Federation of European Accountants
Fédération des Experts comptables Européens

The Tax Policy Debate: A Matter for Society as a Whole

FEE fosters the debate with stakeholders

Short version
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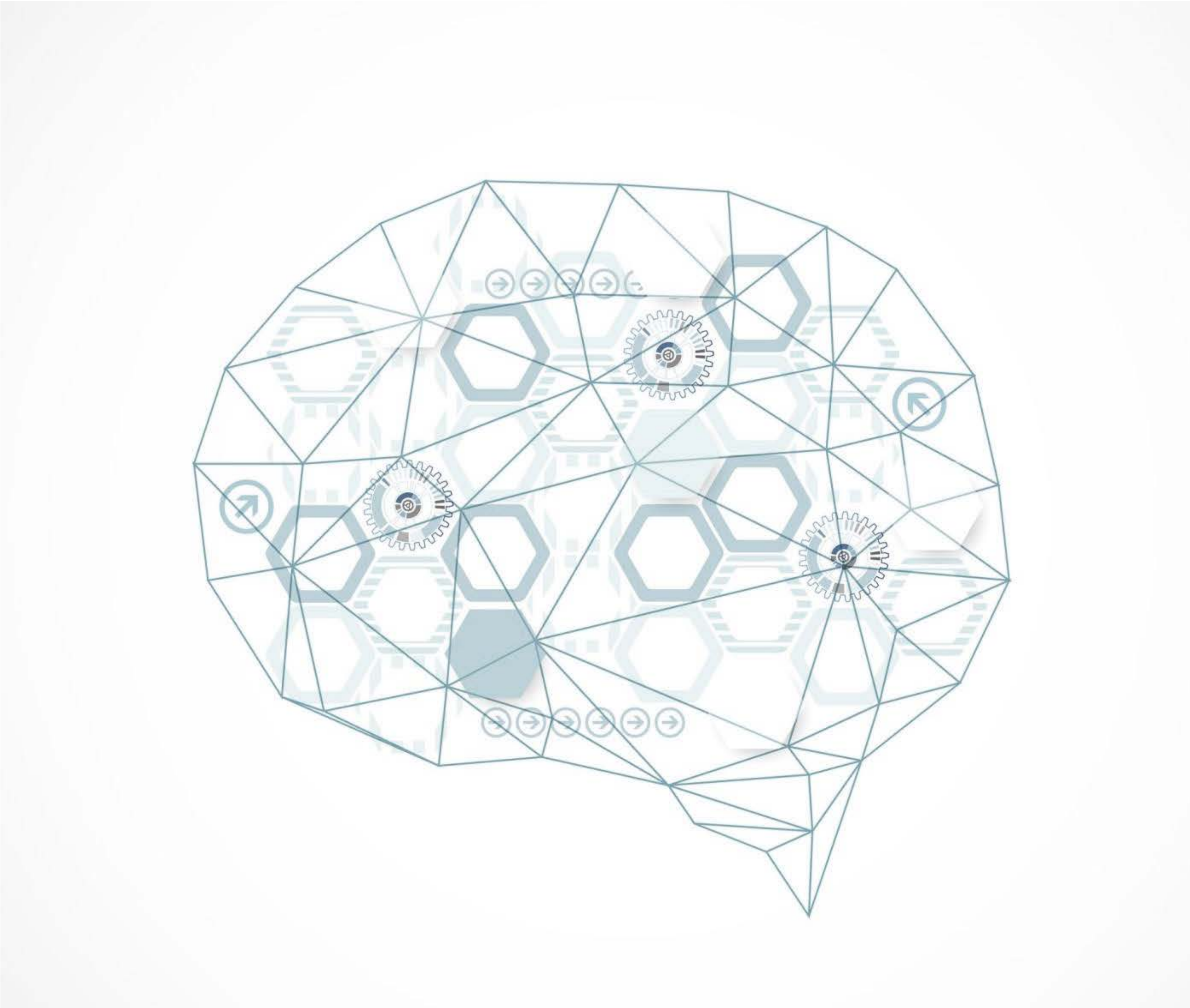

COGITO

This document is part of the *Cogito series*, a selection of thought-provoking publications by the Federation of European Accountants (FEE).

Cogito (i.e., I think) is set up to provide new ideas for the European accountancy profession. With this series we aim to enhance innovation and our contribution to business and society.

This publication aims to stimulate debate; the views expressed thus do not reflect the official positions of FEE or any of its 47 member bodies.

Foreword by FEE

Even by the standards of today's fast-paced world, the speed at which taxation has become a key topic of public disquiet has surprised business, governments, regulators and the accountancy profession.

