Federation of European Accountants
Fédération des Experts comptables Européens

FEE Tax Day

Simple, fair, coordinated – tax Utopia in the EU?

1 October 2009

"Fair Tax" and how to get there

Chas Roy-Chowdhury, ACCA

➢ What was the research

➢ High level thoughts on tax

➢ What were the key issues

➢ What can we learn from this

Research encouraged by an approach from
a "Think Tank" called The Smith Institute

Two parts to work conducted by ACCA

➢ An international survey of selected countries

➢ An essay as a part of book of essays for
Smith Institute

Why – A question we should all ask ourselves

A question we all should ask

➢ Why do we pay tax

➢ Is it right to be progressive

➢ Should it be flat or proportionate

➢ Should it even be regressive – like buying less at a super market

➢ Is paying tax at around 40% for individuals – in developed economies appropriate

➢ Is paying tax at around 30% or slightly less appropriate for Corporates

➢ Should VAT be in double digits

➢ Should tax be about welfare or purely external provision such as defence

➢ Should we be paid to self-assess

Adam Smith's thoughts in 1776

The four canons:

➢ **Equity:** a tax should be seen to be fair in its impact on all individuals;

➢ **Certainty:** taxes should not be arbitrary, the taxpayer should know his or her liability and when and where to pay it;

➢ **Convenience:** it should be easy for taxpayers to pay what they owe;

➢ **Efficiency:** the tax system should not have an impact on the allocation of resources and it should be cheap to administer.

- ➢ Following on from Adam Smith - the UK's system

- ➢ A century ago tax was 10% or less of GDP today it is 400% higher at 40%

- ➢ Previously Tax was largely to fund externalities

- ➢ 20th Century saw in Europe a broader social inclusion agenda

- ➢ See graph of current Income Tax configuration

Table 1: Overview of selected countries

	Tax as % of GDP 2005	GDP 2006 in millions of US $	Population 2006 '000s	GDP growth 2005
Australia	30.8%	768,178	20,521	2.8%
Canada	31.9%	1,251,463	32,556	2.9%
Hong Kong	10.49%	189,798	7,011	7.3%
Singapore	13.0%	132,158	4,393	6.4%
US	26.8%	13,201,819	298,988	3.2%
UK	37.5%	2,345,015	60,361	1.8%

Source: for Tax as % of GDP, see Table A3 in the appendix. The remaining statistics were sourced from World Bank (2008a). NB All six countries are described as high-income economies by World Bank (2008b).

Standing for trust and integrity

Fair Tax

Countries chosen key:

➢ It was important to compare like with like

➢ Hence developed countries were chosen with significant ACCA membership, UK, Singapore and Hong Kong

➢ Or "essential economies" for comparison Canada, Australia and US

Table 3: The tax system in my country is fair

	Mean	Median	Mode
Hong Kong	3.47	4.00	4
Singapore	3.92	4.00	4
Canada	2.74	2.50	2
US	2.93	3.00	4
Australia	2.55	2.00	2
UK	2.46	2.00	2

(1 = strongly disagree through to 5 = strongly agree)

Standing for trust and integrity

Fair Tax – Quantitative Survey

➢ The response to Question 3 and the following one shows Australia in a light which is not adhered to in the later responses

➢ There seems to be a fairly significant feeling of quiet, almost resentment, that the Australian tax system is unfair

➢ While the UK responses put the UK in the worst position for unfairness this is in correlation with the comments later about the system

➢ When the survey was being undertaken the tax bands for Income Tax in Australia had been broadened quite significantly but corporate tax has been kept quite high

➢ One wonders whether the responses from Australia reflect a knowledge of how high and complex taxes are in Australia compared to some near neighbours

Standing for trust and integrity

Fair Tax – Quantitative Survey

Table 4: Overall, how would you describe the tax system in your country in terms of simplicity?

	Mean	Median	Mode
Hong Kong	4.19	4.00	4
Singapore	3.52	4.00	4
Canada	2.26	2.00	2
US	2.02	2.00	1
UK	1.83	2.00	2
Australia	1.80	2.00	2

(1 = very complex through to 5 = very simple)

Fair Tax – Quantitative Survey

➢ Actually quite a surprising result with Australians considering their system the most complex

➢ This is not "fleshed" out in the rest of the responses to the survey

➢ The UK overall articulates its complexity issues more effectively subsequently

Table 5: Causes of complexity in the tax system

	All		Australia		Canada		Hong Kong		Singapore		US		UK	
	Rank	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank	Mean
Volume of directives/laws/ regulations	1	1.61	1	1.44	1	1.72	1	2.04	1	2.03	1	1.68	1	1.47
Number of adjustments to be made in arriving at taxable profits/ income	2	2.70	2	2.69	2	2.62	2	2.71	2	2.35	2	2.35	2	2.75
Number of taxes in place	3	2.84	3	2.80	3	2.77	3	2.96	3	3.30	3	3.19	3	2.76
Number of tax rates in place	4	3.53	4	3.65	4	3.62	4	3.56	4	3.56	4	3.68	4	3.50
Filing/payment procedures	5	4.00	5	3.92	5	3.69	5	3.74	5	3.81	5	3.86	5	4.10

(1 = greatest effect through to 5 = least effect)

Standing for trust and integrity

Fair Tax – Quantitative Survey

➢ The results from Hong Kong and Singapore were fairly "flat"

➢ There was little difference between these countries from the most complexity creating issue and least

➢ Lead by the UK there was a much greater divergence between the most and least complexity creating issue.

