentage points since 1965, while the effective tax rate on labour has increased by over ten percentage points (see Figure 3).[20]

Figure 3. Effective tax rates (%) on capital and labour from 1965 to 2018 (global average).

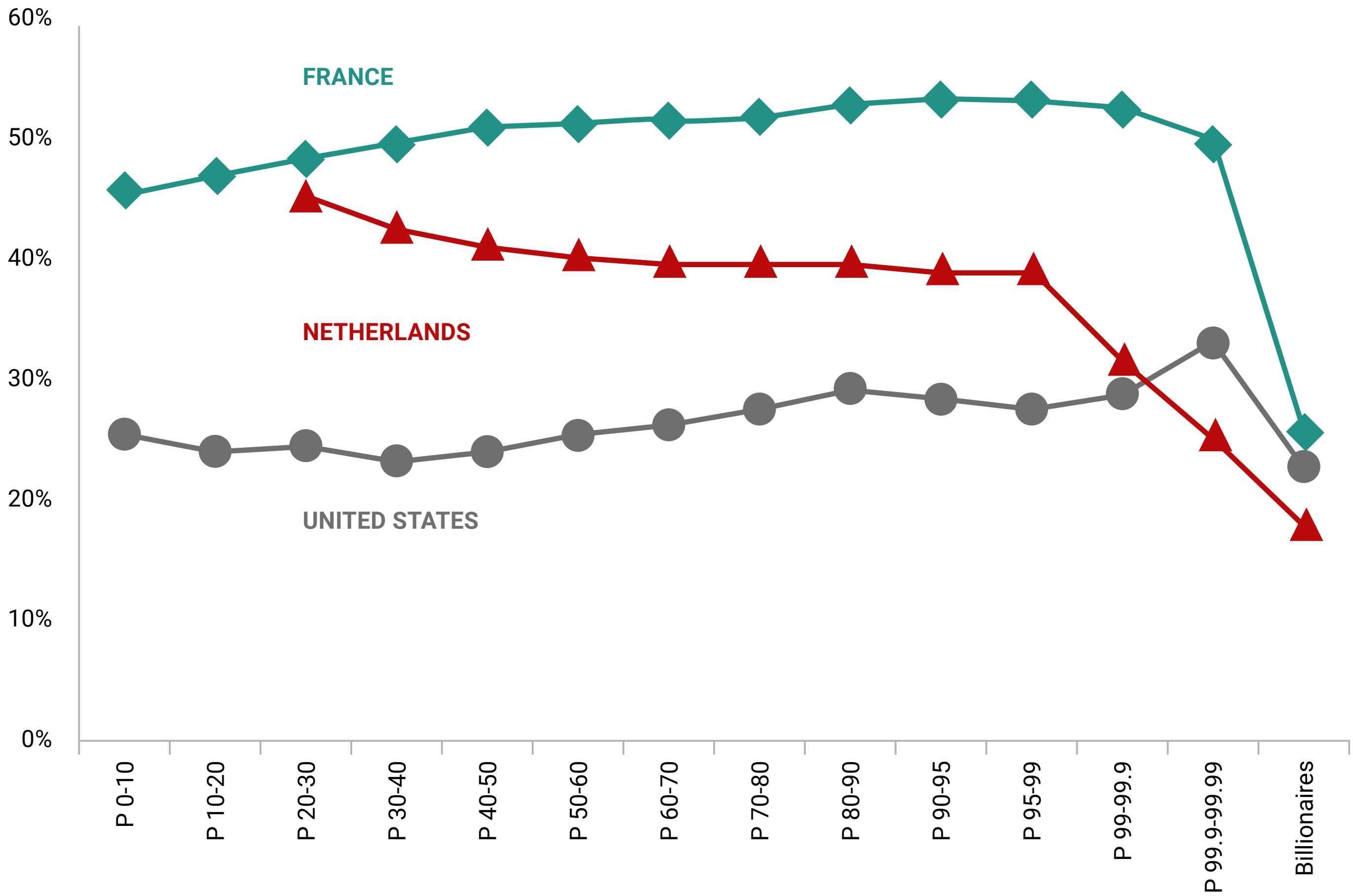


Data based on national account data since 1965. Estimations have required several assumptions, as exact figures are difficult to measure (see the source). Source: Bachas et al. 2022.

The development also indicates a decrease in the progressivity of taxation: the effective tax rates on both the capital and labour are currently close to same level, even though capital income accumulates on high earners. The trend has been similar in high-income countries, including Europe.

The increasing share of regressive taxes, such as consumption taxes in most European countries, has accelerated the decline of progressive tax systems. Currently, high-net-worth individuals effectively pay less tax than middle-class workers in many European countries (see Figure 4).[21]

Figure 4. Average tax rates by group in the USA, France and the Netherlands (% of pre-tax income).



Source: Alstadsæter et al. 2023.

The concentration of wealth is expected to soar in the future without a significant increase in the taxation of capital and shifts of market power between labour and capital.[22] This will eventually be – if it is not already – harmful to societies and democracy, as concentration of wealth also means concentration of market power and political power. Therefore, capital income taxation could be deemed a Pigouvian tax in the sense that it tackles the harmful consequences of wealth concentration.

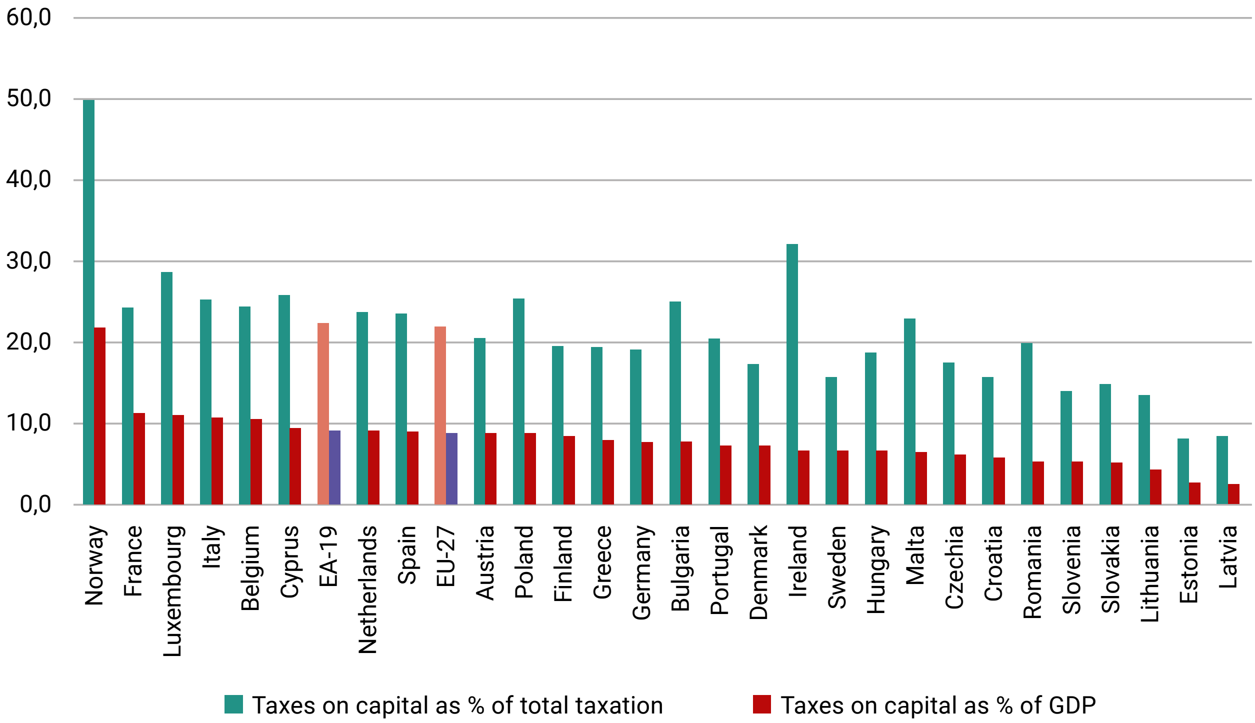
2.2 Capital income tax is just one form of taxing capital

Capital income tax is not the only form of taxing capital. Firstly, capital income tax is closely associated with corporate income tax, which could be economically understood as a prepayment of capital income tax, more specifically capital income tax on dividends.[23] This is because dividends are paid out from corporate profits that form the tax base of corporate income tax.

Secondly, in addition to income taxes, many countries levy other taxes on capital, such as net wealth taxes, inheritance and estate taxes, transfer taxes, and real estate taxes. These taxes also fall mostly on the rich and could be used to tackle wealth concentration. The main difference between these taxes and income taxes is that they are not levied on realised income but on gross or net value of assets. Therefore, these taxes do not take the taxpayers' ability pay into account nor income taxes. Because of this, for example, net wealth taxes are not generally proportionally as high as income taxes. Therefore, they are used to complement rather than substitute capital income taxation.[24]

In 2022, on average, 22.1% of tax revenue in EU countries derived from all taxes on capital (see Figure 5). The share has risen in the past decade, from 19.8% in 2012. In proportion to GDP, taxes on capital were 8.9% in 2022, in comparison with 7.8% a decade earlier.[25]

Figure 5. Taxes on capital in 2022 (% of total taxation and as % of GDP, EU27 and Norway).



Data on Croatia has lower reliability. Source: European Commission (2024): Data on Taxation Trends. The share of capital taxes of total taxation in Norway was as high as 50.0% in 2022, but the year was exceptional, with Norway gaining hugely due to high energy prices, as petroleum companies pay total corporate income tax of 78% from their profits. In normal years, the share was still relatively high, mostly well above 20%, and even over 30% in many previous years.

Figure 5 shows the capital tax share of total taxation in the EU in 2022, which varied between 8.2% in Estonia and 32.2% in Ireland. Variation in taxes on capital in proportion to GDP is similar.

The average corporate income tax rates in the OECD countries have more than halved since the 1970s, although the effective tax rates have not declined as much.[26] This development has often been called the race to the bottom, which is led by so-called *corporate tax havens*.[27] It is noticeable that well-known EU corporate tax havens, such as Cyprus, Ireland, Luxembourg, Malta and the Netherlands, all generate high tax revenues from capital; this is mostly related to the exceptional presence of MNEs and foreign investors in these countries, and indicates that they have benefited from tax competition, which has also attracted tax bases of other member states. It also indicates the impact of the OECD BEPS project in tackling corporate tax avoidance: the effective corporate income tax rate, for example, in Ireland has already increased significantly after the adoption of BEPS measures.[28] The share of corporate income tax revenue of total taxation in Ireland has more than doubled, from 8.1% in 2012 to 21.5 in 2022.

Personal capital income tax formed 11% of taxes on capital in the EU countries, on average. The share was 73% if the corporate income tax and capital income tax of the self-employed are also accounted for, but the share varies significantly between member states. Unfortunately, there are no accurate statistics that show how the capital income tax revenues are divided between different types of capital income, such as dividends and capital gains.

2.3 Taxing capital does not need to harm economic growth

The common argument against taxing capital income or capital in general is that it would harm growth and investment. This narrative is often driven by lobbying efforts and represented by those representing corporate interests or the interests of the wealthiest. Yet the argument is not alien to academic discussion. In particular, older theoretical research has stressed that taxes on profit increase the cost of capital that could thus have a negative impact on investment and growth.[29]

In spite of this, there is no unanimous evidence that would support the claim. Instead, more recent empirical research points to wide-ranging evidence that taxation of capital may not have much impact on investment. Several studies have shown that dividend taxation does not necessarily have a significant effect on investment and, therefore, its impact on growth would also be muted.[30] There is also similar evidence regarding general corporate income tax: decreasing statutory corporate income tax rate does not necessarily have much impact on growth.[31] However, at least under some circumstances, more targeted tax incentives have had some impact on investment.[32] There are also studies on other types of capital taxes that highlight taxing capital and the rich could not have a harmful impact on growth after all.[33] For example, inheritance and gift taxation might sometimes have a positive impact on business, as it could encourage the transfer of its ownership to more dynamic entrepreneurs.[34]

To conclude, evidence of the harmful impact of capital taxation is weak. There could be several reasons for this. The first is the most obvious. Taxation is an income or wealth transfer, and the taxes collected will typically be used for other purposes. If the other use enhances growth, taxation might even have – indirectly – a positive impact on growth. Transferring funds to lower-income groups through taxation of capital could also increase demand and spur growth, as lower-income groups generally consume a larger share of their income. Another potential positive impact of capital taxation is that it could tackle the harmful concentration of wealth, and thus market power, which could improve the functioning of the economy.

3. CAPITAL INCOME TAX BASE EROSION IN THE EU

3. CAPITAL INCOME TAX BASE EROSION IN THE EU

3.1 The current international capital income tax framework has many flaws

The capital income tax base could erode, even in a national context, for example, due to tax incentives (see Sections 3.3.3 and 3.3.4). However, in an international context, the fundamental reason for capital income tax base erosion is that countries have their own tax systems, while capital is mobile and operates globally. Cross-border harmonisation of capital income tax bases and rates is limited, even in the EU, and individual countries enjoy generally wide sovereignty to define their tax laws (see Section 3.2).

"

In an international context, the fundamental reason for capital income tax base erosion is that countries have their own tax systems, while capital is mobile and operates globally.