Many parties are calling for quick solutions but with so many divergent views being aired it is difficult to achieve a common agreement on the best way forward. As one of the contributors to this publication states, the public debate has generated much noise but not a great deal of light.

It was for this reason that we decided to embark on a project to produce a publication that had the aim of bringing together a broad array of stakeholders' views, based around the belief that the future of tax policy really is a matter for society as a whole. We firmly believe that consensus is impossible unless the views of all sides of the argument have been heard. It is our hope that this publication can help stimulate debate and facilitate the development of such a consensus in the future.

Since the beginning of this project in the spring of 2014, the importance of the debate on tax policy to society as a whole has not diminished by one iota. On the contrary, it is a matter that has grown in importance at a time where many countries struggle with excessive debt and many of the world's economies have not yet fully recovered from the crisis.

Our ambition of collecting articles from all of the stakeholders has not been entirely achieved. Tax policy is a sensitive topic and not everyone is comfortable with the idea of expressing a view and looking into what is, in reality, not the future but rather already our present. The change in public opinion and demands that policymakers, lawmakers, business and professionals currently have to face is unprecedented. Civil society has been instrumental in driving this change. This debate will continue. However, thanks to the broad range of contributions we have received, the publication does provide some valuable insight into the current and future challenge for taxation policy in Europe

There are certain common themes that run throughout many of the pieces received. It seems that the tax structures and systems used by many countries are not fit for purpose. There are various reasons for this. An emphasis on taxes on employment, the bedrock of the tax system for many developed countries, is seen as stifling the growth that is so essential to move many nations out of their current moribund economic situation. A move towards taxes on "undesirable" behaviour (such as pollution) and unearned income are amongst the solutions suggested.

It is also recognised that given the increased complexity, mobility and digitalisation of the world economy, it is no longer possible for nations, whatever their size, to try to deal with these issues in isolation. Increased international cooperation is seen as the key. To some extent, we are already seeing the fruits of enhanced cooperation in the enormous effort that the OECD's BEPS team are making in trying to design an international tax structure fit for the 21st century and beyond. Yet some contributors do not consider even this level of cooperation to be satisfactory, pointing out that developing nations are underrepresented in the project even though they are often the most badly affected by tax evasion and avoidance and by tax competition between countries.

Many contributors believe that increased transparency is part of the solution to the current debate. In this context, transparency has many facets. There has been an increasing move towards automatic exchange of information between nations, largely driven by the United States' FATCA legislation, in order to combat tax evasion. As many national governments have been cutting resources to their tax authorities, these measures are seen as cost-effective because they have been effectively delegated to the private financial sector. The issues arising from this approach are highlighted by two contributors.

Increased transparency, especially in respect of country by country reporting of tax information by multi-national businesses, is seen by national governments and civil society as an important measure in combatting tax avoidance. Business is not necessarily hostile to this as long as it doesn't result in a competitive disadvantage. There is, however, a considerable expectation gap between civil society (who want such information to be on public record) and the current initiatives (which provide for such information to only be available to tax authorities). Business is concerned that any publically available information is genuinely informative in showing whether or not a company's tax obligations have been met. Given the complexity of tax legislation this is not necessarily an easy task.

Also discussed is what could be termed "inescapable transparency" i.e. the potential that Big Data has to make it easier for tax authorities to identify tax evasion and tax avoidance through the judicious use of information technology. In fact, increased development of information technology is often highlighted as a key weapon in the fight against tax evasion and tax avoidance but also a crucial tool for taxpayers to ensure compliance with their taxation obligations.

There is a common acceptance that increased use of technology in all areas is essential for the development of a modern tax system. There is also agreement that the fight against tax evasion and fraud is a key priority and essential to the maintenance of public finances. In respect of the discussion regarding tax avoidance, however, there is little agreement.

Many still believe that if a tax planning method is legal then it is not only legitimate but it may even be a duty for business to use it. Certain national courts hold advisers liable if they don't advise their clients on the most effective tax treatment. The taxpayers involved often state that if governments do not wish such tax planning opportunities to be available then they should change their legislation. At the other end of the scale, others call on tax payers to consider social fairness when considering their tax planning and highlight the necessity for all taxpayers to make a fair contribution to the public services from which they benefit.

As highlighted by several contributors, it has long been accepted that taxpayers are entitled to arrange their affairs to reduce their tax liability by legal means. Governments frequently provide tax payers of all types with specific means to do so. Thus, tax planning is legitimate but the apparently unanswerable question concerns the point at which tax planning crosses the line and appears to be unacceptable.

Societal consensus on these matters is not helped by the increasingly unclear use of terminology and by confusion in the roles of the different parties. We therefore found it helpful to first provide the readers of this publication with some background, particularly in respect of commonly used terms and how the different parties interact in the tax system. Readers will also find below the abstracts of the different contributions that are provided in electronic form with this foreword. The articles themselves are arranged to highlight the past and current issues, to indicate how individual countries and international organisations have tried to deal with these issues and then to consider different alternatives for the future.

