



FAIR TAXATION SEMINAR

26 September 2018, Dublin, Ireland

Summary Report

On 26 September 2018, the European Commission's (EC) Directorate-General for Taxation and Customs Union (DG TAXUD) organised the fifth and final edition of the Fair Taxation Seminars in Dublin, Ireland. The seminar gathered 55 participants representing national policy-makers, civil society organisations, academia, legal experts, private businesses, as well as members of the European institutions.

The discussions were primarily intended as an exchange of perspectives between the European Commission (EC) and the Irish public authorities, civil society and the private sector, with the ultimate goal of improving the mutual understanding of both national and European-level challenges and opportunities in rendering taxation policy fairer and more efficient.

The seminar was moderated by **Mr Martin Watson**, moderator at Prospex bvba.

Welcoming the participants, **Mr Valère Moutarlier, Director for Direct Taxation at the European Commission**, highlighted the objectives underpinning the series of seminars in five European Member-States. With the end of the European mandate approaching, Mr Moutarlier said, the European Commission considers it vital to listen to the national debates on taxation, so that stakeholders' and civil society's ideas and voices can help shape the future-thinking that is emerging at the moment.

Taxation entails varying interpretations and values for different organisations and contexts, Mr Moutarlier acknowledged, stating that the

seminars do not intend to harmonise such understandings, but rather to improve and deepen the mutual understanding. At the same time, a broad consensus can emerge on a number of themes, Mr Moutarlier expressed. These include the role that fair taxation plays in delivering on social justice as well as in securing a level-playing field for enterprises competing on the single market. Fair taxation forms the cornerstone of a strong, competitive and stable economy, and is deeply interwoven with the social contract between authorities, citizens and businesses.

The European Commission has prioritised the matter of fair taxation, a commitment that has translated into new measures to tackle abuse and tax avoidance, stronger defence mechanisms against tax base erosion, and new initiatives to further halt the creation of legal loopholes that can be exploited by aggressive tax planners.

While the Commission continues to receive contributions by Member-States to legislative proposals currently on the table, such as the Common Consolidated Corporate Tax Base (CCCTB), Mr Moutarlier stressed that he shares the Irish preference for global solutions providing legal tax certainty and transparency. At the same time, the recent public debates in Europe have indicated that European citizens are urgently expecting such solutions. The European level might provide the first and necessary step towards reaching multilateral agreements.

We must ensure that our tax policies are fully equipped to rise to the challenges of the modern age and its fast-changing nature of businesses, Mr Moutarlier concluded. In doing so, the EU must speak with one voice in the global arena, push tax governance up on the agenda while connecting taxation reform to the European agenda on trade and growth.

Panel discussion 1: Fair Taxation – Whose Responsibility?

Olivia Buckley, Director of communications, Irish Tax Institute

Dan O'Brien, Chief Economist, IIEA

Jim Stewart, Associate Professor, Trinity Business School, TCD

Q1 Is the issue of tax fairness best addressed at national, EU or international level?

The moderator introduced the panelists, the format of the sessions and the first question.

Mr Jim Stewart opened the debate by affirming the need to address tax fairness at the international level, involving all UN-countries. He cautioned however that numerous obstacles render multilateral agreements unlikely, including the current position of influential states such as the US. In a growing digital economy in which international investment patterns are changing rapidly, the reforms proposed by the European Commission need to be adopted unanimously, which might result in a watered-down and hence less effective solution. Qualified voting might therefore offer better ways forward to address taxation at the EU-level.

Ms Olivia Buckley identified policy responsibilities on all three levels. After eight years of “broken wheels” since the financial crisis, we need to work together globally to find solutions encompassing trade, technology, complex supply chains and digital taxation. After all, 60% of global trade is accounted for by multinational firms, Ms Buckley underlined.

Ms Buckley also highlighted the important role played by the EU when it comes to tax transparency and informed public debate – a journey that however would not have been possible without the intense commitment by Member-States. When it comes to Ireland specifically, Ms Buckley outlined Ireland’s five most recent corporate tax strategies, the review of the Irish corporate tax code which was carried out in 2017, as well as the Corporation Tax Roadmap issued on 5 September 2018.