"

Due to this, capital income tax rates vary between countries. As a result, it is possible to avoid taxes by shifting income to low-tax jurisdictions with different arrangements or moving tax residence there (see Section 3.3). Tax avoidance also utilises loopholes caused by the asymmetry between national tax bases. This asymmetry causes so-called *double non-taxation*, which means that in some cases capital income is not taxable in any country. It is also possible to evade tax illegally by hiding capital abroad from local tax authorities if they are not informed of the existence of the assets and their returns through cross-border administrative cooperation.

Countries have obviously been long aware that the interplay between national tax laws and transnational capital facilitates tax avoidance and evasion. However, the states have not been able to abolish these *gaps and mismatches* sufficiently with cross-border cooperation. This is mostly due to the fact that some countries benefit from *harmful tax competition* by attracting mobile capital with low or non-taxation.[35] The countries that exercise an extreme form of such tax competition are often called tax havens. The OECD considers this sort of tax competition harmful due its corrosive impact on welfare and the sovereignty of democracies.[36] However, other types of tax competition could also be considered harmful in the sense they are detrimental for revenue collection and, for instance, to the EU as a whole. Non-coordinated tax competition might also lead to efficiency losses.

Therefore, countries, MNEs and high-net-worth individuals benefiting from the status quo have an incentive to hamper policies that aim to tackle tax avoidance and harmful tax competition. There is evidence that corporate lobbyists and tax advisors facilitating tax avoidance have exercised significant influence over countries and international organisations to compromise policies that aim to tackle tax avoidance.[37] Despite this, important progress in international tax cooperation has been achieved in the past decade.

The contemporary international income tax regime dates back to the League of Nations negotiations in the 1920s.[38] The regime relies on thousands of bilateral and multinational tax conventions between jurisdictions that address the division of income tax bases and administrative cooperation in cross-border situations.[39]

Even though most of the conventions are bilateral, they are usually very similar, as they are based on model tax conventions of international organisations. Generally, either the source country of income or resident country of its recipient has the taxing power of income in cross-border situations or the taxing power is shared. However, there are several exceptions, depending on, for example, the income type, national laws and special characteristics of a given tax treaty.

The first models were designed by the League of Nations in the 1920s, and current tax conventions are usually based on either the OECD or the UN models.[40] The basic principles of the international tax framework have remained more or less the same since the 1920s until the beginning of the 21st century. The focus of the cooperation has been more on preventing double taxation in cross-border situations and less on tackling double non-taxation and tax evasion.[41]

"

Harmful tax competition and tax avoidance has already shifted – or extended – to personal capital income taxation.

"

However, as described in Section 1, the past decade has seen a major turn in international tax cooperation. The focus of this development has been on tackling profit shifting of MNEs by corporate income tax base and rate harmonisation, as well as preventing tax evasion related to foreign investment by administrative cooperation. This positive development regarding *tax evasion* does not yet concern personal capital income *tax avoidance*, as described in Section 3.3. This increases the proportional profitability of capital income tax avoidance. As a consequence, harmful tax competition and tax avoidance has already shifted – or extended – to personal capital income taxation, as taxation of dividends and capital gains are complementing forms of taxing corporate profits. Evidence of such development has already been seen in several European countries, such as Cyprus, Greece, France, Ireland, Italy, Luxembourg, Malta, Portugal, Spain, Switzerland and the UK.[42]

3.2 How has capital income taxation been harmonised in the EU?

Individual countries enjoy generally wide sovereignty to define their tax laws, even in the EU. However, EU fundamental freedoms of the single market, such as the free movement of capital, impose some limitations, especially in discriminating non-resident taxpayers. Taxes are also collected mostly at the national level and, currently, customs duties can be understood as the only direct tax levy of the EU's own resources. In addition, an important part of the EU's own resources are calculated based on value-added tax (VAT) bases in the member states. Capital taxes are currently only collected at the national level.[43]

Tax bases have also been harmonised in the EU based on directives, but this harmonisation is very limited in the field of individuals' capital taxation. The directive concerning interest and royalty payments is the most important exception to the rule, but its significance is limited, as its principles are similar to the tax treaty provisions most countries had adopted before the directive.[44] The directive limits the taxing power of interests and royalties to the residence jurisdiction when the income is sourced from an EU country.

There are also several directives that govern corporate income tax. The Parent-Subsidiary Directive exempts intra-group dividends from tax within the EU when the dividends are paid out to a company that owns at least 10% of the distributing company.[45]

ATAD sets a minimum standard for national corporate anti-tax avoidance rules for EU member states.[46] The global minimum corporate income tax rate of 15% for MNEs has also been implemented in the EU with a directive from the beginning of 2024.[47] The minimum corporate income tax rate has been agreed by 140 countries globally.

In addition, the EU has adopted several directives that deal with administrative cooperation and transparency that aim to tackle tax evasion and fraud. These directives include the Directive on Administrative Cooperation (DAC), which also has an impact on capital income taxation.[48]

Furthermore, soft law instruments could have a harmonising effect on capital income tax in the EU. The EU Code of Conduct on Business Taxation, the aim of which is to curb harmful tax practices within the EU, is the most significant example of such a guideline. However, it was previously assumed that personal income tax practices in member states would not distort the single market and, therefore, only corporate income tax was included in the Code of Conduct. Recently, the European Parliament has proposed reforming the Code of Conduct by including personal income taxes.[49]

3.3 What do we know about the loopholes of the capital income tax base?

3.3.1 Harmful tax competition and tax base asymmetries facilitate tax avoidance

In a market economy, mobile capital follows a simple logic – at least to a certain extent: it seeks out and flows through the most profitable loopholes. That is, tax will be avoided if it is possible to avoid it with reasonable transaction cost.

In general, international tax avoidance is made possible by two mechanisms: unintended tax base asymmetries between different countries and deliberate harmful tax competition. The unintended tax base asymmetries are caused by a lack of cross-border cooperation and insufficient information on foreign tax bases. Sometimes there is also a lack of political will to close down these loopholes, even when they are discovered since, for example, some powerful citizens and corporations benefit from them.[50]

Sometimes low tax rates might be legitimate from the perspective of a single country, but unintendedly turn out harmful in an international context. For example, there might not be a need for a dividend tax in a country if corporate profits were instead taxed with sufficiently high corporate income tax. However, in an international context, such a regime could be problematic, as foreign individual taxpayers and corporations could also benefit from non-taxation of dividends, even on corporate profits, which were taxed at a low rate in another jurisdiction.

Harmful tax competition facilitates foreigners' tax avoidance in jurisdictions where they are tax resident. In this sense, it harms the national sovereignty of other jurisdictions to tax their own residents and income sourced from there. Low-tax jurisdictions usually benefit indirectly from tax-avoiding behaviour, as some businesses, such as banks and tax advisors, locate their operations there to assist in tax avoidance. They might also receive some tax revenue, although much lower than the tax avoided in the resident jurisdiction.

What is common with these two mechanisms is that tax avoidance is facilitated by substantially lower tax in another jurisdiction. Some countries have, for example, given up on taxing estates, inheritances, gifts, net wealth or capital gains and substituted them with other, often regressive, taxes or by keeping government spending at a lower level.[51] Section 4 of the study shows that several European countries do not tax all types of capital income and many offer low tax rates.

Tax havens generally have low taxes for offshore capital or immigrating foreigners. Previous research has perceived two general types of harmful tax regimes regarding capital income tax. The case studies in Section 4 describe some of the regimes in detail.[52]

1) *Preferential taxation of capital income sourced abroad.* This allows for avoiding tax from capital accumulated, for example, in the current residence jurisdiction by shifting the tax residence. These types of regimes exist in Greece, France, Ireland, Italy, Luxembourg, Malta, Portugal, Spain, Switzerland and the UK. In some cases, the preferential regimes are restricted to targeted groups, such as retirees or *nomad workers*, who can work remotely anywhere.

2) *Tax residence by investment programs.* Some European countries offer citizenship or residence by sufficient investment, such as real estate or a stake in local businesses. In many cases, for example, real estate investment allows de facto "buying" a tax residence for the wealthy, and these programs can also accompany certain tax benefits, such as lower tax on capital income. The programs often also allow visa-free travel in the Schengen area and are sometimes limited to non-EU citizens.[53] These types of regimes have existed in Austria, Cyprus, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, Netherlands, Portugal, Spain and the UK.

3.3.2 Loopholes in exit taxation

According to the international capital income tax regime, a source country, namely, the country where income is generated, usually has the right to levy tax on it, in addition to the resident country of the individual.[54] However, in the case of capital gains tax, only the country where the person is tax resident has the power to tax the gain, according to most tax treaties, even if the gains are derived from, for example, the sale of shares in a foreign company.[55] In most cases, this principle also applies to *unrealised capital gains*, which are increases in asset values not yet taxed, since capital gains are usually taxed when assets are sold or otherwise transferred to other taxpayers.[56]

Because of this, most European countries have some sort of *exit tax* system that allows them to tax the unrealised capital gains when a person moves abroad before realising their capital gains. For multinational corporations, the exit tax rules are harmonised in the EU with ATAD (see Section 3.2). Usually, the exit tax must be paid when the capital gain is realised after moving, as EU legislation limits levying exit tax at the moment of migration.

However, some countries do not have such exit tax legislation and, in most countries that do, the exit tax is only applied to some part of unrealised gains, such as when they exceed a certain amount. This could be considered a loophole in capital income tax base, as it is possible to avoid tax by accumulating profits to, for example, a holding company and moving to a low-tax jurisdiction before realising them. However, a reasonable threshold to exempt small capital gains from exit tax can be justified to reduce disproportionate administrative burden.

3.3.3 Unrealised capital gains are often tax exempt even in domestic situations

Even if most countries tax unrealised capital gains when a person moves abroad, they are generally not taxed at death or when assets are gifted to another taxpayer. This means that even countries that have inheritance and gift or estate taxation generally exempt all unrealised capital gains at death.[57] This is a significant loophole in capital income tax base, as there is an incentive to accumulate unrealised gains to, for example, holding companies before transferring them to offspring.[58]

Countries that do not levy taxes on inheritances and gifts generally allow the unrealised gain to be carried forward to the new owner. This means that the unrealised capital income is not tax exempt, but taxed at a later moment of realisation. However, in these cases, the unrealised gains could be carried over indefinitely over generations and perhaps never taxed. The taxpayers might also wait for a tax holiday or tax rate reduction before realising such gains. The rich might also de facto live off these gains without technically realising them by exploring the value of assets as a leverage or collateral against loans.

Due to non-taxation of unrealised capital gains, the rich in many countries pay substantially lower effective tax.[59] A study conducted in Norway estimated that half of the income of the richest 0.1% is not taxed as it is not realised.[60] A large proportion of companies are owned by the rich, who often only need to withdraw minimal portions of profits from their holding companies.

Non-taxation of unrealised capital gains can be utilised in international tax avoidance especially when there is no exit taxation or it has loopholes. In addition, it facilitates tax avoidance in purely domestic situations as it is possible to defer or avoid taxation by keeping profits in holding companies or other structures.

3.3.4 Income shifting is a common form of tax avoidance

As described in previous sections, tax avoidance is facilitated by low taxation of capital income in a country. Usually, this low taxation applies only to limited income types. However, the impact is often cumulative due to income shifting, which allows the income type to be converted. This could also be done domestically if different income types are taxed at different rates. For instance, dividends could be shifted to capital gains to avoid dividend tax and benefit from low taxation of capital gains. There is a stream of evidence on this type of income shifting in many countries.[61] The possibilities of income shifting grow exponentially in the international context, as it allows making the most of low tax rates for certain income types.

Example 1.

A person tax resident in Finland has made an investment in stock company shares. Over the years, these investments have generated dividend income of €10 million. If the person had made a direct investment, they would have paid capital income tax of at least €2.55 million from the dividends (effective dividend tax rate in Finland is at least 25.5%).

Nevertheless, if the person had made the same investment through an investment-based life insurance vehicle they would pay no tax (0%) for the accumulated dividends. Instead, the person would pay 30% or 34% tax from capital gains when they withdraw the gains from the vehicle. Thus, this arrangement would shift the dividend income to capital gains.

However, the person could avoid capital gains tax wholly if they move tax residence to a country that has exempted capital gains from tax, as Finland does not have an exit tax on unrealised capital gains. The dividend income accumulated in the investment-based life insurance vehicle would also be wholly exempt from income tax if the person gifted the assets to their children before realising the profits. In this case, the rather simple arrangement could save income tax of at least €2.55 million.

3.3.5 Holding companies and specific investment tax regimes facilitate tax avoidance

As described in Section 3.3.3, unrealised gains are tax exempt in most countries. Holding companies and specific investment tax regimes also allow dividends to be converted into unrealised gains. In many countries, dividends between private companies are taxed at a lower rate or even tax exempt.

In addition, the EU Parent-Subsidiary Directive exempts intra-group dividends from tax within the EU when the dividends are paid out to a company that owns at least 10% of the distributing company. Due to this regime, the wealthiest could avoid paying capital income tax indefinitely if they keep their assets in their holding companies. Therefore, corporate income tax is sometimes the only tax paid by the ultra-rich, as, in most countries, it is levied on profits when they are generated and its payments cannot be deferred.[62]

4. CAPITAL INCOME TAXATION IN SELECTED EUROPEAN COUNTRIES

4. CAPITAL INCOME TAXATION IN SELECTED EUROPEAN COUNTRIES

4.1 Research methodology, materials and limitations

This section includes case studies on capital income taxation in 15 European countries. In the case studies, we have looked at effective tax rates and tax bases of different types of capital income to assess possible asymmetries and harmful tax practices that facilitate tax avoidance. The special focus is on income based on corporate profits that are mostly realised through dividends, capital gains, fund profit shares or interest. Therefore, we have also looked at specific investment tax regimes that govern these income types. Direct rental income from real estate is out of the scope of this study, as it is not derived from corporate profits. We have also excluded direct royalty income, as royalties are mostly accrued by corporations.

