Oxfam Media Brief: the case for windfall taxes

European energy ministers meet tomorrow to discuss emergency measures to tackle skyrocketing energy prices. This follows the European Commission's announcement on Wednesday which includes a proposal for windfall taxes.

Across Europe and the world, people are facing rising energy bills and inflation driven by the Ukraine war and the aftermath of the pandemic. Meanwhile, big business in every sector, not just energy, are raking in extremely high and excessive profits.

- **1000 of the world's biggest companies have recorded excess profits of 1.15 trillion dollars in 2020 and 2021** compared to the pre-pandemic period, an increase of 68.5 percent**.**
- A **90 percent windfall tax on 1000 of the world's biggest companies would generate more than 1000 billion dollars** globally according to new Oxfam estimates.

Oxfam is calling for a broad and substantial windfall tax on all sectors profiting since the start of the pandemic. The revenues must be used to support the most vulnerable people who are being hit hardest by the recent crises.

What is a windfall tax?

A tax on excessive profits.

A windfall tax is an additional tax applied to big companies registering sudden and significant increases in their profits due to external circumstances or events such as a war or a pandemic. It is only applied to companies with excessive profits, above a normal level. This is calculated by comparing profits in a previous period or based on an estimation of real costs.

What is the EU proposing and what can the EU do?

A windfall tax in practice, but not in name.

On Wednesday, the President of the European Commission, Ursula von der Leyen, proposed two types of levies on windfall profits:

1. **A revenue cap on energy companies:** This applies only to companies using low-carbon energy sources to make electricity, such as renewables and nuclear. Until now, such companies have been charging the same price as gas-powered stations, and therefore making huge excess profits. The difference between the revenue cap (set by the European Commission) and the price paid by consumers will go towards bringing down the cost of electricity bills. But if the cap is set too high compared to production costs, companies can still rake in excess profits.
2. **A solidarity contribution on fossil fuel companies:** The European Commission shared no details but did recognise that these companies are making unexpected

and massive profits. Five of the largest energy companies (BP, Shell, Total Energies, Exxon and Chevron) made together 2600 dollars in profit every second in 2021.

The EU has proposed that the revenue collected should go towards supporting vulnerable people and companies to help them adapt to the increase in prices and invest in clean home-grown energy sources, like solar panels.

What does Oxfam think of the EU's proposal?

It's not enough.

Yes, the EU's proposal is a step forward but it only covers a fraction of companies making excess profits from the recent crises. We need a more ambitious measure based on historical and recent examples.

Is there a precedent for windfall taxes?

Yes. Windfall taxes are not new.

In WWI and II, for example, windfall taxes brought in significant revenue to help governments rebuild and stop wartime profiteering. In 1981, the UK Conservative Party under Margaret Thatcher imposed an extraordinary levy on the windfall profits of banks that were making large margins on their loans due to very high-interest rates.

The pandemic and now the inflation crisis has revived the idea of taxing excess profit. Economists like the Nobel-Award winning Joseph Stiglitz and international organisations like the United Nations have called for a windfall tax. Across the world, governments are taking steps to implement windfall taxes in some sectors, including India, Chile and Pakistan.

Many European countries have also taken the plunge (see table below for details):

- In March, Italy introduced a one-time 25 percent (initially 10 percent) windfall tax on energy companies;
- In July, the UK introduced a 25 percent tax on oil and gas companies in the North Sea (despite giving fossil fuel companies an 80 percent tax break for new fossil fuel investments);
- Romania and Greece introduced windfall taxes in the energy sector;
- Belgium, Germany and the Netherlands are considering introducing windfall taxes;
- Other European countries went further, targeting not only the energy sector but also the banking sector (Spain and Hungary).

The European Commission supported these initiatives. It set out guidelines in March on the implementation of excess profit taxes on energy companies.

What does Oxfam think about windfall taxes?

Windfall taxes are a key tool to fight inequality.

Oxfam supports windfall taxes. A tax on the excess profits of big corporations in periods of crisis like the pandemic and the current energy and food crisis is not only fair but generates revenue. It is a good way to bridge the widening gap between the rich and the poor, deliver a just recovery, and fight monopolies and rising inflation.