FEE would like to extend our warmest thanks to all those contributors to our publication. They cover a wide variety of topics around the theme of tax policy and, as requested, cover issues that the contributors feel strongly about.

We at FEE hope that this series of articles will be a useful step to advance this delicate debate. It is however only a first step. As indicated by the several articles received from professional accountants, we believe that the accountancy profession, employing its technical expertise and real-world experience, is both willing and able to play a key role in helping all stakeholders develop solutions that will be in the public interest. (Brussels, April 2015)

Clarifying matters – an introduction by FEE

Before moving on to the summaries of the contributors' articles, we felt that it would be useful to clarify certain aspects of the debate that may have become somewhat obscured in the heat of the recent debate. In the first section we will try to demystify terms such as tax evasion and tax avoidance, and, in the second section we will examine the respective roles and responsibilities of the main parties in the tax system.

Introduction

Taxation is essential to the functioning of a society. Indeed, it could be argued that taxation is one of the earliest signs that a civilisation has developed, as it permits the financing of common facilities and of government itself. Consequently, the manner in which tax is levied and administered has always been a vitally important question for society as a whole and this is truer today than ever before.

This question is also becoming increasingly difficult to answer. Given the increasing globalisation of exchanges, companies' strategies and business models have become increasingly transnational. The traditional linkage of a business to a territory is vanishing and it is more and more difficult to associate companies with a home country or nationality.

Clarifying the Terminology

The recent public debate has primarily focused on the issue of tax avoidance, particularly in the context of multi-national businesses and high net worth individuals. In some countries this has resulted in taxpayers and their advisors being summoned to give public explanations of their tax planning activities. Confidential tax information has been leaked and made available to the public. The public has shown an unprecedented interest in the subject and this has even led to calls to boycott certain businesses on the basis of their tax practices. Governments have not escaped this public pressure; several countries have changed long-standing tax policies or introduced new taxes to address concerns of their voters and their fellow governments and to close what are perceived as loopholes.

Unfortunately, in the course of this public debate there has been a further blurring of terminology, which was far from clear in the first place. This has especially affected the use of the terms "tax evasion" and "tax avoidance". Consequently, in order to provide some more clarity, we will give our understanding on what is meant by tax fraud, tax evasion, tax avoidance and tax planning.

At first glance, determining what legal and illegal activities are should be easy. Yet, in most countries tax law has become increasingly complex and difficult to understand even for tax experts. Tax law is subject to ever more frequent change as legislators try to cope with new developments in business and technology. However, on a global scale, tax law varies considerably between countries as it reflects political choices and preferences - what is within the law in one country may be forbidden in another. There may also be a distinction in some countries between breaches of civil law and of criminal law, with the latter carrying heavier penalties and more public stigma. Also many countries use a mix of civil and case law in their tax legislation and this can lead to rapid shifts in what constitutes legal and illegal behaviour.

Illegal Activities

Tax evasion and Tax Fraud

Tax evasion is using illegal means to avoid paying tax and is a term more widely drawn than tax fraud. Such behaviour could include failure to record trading income, failing to declare interest on overseas investments and evading property taxes by receiving some of the sale proceeds in undeclared cash.

Tax fraud, where separately defined from tax evasion, is a criminal offence. It is often defined as the deliberate, active and planned misrepresentation of certain information leading to the perpetrator reporting a lower (or no) tax liability. Such fraud may, or may not, include falsification of underlying papers and evidence but often involves a deliberately incorrect statement on an official document, such as an income tax return.

There should be no doubt in the minds of the public, of legislators, regulators and of our clients that the accountancy profession condemns tax evasion and tax fraud and will not idly stand by when such activity is perpetrated by others. The accountancy profession strongly opposes the shadow economy and willingly plays its part in fighting against it and the inequalities that it creates.

Legal Activities

Tax planning and tax avoidance

Tax planning, to quote the OECD's definition, is the "arrangement of a person's business and/or private affairs in order to minimize the tax liability". Tax planning is legal, which has been confirmed on numerous occasions in many courts of law.

On the other hand, trying to distinguish between tax planning and tax avoidance is far less easy. To again quote the OECD, tax avoidance is "a term that is difficult to define but which is generally used to describe the arrangement of a taxpayer's affairs that is intended to reduce his tax liability and that although the arrangement could be strictly legal it is usually in contradiction with the intent of the law it purports to follow." Much of the "noise" in the public debate has been around the unclear term of avoidance. Tax avoidance and evasion are often spoken of in conjunction and sometimes interchangeably. This is not correct. Tax evasion is illegal and tax avoidance is legal.