We have also looked into whether countries protect their tax base with an exit tax rule that governs unrealised capital gains of individuals (see Section 3.3.2). The tables further include information on whether the country levies inheritance tax, estate tax or net wealth tax.

The main source of information has been the IBFD Tax Research Platform, which contains up to date information on tax legislation and tax conventions in different countries.[63] The data was retrieved in March 2024. The data on top statutory personal earned income tax rates was retrieved from the European Commission Data on Taxation Trends website and the OECD statistics database. This information is for the year 2023, unless otherwise noted.

We limited the scope of the case studies to 15 countries due to the EU focus and time constraints of the research project. We selected the case study countries based on three specific criteria.

1) countries with specific types of tax system that highlight the current loopholes, asymmetries or best practices in the European capital income tax system (Belgium, Denmark, Estonia, Finland, Ireland, Malta, the Netherlands and Sweden);

2) economically significant countries (France, Germany, Italy and Spain); and

3) significant European benchmark countries outside the EU (Norway, Switzerland and the UK).

Sections 4.2.1-4.2.15 present the country case studies in alphabetical order. Section 4.3 presents a summary table of the findings.

4.2 Case studies on capital income tax regimes in European countries

4.2.1 Belgium

The general capital income tax rate in Belgium is relatively high at 30 %, but several exceptions allow lower rates (Table 1 P.32). Thus, effective capital income taxation in Belgium is relatively low. The most important exception is that capital gains are generally tax exempt. Furthermore, foreign taxpayers can benefit from the exemption by migrating to Belgium. Belgium has no general exit tax, which has allowed tax avoidance for individuals by migrating abroad. However, rather low effective capital income tax mitigates this.

4.2.2 Denmark

Capital income taxation in Denmark is relatively high and the tax base is wide (Table 2 P.33), which means capital income tax avoidance is relatively difficult. Denmark also has an exit tax for individuals. In this sense, Denmark could be considered to have an effective capital income tax system.

There is some progressivity in capital income taxation, as lower tax rates are applied on, for example, smaller dividends. However, the higher rate of 42% is applied to dividends and capital gains from shares exceeding 61,000 Danish kroner (€8,200), so the threshold for higher rate is relatively low. Denmark has a specific Stock Savings Account with a lower effective tax rate of 17%, but it is only possible to deposit 135,900 Danish kroner (€18,300) in the account. The account may be used for investment in publicly traded shares.

4.2.3 Estonia

The nominal capital income tax rate in Estonia is relatively low at 20% (Table 3 P.34). The same flat rate applies to most income types, including earned income. The tax rate will increase to 22% in 2025.

The taxation of corporate profits is a particular feature in the Estonian tax system. The corporate income tax of 20% is usually paid by the company when the dividends are distributed and not when the profits are generated, as in other countries. However, the dividends concerned are tax exempt for the individual taxpayer. The exemption also applies to foreign dividends, when the distributing company has paid corporate income tax in its resident country.

This dividend tax exemption could facilitate tax avoidance, as most countries levy taxes on dividends. Nevertheless, most source countries levy 15% withholding tax paid to Estonian individuals, which could limit the benefit. An Estonian holding company could be used to avoid the withholding tax, as it is not levied on all dividends between companies. As previously stated, the EU Parent-Subsidiary Directive exempts intra-group dividends from tax within the EU when the dividends are paid out to a company that owns at least 10% of the distributing company.

Estonia has a specific investment account regime that allows tax payments from capital gains and other investment income to be deferred until they are withdrawn from the account. These accounts could be used in tax avoidance, as withdrawals are voluntary.

4.2.4 Finland

The nominal capital income tax rate in Finland is relatively high at 30% or 34% (Table 4 P.35). There is slight progressivity, as income exceeding €30,000 is taxed at the higher rate.

However, the effective tax rates are often significantly lower, as there are several important exemptions in the capital income tax base. These exemptions also facilitate tax avoidance. Income shifting in Finland is widespread, as private companies can be used in tax avoidance. This is because the effective tax rate of dividends from non-public companies is just 7.5-8.5% when the annual dividends do not exceed €150,000 and 8% of net assets of the distributing company.[64] This facilitates income shifting of earned income, as the integrated dividend tax rate is well below 30%, even if the corporate income tax rate of 20% is accounted. This could be compared to earned income tax rates rising above 50%.

Capital gains and other types of capital incomes are generally taxed at the nominal capital income tax rates. However, some of the highest capital gains are partially tax exempt, as the taxpayer is always entitled to use a maximum presumed acquisition cost of 20% (40% for assets held for ten years or longer) of the sale price, even if the real acquisition cost was lower, and thus the effective capital gain higher.

Perhaps the most important loophole in the Finnish capital income tax base is the possibility to use specific investment vehicles where it is possible accumulate all types of capital income tax free. These exemptions also cover vehicles that allow the investor to choose the investment allocation. These vehicles include *investment-based life insurance schemes* and a special *share investment account* (*osakesäästötili*) with a qualifying financial institution. The main difference in these vehicles is that the latter has a maximum deposit of €100,000 in the account, while the former insurance schemes have no such ceiling.

These vehicles allow avoidance of all Finnish taxes on capital income in certain cases, as Finland has no exit tax or tax on unrealised gains when assets are gifted or inherited.[65] Generally, no tax is levied in Finland if a taxpayer moves abroad and realises capital gains later when being tax resident there.

4.2.5 France

The capital income tax rate in France is generally high and the tax base is relatively wide (Table 5 P.36). Capital income tax rate is 30% in most cases, but capital gains taxes are slightly progressive and could increase to 36%.

Capital taxation in France is relatively high in general, as France also levies inheritance and has had a limited net wealth tax. However, a savings account called the equity savings plan (PEA) could be used to defer taxation of investment income if the proceeds are reinvested in the account to purchase other equities.

Due to relatively high capital taxation in France, wealthy French taxpayers have an incentive to exploit low tax rates in other countries, even if the French exit tax limits these possibilities. There is also evidence that rich French taxpayers do not withdraw dividends from their holding companies, and thus are able to avoid paying capital income tax.[66]

France has an impatriate tax regime that is applied for the first eight years on foreign taxpayers that have migrated to France.[67] The regime exempts 50% of foreign capital income in some situations. The exemption applies to income from movable capital held abroad and capital gains on disposal of foreign securities. The regime could allow foreign taxpayers to avoid tax in their home countries.

4.2.6 Germany

The capital income tax base in Germany is generally wide, even if the tax rate (at 26.4%) is low compared to France (Table 6 P.37). Notwithstanding, wealthy German taxpayers have an incentive to exploit lower tax rates in other countries and circumvent the exit taxation designed to limit these possibilities. There is no specific investment tax regime in Germany.

4.2.7 Ireland

Ireland is known as a corporate tax haven, with a corporate income tax rate of 12.5% (Table 7 P.38). The rate is 15% for MNEs that are affected by the minimum tax directive. However, it is not necessarily a tax haven for Irish investors, as the capital income tax base in Ireland is relatively wide and the rates are not that low. Still, the absence of exit taxation could allow Irish residents to avoid capital income tax by migrating to countries with lower capital income tax rates.

4.2.8 Italy

The capital income tax base in Italy is generally wide (Table 8 P.39), whilst the tax rates are low compared to Germany or France. Still, with effective tax rates closer to zero in some jurisdictions, wealthy Italian taxpayers have an incentive to exploit lower tax rates in other countries and circumvent exit taxation designed to limit these possibilities.Italy has a specific neo-domiciled tax regime aimed at foreign wealthy individuals.

They are eligible to be applied as a flat substitutive tax at a fixed amount of €100,000, which could encompass capital income.

4.2.9 Malta

Capital income in Malta is generally taxed at the same progressive rate as earned income (Table 9 **P.40**). The top statutory rate of 35% is applied to taxable income exceeding €60,000. However, there are several key features of the Maltese tax system that facilitate tax avoidance specifically for wealthy foreigners.

Malta has a full imputation corporate income tax system, which means that the 35% corporate income tax is credited from the dividend tax. This means that there is no effective dividend tax and there could even be a tax refund when dividends are paid out if the total taxable income does not exceed €60,000. Corporate income tax is usually mostly credited to foreign taxpayers, which means that the effective corporate income tax in Malta is 5% for subsidiaries of foreign corporations. This could facilitate avoidance of both dividend and corporate income tax.

Furthermore, Malta has several specific regimes for wealthy foreigners residing there. These programmes could be considered harmful tax practices, as they attract rich foreigners with very low tax rates. The Residence Programme Rule and the Global Residence Programme generally allow a flat 15% tax rate on all income for foreigners not employed in Malta. There is an annual minimum tax of €15,000. The programmes are restricted to high-net-worth individuals with certain qualifying criteria. For instance, Global Residence Programme applicants must hold immovable property in Malta for a purchase price of at least €275,000. There is also specific tax incentive program for foreign retirees.

4.2.10 The Netherlands

The Netherlands has had a very specific capital income tax system, as normal capital income tax is not levied at all on most investment income.[68] Instead, there is a 36% tax rate on fictional *deemed returns* of capital that is effectively close to a net wealth tax (Table 10 **P.41**). The deemed returns are based on three asset categories: savings; debts; and other assets independent of real returns. In 2023, the deemed returns were 0.92-6.17% of the asset values. Only returns for assets exceeding €57,000 (2024) are taxable. The deemed returns are updated annually due to interest rate fluctuations and so forth.

However, dividend or capital gains from private companies with substantial interest, that is, closely held companies, could be taxed at 24.5% or 31%.[69] The higher 31% rate applies to income above €67,000. This rate generally applies to active business profits from companies where the owner is also an entrepreneur.

The Dutch system, with no effective capital income tax, could facilitate tax avoidance when high returns and capital gains are realised. The Dutch version of "net wealth tax" means very low effective tax for high returns and high tax on low returns, which naturally enhances growth of inequality.

However, the Dutch Supreme Court ruled in June 2024 that the current Dutch regime based on deemed returns violated the right to property in cases where the deemed returns were higher than actual returns, and thus, the tax was higher. This means that taxpayers could be entitled to tax refunds in these cases, which might mean significant costs for the Dutch government. Due to these tensions with fundamental rights, the Netherlands has planned to abandon its peculiar capital income tax system by 2027 to move to a traditional system where only actual income is taxed.[70]

4.2.11 Norway

Norway has a relatively wide tax base for capital income (Table 11 **P.42**). The tax rate is generally either 22% or 37.8%. When the higher rate is applied, *the risk-free* share of return is tax exempt.

The risk-free return share is updated annually, corresponding to three-month government loans (4.2% on investment in 2023). This method applies, for example, to dividends and certain fund income.

Capital gains are generally taxed at the 22% rate. However, interest and capital gains are subject to special rules in some cases to prevent tax avoidance by income shifting.

Even though the capital income tax rates in Norway are not that high, capital taxation levies in general are relatively significant. This is mostly due to the high corporate income tax returns, especially from the petroleum industry, at 78%. Norway also has a net wealth tax.

As capital taxation relies much on corporate income tax and the capital income tax base is relatively wide with an effective exit tax rule, the risk of capital tax avoidance in Norway is lower than in many other countries.

4.2.12 Spain

The capital income tax base in Spain is generally wide (Table 12 P.43), with tax rates close to other larger EU member states. Still, wealthy Spanish taxpayers have an incentive to exploit lower tax rates in other countries and circumvent the exit taxation in place to limit these possibilities. Spain has a specific expatriate tax regime aimed at wealthy foreign individuals that exempts foreign capital income from taxation in Spain.

4.2.13 Sweden

In general, the capital income tax base in Sweden is wide (Table 13 P.44). In addition, the tax rates of 25% or 30%, in most cases, are relatively high. However, Sweden has a very generous and popular investment savings account regime (*investeringsparkonto*) that facilitates low tax on capital and tax avoidance. The accounts could facilitate a wide range of different securities.

All capital income accrued in these accounts is tax exempt. Instead, an annual 30% tax is levied on deemed returns based on risk-free interest (2.94% in 2023). The deemed returns are very low in proportion to real market returns; this has made the system very popular.[71] The Swedish version of optional and low "net wealth tax" means a very low effective tax for high returns and high tax on low returns, which naturally enhances growth of inequality. This impact is exacerbated because Sweden no longer levies an inheritance nor ordinary net wealth tax. Low taxation of capital is the key reason why wealth inequality in Sweden has increased significantly in the past decades and is well above other Nordic countries.

