



**ACCOUNTANCY
EUROPE.**

CALL FOR CONTRIBUTIONS: SUSTAINABLE TAX SYSTEMS

Futureproofing Tax

IDEAS.

**TAX
MARCH 2021**

HIGHLIGHTS

Our current tax systems are struggling to keep up with new business models, ageing demographics, and mobile taxpayers. The coronavirus crisis, climate urgency and social stresses have exacerbated these difficulties.

Accountancy Europe believes now is the time to consider how tax systems must be changed to deal with future funding challenges and help develop a sustainable economy.

We are calling for thought leaders in taxation to share their views on the changes necessary to make tax systems fit for the future.

Calls for contributions will be made on a thematic basis – the first topic to address is taxes and the environment. We invite experts in this field to submit their contributions by 30 June 2021 to paul@accountancyeurope.eu to help drive forward the policy debate in this area.

FOREWORD

PAUL TANG MEP, CHAIR OF THE EUROPEAN PARLIAMENT'S FISC COMMITTEE

The world faces unprecedented challenges that require a joint response. Covid-19 has added another wave of loans to our already debt-ridden economies and brought inequalities to a post-war high, while the real tsunami, climate change, increasingly impacts our shores. At the same time, the pandemic is a reminder that together, we can control our destiny. In a world where it all too often seemed as if globalisation and digitalisation took power away from the state, government intervention showed it is possible to address pressing crises when it's needed most. Now there's the need to use this realisation to address the challenges of our time. In doing so, creating a sustainable tax policy for the future will prove key.



Taxes can be an effective tool. They steer behaviour, set budgets and redistribute wealth. As such we need to look at environmental taxes to fight climate change, at ending tax avoidance to rebalance the books and at taxing wealth and capital to fight inequalities. Taxes also, however, require unanimity within the European Union before they can be changed or introduced. We thus need to be clever in how we set the debate for a more sustainable tax system. We need to stimulate public discussion, and that is done best by contributing new ideas and information, and by stimulating the debate. New research and the communicating of findings are therefore essential to build more sustainable tax systems. I see three main avenues.

Firstly, we need to make our tax systems assist in the global push for climate neutrality – and do so in a socially sustainable way. Carbon emissions are still under-priced compared to the negative externalities they cause and are even subsidised in the EU – often via tax expenditures – [to a tune of between €39 and €200 billion per year](#). The EU's Emission Trading Scheme is a good starting point for pricing emissions, but not yet sufficiently effective. It should be reformed, while other tax-based avenues for pricing carbon-emissions should be strengthened, including through the Energy Tax Directive. To prevent carbon-leakage, and to stimulate innovation abroad, reform should come with the introduction of a Carbon Border Adjustment Mechanism. Yet, our efforts for an environmentally sustainable tax system will come to nothing without a strong social element as well. That is why we should ensure that the revenues from environmental taxes should be redirected to those who will be affected most by the rising cost of emissions. A climate-dividend to all citizens could be a simple way to guarantee support for the transition amongst all our citizens. But other ways of more effective and targeted support could still be found.

Secondly, reforming corporate taxation is essential in determining who will pay for the current crisis. Despite currently relying on government support, big multinationals have for decennia been able to avoid paying their fair share. Governmental failure to stop tax avoidance comes at a high cost to citizens. Cost estimates vary significantly, but run in the tens, if not hundreds of billions a year for EU countries. What can be done to address tax avoidance, at national and EU level? And what will EU Member States gain from each new policy? Interesting proposals on a European withholding tax, digital levies, a renewed push for a European consolidated tax base or, as recently pushed for by the European parliament, stricter criteria for the EU 'blacklist' of tax havens are all key ways to address the hole in governmental revenues and create the path for more sustainable government budgets.

Lastly, we need to broaden the debate of fair taxation beyond corporate income tax. For the rapid rise in inequality Europe has seen since the 1980s to be stopped, tax on income should be replaced by tax on wealth. What can individual countries do to tax their wealthiest citizens while keeping tax avoidance in check? Another stimulant for inequality is the exorbitant rise in top incomes, with bonuses and stock options of top managers reaching millions and bearing no relation to productivity. What is the most effective and equitable way to tax the top earnings while maintaining a productive economy?