One of the difficulties in separating tax avoidance from "acceptable" tax planning is trying to discern what the intent of the law is. This intent is often not specifically stated in the legislation and, where such avoidance arises out of cross-border planning, there may not even be specific law that deals with the situation in question. Indeed, tax competition between countries, often regarded as the emanation of sovereignty and crucial in attracting foreign direct investment, provides the means for tax avoidance strategies.

Perhaps as a result of this, there have been increasing moves to differentiate tax planning from avoidance by reference to fairness and morality. Taxpayers are increasingly being told that tax avoidance is now socially unacceptable and that tax should be paid at a level that is "fair" for society. However, there is no universal acceptance of what a fair level of tax is, so it is left to taxpayers to make that judgement themselves. If the taxpayer makes an error in that judgement, a significant negative impact on their reputation may result.

As tax avoidance derives from taking advantage of the incentives and opportunities offered by tax law, better legislation and better co-operation between countries are essential to reduce such opportunities but, realistically, these are probably long term objectives.

In any event, even with better legislation taxpayers will still need to consider the reputational harm that they may be exposed to if their tax planning activities are viewed as tax avoidance. They need some guidance in order to be able to assess the risk inherent in their planning.

Perhaps one approach is to consider the degree to which the transaction or structure is based on genuine business reasons and economic substance. Transactions and structures that appear artificial (i.e. based on a series of pre-ordained steps that have no commercial rationale other than the avoidance of tax) are likely to be classified as tax avoidance and thereby may cause reputational harm for both the taxpayers that use them and the jurisdictions that permit them.

Clarifying the Roles and Responsibilities

One of the reasons that makes consensus on tax policy persistently difficult to achieve is that tax involves many different players: legislators, taxation authorities, taxpayers and tax professionals. Nowadays, all are under unprecedented scrutiny from civil society that has focused on tax issues like never before.

The Role of Legislators

The role of legislators is, on behalf of their electorates, to draft laws that set the obligations of the tax payers and provide the taxation authorities with the necessary framework in order to collect the "right" amount of tax. In an ideal world, this would be achieved by an integrated and fair taxation system that is clear in its intention, easy to understand, stable over time and that follows a logical pattern.

Legislators are also supposed to ensure that tax law applies equally to all tax payers. The vast majority of citizens in most countries pay the correct amount of taxation, often automatically by deduction at source. Governments will lose credibility with their citizens, with a consequent reduction in tax morale, if the perception is that some sectors of society are above the law or that certain taxes can be escaped if one has sufficient resources.

FEE also believes that it should not be left to taxation authorities, taxpayers, their professional advisors and the public to decide what constitutes aggressive, and conversely, acceptable tax avoidance/planning. If legislators do not wish their legislation to be interpreted in a certain manner then that legislation should be changed to clarify the intent and remove the opportunity for misinterpretation.

The Role of Taxation Authorities

The role of taxation authorities is to administer the taxation system and to collect the tax required by law and this will include enforcement action where necessary. The amount of tax collected should be the amount mandated by the legislation – no more, no less. If the amount of tax due is unclear from the law, then the law should be changed so that it is clear. Clarity in legislation is an essential element of a fair tax system and in improving tax payer compliance.

Taxation authorities should not interpret legislation outside of the original intentions of legislators. They need to accept that the vast majority of taxpayers and their advisors are honest and have a genuine desire to fulfil their obligations. However, taxation systems are complex and taxpayers, particularly when trying to fulfil their obligations without engaging a tax advisor, do make errors. When such errors are made, taxpayers must be able to correct them without fear of being treated as criminals. If taxation authorities want all taxpayers to abide by the legislation then they must also demonstrate ethical behaviour.

The Role of the Taxpayer

The role of the taxpayer is to pay the amount of tax that is due according to the law – nothing more, nothing less. In order to do this they need to be able to determine the amount of tax, and this, as stated, requires clear tax legislation. They are entitled to plan their affairs to pay the minimum amount of tax required by law.

However, tax planning can nowadays have a significant negative impact on reputation, which can also subsequently have a serious financial impact. Taxpayers are part of society; in particular, where they benefit directly or indirectly from the services financed through the collection of taxes. If they benefit from these services, directly or indirectly, there is now a perception that should also make a fair contribution to them. Social responsibility is no longer just words in a glossy brochure.

Finally, taxpayers need to appreciate that tax evasion and tax fraud are not victimless crimes – if they are not paying their proper share then the burden moves to other taxpayers. Tax evasion can have a very real financial impact on the misbehaving taxpayer and may lead to long-term, financially damaging, reputational harm. Fostering a culture of compliance with tax laws rather than tax evasion, may, in certain countries or sectors of society, require long term behavioural changes that cannot be achieved unless all sectors of society are seen to lead by example.

