

G7 Priorities in Taxation

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The international tax framework is being overhauled to keep pace with a business environment transformed by the globalization's and digitalization's forces. This transition period is a challenge and an opportunity. Fiscal policy is a priority worldwide and key concern in this year's G7 Summit. The 10 Key Priorities in this area were presented in a special Forum held under the auspices of the Italian G7 Presidency to give voice to Academia and Research. Inherent ultimate purpose of sound fiscal policy is the achievement of sustainable economic growth and widespread prosperity in a system worthy of people's trust.

I INTRODUCTION

Fiscal policy is an unequivocal priority all around the world. The reasons are multiple. First and foremost the international tax framework is being radically re-shaped. Several projects have been launched worldwide to remedy identified deficiencies of the tax scenario, imputed mainly to its inability to keep the pace with reality's change.¹ The tax framework needs also be projected and structured with a view to the future. The fourth (digital) revolution is already among us, urgently asking for proper regulation, if the past mistakes are not to be repeated. Equally, fiscal policy is an important tool to create a better world for all, addressing inequality, poverty, unemployment. Countries would hence better use taxation up to its full potential.

Fiscal policy is of the utmost relevance not only for countries' leaders but for us all. It is therefore the responsibility of each and every one to take part in the fiscal policy debates, to promote dialogue, interaction and cooperation towards optimal decision-making. Such call is particularly intense to the Academia as well. Research,

knowledge, expertise must primarily serve society. On the traces of Plato's proposal on philosophers-kings,² the synergy of Academia and leadership is to be regarded essential for prosperous societies worldwide.

In light of the above and the 2017 G7 Summit in Taormina, Italy, the Italian Academia and specifically, the Foundation of Link Campus University of Rome and the Tor Vergata University Economics Foundation organized a private Forum under the title '*The G7 – Getting globalization right – Inclusion and sustainability in a global century*'. It was carried out under the auspices of the Italian G7 Presidency and involved participant-universities and research centres from all over the world.³ The Forum discerned the areas highly impacting on the quality of life of people worldwide. Thus, it focused its works on (1) inequalities at national and global level; (2) environmental sustainability; and (3) interaction of globalization and sovereignty.

In this context and for the reasons stated above, we seized the opportunity to put forward our most important concerns in international taxation. Hence in the form of

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¹ Amongst these projects, Base Erosion and Profit Shifting (BEPS), launched in 2013 and run by the OECD and the G20 with the cooperation of more than 100 countries in an inclusive framework, can be discerned to be leading. Cf. OECD, *Base Erosion and Profit Shifting*, <http://www.oecd.org/tax/beps/> (accessed 25 May 2017). Nevertheless, BEPS is one out of several initiatives. Other examples are the EU *Action Plan to Strengthen The Fight Against Tax Fraud and Tax Evasion* released in 2012 as well as the Platform for Collaboration on Tax, providing the framework for productive cooperation of four important international organizations: OECD, UN, IMF and WBG. Cf. European Commission, *Communication from the Commission to the European Parliament and the Council including an Action Plan to Strengthen the Fight Against Tax Fraud and Tax Evasion* (COM 2012/722) (Dec. 2016), http://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/taxation/tax_fraud_evasion/com_2012_722_en.pdf (accessed 25 May 2017); IMF, OECD, UN, WBG, Platform on Collaboration on Tax, Concept Note, available at: European Commission, *Communication from the Commission to the European Parliament and the Council including an Action Plan to Strengthen the Fight Against Tax Fraud and Tax Evasion* (COM 2012/722) (Dec. 2016), http://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/taxation/tax_fraud_evasion/com_2012_722_en.pdf (accessed 25 May 2017)

² According to Plato: '*Unless (...) philosophers become kings in the cities or those whom we now call kings and rulers philosophize truly and adequately and there is a conjunction of political power and philosophy (...) there can be no cessation of evils (...) for cities nor, I think, for the human race.*' Cf. Plato, *Republic*, V473c11-d6.