Concluding the first round of statements, **Mr Dan O'Brien** argued that the vast majority of taxes is collected at national and subnational levels, and therefore it would be inappropriate and premature to tackle taxation exclusively on international levels. However, working within a customs

union, single market and common external tariff provisions, there is no doubt that collaboration is needed within the EU and globally.

Mr O'Brien then brought the question of the extent of tax avoidance to the fore. He welcomed the OECD's BEPS process which has been pushing multilateral solutions that narrow the scope for corporate tax avoidance. According to Mr O'Brien, the French and German citizens feel strongest about a decline in profit tax revenues. Yet, Mr O'Brien argued, there is no sign of a downward trend when looking at the percentages of French and German GDP that is made up of corporation tax revenues. In fact, quoting data from 2016, Mr O'Brien claimed that Germany has never collected more revenue from private companies before. While acknowledging that tax evasion is a problem, Mr O'Brien cautioned that such evasion might not be as massive as presented in the global narrative dominating the taxation debate.

The debate then turned to the **audience**, which was asked to raise colour cards indicating whether they believed the question of tax fairness is best addressed at the national, EU or international level. The EU and international cards were most prominently raised, while few participants selected the national card. The reasoning behind this last answer, as one participant explained, was that taxation is an essential component of the social contract between state and citizen. Also, a tax policy driven from the European top was perceived as lacking both efficiency and democratic legitimacy: taxation is part of national and local politics.

As for the international card, it was said that corporation tax policies will be self-defeated if they are not applied on the global level, across multinational supply chains. It was argued that such choice is born out of pragmatism and does not undermine democratic rights.

Lastly, participants arguing in favour of the European level said that they partly did so given the lack of tax agency at the international level. The CCCTB was said to be far more progressive and encompassing than the initiatives devised at the G20 and OECD. Achieving consensus also appears more likely at the European than the international level. Therefore, while aware of the international nature of issues around tax competition and tax bases, participants agreed that the window of opportunity at European level appears more significant, in particular on the short-term.

Q2 What role does civil society have in promoting fair taxation?

Mr Dan O'Brien identified the role of civil society as one of stimulating debate, improving public understanding and ultimately enabling democratic decision-making. He also underlined that, in the case of Ireland, the developments of globalisation and the Irish tax policy response have helped to almost double employment since the mid-1990s – this should not be ignored in the debate, Mr O'Brien said.

The word was then given to **Mr Jim Stewart**, who expressed that the complex nature of corporate tax reforms may make them difficult to understand for the general public. This is where civil society can help: it has the task to monitor tax policy and contextualise new initiatives emerging on various policy levels, such as the directive on hybrid mismatches with tax systems of third countries.

Lastly, **Ms Olivia Buckley** said that we are all part of civil society, whether large or small taxpayers, and therefore all have a voice and say in the debate. However, having a voice comes with responsibility. It is important to engage in informed debate, with careful consideration of facts and figures. She also expressed satisfaction with the media coverage and political debate in Ireland over the past five years, assessing that there has been ample room for every stakeholder to contribute.

Members of the audience largely agreed on the need for education on fiscal policy. The Irish tax regime may be transparent to those who understand it, but not to all stakeholders and citizens affected by it. It is unfair, a participant said, to expect civil society organisations to be fiscal experts. Rather, they should help shape the underlying principles that inform Ireland's tax policy.

In a similar vein, other participants called for a broad debate on the balance between corporate taxation and income tax, looking at issues such as social insurance, childcare, housing and paternity leave. Lastly, a member of the audience nuanced the notion of "competitiveness": certainly, Ireland needs to attract large companies, but it also needs to be able to attract talented individuals, through high standards of living and affordable rent.

Panel discussion 2: Fair Taxation – The Obstacles and the Opportunities

Q3 What measures need to be taken to ensure fairer taxation, now and in the future?

Q4 How can the various actors work together to deliver this?

Patricia King, General Secretary, ICTU

Danny McCoy, CEO, IBEC

Michelle Murphy, Research & Policy Analyst, Social Justice Ireland

Ms Patricia King opened the debate by reminding the audience of Adam Smith's definition of fairness as being proportional to the individual's ability to pay. Nowadays, she noticed that taxes are generally seen as a burden, to such extent that an entire industry is devoted to avoiding taxes. She cited a new report from the Comptroller & Auditor General (C&AG), which shows that many of Ireland's very highest earners pay small amounts in income tax, often at a lower level than the average tax payer.