The Role of the Professional Accountant

In most countries, professional accountants are vital to the smooth running of the taxation system as taxation systems are too complex for all but the most sophisticated of taxpayers to understand. The profession also provides invaluable assistance to taxation authorities in managing tax administration and collection – for instance in the realm of information technology, which is becoming a key factor in the efficient operation of a taxation system. Similarly the accountancy professional plays a vital role in assisting policy makers in both determining the costs of their programmes and in the creation of new tax legislation.

The arena for taxation services is a crowded one. Depending on the national legal environment, professional accountants, certified tax advisors, lawyers, banks, and even people with no relevant qualifications can provide taxation advice. What distinguishes professional accountants from the other players is the combination of a global set of ethical standards and a commitment to taking the public interest into account. This is certainly not meant to ignore the ethical standards of many other professions, but to indicate that professional accountants have for long been striving for global consistency in their ethical standards.

Depending on the different national regulatory frameworks, the professional accountants may interact with taxation systems in many different capacities. Professional accountants provide advice on the proper application of tax law, prepare tax computations and tax returns for their clients and may represent the client in case of dispute with the taxation authorities. Auditors review their clients' tax calculations and tax policies and assess their impact on the truth and fairness of the financial statements. In all these ways, professional accountants make a fundamental contribution to the reliability of the tax system and the tax base.

The legal framework in which taxation advice is given varies significantly across Europe. In some countries the provision of tax advice is regulated, subject to public oversight and strict professional laws. In others, it is unregulated by government. In all countries, however, where professional accountants provide tax planning it is on the basis that they have undertaken professional examinations and are subject to a code of conduct and monitoring by their professional body.

Professional accountants have a duty of care to act in their clients' best interest. Nowadays, however, best interest is not solely to be measured in financial terms but also in terms of managing risk. Reputational damage could result, for both the client and the accountant, by participating in planning that is perceived as unfair. This risk should be carefully considered as part of the tax planning process. In a world of unprecedented transparency and near instantaneous communication, not all of which is well informed, reputational damage can have a direct impact on the bottom line.

Today social responsibility is an issue in taxation. Professional accountants, who have always prided themselves on considering the public interest in addition to the needs of their clients, also need to accept that being seen to participate in or promote such "unfair" tax planning could harm their reputation in the long term. Above all, the professional accountants must continue to be forthright in their condemnation of tax evasion so that the general public is left in no doubt that tax evasion is not acceptable.

Views from Stakeholders - Summaries

FEE has asked a variety of stakeholders for their views on the future of tax policy. We are very grateful for all the contributions we received; the summaries of these articles are provided below. You can read the full versions of the contributions here: **http://bit.ly/FEEtaxpolicydebate**

Each of the articles in this publication represents the views of the authors. Unless specifically stated, their views do not necessarily reflect the views of the organisations with which the authors are associated. In addition, the views expressed in each article do not represent the views of the authors of other articles in this publication.

Business and the public finances: reflections, evidence and ways forward

Ian Young is international tax manager at the Institute of Chartered Accountants in England and Wales.

While many protest loudly about contemporary tax planning practices, a more considered approach reveals a more nuanced reality; one where major changes to our tax regimes have been underway for some time. This article notes the differing requirements of individual states when it comes to taxation, the realities of a globalised value chain and the changing nature of tax treaties. Such agreements have moved from concerns about double taxation to double non-taxation. It also sheds light on how widening the corporate tax base can compensate for lower tax revenues on profits and it notes that while the recent pace of change has been very fast, the political will that is driving effective cooperation between tax authorities around the world will continue given the parlous state of public finances in many countries.

The morality of goose plucking

Joseph Stead is Christian Aid's Senior Economic Justice Adviser, primarily focusing on the relationship between tax and development and the related EU and UK policy.

What is the point of a tax system? This article gets to the nub of that question by raising some hard truths about human nature. While it appears that almost everyone accepts we need change, the technical and legal solutions proposed can only ever address the symptoms of aggressive tax avoidance and tax evasion. As long as the tax system is perceived as a way for government to squeeze as much revenue as possible from people and companies, those who have the resources will fight to minimise their tax burden. To deliver a better long-term solution we need to think a bit harder about the purpose of our tax systems. The challenge is to re-establish the clear link between taxes and the realisation of the common good of civilisation. The article posits that we need to change the relationship between tax and society at the individual, local, national and global levels and make it a conscious part of how we develop sustainable societies.

Second-best regulatory solutions to the problem of corporate tax avoidance and evasion

Ronen Palan is professor of International Political Economy at City University London.