The European Parliament plays an important role in supporting EU and national action in the field of taxation. Only with a sustainable tax system fit for the future can we overcome the transformational environmental, digital and economic challenges ahead. Since becoming the chair of the FISC committee, I have stressed that the committee should be a hub for discussing tax issues in the EU. In doing so, socially-relevant research on creating a sustainable tax system is much needed. It is therefore my pleasure to see the issue of sustainable taxation - in its broadest sense - taken seriously by this call of Accountancy Europe. I look forward to reading the contributions this brings forward. It is time to be bold and creative to mould the sustainable tax system for the post-covid economy.

FOREWORD



BENJAMIN ANGEL – DIRECTOR DIRECT TAXES AND ACTING DIRECTOR INDIRECT TAXES DG TAXUD, EUROPEAN COMMISSION

Over the last year, the coronavirus crisis has placed unprecedented pressure on European tax systems, as well as the economy more widely. At the same time, it has demonstrated that the EU and Member States are able to act quickly and decisively to adapt their tax systems to new needs and challenges.

Looking forward, the changing nature of our economies and societies call for a broader reflection on how our tax systems should be adapted to respond to existing and emerging challenges such as environmental changes and the green transition, an aging population, the digital transformation and globalisation.

The EU has put the green transition at the heart of its agenda, committing to a 55% reduction in carbon emissions by 2030 and climate neutrality by 2050, while also giving green growth a central place in its recovery strategy. Taxation has an important role to play in this agenda as a policy tool to incentivise changes in business decisions and consumer behaviour, as well as to support a just transition, and the Commission is working on ambitious proposals in the area of energy taxation and for a new Carbon Border Adjustment Mechanism. At the same time, ecological changes and the green transition itself will have broader impacts on our tax systems, influencing both the need for public revenue, and the performance of different tax bases.

Demographic changes, as well as changes to the labour market, are also likely to impact the revenue from traditional tax bases. Population aging will lead to a shrinking working population and a likely accompanying reduction in labour tax revenue. In parallel, the digital transformation of labour markets will lead to changes in types of employment and forms of work, with knock-on effects on tax revenues from labour and capital taxes. This is likely to pose challenges for the fairness and sustainability of the existing tax mix, and raises questions around whether new tax bases can be found.

It is now widely accepted that technological change and the digital transformation, combined with globalisation, have exposed the limits of the international corporate tax framework and undermine the fairness of the tax system as a whole. The increased mobility of intangible assets, the ability to do business in a given jurisdiction with a physical presence, the rise in new business models and new forms of value creation are challenges that policy-makers at EU and global level are working hard to address. While creating new opportunities for tax avoidance and evasion, technological changes are also having a profound impact on the administration of our tax systems. New digital tools offer opportunities to clamp down on tax fraud, evasion and avoidance, while also simplifying compliance for honest taxpayers.

The EU operates as part of a globalised economy, and we need to be conscious both of the impact that our tax systems have on the competitiveness of the EU and of their impact on less developed countries. This is already part of the EU's tax agenda, through its work on tax good governance and support for revenue mobilisation in developing countries, but should also be integrated into our wider reflections.

The Accountancy Europe Sustainable Tax Systems project aims to look in a broad and holistic way at these megatrends and their impact on tax systems. This is a valuable reflection that can bring important insights to policy-makers as they grapple with the interlinked challenges facing our economies in the 21st century.

INTRODUCTION

Most countries' tax systems have developed organically in response to the changing needs of society – e.g. the introduction of a temporary person income tax in the UK to fund the Napoleonic war. They further evolved to cover various gaps through which tax income could be lost.

Modern national tax systems are the culmination of centuries of slow, gradual change and refinement rather than an integrated design based on economic theory. There is a lack of consistency and cohesion, which leads to uncertainty and complication for taxpayers, policymakers, and tax authorities alike. This is even more the case for international tax systems.

The pace of change in the 21st century is no longer gradual and measured. We no longer have the luxury of time to slowly refine existing tax systems to deal with, and adapt to, the significant challenges faced by the European Union (EU) and the world.

Accountancy Europe has launched its *Sustainable Tax Systems* project – to stimulate debate on what significant changes are required to the tax systems for them to deal with the challenges posed by the 21st century.

