

STICHTING THE EX'TAX PROJECT

Directors' report Annual accounts 2018

The way the foundation is organized

Goal and strategy

Stichting The Ex'tax Project (STEP) is a Dutch foundation or 'ANBI' (an organisation for public good). The goal of the foundation is to contribute to an inclusive circular economy, in which current and future generations are able to create sustainable prosperity based on human capital rather than natural resources.¹ The foundation focuses on the tax system of the 21st century and the role of taxes in the transition to an inclusive, circular economy and achieving the UN's Sustainable Development Goals (SDGs). STEP raises support and creates alliances and practical tools that help advance the implementation of Ex'tax; the tax shift from labour to natural resources.

Assets under management

In general, the foundation receives funds from donations, contributions and interest. The board and management of STEP apply for funding from foundations, funds, businesses, private persons and subsidies. The board (represented by at least two members) manages the assets. In accordance with Dutch tax regulations, the foundation may not hold more assets than necessary for the continuity of foreseen activities.²

Management structure

The board of directors of STEP meets regularly to discuss progress and evaluate the strategy. The board of directors consists of Mr A.C. Zwagemaker (Chairman), Mr C.J.B. van Boxel (Treasurer), Mrs W. van Ierschoot and H.R.H. Prince Carlos de Bourbon de Parme. The board of directors meets at least twice a year. In 2018, the board met three times. In accordance with the STEP management regulations, the day-to-day operations of the foundation are managed by Mrs F. Groothuis (President) and Mr P. Gersen (Vice-President). Board members and staff are invited to join The Ex'tax Project team based on their relevant experience and additional functions.

Advisory Board

The advisory board of STEP consists of knowledgeable volunteers, who, informally, are willing to help the foundation on an as-needed basis.

Communication with stakeholders

STEP communicates with sponsors and advisors through personal emails and general updates. The general public is able to follow the work of the foundation through the website and social media (Twitter, Facebook, LinkedIn and YouTube).

Review of the operations in 2018

The year 2018 was a very successful year for the Ex'tax Project as the foundation has gained more public attention and relevance. The foundation has developed activities to further research and promote the concept of a tax shift from labour to natural resource use. The expenditures have served the goal of the foundation.

¹ According to the Articles of Association (*Akte van Oprichting*) (artikel 2) the goal is to [in Dutch]:

1. [...] het algemeen nut te dienen door het leveren van een toekomstgerichte bijdrage aan de maatschappij in de lijn met het gedachtengoed van wijlen de heer Eckart Wintzen op het gebied van een duurzame samenleving.
2. De stichting tracht haar doel onder meer te verwezenlijken door het ontwikkelen, promoten, faciliteren, stimuleren en financieren van kennisuitwisseling, onderzoek en initiatieven die beogen een duurzame welvaart mogelijk te maken in lijn met het gedachtengoed van Eckart Wintzen. De volgende gebieden zijn daarbij speerpunt:
 - a. belastingvergroening volgens het principe van Ex'tax;
 - b. grondstoffenschaarste en oplossingen daarvoor;
 - c. werkgelegenheid;
 - d. immateriële en duurzame welvaart.
3. De stichting beoogt noch een onderneming te drijven, noch winst te maken. Een eventuele winst kan uitsluitend worden aangewend ten bate van de in lid 1 van dit artikel geformuleerde doelstelling.

² In Dutch: 'Volgens het bestedingscriterium van de belastingdienst mag de stichting niet meer vermogen houden dan redelijkerwijs nodig is voor de continuïteit van de voorziene werkzaamheden.'

Highlights in 2018:

Global publication ACCA paper on Ex'tax

December 2018, the ACCA (the Association of Chartered Certified Accountants) with 200,000 members and 500,000 students in 180 countries, published an insight report on Ex'tax written by our President. The ACCA discussion paper explores how shifting tax from labour to natural resource use, pollution and consumption could help meet the goals of the Paris Climate Agreement, the UN Sustainable Development Goals (SDGs) and an inclusive, circular economy. The publication received global attention and, in the months following the publication, several international webinars and events on the paper were organized by the ACCA.

Finland study finalised

With research partners Green Budget Europe (GBE), IEEP (Institute for European Environmental Policy) and Cambridge Econometrics, we finalised the study 'Aligning Fiscal Policy with the Circular Economy Roadmap in Finland'. The scenario in this case study was based on the Ex'tax Methodology and included:

- A carbon price floor;
- Removal of subsidies on diesel, light fuel oil, peat and for energy-intensive industries;
- Taxes on non-energy use of fossil fuels, air passengers and air freight, waste incineration, nuclear waste, water abstraction, extraction of metal and non-metallic minerals and pesticides;
- Electricity tax increase for bulk users.