4.2.14 Switzerland

Switzerland has traditionally been an offshore tax haven for foreign investors, as they have been able to hide their assets with the help of Swiss bank secrecy. However, this trend has been changing since Swiss bank secrecy for foreign investors was broken with the development of cross-border automatic exchange of bank account information based on the United States' Foreign Account Tax Compliance Act (FATCA) and OECD CRS.[72]

According to some estimates, almost half of global offshore wealth was managed in Switzerland prior to the financial crisis of 2008-2009, but recent reforms have decreased this share to 20%. Still, the harmful Swiss tax practices have not vanished. For instance, high-net-worth individuals migrating to Switzerland but not employed there are entitled to a special regime, whereby they only pay tax based on assumed annual living expenses (Table 14 P.45). In this case, there is no effective taxation on capital income, which facilitates a very low effective taxation for the ultra-rich.[73]

Another important loophole in the Swiss tax system is the tax-wide exemption of capital gains.

Capital gains tax is generally only levied on selling non-movable assets, such as real estate, and on professional securities dealers. This facilitates tax avoidance, as, for instance, foreigners can immigrate to Switzerland and realise their accumulated gains free of tax. Switzerland also has several corporate tax incentives that attract profit shifting. Otherwise, Switzerland is not a capital tax haven for its own citizens, at least in the sense that the capital income tax base is relatively wide and capital income is taxed at the same progressive rate as earned income. Swiss cantons are also obliged to levy net wealth taxes.

4.2.15 United Kingdom

The tax base of capital income tax in the UK is relatively wide and much of it is taxed at the progressive income tax rate similar to earned income (Table 15 P.46). However, lower rates from 0% to 20% are applied to capital gains, with the highest 20% rate to gains exceeding £37,700 (2024/2025). The new Labour government increased the highest rate to 24% in October 2024. For instance, disposals of qualifying business assets have benefited from a reduced tax rate of 10%, but this rate was also increased to 18% by the new government. The lifetime limit for qualifying gains is currently £1 million for each individual and disposals that exceed the threshold are taxed at the normal tax rate.[74] Therefore, it is has been possible to avoid tax by shifting other types of capital income to capital gains, but benefits of these arrangements will decrease notably.

In addition, there is a specific individual savings account (ISA) regime that allows wholly tax-free investment. Moreover, withdrawals from the account are tax free to the extent that they are below an annual limit on the amount that may be invested in an ISA (£20,000). The UK has also offered preferential tax treatment for foreign resident but non-domiciled individuals, who do not remit all of their foreign assets to the country. However, the Labour government has decided to abolish much of these tax benefits.

4.3 Summary of the case studies

The case studies show that the tax treatment capital income varies significantly between countries, and there are several asymmetries that facilitate tax avoidance (Table 16 P.47). Dividends are effectively tax exempt in Estonia and Malta. Some of the dividends are taxed at very low rates in Finland and the Netherlands. Switzerland and the UK apply full-scale progressive income tax on dividends.

Capital gains are mostly tax exempt in Belgium and Switzerland and partially also in Malta. The Netherlands has a very low tax rate for some capital gains. What is more important is that most countries have different special regimes for investment income that allow low taxes or the deferral of capital income tax, even indefinitely (see Section 3.3). In many countries, unrealised gains generated in these regimes and holding companies are exempted from tax if the assets are inherited, gifted or the taxpayer migrates to another country.

Over half of the countries have some sort of exit tax system to protect their tax bases in these situations. Sweden has a special ten-year rule instead of an ordinary exit tax.[75]

Some countries, such as Italy, Malta, Spain and Switzerland, also offer special incentives for foreign wealthy individuals that migrate there. The new Labour government has considerably closed down such regimes in the UK. In Malta, foreign taxpayers can "purchase" a low flat 15% tax rate by investing in local real estate worth €275,000. In Italy, wealthy foreigners might get off with an annual €100,000 lump sum tax irrespective of actual income. Only Belgium, Germany, Ireland and the Netherlands have no specific investment tax regimes, although the customary tax regime in the Netherlands is extraordinary on its own.

The Dutch capital income tax system has been an exception in Europe, as much of the capital income has been taxed based on deemed returns instead of actual realised income. This system is economically closer to a net wealth tax than traditional capital income tax. The system has meant very low effective taxation for high capital income, but a high rate for low returns. However, the 2024 Supreme Court decision could end the peculiarity in the future, as it limits taxing deemed returns above actual income.

Denmark is another exception with relatively high and progressive tax rates for both dividends and capital gains. Denmark also tackles capital income tax avoidance effectively. The Norwegian tax system also has similar features. Larger EU economies – France, Germany, Italy and Spain – also have relatively high capital income tax rates and wide tax bases.

TABLE 1. Taxation of capital income in Belgium.

Capital income tax rate (nominal)	0–30
Dividend tax rate non-public companies (effective)	15 / 30*
Dividend tax rate public companies (effective)	15 / 30*
Interest income tax rate (effective)	15 / 30**
Capital gains tax rate (effective)	0***
Investment fund profit share tax rate (effective)	15/30
Specific investment tax regime (yes/no)	No
Exit tax for individuals (yes/no)	No****
Corporate income tax rate (nominal)	25*****
Top earned income tax rate	52.9
Inheritance/ estate tax	Yes
Net wealth tax	No******

* *The first €833 is tax exempt. The lower rate applies, for instance, on certain dividends from SMEs.*

** *The lower rate applies to, for example, interest on savings account. The first €1,020 interest on these accounts is tax exempt.*

*** *Belgium has planned to introduce an exit tax on some holdings to complement an anti-tax avoidance measure called Cayman tax.*

**** *Capital gains are generally tax exempt for residents, but there are some exceptions regarding, for instance, investment funds and speculative transactions. Also, capital gains on real estate could be taxed, depending on its use duration of ownership.*

***** *A reduced rate of 20% for qualified SMEs with profits up to €100,000.*

****** *A solidarity tax of 0.15% is applicable on securities accounts that exceed €1 million.*

TABLE 2. Taxation of capital income in Denmark.

Capital income tax rate (nominal)	27–42
Dividend tax rate non-public companies (effective)	27–42*
Dividend tax rate public companies (effective)	27–42*
Interest income tax rate (effective)	37–40**
Capital gains tax rate (effective)	27–42***
Investment fund profit share tax rate (effective)	27–42
Specific investment tax regime (yes/no)	Yes****
Exit tax for individuals (yes/no)	Yes
Corporate income tax rate (nominal)	22*****
Top earned income tax rate	55.9
Inheritance/ estate tax	Yes
Net wealth tax	No

* *Share income up to 61,000 Danish kroner in 2024 (€8,200, double for a married couple) was taxed at 27%. Share income in excess of this amount is taxed at 42%.*

** *Generally, only capital income exceeding 2,000 Danish kroner (€270) is taxable. Both central government and local tax is applied to capital income other than shares and capital gains. The tax rate is calculated based on an average local tax of 25%. The higher rate applies to some pension contributions.*

*** *Capital gains from shares are generally taxed as dividends. Capital gains (also unrealised) on the Stock Savings Account are taxed at a reduced rate of 17%. Capital gains from owner-occupied dwellings are generally tax exempt.*

**** *A special Stock Savings Account (aktiesparekonto) allows investment in publicly traded shares with a lower 17% effective tax rate that is also applied on unrealised gains. The maximum deposit in the account was 135,900 Danish kroner in 2024 (€18,300).*

***** *Financial companies are subject to higher 26% corporate income tax as of 2024. Oil and gas companies are subject to 25% corporate income tax, and effective corporate income tax of 64% is applied to certain profits from the exploration and extraction of oil and gas in Denmark.*

TABLE 3. Taxation of capital income in Estonia.

Capital income tax rate (nominal)	20*
Dividend tax rate non-public companies (effective)	0**
Dividend tax rate public companies (effective)	0**
Interest income tax rate (effective)	20
Capital gains tax rate (effective)	20
Investment fund profit share tax rate (effective)	20
Specific investment tax regime (yes/no)	Yes***
Exit tax for individuals (yes/no)	No
Corporate income tax rate (nominal)	20****
Top earned income tax rate	20.0
Inheritance/ estate tax	No
Net wealth tax	No

* *Tax rate increased from 20% to 22% from 1 January 2025.*

** *Dividends are generally tax exempt if the distributing company has paid corporate income tax. Estonian companies pay corporate income tax only when the dividends are distributed.*

*** *Capital gains from the disposal of financial assets are not taxable if these assets have been acquired using funds deposited in an investment account and the sale proceeds are transferred back to the investment account.*

**** *22% from 1 January 2025. Previously, some companies could apply 14% corporate income tax rate, but then a 7% withholding tax was added to dividends. This regime was abolished in 2025.*

TABLE 4. Taxation of capital income in Finland.

Capital income tax rate (nominal)	30/34*
Dividend tax rate non-public companies (effective)	7.5–28.9**
Dividend tax rate public companies (effective)	25.5–28.9
Interest income tax rate (effective)	30–34
Capital gains tax rate (effective)	30–34***
Investment fund profit share tax rate (effective)	30–34
Specific investment tax regime (yes/no)	Yes****
Exit tax for individuals (yes/no)	Yes
Corporate income tax rate (nominal)	20
Top earned income tax rate	51.4
Inheritance/ estate tax	Yes
Net wealth tax	No

* *Capital income exceeding €30,000 is taxed at the higher 34% rate.*

** *In specific cases, dividends from non-public companies could be taxed as earned income with a progressive tax rate.*

*** *Some of the highest capital gains are partially tax exempt, as a taxpayer is always entitled to use a maximum presumed acquisition cost of 20% (40% for assets held for 10 years or longer) of the sale price.*

**** *It is possible to use specific investment-based life insurance vehicles to accumulate all types of capital income tax free. These vehicles allow all Finnish taxes on capital income to be avoided in certain cases, as Finland has no exit tax or tax on unrealised gains when assets are gifted or inherited.*

TABLE 5. Taxation of capital income in France.

Capital income tax rate (nominal)	30*
Dividend tax rate non-public companies (effective)	30*
Dividend tax rate public companies (effective)	30*
Interest income tax rate (effective)	30**
Capital gains tax rate (effective)	30–36***
Investment fund profit share tax rate (effective)	30*
Specific investment tax regime (yes/no)	Yes****
Exit tax for individuals (yes/no)	Yes
Corporate income tax rate (nominal)	25*****
Top earned income tax rate	55.4
Inheritance/ estate tax	Yes
Net wealth tax	Yes

* *12.8% as income tax and 17.2% as a social contribution. Taxpayers may opt for progressive taxation.*

** *Small amounts of interest on some savings accounts are tax exempt.*

*** *Net taxable capital gains exceeding €50,000 on the sale of property other than building land are subject to an additional tax, ranging from 2% to 6%. A higher tax rate, starting at 36.2%, applies to capital gains on immovable property (e.g., real estate).*

**** *A type of savings account known as the PEA allows taxpayers to capitalise the income (dividends, tax credits, capital gains) derived from qualifying portfolio investments, without triggering any tax liability. The taxpayer may freely dispose of the equities in the account, but the proceeds of the sale must be reinvested in the account for the purchase of other equities. France also has an impatriate tax regime that exempts 50% of certain foreign capital income from tax for first eight years of a foreign taxpayer moving to France.*

***** *Corporate income tax standard rate is 25%. The 15% reduced rate applies to small and medium-sized companies on the first €42,500 of taxable profits. There is also a social surcharge of 3.3% on corporate tax liability exceeding €763,000 for larger companies with a turnover of at least €7,630,000.*

TABLE 6. Taxation of capital income in Germany.

Capital income tax rate (nominal)	26.4*
Dividend tax rate non-public companies (effective)	26.4*
Dividend tax rate public companies (effective)	26.4*
Interest income tax rate (effective)	26.4*
Capital gains tax rate (effective)	26.4**
Investment fund profit share tax rate (effective)	26.4*
Specific investment tax regime (yes/no)	No
Exit tax for individuals (yes/no)	Yes
Corporate income tax rate (nominal)	29.9***
Top earned income tax rate	47.5
Inheritance/ estate tax	Yes
Net wealth tax	No

* *Flat 25% tax rate plus 5.5% solidarity surcharge. Taxpayers have €1,000 investor's allowance, meaning the first €1,000 is tax exempt. There is a lower tax rate for capital income from business assets (40% exemption). Taxpayers may also opt for progressive taxation.*

** *Capital gains are generally taxed at normal progressive tax rates, 0-45%. Several exceptions apply. Lower rates and exemptions apply in different situations.*

*** *The corporate income tax rate of 29.9% includes average local corporate income tax (federal corporate income tax of 15.83%, including 5.5% surcharge). Local trade tax is 8.75-20.3%.*

TABLE 7. Taxation of capital income in Ireland.

Capital income tax rate (nominal)	20–40
Dividend tax rate non-public companies (effective)	25
Dividend tax rate public companies (effective)	25
Interest income tax rate (effective)	20 / 33
Capital gains tax rate (effective)	33*
Investment fund profit share tax rate (effective)	25
Specific investment tax regime (yes/no)	No**
Exit tax for individuals (yes/no)	No
Corporate income tax rate (nominal)	12.3***
Top earned income tax rate	48.0
Inheritance/ estate tax	Yes
Net wealth tax	No

* *Annual gains up to €1,270 are tax exempt. There is a higher rate of 40% on certain funds and life insurance policies.*

** *Non-domiciled taxpayers can be taxed remittance based, which means capital income is taxed only when remitted to Ireland.*

*** *Higher corporate income tax rate for certain passive income (25%) and capital gains (33%).*

TABLE 8. Taxation of capital income in Italy.