CALL FOR CONTRIBUTIONS

We are calling for contributions from tax thought leaders for their views on how tax systems within the EU and beyond will be affected by and can, in turn be reformed to influence and address, the challenges posed by key global megatrends.

The contributions would be based and categorised around four megatrends –environment, demographics, technology and globalisation/geopolitics. They should reflect on what changes would be needed for tax systems to deal with each of these trends. The contributions would not be limited to focusing on any single tax. Rather, consider all taxes (including completely new tax bases), acknowledging that each has its strengths and weaknesses and a role to play in the overall solution.

The papers should also reflect on the knock-on effects, positive and negative, of the proposed changes in tax policy – including quantification of these effects and their associated costs – and how these could be dealt with. For example: emissions taxes leading to the closure of fossil fuel fired power stations. This would reduce greenhouse gas emissions and pollution but would also lead to significant job losses in the associated industries, reducing tax yields whilst increasing social benefit costs and social inequality.

More details about the specifics relating to the contributions can be found on page 9.

WHAT ARE SUSTAINABLE TAX SYSTEMS?

In this context, we are not solely considering *sustainability* (see explanation box) in merely a green or environmental terms, albeit that is one of the pressing issues where tax can be mobilised.

Rather, we are looking at sustainability of tax yields, thinking of tax income as a resource that should not be depleted, or permanently damaged, by such megatrends as:

1. environmental issues
2. changing demographics
3. technological changes
4. geopolitical and globalisation changes

'Sustainable'

- a. of, relating to, or being a method of harvesting or using a resource so that the resource is not depleted or permanently damaged

'sustainable techniques'
'sustainable agriculture'

- b. of or relating to a lifestyle involving the use of sustainable methods

'sustainable society'

Merriam-Webster Dictionary

WHAT DEFINES SUSTAINABLE TAX SYSTEMS?

RESILIENCE

Developed countries rely disproportionately on certain taxes, particularly payroll income taxes and indirect taxes such as value added tax (VAT). The Organisation for Economic Co-operation and Development's (OECD) [Revenue Statistics 2019 - Tax revenue trends in the OECD](#) indicates that in 2017 an average of 82% of total tax revenue of OECD members comprised of income tax on individuals, social security and VAT/goods and services tax (GST).

Most VAT is ultimately borne by individual consumers. The current system puts an enormous onus on continued high levels of employment and consumption to fund government finances and policies.

The coronavirus crisis has demonstrated that such reliance on these taxes is not sustainable – particularly when increasing digitalisation of the economy will lead to a large loss of traditional occupations without an obvious equivalent replacement by new types of employment.

This crisis has also shown that governments' vital role in leading the response to crises has not disappeared and is crucial to successful crisis management. Government intervention ultimately requires funding from tax revenues. We are currently witnessing the double effect of governments having to financially support citizens who are normally their main source of tax revenue.

Governments need to think about redesigning their tax bases to make them more resilient in face of future crises., Global warming is one of the most pressing ones. Lessons are already being drawn from the coronavirus crisis and [how it can be linked to climate change](#).

As Winston Churchill is famously reputed to have said, “never let a good crisis go to waste”.

This is most definitely the case with the coronavirus crisis. It has taught some very hard lessons but also represents a unique opportunity to review the way forward for the global economy and the tax systems that form a part of it. We need a holistic analysis of tax systems, how individual taxes interact and how they can be better coordinated to produce more flexible, resilient and fairer tax systems.

FIT FOR THE FUTURE

Next to resilient, tax systems need to be fit for the future to be sustainable. Tax systems, and society as a whole, are struggling to cope with the changes brought about by globalisation and the increased mobility of capital, people and information. Yet globalisation is merely a indicator for the fundamental changes that we are facing now, and those unknown challenges that we will face in the future.

There are no easy solutions for dealing with the megatrends that we examine further in the next section. Following Newton's third law of motion, for every action there is an equal and opposite reaction. In economics, the opposite reaction is often unpredictable and not always welcome. All these megatrends are interrelated – so dealing with any of them in isolation could well have unintended consequences in others.

Tax systems' impact on European competitiveness should also be considered. Tax systems within the EU have a key role to play to generate the funds needed to smoothen and accelerate the transition to a sustainable economy. They also help change behaviour. In the long-term, this will strengthen the EU's competitiveness and its role as a global leader while ensuring the highest standards of climate, environmental and labour protections.