³ Participating universities were for example: the London School of Economics, the Lomonosov University, Queen Mary University, Stirling University.

the below declaration we presented the 10 key issues we consider central for tax policy worldwide. Irrespective of how these issues should be prioritized or addressed, it is of the utmost importance that they be duly considered.

INTERNATIONAL FORUM

The G7 Summit 2017

Rome – Italy

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G7 PRIORITIES IN TAXATION

The G7 Summit is dedicated to promoting the values of **open democracy, individual freedom and social advancement**.

In a world struggling against continuous extremist threats and violent radicalism, the G7 mission is even more difficult and more important than ever before.

Building the Foundations of Renewed Trust is the specific goal of this year's Taormina Summit, set to promote growth, sustainable development and socioeconomic prosperity to respond to the challenges of our times.

Sustainable economic growth and widespread prosperity presuppose a fair and efficient international tax system with long-term perspectives, a system enabling countries to optimize living conditions for everyone.

International taxation is hence an unequivocal priority. It is all the more essential now that globalization and digitalization question the existing structures in view of such unprecedented worldwide scenario.

Equally, international taxation is a priority due to its spillover effects: a well-designed tax system can be the best ally in the promotion of appropriate policies in key sectors: equality, social advancement, climate change, energy, environment, nutrition.

We hereby present the **10 key priorities** we believe this year's G7 Summit should set in the field of **international taxation**.

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10 KEY PRIORITIES

1. ENHANCE CERTAINTY IN TAXATION

An international tax system claiming taxpayers' trust must inspire certainty. Certainty is after all a mainstay of freedom and democracy.

Certainty in taxation demands clear and simple rules, precluding ambiguous interpretations. Certainty in an international and ever-globalizing context also requires flexible, forward-looking tax rules and coordinated practices.

Recent surveys at international level verified that there is a risk of tax uncertainty. Minimization of such risk must be a priority, if a sound international tax system is to be established and preserved.

Adherence to high standards for the design and drafting of tax legislation must be our first step. Establishment of procedures for dialogue among stakeholders warranting a clear and timely understanding of tax provisions must be the next step.

2. RESPECT OF TAXPAYERS RIGHTS

Taxpayers rights derive from human and civil rights, for which humanity has strived endlessly. They merit full respect and protection.

Undermining fundamental rights in the context of tax relations or otherwise is not compatible with communities upholding humanism and democracy. It cannot be tolerated.

In the wave of changes the international tax system is undergoing, taxpayers' obligations are mounting exponentially: new disclosure requirements, new administrative burdens, etc. On the other hand, taxpayers' rights to fair trial, privacy, data protection among other things, all run the serious risk of being overlooked.

It is essential that each new obligation be coupled with adequate protection of taxpayers rights.

3. FIGHT AGAINST TAX EVASION AND AGGRESSIVE TAX PLANNING

Tax evasion and aggressive tax planning constitute an undisputable reality in the international tax framework. Base erosion and profit shifting (BEPS) practices lead to misallocation/manipulation of countries' taxing rights with respect to 4%–10% of global corporate income tax revenue annually.

The side effects are even more hazardous. Countries cannot pursue desired policies. Fair competition is undermined. The arising burden is shifted on the least mobile and most volatile taxpayers. Trust to the system is prejudiced.

Countering BEPS is the goal of the ongoing BEPS project, amongst other initiatives. This project has already delivered many of its promises to the international tax community but, first and foremost, evidence that countries can cooperate efficiently and reach consensus.

Now we must ensure implementation at national level of the actions agreed and ratification of the multilateral instrument to change the existing tax treaty network.

Smooth implementation of BEPS actions and adequate monitoring thereof cannot but be a priority.

4. ESTABLISH TAXPAYER-FRIENDLY TAX SYSTEMS

Tax systems are sustained by taxpayers and should, therefore, be the means to their prosperity, as their ally.