The problem of corporate tax avoidance and evasion remains intractable because of an uncompromising desire to protect sovereign rights. In the popular debate the invisible boundary that separates acceptable techniques from aggressive tax avoidance is clouded by a fundamental misunderstanding. People imagine multinational firms as some kind of single, unified legal entity. The article provides an eye-opening account of how corporate tax minimisation schemes make full use of multi-jurisdictional tax arbitrage. It also highlights Apple's tax arrangements as an illustrative example of the distinction between firm and corporation. Baring a complete change in the law of nations; one that would enable the creation of a true international firm, we had better get used to second-best solutions to the well-known problem of tax arbitrage.

Tax avoidance: the missing link in business & human rights?

Mauricio Lazala is Deputy Director at Business & Human Rights Resource Centre, based in London.

This hard-hitting article frames aggressive corporate tax avoidance in a human rights context. In recent times much has been written about allegations of large-scale tax evasion by corporations. The deliberate use of loopholes, tax havens and a lack of government regulation, mean that societies, in both developed and developing nations, are being deprived of billions of dollars in taxes.

Many NGOs now contend that such practices deprive developing countries in particular of the resources necessary to deliver human rights to their populations. The article considers the influence of the UN's Guiding Principles on Business and Human Rights before highlighting some companies who are voluntarily choosing to disclose the tax and royalties they pay in each country.

International taxation challenges

Bill Dodwell LL.B, LL.M CTA (Fellow) ACA leads Deloitte UK's Tax Policy Group, which manages tax knowledge, training, and consultations with the OECD, HM Treasury and HM Revenue & Customs.

In a globalised world are national governments powerless in their attempts to collect a fair share of tax on the value generated within their borders? Far from it notes this article. Whilst public anger about aggressive tax planning and outright tax evasion grows, significant steps have already been taken that may well drive a greater alignment between taxable profits and people-based activities in the future. Digitisation of tax compliance systems is the lever that tax authorities are using to break down offshore secrecy. International developments, such as FATCA, the Common Reporting Standard and work on the OECD's Base Erosion and Profit Shifting, signal that we are in transition to a new tax system, with all the systems challenges that entails.

Not there yet: Despite strides, Europe still has work to do on financial transparency

A joint contribution by The Financial Transparency Coalition (FTC)

The **Financial Transparency Coalition** is a global network of more than 150 allied civil society organizations, fourteen governments, and dozens of the world's foremost experts on illicit financial flows. Porter McConnell is the Director of the FTC.

Corporate tax evasion is part of a darker problem. A problem that can only be solved by the light of financial transparency. This article examines the recent furore about Luxembourg's secret tax arrangements with more than 350 multinational corporations and links it to a wider policy issue. With momentum now building behind efforts to increase financial transparency in the EU can the Anti-Money Laundering Directive be the game-changer that puts beneficial ownership information, that is information on who ultimately owns or controls a company, into the public domain? Such information is key to tracking a whole host of criminal activities, from human and drug trafficking to state embezzlement and corporate tax evasion.

Answering key questions of tax policy

Tetiana Iefymenko is President of the State educational and scientific institution "Academy of Financial Management", which, under the Ministry of Finance of Ukraine, brings together the best national scientists in economics and finance.

An overview of the role of tax policy and in particular the concept of fairness for a national economy. This article notes that the essence of taxation is constantly changing in response to socio-economic demands and technological progress. International tax competition is a fact of life. So rather than decry it, regulators need to factor it into their policymaking. A more important consideration is ensuring justice within the tax system. Taxpayers need to believe that the tax burden is fairly shared. Only then can tax policy be effective in delivering on a range of policy goals, be it stimulating growth or protecting the environment.

Tax avoidance and international tax competition: a serious long-term threat to the welfare state and democracy

Achim Truger is a Professor of Economics at the Berlin School of Economics and Law.

As the inescapable logic of tax avoidance is played out in our economies there is growing awareness of its potentially destructive effects on the welfare state, on long-term economic potential and – in the end – on democracy itself. This article traces the ever decreasing statutory tax rates on top personal, corporate and capital income in nearly all OECD countries since the 1980s. It reaches a startling conclusion. Tax avoidance is not merely some kind of technically smart arbitrage between inconsistent tax laws; it is perhaps the most important driver of international tax competition. The article concludes that it is time for tax professionals to take a stand and to contribute to the design of an international tax system that better suits the revenue-raising and distributive needs of our welfare states and democratic societies.

A fair tax policy is good economics

Tony Greenham and Helen Kersley - New Economics Foundation

Tony Greenham leads work into reform of the financial system. He is a chartered accountant and former investment banker, and author of many publications on finance and business.