Capital income tax rate (nominal)	0–46*
Dividend tax rate non-public companies (effective)	26 / 0–26**
Dividend tax rate public companies (effective)	26 / 0–26**
Interest income tax rate (effective)	26
Capital gains tax rate (effective)	26 / 0–26***
Investment fund profit share tax rate (effective)	0–26
Specific investment tax regime (yes/no)	Yes****
Exit tax for individuals (yes/no)	Yes
Corporate income tax rate (nominal)	24*****
Top earned income tax rate	47.2
Inheritance/ estate tax	Yes
Net wealth tax	Yes

* *Average regional and municipal tax is included in the tax rate.*

** *Dividends from major shareholdings are subject to progressive income taxation, but 50.28%/41.86% of the dividend is tax exempt, which means the effective tax rate does not exceed 26%. Dividends for minority owners are subject to 26% flat tax.*

*** *Capital gains from major shareholdings are subject to progressive income taxation, but 50.28%/41.86% of the dividend is tax exempt, which means the effective tax rate does not exceed 26%. Capital gains for minority owners are subject to 26% flat tax. Different rates apply to capital gains from real estate.*

**** *Italy has a so-called neo-domiciled tax regime, which allows foreigners migrating to Italy to elect for a flat substitutive tax at a fixed amount of €100,000.*

***** *Different corporate income tax rates and bases for certain entities, including financial institutions.*

TABLE 9. Taxation of capital income in Malta.

Capital income tax rate (nominal)	0–35*
Dividend tax rate non-public companies (effective)	0**
Dividend tax rate public companies (effective)	0**
Interest income tax rate (effective)	15***
Capital gains tax rate (effective)	0–35****
Investment fund profit share tax rate (effective)	0–35*
Specific investment tax regime (yes/no)	Yes*****
Exit tax for individuals (yes/no)	No
Corporate income tax rate (nominal)	5/35******
Top earned income tax rate	35
Inheritance/ estate tax	No
Net wealth tax	No

* *Much of capital income is taxed at a progressive rate (top 35% statutory rate applied when taxable income exceeds €60,000). Flat 15% tax rate is available for foreigners.*

** *Malta has a full imputation system, which means the 35% corporate income tax is credited from the dividend tax, which is 35% at most. This means there is no effective dividend tax and even a tax refund when dividends are paid out.*

*** *Taxpayer may opt for a nominal progressive tax rate. Some interest is taxed at the nominal progressive tax rate.*

**** *Some capital gains are taxed at the nominal income tax rate; some are tax exempt wholly or partially.*

***** *Malta has several special tax schemes, especially for foreigners resident in Malta.*

****** *The corporate tax rate is 35%, but it is wholly credited to Maltese taxpayers when dividends are paid out. Foreign taxpayers usually receive credit of 6/7 (30%), which means the effective corporate income tax rate is 5%.*

TABLE 10. Taxation of capital income in the Netherlands.

Capital income tax rate (nominal)	0*
Dividend tax rate non-public companies (effective)	0**
Dividend tax rate public companies (effective)	0*
Interest income tax rate (effective)	0*
Capital gains tax rate (effective)	0**
Investment fund profit share tax rate (effective)	0*
Specific investment tax regime (yes/no)	No
Exit tax for individuals (yes/no)	Yes
Corporate income tax rate (nominal)	19/25.8***
Top earned income tax rate	49.5
Inheritance/ estate tax	Yes
Net wealth tax	Yes****

* *No ordinary capital income tax, but 36% tax on deemed returns on assets above €57,000 (2024) based on asset categories ("wealth tax").*

** *Dividend or capital gains from private companies with substantial interest could be taxed at 24.5% (31% for income above €67,000). Otherwise, tax is based on deemed returns.*

*** *The lower rate of 19% applies to the first income bracket of €200,000.*

**** *The Netherlands has no specific tax on net wealth, but the income tax in some cases is de facto a wealth tax, as it is based on a fixed return on wealth.*

TABLE 11. Taxation of capital income in Norway.

Capital income tax rate (nominal)	22
Dividend tax rate non-public companies (effective)	0/37.8*
Dividend tax rate public companies (effective)	0/37.8*
Interest income tax rate (effective)	22**
Capital gains tax rate (effective)	22***
Investment fund profit share tax rate (effective)	22/37.8****
Specific investment tax regime (yes/no)	Yes*****
Exit tax for individuals (yes/no)	Yes
Corporate income tax rate (nominal)	22******
Top earned income tax rate	39.5
Inheritance/ estate tax	No
Net wealth tax	Yes

* *Risk-free return on invested capital is tax exempt. The rate of this risk-free return corresponds to three-month government loans (4.2% in 2023).*

** *Interest on loans from an individual shareholder to a company is subject to special rules that aim to prevent an individual shareholder receiving income in the form of interest, which is more beneficial than receiving dividends.*

*** *There are some exceptions.*

**** *The returns on funds are either taxed at 22% or 37.8%, depending on the type of fund. When the higher rate applies, the risk-free share of return is tax exempt.*

***** *Resident individuals may defer the taxation of capital gains and dividends on shares through a special share savings account. Capital gains and dividends related to shares owned through the share savings account are not taxed until the funds are withdrawn from the account.*

****** *Higher corporate income tax for some businesses, e.g., financial activities at 25%. Companies in the energy sector have additional taxes (e.g., total 78% tax for the petroleum industry).*

TABLE 12. Taxation of capital income in Spain.

Capital income tax rate (nominal)	19–28*
Dividend tax rate non-public companies (effective)	19–28
Dividend tax rate public companies (effective)	19–28
Interest income tax rate (effective)	19–28
Capital gains tax rate (effective)	19–28**
Investment fund profit share tax rate (effective)	19–28
Specific investment tax regime (yes/no)	Yes***
Exit tax for individuals (yes/no)	Yes
Corporate income tax rate (nominal)	25****
Top earned income tax rate	45.0
Inheritance/ estate tax	Yes
Net wealth tax	Yes

* *Risk-free return on invested capital is tax exempt. The rate of this risk-free return corresponds to thr* Most types of capital income ("savings income") is taxed at a progressive rate, with the 19% tax rate applied to the first €6,000 and the highest 28% on income exceeding €300,000.*

** *Capital gains from selling a person's home is usually tax exempt.*

*** *Spain has a specific expatriate tax regime, where qualified foreigners moving from Spain are only taxed on their employment income and Spanish-sourced capital income.*

**** *Newly created and start-up companies could be subject to a lower 15% corporate income tax.*

TABLE 13. Taxation of capital income in Sweden.

Capital income tax rate (nominal)	30
Dividend tax rate non-public companies (effective)	25*
Dividend tax rate public companies (effective)	30
Interest income tax rate (effective)	30
Capital gains tax rate (effective)	30**
Investment fund profit share tax rate (effective)	30***
Specific investment tax regime (yes/no)	Yes****
Exit tax for individuals (yes/no)	No*****
Corporate income tax rate (nominal)	20.6
Top earned income tax rate	52.2
Inheritance/ estate tax	No
Net wealth tax	No

* *Dividends from closely held companies could be taxed at 20% in some cases. In some cases, they could be also taxed progressively as earned income.*

** *There are some exceptions, for example, 20% or 25% tax rate for capital gains from non-listed companies. In some cases, they could be also taxed progressively as earned income.*

*** *Additional annual 0.12% "wealth tax" (0.4 ´ 30%) on the value of the fund.*

**** *Several specific regimes are available, for example, all capital income in investment savings accounts are tax exempt, but there is an annual 30% tax on deemed returns based on risk-free interest (2.94% in 2023).*

***** *No specific exit tax, but capital gains could generally be taxed in Sweden ten years after migration.*

TABLE 14. Taxation of capital income in Switzerland.

Capital income tax rate (nominal)	0–41.5*
Dividend tax rate non-public companies (effective)	0–41.5
Dividend tax rate public companies (effective)	0–41.5
Interest income tax rate (effective)	0–41.5
Capital gains tax rate (effective)	0
Investment fund profit share tax rate (effective)	0–41.5
Specific investment tax regime (yes/no)	Yes**
Exit tax for individuals (yes/no)	No
Corporate income tax rate (nominal)	19.7***
Top earned income tax rate	41.5
Inheritance/ estate tax	Yes
Net wealth tax	Yes****

* *No specific tax rate for capital income, but some capital income is tax exempt. Taxes are levied at three levels (federal, cantonal and municipal).*

** *Special regime for foreigners moving to Switzerland, but not working there, with only tax based on assumed annual living expenses.*

*** *The corporate income tax rate of 19.7% includes average local corporate income tax. Central government corporate income tax is 8.5%. Cantonal and communal taxes are between 11.9% and 21.0%,*

**** *Cantons are obliged to levy a net wealth tax.*

TABLE 15. Taxation of capital income in the UK.

Capital income tax rate (nominal)	0–39.4*
Dividend tax rate non-public companies (effective)	0–39.4**
Dividend tax rate public companies (effective)	0–39.4**
Interest income tax rate (effective)	0–39.4
Capital gains tax rate (effective)	0/10/20***
Investment fund profit share tax rate (effective)	0–41.5
Specific investment tax regime (yes/no)	Yes****
Exit tax for individuals (yes/no)	No
Corporate income tax rate (nominal)	25*****
Top earned income tax rate	45
Inheritance/ estate tax	Yes
Net wealth tax	No

* *No specific tax rate for capital income, but some exceptions.*

** *Dividends up to £500 per year tax are exempt due to the dividend allowance.*

*** *Capital gains that do not exceed £3,000 are tax exempt (2024/25 tax year), after which gains up to £37,700 are taxable at a rate of 10% (18% from October 2024). Most gains above the higher rate threshold are taxed at a rate of 20% (24% from October 2024). There is a higher rate for residential property capital gains (18/24%). Several additional exceptions are applied.*

**** *Basically, all investment income generated in an ISA is tax free. Withdrawals from the account are also tax free, but there is an annual limit on the amount that may be invested in an ISA (£20,000).*

***** *There is a lower tax rate of 19% for small profits that do not exceed £50,000 and marginal relief for profits between £50,001 and £250,000. Higher corporate income tax rates are applied to, for example, oil and gas extraction and finance companies.*

TABLE 16. Taxation of capital income in the case study countries.

	Capital income tax rate (nominal)	Dividend tax rate non-public companies (effective)	Dividend tax rate public companies (effective)	Interest income tax rate (effective)	Capital gains tax rate (effective)	Investment fund profit share tax rate (effective)	Specific investment tax regime (yes/no)	Exit tax for individuals (yes/no)	Corporate income tax rate (nominal)	Top earned income tax rate	Inheritance / estate tax	Net wealth tax
BELGIUM	0–30	15/30	15/30	15/30	0	15/30	No	No	25	52.9	Yes	No
DENMARK	27–42	27–42	27–42	37–40	27–42	27–42	Yes	Yes	22	55.9	Yes	No
ESTONIA	20	0	0	20	20	20	Yes	No	20	20.0	No	No
FINLAND	30/34	7.5–28.9	25.5–28.9	30–34	30–34	30–34	Yes	Yes	20	51.4	Yes	No
FRANCE	30	30	30	30	30/36.2	30	Yes	Yes	25	55.4	Yes	Yes
GERMANY	26.4	26.4	26.4	26.4	26.4	26.4	No	Yes	29.9	47.5	Yes	No
IRELAND	20–40	25	25	20/33	33	25	No	No	12.5	48.0	Yes	No
ITALY	0–46	26/0–26	26/0–26	26	26/0–26	0–26	Yes	Yes	24	47.2	Yes	Yes
MALTA	0–35	0	0	15	0–35	0–35	Yes	No	5/35	35.0	No	No
NETHERLANDS	0	0	0	0	0	0	No	Yes	19/25.8	49.5	Yes	Yes
NORWAY	22	0/37.8	0/37.8	22	22	37.8	Yes	Yes	22	39.5	No	Yes
SPAIN	19–28	19–28	19–28	19–28	19–28	19–28	Yes	Yes	25	45.0	Yes	Yes
SWEDEN	30	25	30	30	30	30	Yes	No	20.6	52.2	No	No
SWITZERLAND	0–41.5	0–41.5	0–41.5	0–41.5	0	0–41.5	Yes	No	19.7	41.5	Yes	Yes
UNITED KINGDOM	0–39.4	0–39.4	0–39.4	0–39.4	0/10/20	0–41.5	Yes	No	25	45.0	Yes	No

See Tables 1–15 for exceptions.

5. CONCLUSIONS AND RECOMMENDATIONS

5. CONCLUSIONS AND RECOMMENDATIONS

5.1 Concluding remarks

Capital income taxation is an integral part of modern tax systems. This study describes the current state of capital income taxation and tax avoidance in the EU, as well as presenting policy proposals to solve current problems. The analysis is based on earlier research and analysis of the current capital income tax framework, as well as distinctive case studies that examine capital income tax regimes in 15 selected European countries.

Estimates presented in the study show that globally, on average, the effective tax rates on capital income have decreased by five percentage points since 1965; meanwhile, the effective tax rate on labour has increased by over ten percentage points. The trend also indicates a decrease in the progressivity of taxation. In most countries, taxation is no longer progressive, as capital income is concentrated within the highest-earning 1% and taxed at proportionally low rates. This is one reason behind the rise of wealth inequality everywhere since the 1980s.