Windfall tax redistributes wealth.

A windfall tax can help redistribute wealth. It shifts money from the super-rich corporations and their wealthy shareholders who are profiteering off the global crises, to ordinary people

who are facing an increase in the cost-of-living. Windfall taxes ensure that no company can profit excessively from a period of immense economic and human suffering.

Oxfam calculated that 1000 of the world's biggest companies have recorded excess profits of 1.15 trillion dollars compared to the pre-pandemic period. This is an increase of 68.5 percent. The biggest winners? The financial, energy and pharma sectors.

Oxfam calculated this using Forbes Global 2000 database which contains publicly available data on the world's 2000 largest publicly listed companies. We define excess profit as any profit in 2020 - 2021 that exceeds their average for 2017 - 2019 and only the companies who increased their profit above 10 percent of their pre-pandemic average were included. These figures are conservative because they applied only to companies listed in the Forbes list and to profits recorded until April 2022, while companies, especially in the energy sector, have been making record profits in the last months due to the Ukraine war.

Billionaires' wealth has risen more since COVID-19 began than it has in the last 14 years put together and there are 600 more billionaires today compared to the pre-pandemic period. At the same time, 263 million more people could be pushed into extreme poverty in 2022, compared to pre-pandemic projections, due to the combined impact of COVID-19, inequality and food and energy price inflation – accelerated by the war in Ukraine. Inflation has reached its highest peak since 2008 globally with low-income countries and the poorest hit the hardest.

Big companies did not make these excess profits from having a fair and deserved comparative advantage. Instead, they reap the benefits of their monopolistic power. This concentrated power allows a handful of companies to dictate and increase prices. In addition, the huge injection of money into the economy during the pandemic by the central banks was of benefit to these companies. Windfall profits are filling the pockets of already rich managers and shareholders widening the gap between rich and poor.

Windfall tax generates revenue

Windfall tax can be used to boost government coffers in times of crisis when they are under pressure to find money to support welfare systems and public services.

In the short-term, windfall tax revenues can be channelled to those most affected by the crisis. A windfall tax on energy companies could be used to support the poorest households most hit by the increase in energy prices. This was suggested by the European Commission and envisaged by some European countries. In the long-term, windfall tax revenues can help tackle the biggest challenges of our times like the explosion in inequality and the climate crisis.

Windfall profits of 1000 of the world's biggest companies taxed at 90 percent would generate more than 1000 billion dollars globally according to new Oxfam estimates. According to another analysis, a 10 percent tax rate on windfall profits in 2020 in the EU would have generated 4.8 billion euros. If the rate was at 70 percent, the figure would be up to 35 billion euros.

Windfall tax as an economic tool for a just recovery and against monopolies and inflation

A windfall tax can help reduce the power of companies and stop them from increasing prices.

The power is in the hands of the few. In the agriculture sector, four big food companies carry out 70 percent of global trade in agricultural commodities by value. This monopoly means big

corporations can set the rules of the game. We have seen how firms' pricing power has increased to historical highs and they profit on inflation to further increase their prices and profits. In Spain, it is estimated that expanding corporate profits are responsible for 83.4 percent of the increase in inflation in the first quarter of 2022.

While critics of a windfall tax argue that it may cause the price to be passed onto the consumer, specific mechanisms exist to ensure this does not happen as seen in Spain and Italy (see table at the end).

Windfall taxes do not reduce the willingness of companies to invest if it is only on excess profits. Ever-increasing shareholder pay-outs show that companies are not using their extra profits to boost innovation. In the first semester of 2022, shareholder pay-outs in the world's largest companies surpassed all previous pay-outs, totalling 302.5 billion dollars. Oil and mining pay-outs registered the fastest growth. Putting a cap on windfall taxes, such as taxing profit above 10 percent when made in a short period, should exclude companies with a "normal" pattern of growth and address only those that have extraordinary profits. Moreover, companies themselves have declared that they will not abandon planned investments because of a windfall tax.

What should a windfall tax in the EU look like?