In Ms King's view, tax payers would need to better understand that they get something in return for what they pay. Fair taxation should be seen and employed as a methodology to deliver quality public services, such as healthcare and education, and should also be discussed as such by policymakers. Lastly, Ms King argued that the Irish tax system fails to strike the right balance between tax competitiveness and the delivery of appropriate, high-quality public services.

The floor was then given to **Mr Dany McCoy**, who believed that the taxation system has improved and become fairer throughout the past decade. Mr McCoy indicated that great disparities remain in taxation levels of the Irish households. He argued that the notion of inequality might be too narrowly defined and measured, with a focus on lower incomes, whilst inequality is also occurring at other parts of the societal spectrum.

As an example, the access to property is heavily unequal in Ireland, opposing generations but not necessarily income levels, Mr McCoy argued. All in all, progressivity is not an objective measure to gauge the

degree of tax fairness, Mr McCoy cautioned. He finally wondered whether the Irish tax system might be too progressive, possibly reaching a tipping point, questioning the usually linear understanding of progressivity.

Ms Michelle Murphy defined fair taxation as a broad system in which those who benefit most economically, contribute most to the financing of public services. Ms Murphy considered that Ireland is fortunate to have a progressive income taxation system, yet the discussions are often narrow in scope with a focus on corporate and income tax. Ireland needs to discuss new ways of redistribution as well as of broadening tax bases, she said.

In Ms Murphy's opinion, Ireland does not perform well when it comes to designing taxes and charges effectively. The country needs to better define its social and economic goals, to subsequently assess how and through which collection mechanisms these objectives might be financed.

Ms Murphy highlighted that inequality and tax avoidance are detrimental to the Irish social fabric, with citizens increasingly feeling that some sectors pay little to no taxes, leaving most charges to be levied on individuals. As a priority for the future, Ms Murphy argued that we need to change the narrative fundamentally, to help citizens understand that taxation is profoundly shaping and supporting Irish society, as part of the social contract between citizens and state.

Following the panel discussion, the audience was divided in smaller groups so participants could debate with their peers on the two questions stated above. Groups then shared their impressions with the audience. A strong emphasis was put on the need for improved and transparent communications around taxation. This entails a strong role for government(s) to be transparent on how tax revenues are collected and spent, so that citizens can get a more tangible understanding of the services provided through taxation. Also, participants discussed the need to examine the range of existing of tax reliefs and benefits, for example those available to Irish citizens older than 65 years, often property owners, as opposed to younger constituencies.

Returning to the panel members, **Ms King** said that Ireland is an economy dominated by low wages and that this factor must be taken into consideration when discussing a potential broadening of the tax base. She

also invited participants to reflect on other forms of taxation beyond income tax, and suggested that the national economic dialogue would be an appropriate forum for such discussions.

For **Mr McCoy**, taxation systems can certainly be rendered fairer, but we should bear in mind that our definition of “fair” in reality means deliberately discriminatory, with good intentions. The question is not only about what is perceived “fair” by the general public, but also by the various actors involved in the administration and collection of taxes.

Lastly, **Ms Murphy** called for an open discussion on the resources needed to support Irish economy both now and in ten or twenty years time. Such forecast would open up new perspectives, including demographic developments such as the ageing society in Ireland.

Formally closing the Dublin Fair Taxation Seminar, Mr **Valère Moutarlier** was thankful for the lively and interactive debates. He underlined the various angles and perspectives on the concept of fair taxation: the ability to pay, the appropriate level of competition, the services provided in return, the system-wide fairness across taxation levels, and the fairness emanating from an efficient tax administration.

Mr Moutarlier also shared the impression that there is a need for evidence-based dialogue as well as stronger educational efforts to improve the understanding of fiscal policy. He said that the vision of a vibrant single market with freedom of establishment, movement of capital and the freedom to provide services, will not materialise when the right answers on fair taxation are not provided to the European citizens.



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