Section 3 describes how the capital income tax base is eroded in EU countries due to harmful tax competition, asymmetries in tax bases and differences in tax rates between and within countries. The case studies in Section 4 provide further evidence of these asymmetries. Some countries have exempted dividends or capital gains from tax, which gives rise to loopholes that taxpayers in other countries can utilise in their tax avoidance. Even more countries have offered special incentives for capital investment, which can effectively mean very low or zero capital income tax rate for wealthy individuals.

The case studies also demonstrated positive examples that could be followed as best practices. For instance, Denmark is a strong economy that has efficiently tackled tax avoidance and maintained progressive taxation of dividends and capital gains. Larger economies, such as Germany, France, Italy and Spain, also have a relatively high level of capital income taxation but are likely vulnerable to base erosion due to tax competition.

Sometimes the low rates might be legitimate from the perspective of a single country. For instance, taxes on dividends may be deemed excessive if corporate profits were taxed instead with a sufficiently high corporate income tax. High dividend taxes could also supplement low capital gains tax, as higher dividend tax effectively decreases asset values and thus capital gains. In this sense, the dividend tax effectively falls on capital gains.

However, in a globalised economy where capital is highly mobile these leaks in tax bases facilitate tax avoidance, as many of the wealthiest taxpayers have the chance to realise their income where the tax rates are lowest. This effect is even more important in a single market, such as the EU. Section 3.3 describes the mechanisms for how this is done, through income shifting, holding companies, migration and so forth. In other words, income shifting can be utilised in both domestic and cross-border situations.

Section 3.3.3 also shows a common flaw in capital income tax systems of nearly all European countries: much of the capital income of especially the highest earners is tax exempt, as unrealised capital gains are not taxed. This also facilitates cross-border tax avoidance, as a great share of capital income could be accumulated in holding companies and other investment vehicles tax exempt and realised later after migrating to a low-tax jurisdiction.

The evidence shows the need for the harmonisation of a capital income tax base in the EU to tackle tax avoidance and base erosion. Individual nation states can do their part in protecting their tax bases, but they cannot tackle harmful tax competition unilaterally in an effective manner, as there could always be free-riders who want to benefit from harmful tax practices at the cost of other countries. This behaviour might also be justified by the fact that some countries find no other means to develop their economy in the current economic situation. There is also an industry of intermediaries, who profit from tax avoidance and have the incentive to create new ways to exploit differences in national tax systems.

It should also be stressed that European countries and the EU are not dealing with tax avoidance and base erosion alone. For the past decades, the OECD and its inclusive framework have been the major forum for international tax cooperation. The past decade has seen remarkable success in these negotiations, with the new 15% global minimum corporate income tax for MNEs as the most eminent achievement. However, the focus of international tax cooperation could be shifting to the UN. The votes of the Global South played a key role in November 2023 when the UN elected to prepare a new global tax convention. The blueprint of the convention is currently being prepared through the UN negotiations at the time of writing this study early in 2025. It remains to be seen how these negotiations will progress, but nevertheless, the EU should be as active as it was previously in the OECD. Closing down loopholes is a common interest.

5.2 Tax policy recommendations

5.2.1 EU should adopt a harmonised minimum capital income tax

This study has addressed the increasing role of cross-border capital income tax avoidance. It is caused by non-harmonisation of capital income tax bases and rates and more specifically two problems. Firstly, some countries offer low or zero tax rates for some types of capital income. Secondly, foreign – and sometimes domestic – taxpayers can exploit these low tax rates with different arrangements, such as income shifting and holding company structures. Tax avoidance is also facilitated by ineffective exit taxation, as well as non-taxation of unrealised capital gains, which allows for the accumulation of capital income for tax exempt realisation.

For many reasons, it would be difficult to abolish income shifting by harmonising income tax bases, and it is not even necessary. For instance, many countries have adopted dualistic income tax regimes where earned and capital income are taxed at different rates. These kinds of tax systems are always vulnerable to income shifting. Rather, base erosion, derived from income shifting and other arrangements, could be tackled in a simpler way – decreasing the differences in tax rates between different income types and countries.

At the moment, the reason for these gaps is mostly the proportionally low taxation of high capital incomes, as described in this study. Therefore, the problem could be tackled comprehensively by implementing *a harmonised minimum capital income tax*. The minimum tax could be adopted as a directive in the EU, but there could also be other options for implementation, such as a multilateral convention. In the longer run, it should also be a global policy target. The minimum tax would effectively end very low taxation of capital income in the EU, reduce the appetite for and profitability of tax avoidance, and enhance the fair division of tax bases between countries. It could also close the gap between effective tax rates of high-net-worth individuals and middle-class workers, who effectively pay more tax in most European countries compare to the ultra-rich.[76]

In addition to increasing equality and fairness, harmonising the minimum level of capital taxation could be argued from the perspective of a better functioning integrated EU market. Capital is mobile, and significant differences in tax rates are likely to cause distortions within the European single market. Therefore, harmonisation is likely to enhance efficiency, and thus welfare. From these considerations, the need for capital income tax harmonisation in the EU could be deemed greater than, for example, VAT or corporate income tax, where harmonisation has already progressed further.[77]

The directive should aim to cover all capital income types. This would need no new definitions, as their tax bases could be defined according to the articles of current tax conventions and existing directives. As a proxy, the taxing power could be divided between the residence and source countries, as in the current tax conventions, but this could be renegotiated if necessary.

The directive should determine minimum tax rates for different capital income types, similarly to the minimum tax rates in the EU, which are currently determined for VAT with a directive.[78] For instance, an EU-level top-up minimum tax could be applied as a last resort if no country taxes income. However, this rule would only be needed in rare circumstances, as countries would have to implement the national minimum tax rates according to the directive, as is currently the case in VAT legislation.

The minimum tax rates for different capital income types could be separate. For instance, corporate income tax paid by the company distributing dividends could be taken into account when determining the minimum dividend income tax rate but not when determining the minimum tax rate for direct real estate income when no preceding corporate income tax was levied. There could also be an income threshold for the minimum capital income tax to allow lower tax rates for low incomes. In addition, there could also be progressivity that could be adopted by applying higher marginal minimum tax rates for incomes exceeding certain thresholds.

5.2.2 EU should adopt ATAD for capital income (exit tax rule)

The minimum capital income tax would be effective at tackling capital income tax avoidance within the EU. However, it would need to be complemented with additional defence measures, specifically to address third-country situations. Therefore, the EU should implement *an ATAD for capital income*. The directive should also lay down rules on how the capital income tax base is shared between EU member states, similar to the current ATAD, which covers corporate income tax. The goal should be that the division of the tax base is fair between the resident and source countries. This means that both taxation below the minimum capital income rate and excessive taxation are avoided in all cases.

The directive should include effective *exit tax rules* for individuals, as the current ATAD does for corporations. The harmonised exit tax rule would prevent the EU minimum capital income rate being avoided by migrating to a third country. It would also define how the tax base of capital gains is divided between EU countries in a fair and uniform way. The exit tax rule could follow the basic principle of current tax conventions and the OECD model by giving the taxing rights of gains to a country where the individual has lived when the gains have been accrued.

The directive should also include a switch-over rule and/or controlled foreign company rule that would be applied when EU taxpayers use third-country arrangements to avoid taxation in the EU. This would mean that low-taxed profits accumulated in a tax haven holding company could be taxed in the owner's residence country in the EU.

It is important to stress that individual countries can and should tackle cross-border capital income tax avoidance on a unilateral basis, as EU-level harmonisation only lays down a minimum level of anti-tax avoidance laws. Most countries have their own exit tax rules to protect their tax base and limit capital flight. Governments should introduce such rules and close down their loopholes unilaterally before an EU-level directive is adopted.

5.2.3 EU should adopt a directive to tax unrealised capital gains

Many problems addressed in this study are caused by the non-taxation of unrealised capital gains in nearly all countries (see Section 3.3.3). Gains accumulated in holding companies and other investment structures are sometimes never taxed and, therefore, it is possible to avoid basically all taxes on capital income. Due to this, the effective tax rates for the ultra-rich are effectively lower than for other income groups.

It is difficult to argue why unrealised capital gains should be tax exempt when all other types of income is taxable. Therefore, the EU should adopt a common approach to include them in tax bases, and the minimum tax rate should apply to unrealised gains as it would apply to all other capital income.

The most straightforward way to tax these gains would be to tax them when the assets are transferred to another taxpayer without realisation, for example, at death or when they are gifted. In this case, capital gains tax would be levied on untaxed gains before levying possible inheritance or gift taxes. The gain could be calculated using the same value as in the estate inventory deed or gift tax return, which usually corresponds to fair market value. The calculation would, therefore, not require additional valuation of assets. The tax levied when the assets are transferred, and thus based on actual realised gains, would likely also be aligned with fundamental rights, such as the right to property (see Section 4.2.10).

As an option, the unrealised gains could also be taxed annually. This would require calculating the gains each year, which would increase the administrative burden if this method were applied to everyone. However, it would be possible to reduce the burden by limiting the use of the methodology to individuals with assets exceeding a certain threshold (e.g., €2 million). In the USA, such a rule was proposed by the Biden administration in 2021, but it was not adopted due to frictions within the Democratic party.[79]

Net wealth taxes could also be deemed a tool to tax unrealised gains. Net wealth taxes also require the calculation of asset values annually, which means they are usually applied to persons whose assets exceed certain thresholds (see Section 5.2.4). However, net wealth taxes are not calculated based on real gains, which means that they could be effectively low for high incomes and high for low incomes. Net wealth taxes could also be used as a tax prepayment for later capital gains tax and credited at the time of their realisation.

5.2.4 Net wealth taxes could complement a minimum capital income tax

A minimum capital income tax could be deemed as a complementary measure to net wealth taxes, as these two taxation forms have their differences. In June 2024, at the G20 meeting in Brazil, EU Tax Observatory director Gabriel Zucman presented a blueprint of a global 2% minimum tax based on net wealth.[80] Zucman's proposal would only apply to *ultra-high-net-worth individuals* with a net wealth exceeding, for instance, $1 billion or $100 million. Because of this, the proposal has been called *the billionaire tax*. The proposed minimum tax could also be collected partially or wholly with income tax, as only the minimum threshold of taxes would be calculated based on net wealth.

Net wealth taxes present considerable merits. As the study shows (see Section 3.3), it is currently rather easy to manipulate income, but manipulating wealth is more difficult, as unrealised gains are also considered when assessing asset values. Therefore, taxes based on wealth could be more effective in some situations. They are also more effective at redistributing the wealth of the ultra-rich, as they are levied on the net wealth of the rich. Therefore, net wealth taxes are necessary if the intention is to tackle wealth concentration.

In spite of these advantages, it is important to stress that, while net wealth taxes would effectively increase tax rates for high-capital-income earners, they would not address all the problems a minimum capital income tax does. For one, if the net wealth taxes were restricted to the ultra-rich, they would tackle the problem only partially, as the *normal-rich* are also currently undertaxed in most countries when compared to middle-class workers. Obviously, it would be possible to lower the threshold for a net wealth tax either nationally or globally. However, generally, net wealth taxes are applied to rather high fortunes, as valuing some wealth types is burdensome and inaccurate.

In addition, net wealth taxes are calculated based on asset values and not their returns, which means they could be effectively low for high incomes and high for low incomes. Sometimes, this will also result in tax rates above 100% in proportion to income, as net wealth tax could be levied even when assets do not generate any income, for instance, due to decreasing asset values. Such tax practice has been deemed to violate the constitutional right of property protection in some countries.[81] Due to these restrictions, it might be difficult to raise net wealth tax rates effectively as high as income tax rates. Therefore, income taxes are needed to complement net wealth tax to achieve progressive taxation.

All in all, net wealth taxes could be a useful complement for minimum capital income tax. They would bolster progressivity of tax in all income groups and promote equality in the sense that the same – or closer to the same – tax would be paid on same amount of income. Net wealth taxation could also improve the transparency of wealth since, currently, much of the wealth is not taxed, and thus not reported to authorities.

5.2.5 The EU Code of Conduct on Business Taxation should be extended to capital income tax

The Code of Conduct is a soft law instrument that aims to curb harmful tax competition with guidelines on harmful tax practices that should be avoided by EU member states. However, the scope of the Code of Conduct is restricted to harmful tax practices in corporate income tax. As the study demonstrates, harmful practices regarding capital income tax in member states also distort the single market. Therefore, the scope of the Code of Conduct should be extended to include capital income taxation.[82]

5.2.6 Complementary tax policy recommendations

Several other reforms could also complement the minimum capital income tax proposed in this study. For instance, extending the scope of qualified majority voting to tax policies that tackle harmful tax practices which erode the tax base of other member states, and thus effectively violate their sovereignty, would help in adopting the reforms presented in previous sections. Part of the minimum capital income tax levies could also be used to strengthen the EU's own resources and fund the EU budget. An EU-level wealth tax could be an alternative or complementary option for new own resources. The EU should also promote the reforms presented in previous sections for implementation on a global level at the UN or OECD. The EU should be an active partner in negotiations towards the new UN tax convention.

It is also necessary to stress that the EU should continue tackling profit shifting of MNEs and cross-border tax evasion, even with the significant progress made so far. To close the remaining loopholes, the ultimate goal should be the harmonisation of a broad corporate income tax base with minimal exceptions (e.g., for green investment). These principles should be followed when advancing the Commission's latest proposal establishing common rules for computing the taxable results of group members that operate in the internal market.[83] The minimum corporate income tax rate should also be increased to enhance the effective progressivity of income taxation.

