Tax Policy Alert

Tax implications of recent elections in Europe

29 July 2024

In brief

What happened?

Recent elections in Europe have concluded and the implications for tax policy are becoming slightly clearer.

The UK general election took place on 4 July 2024, with the Labour Party winning with a sizeable majority. The King's Speech on 17 July 2024 marked the formal start of the parliamentary year and outlined 39 bills for the coming parliamentary session, with an underlying theme of boosting economic stability and growth.

In France, elections were held on 30 June and 7 July 2024 to elect all 577 members of the 17th National Assembly (Assembly). Three large blocs now represent 85% of the Assembly, but no one has a majority. A coalition government would be an unprecedented situation for France. The left-wing bloc (Nouveau Front Populaire, NFP) with 182 of the 577 seats is the largest grouping in the Assembly.

Elections for the EU Parliament took place 6-9 June 2024. The EU Parliament has a very limited legislative role in taxation as most decisions are adopted by unanimous vote in the Council of Ministers. However, Members of the European Parliament (MEPs) have a role to play in shaping the public perception of tax policy and they also vote on the EU budget, which is crucial to the implementation of European policies. The European Parliament elected Roberta Metsola (European People's Party, EPP) as their president on 16 July 2024. On 18 July 2024, the European Parliament supported the nominations by the leaders of the member states of the EU of Ursula von der Leyen (EPP) as president of the European Commission, Antonio Costa (Socialists and Democrats, S&D) as president of the European Council and Kaja Kallas (Renew) as High Representative for Foreign and Security Policy. Von der Leyen unfolded her plans for the coming five years in the Political Guidelines 2024-2029.

Why is it relevant?

In the UK, it is expected that tax and employment policy changes over the coming months and years will be in line with the Labour Party's manifesto. This includes a pledge not to increase the 'big 3' taxes: corporate tax, income tax, and VAT, and there has been no word yet on capital gains tax. However, the Labour Party will review the corporate tax rate if tax changes in other countries pose a risk to UK competitiveness. The Labour Party manifesto also looks to retain the current full expensing system for capital investment and the annual investment allowance for small business, together with relief for research and development expenditure.

The emergence of the left-wing bloc NFP as the largest grouping in the new French parliament is likely to change dynamics in France. However, as long as there is no Prime Minister appointed, there is no clarity on the tax policy plans of the French government.

The priorities of the next EU Commission and Parliament will ultimately impact tax policy creation. Prosperity, competitiveness and sustainable growth are understood to be key priorities for the incoming Commission President and tax policies will likely be framed to deliver against these objectives.

In detail

United Kingdom

The Labour Party stood for government on a platform of generating growth and economic stability, underlain by an industrial strategy based on building a partnership between the public and private sectors. In keeping with its pre-election pledges to stimulate growth, the King's Speech confirmed that the new government will establish an Industrial Strategy Council, including the creation of a National Wealth Fund to make investments across the country. With the promise of maintaining stability, the King's Speech also outlined a new bill for Budget Responsibility whereby all new tax and spending changes are to be assessed by the Office for Budget Responsibility.

Coming quickly, within the first 100 days of government, legislation will be introduced with multiple measures intended to enhance employment rights and ban "exploitative practices". While consultation is expected, the proposals include delivering "a genuine living wage" and applying some key employment rights from day one, rather than after a period of employment.

Following consultation, changes in tax policy are expected in certain areas. For example, the new government will consult in relation to the treatment of carried interest in the private equity sector. The government is also expected to implement new rules for the taxation of non-domiciled individuals, which were announced by the previous Government before the election. Business rates, of relevance to high street businesses, are also expected to be replaced with a new system with the intention of setting a level playing field between high street and online businesses.

In April 2024 the Labour Party published a 'Plan to Close the Tax Gap' where it set out its plans to modernise HM Revenue and Customs (HMRC) and bolster compliance activity. With Labour now in government, HMRC is likely to invest in digitisation and increase its headcount with the aim of raising tax revenues.

France

The below summarises the most important tax plans of the three largest parties or political groups.