In the scenario, the measures were phased in over the 2019-2025 period, with revenues amounting to €3,5 billion in 2025. Every year, the revenues are used to lower labour taxes (personal income tax, social contributions paid by employers and employees) as well as additional income support for the lowest two income quintiles, investments in R&D and renewables. Modelling results showed higher economic growth and employment, and lower emissions compared to business as usual. Ex'tax and partners presented a preview at the European Parliament (invited by a Finish Member of the European Parliament).

Ex'tax was represented in Davos, during the World Economic Forum (WEF)

Mrs Groothuis participated in several events in Davos. She was a panellist at a side-event to the WEF, organised by Circle Economy, titled 'It's the Circle Economy, stupid! The new social contract and a trillion Euro business opportunity.'

Ex'tax was mentioned in OECD's flagship report 'Taxing Energy Use 2018':

"The impact of revenue-raising objectives on optimal tax levels is empirically difficult to establish, but different models indicate that the marginal economic cost of tax distortions is lower for environmentally related taxes than for labour taxes (e.g. Groothuis, 2016). This would imply that an equal revenue tax shift from labour taxes to taxes on energy use, e.g. by aligning taxes on energy use with the external costs of energy use, reduces the overall economic cost of raising the given amount of revenue."

Dutch Government's Fiscal Agenda 2018 includes tax shift (in Dutch):

[translated, in short:] "The burden on labour can be reduced by increasing the reduced VAT rate and further greening of the tax system."

[in Dutch] "De ruimte om de lasten op arbeid te verlagen ontstaat voor een deel door een verhoging van het verlaagde btw-tarief en verdere vergroening van het belasting-stelsel.⁴ Verbruiksbelastingen, zoals btw en milieubelastingen, zijn (economisch) iets minder verstorend voor de keuzes van mensen dan bijvoorbeeld de lasten op arbeid. Bovendien zijn de inkomsten van de btw stabiel en meer solide dan belastingen op inkomsten.⁵ Milieubelastingen beprijzen maatschappelijke kosten die niet (volledig) in prijzen van goederen en diensten tot uiting komen."

Also, the Dutch government stated in a CO2-consultation:

[translated] "This cabinet thinks it is sensible to impose taxes on what we do not want as a society (pollution) [rather] than on what we do want (work, entrepreneurship)."

Other governments, including Italy, Slovenia and France have also mentioned the tax shift as beneficial.

The Intergovernmental Panel on Climate Change (IPCC) points out the benefits of a tax shift:

"(...) 'revenue neutral' recycling, at a constant share of taxes on GDP, into lowering some existing taxes compensates at least part of the propagation effect of higher energy costs (Stiglitz et al., 2017). The substitution by carbon taxes of taxes that cause distortions on the economy can counteract the regressive

effect of higher energy prices. For example, offsetting increased carbon prices with lower labour taxes can potentially decrease labour costs (without affecting salaries), enhance employment and reduce the attractiveness of informal economic activity (Goulder, 2013).”

Ex'tax is recommended in the annual Circularity Gap Report:

“Recommendations for governments

The Netherlands has set itself a target of becoming 50% circular by 2030 and 100% by 2050, but most governments have yet to wake up to the potential of the circular economy. The report calls on governments to ensure that climate change and circular economy strategies are joined up to achieve maximum impact, through the use of tax and spending plans to drive change. They should:

- *Abolish financial incentives which encourage overuse of natural resources, such as subsidies for fossil fuel exploration, extraction and consumption;*
- *Raise taxes on emissions, excessive resource extraction and waste production, for example by implementing a gradually increasing carbon tax;*
- *Lower taxes on labour, knowledge and innovation and invest in these areas. Lower labour taxes will encourage labour-intensive parts of a circular economy such as take-back schemes and recycling.”*

Femke Groothuis Nr. 46 in Dutch Sustainable Top 100

Mrs Groothuis has been included in the list ‘Dutch Sustainable 100’ for the sixth consecutive year, and her position (nr. 46) in the top 100 has never been this high.

Arnoud Walrecht, Leader of Circular Economy Services at KPMG, published an article on Ex'tax:

“How to accelerate widespread business adoption of circular models is a critical topic at the World Economic Forum (WEF) this year, and recent research has suggested several approaches that could work. One of these is environmental tax reform as explored in the report New Era. New Plan, produced by KPMG in association with organizations including the Dutch think tank The Ex'tax Project and other Big Four accounting firms. In the report, we recognize that the prevailing tax systems in EU member states are not yet aligned with the EU’s goal to transition towards a more circular economy. We argue that increasing taxes on the consumption of natural resources could incentivize the adoption of more resource-efficient and circular business models. More than half of tax revenues in the EU currently derive from labor taxes, whereas only 6 percent derive from taxes on natural resources.”

