

Global Tax Policy: Driving the Future (11.00-12.45)

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Always a pleasure to return to blooming Dublin! Especially for a conference with the title of Global Tax Policy: driving the future. Although the reality is that most of the focus has been on fixing the past!

This session addresses the question of: is global tax reform working? The honest answer is it's still work in progress and we are going through a difficult transition where we are dissatisfied with the present international arrangements but not sure what should replace them. A period of profound tax uncertainty lays ahead although the one certainty is that we will be seeing a tsunami of disputes! Bad for business; bad for government. Dispute resolution has to be an integrated part of any outcome from the OECD and we need to see arbitration as norm rather than exception.

I will focus on three questions:

1. What will drive future tax reforms
2. Where are we heading on tax competition: an important issue for Ireland
3. Where can tax help in address growing inequalities

I Drivers of future tax reform

These are not difficult to identify:

- the need to promote inclusive, sustainable and green growth (easier said than done)
- the need to protect the tax base and in developing countries to grow the tax base (we have seen some progress over last 4 years)
- the need to have international tax arrangements which lead to a fair sharing of the tax base
- the need to address growing inequalities
- and finally adapting tax systems to new technologies

Much of the recent international debate has focused on protecting the revenue base but we are now seeing more interest in the issue of sharing the revenue base between countries (source vs resident) and in using tax to reduce inequalities.

But my feeling is that the main driver of reforms is going to come from new technologies: those we already know (AI, Robotics, Blockchain, IOT, 3-D Printing) - and those that we don't yet know about.

Why do I say this? Imagine a future where tax administrations have direct access into the accounts of companies, where micro data flows on a daily basis from companies to the tax administration, where this data is used to assess CIT, VAT, Transaction Taxes, Payroll Taxes, excises. No more tax returns, no more VAT invoices, or traditional audits.

A world where the tax administration becomes a certified of systems rather than verifier of outcomes. In this world there will be less opportunities for gaming the tax system and there will be

minimal compliance and administrative costs. A level playing field between large and small taxpayers.

Is this just a dream: well, look at Russia or Estonia or even Rwanda and you will see how they are moving towards this new world. As with any transformation there will be cost one of which is that the tax work force will fall by a third and there are legitimate concerns over confidentiality and the balance of power between tax administrations and taxpayer.

Also these technologies may open up new tax bases (data, robots, Space) and smarter ways of designing tax reforms including the way we approach taxing SME.

II Second Issue: Tax competition

As long as there are taxes there will be tax competition. But just as in the trade area, to get the full benefits of tax competition we need internationally agreed rules on what is fair and unfair competition. Also we need to recognize that special tax regimes will never compensate for a failure to get the fundamentals right: political stability, access to markets, availability of skilled labour, infrastructure, corruption free institutions. These factors have been more important than taxes in contributing to Irelands success.

In setting intentionally agreed rules we have seen some progress: the OECD 1998 Report on harmful tax competition (groundbreaking report on which it was difficult to get consensus), the EU code of conduct group, the BEPS action 5.

And outside of the tax world we now have the EU State Aid Rules and the WTO subsidies agreement.

Given this new environment what form will tax competition take:

- we will continue to see a competitive downward bidding of nominal CIT rates – especially in emerging and developing economies – since at least at present countries remain free to set their own rates, but rate reduction can lead to large revenue losses. This downward trend may, however, change with the debate on minimum taxes in BEPS and perhaps we will see a renewed interest in Ruding proposal of a band of ETR in the EU.
- Base competition will intensify. But more for real substantive activities rather than just for the tax base. This was an unexpected outcome from BEPS and bad news for LDC.
- SEZ will continue to spread (another Irish invention: Shannon) Today there are over 3600 and with the Chinese pushing this concept in the BRI we can expect these to growth
- Tax policy competition may also take the form of a weaker limits on anti-abuse tools (e.g. CFC); generous interpretations of legislation on allowances and TP rules or decisions not to implement international standards or to unilaterally implement rules that are not part of the consensus.
- Administrative tax competition will also intensify with countries trying to provide the certainty and predictability that business seeks: not sweets deals but more hard love! E.g. Co-operative Compliance
- Countries will also use special tax regimes to compete for high income earners: a trend already apparent in Europe.

Conclusions: tax competition will thrive but perhaps in different ways from in the past.

III Third Issue: Tax and inequalities

This conference is very focused on tax and corporations. But MNE have an interest in encouraging governments to address the perception that the benefits and costs of globalisation have not been fairly shared, at least if we want to address the rise of populism. Tax has a modest but important role to play in this debate. Which is not just a moral issue: it's also, as shown by recent work from the IMF and OECD, an economics issue: more equal societies perform better.

What is now needed is a reassessment of the feasibility of Inheritance Tax (IHT), Net Worth Taxes (NWT), Capital Gains Taxes (CGT) and taxes on immovable property in the light of:

- The new access to information that tax administration have to offshore income and wealth of their citizens.
- The way that emerging technologies, especially Blockchain, will enable government to track assets and incomes of individuals.

This reassessment needs to take place both in developed and developing countries.

Note that I am not suggesting that we should follow Thomas Piketty proposal to go back to 75% marginal income tax rates: that we tried and it failed.

CONCLUSION.

Governments and Businesses need to share the challenge of designing tax systems which promote green, sustainable and inclusive growth, which leads to a fairer society and which delivers the revenues that governments need to meet their social contract with citizens.

Thank you