- **Renaissance**, led by Emmanuel Macron, has stuck to the line of fiscal stability. However, even before the elections, the government announced its desire to implement a tax on stock buybacks and to strengthen the tax on the super-profits of companies in the energy sector. A temporary tax on the super-profits of other economic sectors is being considered.

- **Rassemblement National**, led by Marine Le Pen (far right), has proposed changes to the tax system mainly for individuals, but also:

- Value-Added Tax (VAT): reduction of VAT rate from 20% to 5.5% on all energy products;
- Abolition of the Real Estate Wealth Tax (IFI) and replacement with a Financial Wealth Tax (IFF);
- Elimination of inheritance tax for the middle and lower classes;
- No significant changes for medium and large companies.

- **The Nouveau Front Populaire (NFP)**, a coalition of left-wing parties (including the far left) has notably proposed:
  - For individuals:
    - Reinstatement of the Wealth tax abolished by the former government in 2017 (i.e. Wealth tax on both real estate and on financial assets including professional assets). The new Wealth tax would include an environmental aspect.
    - Higher income tax rates on high earners;
    - Reinstatement of the exit tax;
    - Removal of the flat tax on financial income and reinstatement of a progressive tax rate;
    - Reforming the Inheritance tax to increase progressivity;
  - For companies:
    - Taxation of corporate windfall profits (mainly in the energy and agribusiness sectors).

European Union

Von der Leyen's Political Guidelines do not provide details on tax policy. They provide a new plan for sustainable prosperity and competitiveness; 'making business easier' and 'turbo-charging investment' are essential parts of that plan. New tax policies may be needed to support these broader goals. It is unclear how existing proposals such as the draft 'Unshell' Directive would support these goals or how a wealth tax (such as that envisaged by the EU Tax Observatory) would be compatible with boosting investment.

Enforcement and implementation of legislation will also be an important focus for the new European Commission, with Commissioners tasked with reducing administrative burdens and simplifying implementation. With respect to the Green Deal, the course and the goals remain unchanged, but may not be as visible as in the previous Commission term. Von der Leyen will fill the various Commissioner roles after the summer, with those to be confirmed by the European Parliament in late October.

Various domestic political parties form groups in the European Parliament. The EPP and S&D remain the largest political groups with 188 and 136 seats, respectively. Before the June 2024 elections, the liberal Renew group was the third largest group. The Hungarian leading party, Fidesz, took the initiative to form a new group of radical right parties, Patriots for Europe. The French Rassemblement National and the Dutch Freedom Party of Geert Wilders joined this group. Patriots for Europe now form the third largest group with 84 seats. The right wing group of European Conservatives and Reformists (ECR), of which Fratelli d'Italia of Giorgia Meloni is a member, form the fourth largest group with 78 seats. Renew is now the fifth largest political group with 77 seats. Despite this new reality, the three traditional parties, EPP, S&D and Renew, still have a comfortable majority in the European Parliament.

The ECON committee and the FISC tax sub-committee are the most relevant committees with regard to tax policy. Aurore Lalucq of Social Democrats has been elected as chair of the ECON committee, while Pasquale Tridico, a member of the Left group, has been chosen as chair of the FISC subcommittee. Lalucq is committed to addressing key economic challenges such as industrial competition, green and social transition financing, strategic autonomy, and financial stability to ensure Europe's prosperity and central role in the green industrial revolution. Tridico aims to create a fairer taxation system and combat tax evasion by integrating digital databases and payments, based on the belief that current disparities disproportionately burden citizens and SMEs and risk substantial public budget losses.

The influence of the European Parliament is predominantly political as it formally has a very limited role in the special- legislative procedure with regard to tax proposals (Art. 115 Treaty for the Functioning of the EU). The Council of Ministers need to decide unanimously on tax legislation, after having heard the non-binding opinion of the European Parliament.

The 30 May ECON Activity Report, which covers legislative and non-legislative activities of the European Parliament's ECON Committee over the past five years, also provides (starting on page 36) a state of play of various EU tax files that have been adopted or are still under consideration.

Let's talk

For a deeper discussion of how recent elections in Europe might affect your business, please contact:

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