The windfall tax should:

- **Be sector-wide:** it should not be limited to energy companies but instead, apply to any company that makes excess profits off crises.
- **Be automatic:** it should not be a one-off, but a permanent mechanism activated when the world faces an unexpected crisis to allow governments to quickly generate revenue.
- **Based on national profit:** A national windfall tax should be applied to the reported profits at the country level, rather than to the consolidated profits in the headquarter country. This approach is easier to implement in case of a national windfall tax and avoids situations of double taxation. Measures should be put in place to prevent companies from avoiding tax by reallocating profits to countries without a national windfall tax.
- **Be ambitious:** The scope, tax rate and tax base should be wide enough to generate income and to correct distortive market effects. Oxfam calls for a tax rate between 50 – 90 percent if the tax base is calculated only on excess profits (profit exceeding 10 percent of the average of the previous years). There must not be loopholes to get around the tax such as allowing it to be deducted from the Corporate Income Tax or offset by the activation of deferred tax assets (DTAs). The tax should be retroactive to capture the excess profits made throughout the crises.
- **Earmark revenues:** Windfall tax revenues should be directed to support those that are most affected by the crises. This will help bridge the gap between the rich and the poor. Examples include social protection schemes to minimize the disproportionate effect of inflation or a discount on gas and electricity bills for poor households to help offset the high gas and energy prices.
- **Ensure consumer prices are not increased:** Mechanisms must be put in place to guarantee that the cost of the tax is not passed onto consumers. Competent authorities must be empowered and supported to set out regulations and carry out audits. Sanctions must be laid out for non-compliance.
- **Be tailored:** Every country should adopt a design for its windfall tax that fits its needs. Low-income countries may benefit from a windfall tax on production rather than on profits

to capture revenue from big companies shifting and recording their profits in rich countries.

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Overview of windfall taxes adopted or announced in Europe

	Italy	United-Kingdom	Greece	Spain	Hungary	Romania	Belgium	Germany	The Netherlands
Tax rate	25% (10% initially)	25%	90%	4,8% (bank) & 1,2% (energy)	8/10% (bank), 25% (oil), 7% (telecom), 4.1% (retail)	80%	Not specified	Not specified	Not specified
Type of measure	Exceptional taxation applied to the increase in net-sales reported for VAT purposes in the period 01.10.2021-30.04.2022 compared to the same period in the previous year, provided that such an increase is above 5 million euro and higher than 10%	Surtax in addition to the nominal rate of 40% already applied to total profits	Taxation of windfall profits between October 2021 and March 2022	Bank: tax on net interest income and net commission Energy: levy on sales	Banks: levy on net revenue Oil: tax on the difference in price levels between Russian crude and North Sea benchmark Telecommunication and retail companies: progressive tax based on net sales Airlines: departure fee	Windfall tax on any additional revenues received from 1.11.2021 to 31.03.2022	The government wants to extend the contribution on profits from nuclear power plants to other energy sectors	Cap on profits	Windfall tax but details not specified
Sectors the tax applies to	Energy (producers, traders and importers)	Oil and gas	Electricity	Banks and energy	Oil, banking, airlines, telecommunications, and retail	Electricity producers (except gas producers)	Nuclear and other energy producers	Electricity producers (except gas)	Oil and gas
Duration	One-off	Until 2025	One-off	Until 2023	Until 2023	One-off	Not specified	Not specified	Not specified
Retroactivity	Yes	Partly (from May 2022)	Yes	No	Partly (from beginning of 2022)	No	Not specified	Not specified	Not specified
Measures to protect consumers	Controls and audits to avoid price gouging	Not specified	Not specified	Controls and audits to avoid price gouging	Not specified	Not specified	Not specified	Not specified	Not specified
Potential revenues	10.49 billion €	6 billion €	Not specified	7 billion €	2.06 billion €	Not specified	700 million €	Not specified	2 billion €
Revenues earmarking	Support package for poorer	Support package for poorer households	Support package for poorer households	Not specified	Not specified	Support package for poorer households	Support package for poorer and	Support package for poorer households	Support package for poorer

	households and companies						middle-income households		households and companies