



FAIR TAXATION SEMINAR

19 April 2018, Riga, Latvia

Summary Report

On 19 April 2018, the European Commission's Directorate-General for Taxation and Customs Union (DG TAXUD) organised in Riga, Latvia, the first of 5 Fair Taxation Seminars envisaged over the course of 2018 in several EU Member States. The seminar gathered over 70 participants representing national policy-makers, civil society organisations, academia, businesses, as well as members of the European institutions.

The discussions were primarily aimed at a knowledge exchange between the European Commission (EC) and Latvian public authorities, private sector and civil society stakeholders with the ultimate goal of reaching a better mutual understanding of both national and European-level challenges and opportunities in introducing fairer taxation policies.

The seminar was opened and moderated by *Mr. Aldis Austers*, Researcher of European Integration at the Latvian Institute of International Affairs.

Mr. Andris Kužnieks, Deputy Head of the EC Representation in Latvia, was the first representative of the European Commission to welcome the participants.

Keynote speech was delivered by *Mr. Valère Moutalier*, Director of DG TAXUD Directorate for Taxation, Tax coordination, Economic Analysis and Evaluation, who focussed on explaining the key themes of the European Commission's agenda in the taxation domain, notably: **a) transparency; b) effective taxation; and c) fair competition.**

Emphasizing that the Commission certainly does not aim at an across the board harmonisation of Member States' tax systems, DG TAXUD Director, nevertheless, presented a strong case for certain targeted measures that could radically improve the tax environment across the EU. "Member States are currently negotiating the proposal to establish a **Common Consolidated Corporate Tax Base (CCCTB)** and we are fully convinced that it is the fair, robust and competitive tax framework the EU needs for

the future", he affirmed. *V. Moutalier* further explained that the CCCTB would provide a single set of rules to calculate companies' taxable profits in the EU making it easier for cross-border companies to comply with one single system rather than many different national rulebooks. Member States would still have far-reaching freedom to adjust various other tax incentives and organise tax environment for SMEs based on their economic cycle and domestic preferences. "CCCBT is estimated to lift investment in the EU by 3.4% and growth by up to 1.2%," noted the Director.

Another key area highlighted by the Director concerned **Digital Taxation**. "Digital companies are growing much faster than the economy as a whole, but they are currently paying around half the effective tax rate of traditional companies, because we continue to try taxing them with rules designed in a pre-internet age," *V. Moutalier* explained. The European Commission has proposed solutions for the fair and effective taxation of the digital economy and it is encouraging Member States to improve their tax rules to better reflect the new ways in which businesses generate profits.

Two panel discussions followed after the EC opening addresses –

Panel discussion 1: Fair Taxation – Who's Responsibility?

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

What role does civil society have in promoting fair taxation?

Speakers:

Raimonds Aleksejenko (Ministry of Economics)

Zlata Elksniņa-Zaščirinska (Foreign Investors' Council in Latvia)

Liene Gātere (Delna)

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

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

How can the various actors work together to deliver this?

Speakers:

Astra Kajāne (Ministry of Finance)

Kārlis Ketners (BA School of Business and Finance)

Inese Vaivare (Lapas)

In each panel, the speakers were asked to address two key questions; there being four questions in total for the focus of the seminar. All members of the audience also had the opportunity to ask their questions to the panellists and to engage in the discussion. They were, furthermore, given an additional possibility to submit anonymous remarks and detailed comments to the European Commission in a written questionnaire. 24 persons made use of this opportunity and the below is a summary outline of the main points raised in response to the focus questions by the panellists and the audience publicly, as well as in the anonymous responses that were submitted in writing after each panel discussion.

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

To stimulate the discussion all participants were asked by the moderator to vote on this first question with three different-coloured voting cards. An approximate half of the participating audience i.e. 20 persons saw the EU as the best level at which to shape fairer tax policy, while 12 voted for the wider international playing field and 9 – for the national level. A further notable share of persons present did not participate in the vote.

The understanding of some members of the non-participating group, and also that of several immediate responders was largely clarified in the written questionnaires and reflected also in the immediate opening comments by *Mr. Raimonds Aleksejenko* – "Every concrete issue will have its own best level at which it should be tackled. There are tax issues that unavoidably need to be addressed at the EU level e.g. those issues which concern data sharing; and others that need to happen locally e.g. tax collection and administration."

"Indeed, taxation is complex, especially so if it concerns 28 Member States, each with a different macroeconomic and social situation, and interests. We need to address this complexity" was a point affirmed also by DG TAXUD Director *V. Moutalier*.