Tackling cross-border tax evasion also requires increasing transparency of capital and beneficial ownership. The goal should be that the tax authorities automatically receive information on all capital and its returns for their residents. This requires increasing access to information on legal entities' beneficial ownership, as well as broadening the scope of assets covered.

BIBLIOGRAPHY

BIBLIOGRAPHY

Alstadsæter, A., S. Godar, P. Nicolaides et al. (2023) "Global tax evasion report 2024". EU Tax Observatory Report.

Alstadsaeter, A., M. Jacob, W. Kopczuk et al. (2016) "Accounting for business income in measuring top income shares: Integrated accrual approach using individual and firm data from Norway". Working paper No. W22888. NBER.

Alstadsæter, A., M. Jacob, and R. Michaely (2017) "Do dividend taxes affect corporate investment?" *Journal of Public Economics*, 151: 74-83.

"Biden's American families plan would boost services for working families by taxing the wealthy". Americans for Tax Fairness, 2021.

Auerbach, A. (1979) "Wealth maximization and the cost of capital". *Quarterly Journal of Economics*, 3(93): 433-446.

Bachas, P., M. Fisher-Post, A. Jensen et al. (2024) "Capital taxation, development, and globalization: Evidence from a macro-historical database". Working paper 29819. NBER, May.

Blanchet, T., L. Chancel and A. Gethin (2021) "Why is Europe more equal than the United States? Online appendix". Working paper No. 2020/19. World Inequality Lab, 9 November.

Casi-Eberhard, E., M. Mardan, M. Mardan et al. (2023) "Citizenship/residence by investment and digital nomad visas: The golden era of individual tax evasion and avoidance?" Discussion paper No. 2023/12. NHH Dept. of Business and Management Science. DOI: 10.2139/ssrn.4557656

Cobham, A. (2012) "Tax havens and illicit financial flows", in P. Reuter (ed.) *Draining Development? Controlling Flows of Illicit Funds from Developing Countries* (Washington DC: The World Bank), pp. 337-372.

Chancel, L., T. Piketty, E. Saez et al. (2021) "World inequality report 2022". World Inequality Lab.

Christensen, R. C. (2020) "Elite professionals in transnational tax governance". *Global Networks*, 2(21): 265-293.

Directorate-General for Taxation and Customs Union (2022) "Taxation trends in the European Union – data for the EU member states, Iceland, Norway – 2022 edition". European Commission.

Dobreva, A. (2023) "System of own resources of the European Union". European Parliamentary Research Service, September.

"Data on taxation trends". European Commission.

"Global tax evasion report 2024: Online appendix". EU Tax Observatory, 2024.

Finér, L. and A. Tokola (2017) "The revolution in automatic exchange of information: How is the information used and what are the effects?" *Bulletin for International Taxation*, 12(71). DOI: 10.59403/1hxc2gs

Finér, L. (2022) "Who generated the loopholes? A case study of corporate tax advisors' regulatory capture over anti-tax avoidance legislation in Finland". *Nordic Tax Journal*, 1(2022): 1-26. DOI: 10.2478/ntaxj-2021-0005

"Report on the exit tax on natural persons. Taxation of unrealised capital gains accumulated during a period of residence in Finland in the event of emigration". Finnish Ministry of Finance, 2020.

"Vertailu sote-yritysten verovastuullisuudesta". Finnwatch, 4/2019.

Fisher-Post, M. and A. Gethin (2023) "Government redistribution and development: Global estimates of tax and transfer progressivity 1980–2019". Working Paper 2023/17. World Inequality Database, 26 November.

Flamant, E., S. Godar and G. Richard (2021) "New forms of tax competition: An empirical investigation". Report No. 3. EU Tax Observatory, November.

Gechert, S. and P. Heimberger (2022) "Do corporate tax cuts boost economic growth?" *European Economic Review*, 147: 104157. DOI: 10.1016/j.euroecorev.2022.104157

Harberger, A. C. (1962) "The incidence of the corporation income tax". *Journal of Political Economy*, 3(70): 221-240.

Harju, J., A. Koivisto and T. Matikka (2022) "The effects of corporate taxes on small firms". *Journal of Public Economics*, 212: 104704. DOI: 10.1016/j.jpubeco.2022.104704

Harju, J. and T. Matikka (2016) "The elasticity of taxable income and income-shifting between tax bases: What is 'real' and what is not?" *International Tax and Public Finance*, 23: 640-669.

Heimberger, P. (2021) "Corporate tax competition: A meta-analysis". *European Journal of Political Economy*, 69: 102002. DOI: 10.1016/j.ejpoleco.2021.102002

Helminen, M. (2024) *Finnish International Taxation* (Helsinki: WSOYpro).

"Guidance: HS275 business asset disposal relief (2023)". HM Revenue & Customs, updated 6 April 2024.

Hope, D. and J. Limberg (2022) "The economic consequences of major tax cuts for the rich". *Socio-Economic Review*, 2(20): 539-559. DOI: 10.1093/ser/mwab061

Hourani, D., B. Millar-Powell, S. Perret et al. (2023) "The taxation of labour vs. capital income". OECD Taxation Working Papers, No. 65. OECD Publishing. DOI: 10.1787/04f8d936-en

Kirchler, E., B. Maciejovsky and F. Schneider (2003) "Everyday representations of tax avoidance, tax evasion, and tax flight: Do legal differences matter?" *Journal of Economic Psychology*, 4(24): 535-553.

Koivisto, A. (2024) "Tax planning and investment responses to dividend taxation". *International Tax and Public Finance*. DOI: 10.1007/s10797-024-09837-w

Kopits, G. (ed.) (1992) *Tax Harmonization in the European Community: Policy Issues and Analysis* (Washington DC: International Monetary Fund Publication Services). DOI: 10.5089/9781557752253.084

"Changes to proposal for a new Box 3 regime as of 2027". KPMG Meijburg, 6 February 2024.

Lalucq, A. (2021) "Report on reforming the EU policy on harmful tax practices (including the reform of the Code of Conduct Group)". European Parliament Committee on Economic and Monetary Affairs, 20 July.

"Supreme Court rules: The Dutch box 3 wealth tax is still discriminatory". Loyens & Loeff, 6 June 2024.

"Harmful tax competition: An emerging global issue". OECD, 1998.

"Model tax convention on income and on capital: Condensed version 2017". OECD Publishing, 2017. DOI: 10.1787/mtc_cond-2017-en

"Taxation of household savings". OECD Tax Policy Studies No. 25. OECD Publishing, 2018a. DOI: 10.1787/9789264289536-en

"The role and design of net wealth taxes in the OECD". OECD Tax Policy Studies No. 26. OECD Publishing, 2018b. DOI: 10.1787/9789264290303-en

"Inheritance taxation in OECD countries". OECD Tax Policy Studies, No. 28. OECD Publishing, 2021. DOI: 10.1787/e2879a7d-en

"The global minimum tax and the taxation of MNE profit". OECD Taxation Working Papers No. 68. OECD Publishing, 2024. DOI: 10.1787/9a815d6b-en

Ohrn, E. (2019) "The effect of tax incentives on U.S. manufacturing: Evidence from state accelerated depreciation policies". *Journal of Public Economics*, 180: 104084. DOI: 10.1016/j.jpubeco.2019.104084

Picciotto, S. (1991) *International Business Taxation: A Study in the Internationalization of Business Regulation* (Cambridge: Cambridge University Press).

"Investment savings account – a simple form of saving in a complex tax system". Riksrevisionen, 2018.

Tørsløv, T., L. Wier and G. Zucman (2023) "The missing profits of nations". *Review of Economic Studies*, 3(90): 1499-1534. DOI: 10.1093/restud/rdac049

United Nations (2021) *United Nation Model Double Taxation Convention between Developed and Developing Countries 2021* (New York: United Nations).

Yagan, D. (2015) "Capital tax reform and the real economy: The effects of the 2003 dividend tax cut". *American Economic Review*, 12(105): 3531-3563.

Ylönen, M. and L. Finér (2023) "Global tax governance", in A. Garcia, C. Scherrer and J. Wullweber (eds) *Handbook on Critical Political Economy and Public Policy* (Cheltenham: Edward Elgar), pp. 341-355.

Zawisza, T., S. Perret, P. O'Reilly et al. (2024) "Tax arbitrage through closely held businesses: Implications for OECD tax systems". OECD Taxation Working Papers, No. 70. OECD Publishing, 7 October. DOI: 10.1787/24b4ed4d-en

Zucman, G. (2024) "A blueprint for a coordinated minimum effective taxation standard for ultra-high-net-worth individuals". EU Tax Observatory, 25 June.

ENDNOTES

ENDNOTES

1 See Section 3.1 for a definition of harmful tax competition.
2 As of 7 June 2024, there are 147 members in the OECD/G20 Inclusive Framework on BEPS, including the 38 OECD member countries.
3 "The global minimum tax and the taxation of MNE profit". OECD Taxation Working Papers No. 68. OECD Publishing, 2024. DOI: 10.1787/9a815d6b-en
4 Alstadsæter, A., S. Godar, P. Nicolaides et al. (2023) "Global tax evasion report 2024". EU Tax Observatory Report.
5 Tax avoidance arrangements take advantage of legal means, such as incentives or gaps and mismatches in tax regimes, and should be separated from tax evasion, which refers to illegal arrangements, such as underreporting income (Kirchler, E., B. Maciejovsky and F. Schneider (2003) "Everyday representations of tax avoidance, tax evasion, and tax flight: Do legal differences matter?" *Journal of Economic Psychology*, 4(24): 535-553). Tax avoidance is often legal, as it utilises asymmetries in national laws and tax treaty benefits (so-called treaty shopping). Aggressive tax planning – as opposed to regular tax planning – is often used in the same sense as tax avoidance. Aggressive tax planning is understood to be literally legal, but ethically questionable or against the intended purpose of the law (Finér, L. (2022) "Who generated the loopholes? A case study of corporate tax advisors' regulatory capture over anti-tax avoidance legislation in Finland". *Nordic Tax Journal*, 1(2022): 1-26. DOI: 10.2478/ntaxj-2021-0005). Tax avoidance could be tackled by securing tax bases with stronger national laws, such as anti-tax avoidance rules, and by ensuring that international tax treaties promote this goal.
6 Alstadsæter, A., S. Godar, P. Nicolaides et al. (2023) "Global tax evasion report 2024".
7 Zucman, G. (2024) "A blueprint for a coordinated minimum effective taxation standard for ultra-high-net-worth individuals". EU Tax Observatory, 25 June.
8 "Taxation of household savings". OECD Tax Policy Studies No. 25. OECD Publishing, 2018. DOI: 10.1787/9789264289536-en
9 Cobham, A. (2012) "Tax havens and illicit financial flows", in P. Reuter (ed.) *Draining Development? Controlling Flows of Illicit Funds from Developing Countries* (Washington DC: The World Bank), pp. 337-372.
10 Chancel, L., T. Piketty, E. Saez et al. (2021) "World inequality report 2022". World Inequality Lab; Fisher-Post, M. and A. Gethin (2023) "Government redistribution and development: Global estimates of tax and transfer progressivity 1980–2019". Working paper 2023/17. World Inequality Database, 26 November.
11 Capital income tax revenue in the Netherlands is negative for various reasons, including several tax refunds that cause a negative effective tax rate (Directorate-General for Taxation and Customs Union (2022) "Taxation trends in the European Union – data for the EU member states, Iceland, Norway – 2022 edition". European Commission). For example, the tax relief for mortgage interest payments and other interest payments on loans effectively reduces the tax base of capital. Realised capital gains in the Netherlands are also generally tax exempt, as it levies only a capital tax based on the value of the assets (see Section 4.2.10).
12 Zawisza, T., S. Perret, P. O'Reilly et al. (2024) "Tax arbitrage through closely held businesses: Implications for OECD tax systems". OECD Taxation Working Papers, No. 70. OECD Publishing, 7 October. DOI: 10.1787/24b4ed4d-en
13 "Vertailu sote-yritysten verovastuullisuudesta". Finnwatch, 4/2019.
14 Hourani, D., B. Millar-Powell, S. Perret et al. (2023) "The taxation of labour vs. capital income". OECD Taxation Working Papers, No. 65. OECD Publishing. DOI: 10.1787/04f8d936-en; Section 3.3.4 discusses other forms of income shifting.
15 Zawisza, T., S. Perret, P. O'Reilly et al. (2024) "Tax arbitrage through closely held businesses: Implications for OECD tax systems".
16 Ibid.
17 Chancel, L., T. Piketty, E. Saez et al. (2021) "World inequality report 2022".
18 BRICS stands for Brazil, Russia, India, China and South Africa.
19 Chancel, L., T. Piketty, E. Saez et al. (2021) "World inequality report 2022".
20 Bachas, P., M. Fisher-Post, A. Jensen et al. (2024) "Capital taxation, development, and globalization: Evidence from a macro-historical database". Working paper 29819. NBER, May.
21 Alstadsæter, A., S. Godar, P. Nicolaides et al. (2023) "Global tax evasion report 2024".
22 Chancel, L., T. Piketty, E. Saez et al. (2021) "World inequality report 2022".
23 Bachas, P., M. Fisher-Post, A. Jensen et al. (2024) "Capital taxation, development, and globalization: Evidence from a macro-historical database".
24 "The role and design of net wealth taxes in the OECD". OECD Tax Policy Studies No. 26. OECD Publishing, 2018. DOI: 10.1787/9789264290303-en. Net wealth taxes could be deemed a tax on notional return on wealth. It is possible to design net wealth taxes that are effectively closer to income taxes in the sense that they take into account the realised income (Zucman, G. (2024) "A blueprint for a coordinated minimum effective taxation standard for ultra-high-net-worth individuals").