➢ Clearly across the economies the greatest weight was given to the volume of legislation

➢ The lager economies with the UK taking the lead clearly do introduce significant volumes of annual legislation and this as created the complexity perception

➢ The UK for the last decade or more has had double volume Finance Bills as well as much continuous fiscal tinkering

Fair Tax – Quantitative Survey

➢ It's interesting that the actual tax filing and payments procedure is not considered such a great burden

➢ Thinking through the results this is what we might expect as the average ACCA member would be dealing with issues of a more technical nature around legislative changes

➢ If we had conducted a survey of unqualified tax practitioners the result may have been different and the administrative aspects could have been more problematic

Fair Tax – Quantitative Survey

Table 6: Do you think current tax regulations in your country clearly differentiate tax avoidance from tax evasion?

	Mean	Median	Mode
US	1.93	2.00	1
UK	1.80	2.00	2
Australia	1.80	2.00	1
Canada	1.63	1.50	1
Singapore	1.50	1.00	1
Hong Kong	1.47	1.00	1

(1 = Yes, 2 = No, 3 = Don't know)

Fair Tax – Quantitative Survey

➢ In the larger more complex economies there seemed to be a lack of clear divide being expressed between avoidance and evasion

➢ One would speculate however that the responses are actually in seeking to flag up the divide between acceptable avoidance and unacceptable avoidance

➢ This would tie-in with the attempts by the fiscal authorities to seek to blur the divide between avoidance and evasion without effectively spelling out what constitutes unacceptable avoidance

➢ In the larger economies we have GAARs, disclosure regimes and black listed transactions

➢ Also more aggressive fiscal authorities

Table 7: Do you consider the tax system in your country to be transparent?

	Mean	Median	Mode
Hong Kong	4.09	4.00	4
Singapore	3.97	4.00	4
Australia	2.93	3.00	2
Canada	2.89	3.00	2
US	2.66	2.00	2
UK	2.30	2.00	2

(1 = not transparent through to 5 = very transparent)

Fair Tax – Quantitative Survey

➢ There was a great belief in Hong Kong and Singapore that their systems were transparent

➢ The other countries were "middling" other than the UK where the response indicated a great perception of an opaque system

➢ In many ways there was a correlation from Hong Kong to Canada between the level of tax to GDP and the level of transparency and perhaps the UK actual fits that trend

➢ This however then isolates the US as an example where it is lower tax that the other big economies yet t here is a sense of a lack of transparency.

➢ The US result may be partly explained by the combative nature of the IRS and the us and them attitude that it projects

Standing for trust and integrity

Fair Tax – Quantitative Survey

Table 9: The rationale for the existence of various taxes is clearly communicated by the tax authorities in my country

	Mean	Median	Mode
Singapore	3.58	4.00	4
Hong Kong	3.51	4.00	4
Canada	2.67	3.00	2
Australia	2.61	2.00	2
US	2.51	2.00	2
UK	2.12	2.00	2

(1 = strongly disagree through to 5 = strongly agree)

Fair Tax – Quantitative Survey

- The "disturbing trend" coming from the UK to all the questions is that taxes are unfair

- Also echoed in the UK focus group tax retrospection played a part in this perception

- Hong Kong and Singapore were the other way around in accepting the rationale for the various taxes in their jurisdictions

- Academic studies suggest that this trend might be due to a tax system being "trusted" or "untrusted"

- Small low tax relatively modern economies (HK and Singapore) may fall in to the trusted category

Fair Tax – Qualitative Study

➢ The UK group considered the system had become ever more complex

➢ The difficulty of the system was compounded by there being too many types of taxes

➢ The whole idea of increasing self-assessment – meaning shifting the administration burden to tax payers was considered unacceptable

➢ The lack of mirror image between the tax payer making an error and the revenue authorities was also considered unfair

➢ Taking the study as a whole

➢ Clear correlation between overall tax as a % of GDP and fairness

➢ Hong and Singapore were clearly in the "Fair Tax" camp

➢ The others and it may be coincidence they are also English speaking were considered less fair

Standing for trust and integrity

Federation of European Accountants *Visit us @ www.fee.be*

- ➤ 43 professional institutes of accountants
- ➤ 32 European countries, including all 27 EU

Standing for trust and integrity