Nevertheless, an argument raised in the written questionnaires, as well as by some members of the audience was that too much complexity may also not be a good thing. The ease for businesses and individuals to understand the tax system and pay their fair share is also a factor. The applicable tax framework stemming from different levels should be easily understandable also to individuals and SMEs, who may not have the capacity and resources for tax consultancy services.

Concerning the principles according to which decisions could be made as regards the best level at which to address fair taxation the following ideas surfaced most frequently:

- ✚ "Think global, act local" i.e. key principles and guidelines should be agreed internationally and at the EU level, however, implementation should remain local.
- ✚ Engagement at the wider international level incl. at the UN and OECD level is crucial and it is important that the EU displays a single voice.

While some voices suggested that the EU should have a stronger supervision role over national tax policies to ensure their fairness and effectiveness, main concern reflected by the voices that remained in favour of more powers at the national level concerned economic competitiveness. "Every member state has its own level of development and understanding of tax fairness. Especially the less prosperous economies should have the opportunity to attract investors with their tax policies if they wish to do so" – read most remarks that were on this front.

Ms. Zlata Elksniņa-Zaščirinska challenged the idea that Latvia's tax policy would be a key determining factor for investors when they choose to come to Latvia. "A country's beneficial tax policies are a factor, but this is by far not the only one and we should not exaggerate its importance," she noted. According to *Ms. Elksniņa-Zaščirinska*, fairness within the tax system is equally important – "It is not acceptable that foreign investors and enterprises with registered foreign capital, who represent around 25% of all the registered companies in Latvia, pay over 50% of the total VAT revenues that are collected." In *Ms. Elksniņa-Zaščirinska's* opinion, standards concerning the common market should be addressed at the EU level, however, each member state incl. Latvia should have a clear vision concerning its interests i.e. "the T-shirt size it requires", because there is no "one size fits all" and best result, also at the EU-level, would be well-tailored standards.

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

Most respondents agreed that the civil society has a key role of being the watchdog.

The following functions were further specified by panellist *Ms Liene Gātere* from the Latvian wing of Transparency International "Delna", also a member of the Tax Justice Network:

- ✚ Defending the general interest of society and esp. of the vulnerable groups
- ✚ Educating and informing the society
- ✚ Defending the interests of whistle-blowers

Some respondents noted, however, that the role of civil society would somewhat also depend on the general tax paying culture of that society, its levels of education and awareness about goals of fair taxation; and same on the part of businesses and governments. Many respondents emphasised that members of society need to first feel a clear link between the amount of taxes and social security contributions, which they are paying and the level of government services available to them. In addition, it was also emphasised by some respondents that any of the functions subdued onto the civil society should not be exclusive to it and that it is certainly the government, which remains primary bearer of responsibility with regard to promoting fair taxation.

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

✚ Establishing a common understanding of fair taxation

"To objectively define the ideas of 'fair taxation' and 'fair share' is something that is rather hard to achieve, since they are very subjective and politicized concepts. The fight against tax avoidance led by western politics and non-governmental organizations appears not to be so much about fair taxation, as simply about where taxes are paid," remarked *Dr. oec. Prof. Kārlis Ketners* at the opening of the second panel discussion. Some members of the audience, as well as respondents to the surveys also highlighted linguistic nuances in the Latvian language i.e. that the concept of "fair" taxation can be understood as either "*godīga*" or "*taisīga*" *nodokļu politika* ("honest" or "just" taxation respectively), whereby the former relates more to the idea of honestly paying-up the taxes that are due, while the latter implies a more philosophical discussion concerning fairness and justice in the tax system. Either way, responses drew upon the fact that there should be more clarity in the public discourse to not confuse the more philosophical concept of 'fair taxation' with what effectively comes down to being a discourse on 'tax evasion'. Tax evasion, it was noted, is often the consequence of the failure to have a mutually agreed fairness framework in place that is widely understood and accepted.

✚ Finding the right balance between addressing complexity while ensuring procedural ease

Although this point was initially raised already during the first panel discussion, the need to have an easily understandable tax system and efficient procedures in place was particularly emphasized during the second debate. Ministry of Finance representative Ms. Astra Kajāne, as well as a former Head of the State Revenue Service of Latvia, who was present among the audience, were faced with having to rebut various claims concerning complexity and procedural challenges in the Latvian tax system. While many of these were focussed on the recent tax reform in

Latvia, others referred too to the complexity of the international system. "Latvia has commitments under over 60 Tax conventions that it has concluded with other countries, which cannot just be ignored during the EU taxation debate," *Ms. Astra Kaļāne* explained.

