SMART TAXATION IN A FAST-CHANGING GLOBAL ECONOMY

TOWARDS FAIR, EFFICIENT AND GROWTH-FRIENDLY TAX MODELS

Taxation has become a burning topic in today's global policy context, as show the initiatives of the OECD's Centre for Tax Policy supported by the G20. To help solve global economic challenges, support growth and at the same time taking into consideration national needs, we need a smart taxation system. The first question which comes out is: what do we mean by "smart" taxation? To answer, we must first look at what principles tax policies should consider when addressing today's actual context and future challenges: sustainability, efficiency, fairness, transparency, predictability, enforceability and growth-enabling.

The Focus Group 'Smart Taxation in a fast-changing Global Economy' concentrated on what are we looking for in taxation in the European Union and how to achieve that in an environment where free flow of goods, services and capital needs to be guaranteed, while ensuring social fairness.

Based on a discussion held at Tatra Summit 2019 between high-level representatives of the public and private sectors, resulting tax policy recommendations include:

- Free movement of capital, goods and services has made tax systems much more vulnerable to fraud, especially when considering that taxation is largely based on voluntary compliance. Nevertheless, the emergence of new technologies and the prospect of a greater digital integration of different Information Technology (IT) systems seem to suggest that change is coming, and that fraud will become increasingly difficult overtime. From a tax administration perspective, digitalisation of the tax collection process has become fundamental in the platform economy, where traditional industries are increasingly disrupted by non-traditional players (Airbnb, Uber, etc.). Digitalisation is not only a question of tax collection efficiency and compliance strengthening. It also shows an opportunity for capacity building. Without digitalisation, international cooperation, largely fostered by the OECD, would never have been possible, and would never have achieved the success it has had for the past years.
- Smart taxation should also mean looking at the future, and at what the next market disruption will be: the last Future of Jobs Report of the World Economic Forum (2018) suggests that the shift from human-performed to machine-performed tasks will accelerate, with a decrease of human-performed tasks from 71% in 2018 to 58% in 2022. The significant increase of automation in the next five to ten years calls for a thorough rethinking of taxation as a whole.
- Smart also implies lower levels of tax evasion. On this point, there are still blatant inefficiencies at the EU level. The discrepancies in collection processes also undermine tax consolidation across the EU. Whence the proposal of a Common Consolidated Corporate Tax Base (CCCTB) by the EU Commission (first version in 2011, revised one in 2016), which would create a common corporate tax base for all corporate entities operating in the EU.
- Predictability is paramount. A significant weakness of tax systems in Europe is that tax rates constantly change, whatever the country. This contributes to a lack of visibility for tax-payers and, in the long run, hinders the confidence of private corporations and investors, who are at the heart of the growth mechanism in the market economy.
- Another weakness is that of excessively high variation of rates from one country to another, especially on tobacco (up to 90% difference). The idea would indeed not be imposing a common tax rate on given products for all EU Member States, but rather enabling greater consolidation by setting a minimum rate. The challenge is also to take into consideration the purchasing power of each country when setting up a coherent minimum rate. If harmonisation is the principle for setting common definitions and procedures, clear levels of autonomy should be left to the countries to set up the tax rates they see fit to their economy.
- Increasing taxes can lead to a decrease in revenue and the growth of illicit trade. Price differentials for consumers goods are standard because they represent the varying income levels and cost of living across the EU. For example, in the context of excise duties, the affordability of tobacco products is what matters when one considers the drivers of the illicit tobacco trade.
- Reform processes for decision-making. The power of the EU on taxation is limited, if existent at all, for some bodies, like the European Parliament. If we want to move forward with greater fiscal integration, we would need a voting system based on a super-qualified majority, and not on unanimity. But this is still too politically tricky and sensitive an issue to be seriously considered in the near future. As far as tax policy is concerned, there is no perfect nor best solution, as economic situations, welfare systems and public spending characteristics change from one country to another.
- The question of smart tax is not so much that of a national system's efficiency as its agility and adaptability of tax policy at the local level. Local authorities should be entitled to adapt and set tax rates, at least on small business if not on consumption (Value Added Tax, or VAT), which remains national. People need to feel that the tax they pay is adapted to their economic and social environments, so the autonomy of local authorities makes great sense.
- As regards taxation on digital services and, more globally, on the so-called digital economy, it is still difficult to see what is happening, as the market keeps evolving through successive phases of disruption. The

GAFA (Google, Amazon, Facebook, Apple) tax, however, is slowly but surely becoming increasingly popular. The GAFA tax is not about protectionism, but about fair taxation. The principle is clear: making companies pay their fair share of what they earn in Europe. The GAFA tax fits into the more global discussions on international taxation: taxing the place of effective product consumption and revenue rather than that of official profit declaration.

- The issue of VAT gaps should be clearly addressed too, as it raises the serious question of tax administrations' capacity to carry out their collection tasks properly. Although in constant decrease, VAT gaps are still very important in Europe, with a total loss of €137 billion in VAT revenues in 2017 according to the EU Commission (up to 36% in Romania).
- IT systems also have an impact, especially as regards international cooperation. Indeed, the speed of the exchange of information still largely depends on the uniformisation of IT systems across Member States. Uneven digitalisation of IT systems therefore hinders the efficiency of exchange of information, with significant repercussions on the fight against tax evasion and money laundering.

In reality, a tax system can be called "smart" when it effectively helps economic players to be compliant and enables Member States a certain degree of flexibility in implementation at the national level. Therefore, having a smart tax system calls for the following strengths: simplicity, digitally-enabled, predictable and easily understood.