25 "Data on taxation trends". European Commission.

26 See, for example: Heimberger, P. (2021) "Corporate tax competition: A meta-analysis". *European Journal of Political Economy,* 69: 102002. DOI: 10.1016/j.ejpoleco.2021.102002; Zawisza, T., S. Perret, P. O'Reilly et al. (2024) "Tax arbitrage through closely held businesses: Implications for OECD tax systems".

27 Corporate tax havens offer lower corporate income tax rates for corporations, but are often transparent and facilitate legal tax avoidance instead of illegal tax evasion. Therefore, they should be distinguished from other type of tax havens, called *secrecy jurisdictions*, that attract offshore investment with bank secrecy. This allows for hiding assets to evade tax. See, for example: Finér, L. (2022) "Who generated the loopholes? A case study of corporate tax advisors' regulatory capture over anti-tax avoidance legislation in Finland". *Nordic Tax Journal*, 1(2022): 1-26. DOI: 10.2478/ntaxj-2021-0005

28 Alstadsæter, A., S. Godar, P. Nicolaides et al. (2023) "Global tax evasion report 2024".

29 See, for example: Harberger, A. C. (1962) "The incidence of the corporation income tax". *Journal of Political Economy*, 3(70): 221-240; Auerbach, A. (1979) "Wealth maximization and the cost of capital". *Quarterly Journal of Economics*, 3(93): 433-446.

30 Alstadsæter, A., M. Jacob, and R. Michaely (2017) "Do dividend taxes affect corporate investment?" *Journal of Public Economics*, 151: 74-83; Harju, J. and T. Matikka (2016) "The elasticity of taxable income and income-shifting between tax bases: What is 'real' and what is not?" *International Tax and Public Finance*, 23: 640-669; Koivisto, A. (2024) "Tax planning and investment responses to dividend taxation". *International Tax and Public Finance*. DOI: 10.1007/s10797-024-09837-w; Yagan, D. (2015) "Capital tax reform and the real economy: The effects of the 2003 dividend tax cut". *American Economic Review*, 12(105): 3531-3563.

31 See, for example: Gechert, S. and P. Heimberger (2022) "Do corporate tax cuts boost economic growth?" *European Economic Review*, 147: 104157. DOI: 10.1016/j.euroecorev.2022.104157; Harju, J., A. Koivisto and T. Matikka (2022) "The effects of corporate taxes on small firms". *Journal of Public Economics*, 212: 104704. DOI: 10.1016/j.jpubeco.2022.104704

32 See, for example: Ohrn, E. (2019) "The effect of tax incentives on U.S. manufacturing: Evidence from state accelerated depreciation policies". *Journal of Public Economics*, 180: 104084. DOI: 10.1016/j.jpubeco.2019.104084

33 Hope, D. and J. Limberg (2022) "The economic consequences of major tax cuts for the rich". *Socio-Economic Review*, 2(20): 539-559. DOI: 10.1093/ser/mwab061

34 See, for example: "Inheritance taxation in OECD countries". OECD Tax Policy Studies, No. 28. OECD Publishing, 2021. DOI: 10.1787/e2879a7d-en

35 Tørsløv, T., L. Wier and G. Zucman (2023) "The missing profits of nations". *Review of Economic Studies*, 3(90): 1499-1534. DOI: 10.1093/restud/rdac049; for a discussion and definition of harmful tax competition, see: "Harmful tax competition: An emerging global issue". OECD, 1998.

36 "Harmful tax competition: An emerging global issue". OECD.

37 Christensen, R. C. (2020) "Elite professionals in transnational tax governance". *Global Networks,* 2(21): 265-293; Finér, L. (2022) "Who generated the loopholes? A case study of corporate tax advisors' regulatory capture over anti-tax avoidance legislation in Finland".

38 Picciotto, S. (1991) *International Business Taxation: A Study in the Internationalization of Business Regulation* (Cambridge: Cambridge University Press).

39 Helminen, M. (2024) *Finnish International Taxation* (Helsinki: WSOYpro).

40 "Model tax convention on income and on capital: Condensed version 2017". OECD Publishing, 2017. DOI: 10.1787/mtc_cond-2017-en; United Nations (2021) *United Nation Model Double Taxation Convention between Developed and Developing Countries 2021* (New York: United Nations).

41 Ylönen, M. and L. Finér (2023) "Global tax governance", in A. Garcia, C. Scherrer and J. Wullweber (eds) *Handbook on Critical Political Economy and Public Policy* (Cheltenham: Edward Elgar), pp. 341-355.

42 Alstadsæter, A., S. Godar, P. Nicolaides et al. (2023) "Global tax evasion report 2024".

43 Dobreva, A. (2023) "System of own resources of the European Union". European Parliamentary Research Service, September.

44 Council Directive 2003/49/EC.

45 Council Directive 2011/96/EU.

46 Council Directive 2016/1164/EU.

47 Council Directive 2023/2226/EU.

48 Council Directive 2003/48/EC and Council Directive 2015/849/EU.

49 Lalucq, A. (2021) "Report on reforming the EU policy on harmful tax practices (including the reform of the Code of Conduct Group)". European Parliament Committee on Economic and Monetary Affairs, 20 July.

50 Finér, L. (2022) "Who generated the loopholes? A case study of corporate tax advisors' regulatory capture over anti-tax avoidance legislation in Finland".

51 "Inheritance taxation in OECD countries". OECD Tax Policy Studies; Hourani, D., B. Millar-Powell, S. Perret et al. (2023) "The taxation of labour vs. capital income".

52 Flamant, E., S. Godar and G. Richard (2021) "New forms of tax competition: An empirical investigation". Report No. 3. EU Tax Observatory, November; Alstadsæter, A., S. Godar, P. Nicolaides et al. (2023) "Global tax evasion report 2024".

53 Such regimes are called *golden visas*. Casi-Eberhard, E., M. Mardan, M. Mardan et al. (2023) "Citizenship/residence by investment and digital nomad visas: The golden era of individual tax evasion and avoidance?" Discussion paper No. 2023/12. NHH Dept. of Business and Management Science. DOI: 10.2139/ssrn.4557656

54 "Model tax convention on income and on capital: Condensed version 2017". OECD Publishing; United Nations (2021) *United Nation Model Double Taxation Convention between Developed and Developing Countries 2021*.

55 Capital gains from the sale of real estate are a significant exception, as the source country, namely, the country where the real estate is located, usually has the right to tax all income derived from it.

56 "Report on the exit tax on natural persons. Taxation of unrealised capital gains accumulated during a period of residence in Finland in the event of emigration". Finnish Ministry of Finance, 2020.

57 Notable exceptions in the EU are Denmark and Hungary.

58 "Inheritance taxation in OECD countries". OECD Tax Policy Studies.

59 Alstadsæter, A., S. Godar, P. Nicolaides et al. (2023) "Global tax evasion report 2024".

60 Alstadsaeter, A., M. Jacob, W. Kopczuk et al. (2016) "Accounting for business income in measuring top income shares: Integrated accrual approach using individual and firm data from Norway". Working paper No. W22888. NBER.

61 See, for example: Hourani, D., B. Millar-Powell, S. Perret et al. (2023) "The taxation of labour vs. capital income".

62 Alstadsæter, A., S. Godar, P. Nicolaides et al. (2023) "Global tax evasion report 2024".

63 PWC World Wide Tax Summaries have been used to validate some of the data.

64 It is possible to artificially increase the value of a company's assets with tax avoidance arrangements that have been gaining popularity.

65 The share investment accounts cannot be gifted before realisation.

66 Alstadsæter, A., S. Godar, P. Nicolaides et al. (2023) "Global tax evasion report 2024".

67 "Global tax evasion report 2024: Online appendix". EU Tax Observatory, 2024.

68 This tax schedule applies to *box 3* income. There are three different types of taxable income (boxes 1, 2 and 3).

69 This type of income is referred to as *box 2* income.

70 See, for example: "Changes to proposal for a new Box 3 regime as of 2027". KPMG Meijburg, 6 February 2024; "Supreme Court rules: The Dutch box 3 wealth tax is still discriminatory". Loyens & Loeff, 6 June 2024.

71 "Investment savings account – a simple form of saving in a complex tax system". Riksrevisionen, 2018.

72 Finér, L. and A. Tokola (2017) "The revolution in automatic exchange of information: How is the information used and what are the effects?" *Bulletin for International Taxation*, 12(71). DOI: 10.59403/1hxc2gs

73 Alstadsæter, A., S. Godar, P. Nicolaides et al. (2023) "Global tax evasion report 2024".

74 The threshold was decreased from £10 million to £1 million from 11 March 2020. "Guidance: HS275 business asset disposal relief (2023)". HM Revenue & Customs, updated 6 April 2024.

75 See Section 3.3.2 on exit taxation. The Swedish legislation allows Sweden to tax its residents' income in some cases for up to ten years after moving away from Sweden.

76 Blanchet, T., L. Chancel and A. Gethin (2021) "Why is Europe more equal than the United States? Online appendix". Working paper No. 2020/19. World Inequality Lab, 9 November.

77 See, for example: Kopits, G. (ed.) (1992) *Tax Harmonization in the European Community: Policy Issues and Analysis* (Washington DC: International Monetary Fund Publication Services). DOI: 10.5089/9781557752253.084

78 Council Directive 2006/112/EC.

79 "Biden's American families plan would boost services for working families by taxing the wealthy". Americans for Tax Fairness, 2021.

80 Zucman, G. (2024) "A blueprint for a coordinated minimum effective taxation standard for ultra-high-net-worth individuals". The idea has also been supported by the Tax The Rich campaign.

81 See Section 4.2.10 on the 2024 Supreme Court ruling in the Netherlands.

82 Lalucq, A. (2021) "Report on reforming the EU policy on harmful tax practices (including the reform of the Code of Conduct Group)".

83 Business in Europe: Framework for Income Taxation (BEFIT).

ABOUT THE AUTHORS, FEPS & PARTNERS

ABOUT THE AUTHORS

Lauri Finér

Lauri Finér is the director of the Finnish progressive think tank Kalevi Sorsa Foundation. He has worked on taxation for over 15 years as a researcher, civil servant and political advisor. From 2019 to 2022, he worked as a fiscal policy advisor to the social democrats in the Marin cabinet.

Niko Pankka

Niko Pankka is the head of public affairs at the Central Organisation of Finnish Trade Unions (SAK). He holds a Master of Science in Economics and Business Administration, a Master of Laws and is currently pursuing doctoral research in tax law. His professional experience spans both the public and private sectors, where he has held various tax-related positions.

ABOUT THE FOUNDATION FOR EUROPEAN PROGRESSIVE STUDIES (FEPS)

The Foundation for European Progressive Studies (FEPS) is the think tank of the progressive political family at EU level. Its mission is to develop innovative research, policy advice, training and debates to inspire and inform progressive politics and policies across Europe. FEPS works in close partnership with its 77 members and other partners – including renowned universities, scholars, policymakers and activists – forging connections among stakeholders from the world of politics, academia and civil society at local, regional, national, European and global levels.

FEPS
FOUNDATION FOR EUROPEAN PROGRESSIVE STUDIES

www.feps-europe.eu
X/Twitter/Instagram: @FEPS_Europe
Facebook: @FEPSEurope

ABOUT KALEVI SORSA FOUNDATION

Kalevi Sorsa Foundation is a social democratic think tank established in 2005 and based in Helsinki, Finland. The foundation's objective is to promote public debate on equality and democracy and to produce research and publications.

Kalevi Sorsa Foundation

Siltasaarenkatu 18–20 C, 00530 Helsinki (Finland)
www.sorsafoundation.fi
@SorsaFoundation

Fostering welfare requires just and efficient taxation. Unfortunately, the target has been undermined by tax avoidance and tax evasion related to international investment. The good news is that the past decade has seen a major turn in tackling tax base erosion and harmful tax competition. While major international reforms have made corporate tax avoidance more difficult, they have not yet addressed the problems of capital income taxation.

This study describes the current state of capital income tax avoidance in the EU and presents policy proposals to solve the current problems. The analysis is based on earlier research and distinctive case studies that examine tax regimes in 15 selected European countries.

Several countries have very low tax rates on capital income, which taxpayers in other countries can benefit from by avoiding the higher rates that would be applicable in their country of residence. The case studies also highlight good tax practices, such as exit tax rules, to protect tax bases. The study presents five essential recommendations that would tackle tax base erosion addressed in the study. The EU should essentially adopt a directive establishing a minimum capital income tax rate and extend the scope of its anti-tax avoidance directive to capital income.

POLICY STUDY PUBLISHED IN FEBRUARY 2025 BY:

Kalevi Sorsa Foundation

FEPS
FOUNDATION FOR EUROPEAN PROGRESSIVE STUDIES

ISBN: 978-2-39076-014-6
Legal deposit registration number: D/2025/15396./09