The bet for the optimization of the international tax system should be placed on cooperative relations between taxpayers and tax administrations. There is evidence that effectiveness of tax systems is optimal where cooperation, mutual trust and transparency are fostered within the context of tax relations.

To the same effect, elimination of double taxation must be pursued by all means. Expanding the existing tax treaty network and establishing mandatory resolution of double taxation cases all over the world through binding arbitration must be prioritized in this regard.

Thus, tax systems shall be in favour of certainty and taxpayers' confidence, incentivizing voluntary compliance, motivating and attracting investment and growth.

5. BE READY FOR DIGITAL REVOLUTION

Digitalization is the new industrial revolution. It is in our doorstep, and more radical than all past ones, at least in terms of taxation.

Bits and bytes – the milestone of the current era – heavily question physical presence. Value is created everywhere and nowhere and national territory loses relevance.

It is doubtful whether the existing framework can meet the challenge. It is more than urgent that doubts be clarified and solutions be given, whether new or adjusted.

Being proactive and keeping abreast with the business world is the lesson to be learnt from the BEPS project. And making the same mistake twice cannot be accepted.

6. ENCOURAGE INNOVATION

Innovation generates growth and social mobility. Innovation can also give solutions to improve health, protect the environment, and optimize the general global landscape.

Innovation must be encouraged and taxation can have a great impact to such purpose.

There is great margin to enhance it in this regard. Tax incentives to Research and Development (R&D) and support to new business models, open to a large number of people are just some of our available options.

Design of tax systems with a view to embracing innovation and entrepreneurship must be an absolute priority.

7. EXPLOIT TAXATION FOR THE ENVIRONMENT

Climate change, resources and energy efficiency, marine environment protection as well as sustenance are key concerns for governments worldwide.

National and international tax legislation carefully designed can contribute to properly address and find viable solutions to the above issues.

Specific tax incentives must be implemented to boost investment in low-carbon solutions, discouraging disproportionate gas emissions. Similarly, tax incentives must be employed towards more efficient use of natural resources, food security, better nutrition.

8. EXPLOIT TAXATION AGAINST INEQUALITY

Significant efforts have been made worldwide to reduce social and gender inequality. They have been successful to a large extent but there is still a long way to go to reduce inequality from our societies.

Today new business models provide us with new tools against inequality. Collaborative economy for example can be the chance for those excluded from traditional business models to enter into the productive category of the population.

Tax can and must be a catalyst to this effect, employed in support of such economic models. Boosting entrepreneurship is the right tool to enhance social mobility and combat inequality.

Even in the context of traditional economic relations, though, tax can and must serve the reduction of inequalities, used to boost employment. Shifting the tax burden from labour or allocating more public revenue to investment and job creation could be a solution to this effect.

A well-designed and implemented tax system can be the key to promoting policies against gender inequality and for social mobility. It is high time that it be used to its full potential for more open and more inclusive societies.

9. INCREASE TRANSPARENCY

Global standards have been set for the automatic exchange of information in the field of taxation and are currently under implementation.

Each jurisdiction joining the network broadens its reach and strengthens its efficiency.

Priority is hence the smooth, coordinated implementation of the agreed standards by the maximum number of jurisdictions.

Apart from increasing transparency in taxation, effective cooperation among jurisdictions and enhanced exchange of information are pregnant with positive implications in the fight against terrorism financing and money laundering.

10. PLACE EMERGING COUNTRIES ON AN EQUAL FOOTING

Globalization and mobility of activities are not compatible with a world moving at different speeds. Such divergence undermines the pursuit of any and all objectives set at international level.

It is high time that advanced and emerging economies converge to common paths and standards, if we are to achieve a better world for all.

The inclusive framework evidenced that there is potential and will for fruitful cooperation. It must be our starting point.

Assisting emerging economies to improve their tax administration capacity and enable them to participate on an actually equal footing in the international tax arena is imperative.