FOUR RELEVANT MEGATRENDS FOR SUSTAINABLE TAX SYSTEMS

Opinions differ^{1 2} on the most important megatrends that will affect us during the 21st century. We have identified the following four trends as most pertinent to tax systems:

1. ENVIRONMENTAL ISSUES

These issues include climate change, pollution, and resource depletion.

Tax systems face the possibility of significant loss of tax receipts due to:

- business disruption
- changes in the use and value of real estate
- stranded assets³
- exhaustion of raw materials on which some resource-based taxes are levied

Tax can be used to incentivise the economy's green transition including new greener business models. Incentives should be properly assessed to ensure that they are cost effective, will achieve the overall intended policy objectives, and have no other negative consequences - such as increased social inequality.

Tax can also be used to punish polluting behaviour, but this may have regressive impacts on lower income earners. It could also lead to a loss of tax base should the tax be too effective and stop polluting behaviour.

2. SIGNIFICANT GLOBAL SHIFTS IN DEMOGRAPHICS

ASYMMETRIC GLOBAL POPULATION EXPLOSION AND AGEING

The overall global population is expanding, but only in certain parts of the world. Huge population growth is [occurring](#) in Africa, a continent increasingly less able to support a large population due to the impact of global warming. It is likely that the 21st century will see the largest global migration flows in history.

Meanwhile the population in OECD countries shows declining indigenous population growth with a rapidly ageing population. There will be fewer people in work to support an increasingly elderly population needing social care and medical treatment.

This is fundamentally a question of inequality and tax policy could be used to deal with this at a national, European and global level.

GLOBAL INCOME INEQUALITY

Tax has a role to play to promote domestic resource mobilisation in developing nations and reduce the pressure on their inhabitants to mass-migrate. It ultimately should contribute to reducing the global financial costs created by instability in the poorest countries.

INTER-GENERATIONAL SOLIDARITY

Tax also has a role to play in intergenerational equity. The growing care costs for an increasingly ageing population must be paid by tax receipts from a younger generation. However, this new generation will lack the job stability enjoyed by their forebears, and may not have benefit from the same investment opportunities as their parents. This raises questions about the tax treatment of assets passed down through generations and whether the preferential treatment of capital that currently exists in many tax systems is still the best way to promote investment.

¹ <https://www.weforum.org/agenda/2020/04/climate-change-coronavirus-linked/>

² <https://medium.com/metaphorical-web/ten-megatrends-for-the-twenty-first-century-b0a16fbb8c6f>

³ assets that have suffered from unanticipated or premature write-downs, devaluations or conversion to liabilities

3. THE IMPACT OF TECHNOLOGY

The impact of technology on tax systems is likely to be broad and profound but also difficult to accurately predict.

TRADITIONAL VS 'NEW' EMPLOYMENT

Technology is transforming the employment environment. Value creation based on information and intellectual property is replacing traditional labour-intensive value creation. This will only accelerate as other technologies interact with digitalisation.

Examples

Automated processes and self-operating machinery will lead to direct and indirect job losses in all sectors of the job market. For example, automated taxis would directly cut the need for taxi drivers, an occupation relied on by many low-income households. Additionally, as many of the self-driving vehicles would be electrically powered, repair and servicing jobs would also be lost as such vehicles require less maintenance. Moreover, these repair and servicing jobs would be performed centrally and often remotely, via software monitoring and updates.

Renewable energy is essential for dealing with climate change and pollution. It however tends to be capital intensive but labour-light, accelerating existing loss of employment in sectors such as coal mining.

New jobs and job types will be created. But many commentators do not believe this new employment will provide one for one replacement for the traditional jobs lost, and that many of the new jobs created will lack the stability of traditional employment.

DISRUPTIVE BUSINESS MODELS

Increasing virtualisation will accelerate the trend towards remote working, as well as ensuing changing transport requirements and the use of real estate. This could contribute to changing the nature of corporations – accelerating the trend away from corporations being employers of large numbers of people to being mobile holders of intellectual property.