Ex'tax participated in numerous events, amongst others:

- D66 Scientific Bureau Mr. Hans Van Mierlo Stichting, expert session, The Hague
- Launch of ACCA Professional insight report written by Femke Groothuis: ‘Tax as a force for good: rebalancing our tax systems to support a global economy fit for the future.’
- ACCA Accounting for the Future 2018, webinar attended by 2,100 people from 107 countries
- Climate Accord Netherlands ('Industrietafel Klimaataakkoord'), The Hague
- Launch of Finland case study, European Parliament, Brussels
- Responsible Tax Reimagined: The Idea Exchange (by KPMG), London
- Nationale Denktank Expertsessie, Driebergen
- Finnish National Circular Economy Steering Group visit to Amsterdam
- ACCA Global Sustainability Forum [webinar]
- Workshop Fiscal Reform for a Circular Economy in Finland, Helsinki
- ACCA Global Tax Forum [webinar]
- Circular Fashion Policy Lab by Ecopreneur/C&A Foundation, Brussels
- DeGroof Petercam, Brussels [by video]
- De Nationale Denktank, Amsterdam.

‘UNITED BY TAX’ initiative launched

We launched a new online platform that brings together entrepreneurs, businesses and organizations who support the Global Goals and the circular economy. Partners of UNITED BY TAX believe that tax can be turned into a force for good and they can support the platform by sharing testimonials and/or business cases that illustrate the positive impact of Ex'tax.

There is continuous growing support for the Ex'tax principles, amongst others by:

MVO Nederland (a Dutch business association): "(...) taxes and contributions largely weigh on labour and hardly on environmental pollution and energy use, making hiring people too expensive and environmental pollution too cheap."

The Dutch National Postcode Lottery (the world's third-largest private charity donor): "Tax those who harm the planet; don't tax labour".

Outlook for 2019

In 2019, the foundation intends to continue to build on its knowledge base, tools, network and fan base. The board expects to do several projects, in proportion to the assets of the foundation. The main objective for 2019 is to work towards getting Ex'tax on the international agenda, supported by insights, tools and models for both governments and the business community. In 2019 this will include the following activities:

- Presentations, seminars and workshops: the Ex'tax Project will continue to share its unique knowledge through events and presentations in The Netherlands and abroad.
- More country studies: after The Netherlands, EU and Finland, more specific country studies will be done, in order to build more knowledge of the opportunities the Ex'tax principles offer different economies around the world.
- Business cases: together with businesses – SME's and corporates – we'll generate and publish specific cases that illustrate the impact of Ex'tax on business models and -strategies.

Notes to the 2018 annual accounts

Long-term liabilities

In 2018, The Ex'tax Project had no long-term liabilities other than the employment contract with Mrs Groothuis.

Funds raised

For the 2018-2019 period, The Ex'tax Project gained commitments for more than € 300.000 in donations. These funds had been committed but they were receivable in instalments and subject to performance indicators. These amounts are included in the accounts when they are effectively received.

Remuneration

In accordance with the Memorandum of Association (in Dutch: *Akte van Oprichting*) article 5.5, board members do not receive remuneration for their work. For the remuneration of employees, The Ex'tax Project applies the regulations established by the Dutch Charities Organization (in Dutch: *de branchevereniging Goede Doelen Nederland*). These regulations include a maximum remuneration for management. The remuneration of management of The Ex'tax Project is significantly lower than this maximum.

Concluding remarks

The achievements and growing support are a solid basis for 2018 and onwards. The board and management are thankful for the support of DOEN Foundation and Adessium Foundation. Also, the board and management are confident about the momentum that is building for the topic of a tax shift and the positive contribution of STEP in this transformation.

BALANCE SHEET, DECEMBER 31, 2018**ASSETS**

	31/12/2018		31/12/2017	
	€	€	€	€
Current assets				
<u>Receivables</u>				
Prepayments and amounts receivable		530		530
<u>Cash at bank and in hand</u>		29.573		109.817
		<u>30.103</u>		<u>110.347</u>

LIABILITIES

	31/12/2018		31/12/2017	
	€	€	€	€
Reserves and funds				
Reserves	<u>25.249</u>	25.249	<u>105.561</u>	105.561
Current liabilities				
Taxes and social security contributions	3.604		3.536	
Other liabilities, accruals and deferred income	<u>1.250</u>		<u>1.250</u>	
		4.854		4.786
		<u>30.103</u>		<u>110.347</u>

STATEMENT OF INCOME AND EXPENDITURE

In EUR

	<u>2018</u>
Income from fundraising	
Donations	132.750
Income from lectures	600
Income from interest	<u>0</u>
	133.350
Expenses on objectives	
Staff costs	150.787
Other project costs	<u>53.046</u>
	203.833
Other expenses	
General expenses	<u>9.829</u>
Total expenses	<u>213.662</u>
Result (withdrawn from reserves)	<u><u>-80.312</u></u>