A fair tax policy is critical to Europe's social and economic future. The stakes are that high, according to this thought-provoking summary based on the conclusions of a roundtable of European experts convened by the New Economics Foundation. It posits that a more equal distribution of income and wealth is a precondition of economic success. Thus it recommends that tax policy be used as part of an overall strategy to reduce excessive economic inequality. As Europe has witnessed recently, such inequality creates recessionary pressure by undermining consumption. Policy priorities are identified that could make the tax system more progressive, fair and unavoidable.

The role of tax administrations in the current political climate

Jeffrey Owens is the Director of the WU Global Tax Policy Centre at the Institute for Austrian and International Tax Law, WU (Vienna University of Economics and Business).

Despite the current focus on adopting a tougher stance on tax enforcement, the author argues that effective tax compliance will only be achieved if is it is combined with good taxpayer service and where there is a constructive and transparent dialogue between tax authorities, taxpayers and their advisors. The article examines four related issues: the change in attitudes to tax compliance by tax administrations; how tax administrations are responding to the fast-paced challenges of globalisation; the new challenges tax administrations are facing; and the role and limits of international cooperation.

Financial institutions in international tax compliance

Roger Kaiser is Senior Policy Adviser at the European Banking Federation (EBF) He represents European banks in a number of international expert groups.

This article provides a comprehensive overview of the role of financial institutions in the battle against tax avoidance. At the behest of tax authorities, European banks are playing an increasing role as tax intermediaries; one that involves the collection of withholding taxes and the systematic disclosure of information about investors. The new Common Reporting Standard and the Review Directive on Administrative Cooperation will only accelerate this process. In order to meet the exacting implementation timeline, Europe's banks are thus obliged to make significant investments in upgrading their systems. The article highlights some implementation challenges and questions whether these efforts and the introduction of increasingly demanding tax compliance requirements are the right approach to combat tax fraud and whether they are economically sustainable in the long run.

Measures against harmful tax competition in Turkey

Semih Öz is a professor at the Political Sciences Faculty of Ankara University and head of the Public Finance Theory department and an adviser for TÜRMOB.

This article provides a case study of the measures Turkey has taken to combat harmful tax competition. Governments can defend their sovereign fiscal rights by enhancing their legislative armoury. To counteract harmful tax competition, however, information sharing with other governments is necessary. The article examines Turkey's approach, noting the impact of the Corporate Income Tax Law, which introduced defensive measures such as controlled foreign company regulations and transfer pricing provisions. It also summarises Turkey's international engagement with other tax authorities.

Belgium's response to aggressive tax planning: state of play

Pierre-François Coppens is a tax and legal advisor and has joined the research department of the Institute of Accountants and Tax Advisors of Belgium.

This case study eloquently makes the point that the taxpayers' freedom to choose goes hand-in-hand with tax compliance. The article traces how Belgium, a relatively high-tax jurisdiction, seeks to battle the variety of ways in which individuals and corporations evade tax. The tax authority is now impressively armed and international cooperation is on the increase. But the complexity of the tax law can undermine the objective of increasing compliance. The solution? A new tax contract between citizens and the state, whereby compliance rises as the system becomes more clear, fair and efficient.

Why the first World Tax Summit must take place in July 2015

A joint contribution by Oxfam International

Oxfam International's European Union office in Brussels works to influence key decision-makers to ensure that EU policies affecting poor countries have a far reaching, positive impact on the lives of those most in need. Winnie Byanyima is Executive Director of Oxfam International.

At a time of widespread budget austerity a series of recent tax scandals may provide momentum to calls to overhaul the fiscal architecture and find new solutions to fight against what this article terms tax dodging, i.e. legal or illegal tricks by individuals and companies to minimise their tax bill. Developing countries are vocal about the need for fairer international tax rules and for multinationals to pay a fair share of taxes where they exercise real economic activity. However such countries have been largely excluded from the underwhelming global response - the OECD's Base Erosion and Profit Shifting (BEPS) action plan. As 2015 will see the final negotiation of the UN's new Sustainable Development Goals (SDGs), the article calls for the organisation of a World Tax Summit to coincide with the negotiations. Public perceptions of taxation are changing and the European Union could play a leading role in ensuring that tax policy helps to build a more equal and socially responsible society.

The European Commission's role in fighting tax evasion and avoidance

Heinz Zourek is Director General in the European Commission's Directorate General on Taxes and Customers Union (DG TAXUD).

The onset of the financial crisis has signalled the end of tacit societal acceptance of tax avoidance. While national governments crack down hard, in a global economy unilateral solutions are unlikely to be sufficient. This article examines the role of the European Commission in the fight against tax evasion and aggressive tax avoidance. It examines Europe's contribution to the international effort, notably the OECD's BEPS project. It also details the Commission's recent action plan that sets out 34 ways to enhance administrative cooperation, support the development of the existing good governance policy, tackle the wider issues of interaction with tax havens and aggressive tax planning and so on. The Code of Conduct group is also proving to be very effective in both identifying and eliminating harmful tax measures that can distort competition in the EU Single Market.