Advances in material sciences (and potentially nanotechnology) could allow a far wider range of more complex products to be produced remotely – impacting retail businesses and making current taxation based on place of supply difficult to maintain.

Combining artificial intelligence and quantum computing could have massive impacts on the financial sector and stock exchanges – not least as quantum computing has the potential to render existing encryption techniques ineffective.

A dematerialised economy permits greater mobility of capital and makes it harder for national tax authorities to protect their tax bases. This effect would be further increased as traditional gatekeeper organisations, such as banks, are bypassed by new technologies such as blockchain.

EVOLUTION OF TAX ADMINISTRATIONS

Conversely, developments such as big data mining, AI and the use of social media provide tax authorities with unprecedented tools to monitor the legitimate transfer of capital, and to identify illegal transactions and movements of money.

Such developments also allow tax authorities to have real time communication with taxpayers, remote monitoring, and remote tax audits. This would improve the process for tax authority and taxpayer alike and permit the transfer of resources previously used for administration to more productive areas.

Aware of these challenges, the European Commission released on 15 July 2020 [the Action Plan for fair and simple taxation](#) supporting the recovery. It is notably looking to help tax authorities better exploit existing data

and share new data more efficiently, in a manner that will improve the enforcement of tax rules and help combat tax fraud and evasion more effectively.

However, another impact of technological change - the use of social media platforms to disseminate false information (deliberately or unwittingly) – means that discussions around tax policy changes will be more difficult and polarised than ever.

Legislators and tax authorities will require a new approach to communicate with citizens the necessity and effectiveness of changes to the tax systems in an atmosphere of general distrust towards traditional media and governments.

4. GLOBALISATION AND GEOPOLITICS

There is increasing friction between further globalisation and more nationalism. This could have an additional impact of restricting the opportunities for many individuals whilst increasing the opportunities for others.

Globalisation has helped lift millions of people worldwide out of poverty. It has also left others feeling excluded and powerless. This disenfranchisement has provoked a backlash against globalisation and in favour of nationalist agendas.

Certain aspects of globalisation, such as global supply chains, are also considered to significantly contribute to greenhouse gas emissions and other forms of pollution, so actions against climate change are likely to include measures to re-localise production supply chains. Disruptions to global supply chains caused by the coronavirus crisis could further exacerbate this trend.

Concerns have also been raised about the long-term benefits (or at least, cost effectiveness) to developing countries from granting tax breaks or government grants to attract foreign direct investment.

Although globalisation is unlikely to disappear, its growth and progress is likely to be slower than what we have seen in the last 40 years. It is also likely that we continue to witness, in the short term at least, a move towards trade protectionism – of which tax is often a key weapon – and tax competition.

This in turn may hinder countries' willingness to co-operate in tax affairs and could have a real impact in dealing with issues such as illegal financial flows, tax evasion and tax avoidance, which increasingly know no borders.

It is also likely to negatively impact finding workable solutions to other international tax issues, such as national taxing rights of digitalised and globalised value creation.

CALL FOR CONTRIBUTIONS

WHAT TO CONTRIBUTE

We are seeking **thought leadership papers** or **articles** from key actors in tax policy that will look at the role that tax plays in dealing with issues facing global society and the global economy. As an alternative, contributors could provide **short videos**.

Contributions should address **policy makers** and focus on policy initiatives and not on tax technicalities (but which can be referred to by links to papers).

Contributors are invited to submit items to whichever themes they are interested in – the themes will be staged so contributors would not be required to work on multiple topics at the same time.

WHAT WILL HAPPEN TO YOUR CONTRIBUTIONS

The contributions will be published on our website, with the opportunity for contributors to link to other resources that they wish to highlight. Accountancy Europe will produce a summary analysing the submissions, highlighting the main themes addressed. We will then organise events in Brussels to discuss the issues raised with European policymakers.

Accountancy Europe reserves the discretion on whether to publish contributions. Accountancy Europe reserves the right to make edits of grammar or style to any documents. Authors will retain the copyright of their contributions.

Start Contributing!

The first topics that we are addressing are taxation and climate change, pollution and resource depletion. We are consequently calling for submissions on these topics to paul@accountancyeurope.eu by 30 June 2021.



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Accountancy Europe

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 50 professional organisations from 35 countries that represent close to **1 million** professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).