✚ Guaranteeing effective implementation of the rules that are already in place

Challenges related to the functionality of some of the current EU rules were also noted and former Head of the State Revenue Service pointed out frequent struggles under current rules to receive requested data from certain EU Member States. "We're not even talking about an automatic exchange of information. It may be that the Latvian cases are too small and requested data comparatively insignificant, but the fact is that we have not been able to obtain information from certain other Member States even after several official requests in cases where it has been required for decisions in the courts," the representative told participants. Such failures to effectively implement the rules in place can further lead to dissatisfaction of clients and damage tax payers' trust in the system.

✚ Ensuring transparency at all levels

Transparency is highly important in strengthening people's trust in tax systems. This was a point highly emphasized not just by *Ms Liene Gātere*, but also *Ms. Inese Vaivare* and several members of the audience. The debate on transparency during the second panel discussion evolved towards drawing comparisons with some of Latvia's Scandinavian neighbour countries where almost all income tax details are public. While some were eager to defend such a system, others remained cautious noting mostly in their written responses that transparency should be to the limits required to scrutinise compliance without jeopardising individual rights to privacy. *Mr. Valère Moutalier* informed in this regard that the European Commission is currently developing proposals for new legislation for the protection of whistle-blowers, which indeed intends to take into account the needed balance in order to also not overexpose businesses.

✚ Ensuring that all measures taken are research-based

"Certain assumptions on the basis of which we may be eager to defend national interest in low tax regimes e.g. the presumption that through lower taxes more jobs will be created, have been challenged by [recent research](#)" was a point made by *Ms. Liene Gātere* and in her view it is important to ensure that all tax policy decisions are well researched and evidence based. The fact that tax information should be readily available from public bodies for research purposes was another point that was strongly emphasised during the discussion. Furthermore, it was noted by *Mr. Kārlis Ketners* that studies have also demonstrated a significant impact of the subjective distributive tax fairness on tax compliance. The

greater the horizontal and vertical tax fairness, the higher the satisfaction with the balance between tax burdens and the public goods provided by the state, and the lesser willingness to evade tax.

✚ Guaranteeing predictability

The fact that predictability of tax policy matters a lot for businesses and that it should be a national budgeting priority was also emphasized on several occasions.

✚ Strengthening compliance and penalty mechanisms through both a “carrot and stick” approach

Some criticism was voiced over the fact that both at the national, as well as the EU level mechanisms to ensure tax compliance might not be effective enough.

As regards the Latvian situation, most of the criticism referred to the fact that penalties for tax evasion are too low. It was noted that estimates for the level of shadow economy in Latvia are still above 20%, highest in the Baltics, and although there has been some progress recently, the situation in the construction sector still looks particularly gloomy. The opinion was voiced that there should be more investment on behalf of trade unions and industry associations to create incentives and exert pressures on their members to abide by the national tax laws.

As regards the EU level, some respondents noted that more should be done not just with regard to naming and shaming third country tax havens, but that the EU should have a stronger lens while looking at itself and Member States such as Ireland, Luxembourg, the Netherlands and Malta to crack-down also on some of these countries’ unfair tax practices.

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

✚ Communication through different forums

By far the most common response to this question from written survey respondents pointed out the need to discuss policy at forums of different levels – national and international; involving not just the public authorities, but also businesses, researchers and the civil society.

✚ Trust-building measures

The need to better educate the public about the goals of fair taxation was also emphasized and some more concrete trust-building measures were noted by a few survey respondents. “Consult first” should be the new mantra wrote one respondent, noting that there should be a shift from vertical towards more horizontal monitoring methods based on the Dutch

example. State Revenue Services should invest resources in horizontal monitoring styles aimed at a good relationship between the tax payer and tax authorities. Through these methods entrepreneurs could have more leverage to inform tax inspectors at an early state about any specific difficulties that they may be facing without fear of penalties and related fiscal risks.

✚ Making better use of new Information Technologies

The point that opportunities unveiled by IT technology are currently still underused was also made by one panellist. Governments and international organisations should invest in new IT solutions for easier collection of information, tax declarations, as well as data sharing.

In conclusion to the seminar, *Mr. Valère Moutalier*, on behalf of DG TAXUD, thanked all speakers, participants, organisers, rapporteurs and the Representation of the European Commission in Latvia for their engagement and support in carrying out this discussion.

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