Working together for better EU tax governance

Miguel Silva Pinto is the Deputy Director-General responsible for VAT in the Portuguese Tax Administration since late 2011.

What relevance does Europe's attempt to address its democratic deficit have for tax governance? A lot more than you might think. This article outlines a marked trend of EU governance to create mechanisms that open dialogue and bring civil society representatives more closely into the policymaking process. This reaching out implies more actors in policymaking, as well as the need for more transparency about who is contributing to the proposals. The traditional tax governance model is not immune to this trend and future VAT measures such as recommendations, guidelines or best practises are already being influenced by this desire for broader consultation.

Automatic exchange of tax information

Johanna Hellström is a Senior Advisor with the European Savings and Retail Banking Group (ESBG) where she focuses on the areas of financial and prudential reporting and taxation.

If the automatic cross-border exchange of tax information sounds great in principle, implementing it in practice will be a major challenge. As this article notes, financial institutions are very much in the frontline. The timelines for implementation of FATCA and the OECD's Common Reporting Standard (CRS) are testing and the client due diligence and reporting requirements are extensive. The result is increased pressure, both on operational and technical resources, for the participating countries' financial institutions. Whilst the common goal is to reduce tax evasion and tax avoidance financial institutions must not be put in a position of being expected to risk breaking data protection rules. Ultimately, clear and harmonised rules need to be applicable worldwide.

What to tax: time to shift tax systems from ‘goods’ to ‘bads’?

Fabian Zuleeg is Chief Executive and Chief Economist of the European Policy Centre (EPC). His research focuses on the economic and Euro crises.

As Europe struggles to get its economy back on track, new taxes are very much on the political menu. Fiscal consolidation in a low growth environment is key to finding a better balance between spending and revenue in the longer term. As overenthusiastic public expenditure cutting can create a downward economic spiral, the desired balance cannot be delivered by cuts alone; taxation will also have to deliver greater revenues. This article highlights potential sources of taxation which have not been fully exploited and which can have a positive effect beyond revenue-raising including taxes on speculation, on the causes of climate change or on products that might harm health. It also notes the Single Market implications of broadening the tax base.

Assessing the impact of the flat rate tax reform and the introduction of targeted tax relief in Hungary

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A case study from Hungary on how income tax reform impacts the labour market. Finding the optimal income tax regime remains an elusive goal for governments around the world. This paper provides an in-depth analysis of recent changes to the Hungarian tax system. It predicts the long-term macroeconomic, budgetary and labour market effects of the introduction of a flat rate personal income tax system and the use of targeted tax relief for specific sections of the labour market.

The role of IT in tackling tax evasion and aggressive tax avoidance

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Information Technology (IT) can play a much greater role in detecting and preventing tax fraud or aggressive tax avoidance. This broad-ranging article firstly considers the subjective aspect of fair taxation and the latest international efforts to clamp down on unwanted behaviour, notably through the OECD's Action Plan on BEPS. It then delves into the power of IT and explains how it can deliver the data needed to react, either by using intelligent retrospective or predictive data analysis, or by effectively increasing transparency. The roles of statistical and psychological techniques, as well as forensic tax accounting, are also examined. In conclusion, it is noted that IT is simply a tool. And one that may even be a precondition for some tax avoidance strategies. However, aggressive tax planning or avoidance is more often driven by tax competition between individual states.

Tax policy as a matter of good governance

A joint contribution by Giovanni Bracco, Simon Perry, Richard Chadwick and Ray Farnan

The contribution "Tax Policy as a Matter of Good Governance" has been provided by PwC. The contribution has been mainly prepared by **Richard Chadwick** who is a UK partner in PwC's Tax Risk Assurance team.

A changing tax environment necessarily requires adaptation. For leading corporations, good tax governance is no longer considered in isolation from overall business governance. In this article, tax is seen through the prism of risk management. As tax is very much a core business issue, a risk assurance framework can help a corporation manage risk and put in place adequate controls. A rigorous approach improves assessment and limits risk.

The search for a tax ethic

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Does your company pay its fair share of tax? In answering such a clearly subjective question, the actual amount paid is not the most relevant factor. A robust tax ethic provides an overall approach to tax planning and guides decision-making. And it means that when challenged, you can justify your approach. This article delves into what a tax ethic can achieve for a corporation and provides some sources of inspiration. Having established what a corporate tax ethic look like it then derives one for professional tax advisers.

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