

## **TAXE: Meeting Tuesday 5 May 15.00 – 18.30**

### **Jane McCormick introductory statement**

First, I would like to thank the committee for this opportunity to participate in the exchange of views on the important issue of international taxation.

Achieving a stable, just and transparent system of international taxation is, in my view, an important step towards creating the economic growth and social stability which is the objective of the EU and of governments around the world. After some years of economic stress this has never been more important and it is significant and refreshing that discussion on tax policy has moved from a limited conversation between experts and technocrats to a broader debate involving a wider variety of stakeholders and the public at large. However, there are a number of challenges that need to be faced if we are to achieve the desired objective.

- Firstly, globalisation is a reality now and big businesses are run on a truly international basis not confined by national borders. Projecting this business model on to a patchwork of differing national tax rules inevitably gives rise to anomalies - sometimes resulting in both double taxation and so-called less than single taxation.
- Secondly in economically challenging times individual governments have used their tax systems to incentivise corporate behaviour resulting in some distortion of commercial decision making, and
- finally the growth of the digital economy and, more importantly the increased importance of intellectual property as opposed to labour as the driver of business profitability means that tax rules designed in the last century are not fit for purpose now.

So what are the solutions to this?

### **Consumption Taxes**

One suggestion is, of course, that corporate income tax is a tax that has outlived its usefulness and that it should be replaced by other taxes, such as consumption taxes. Whilst I understand this argument, I also appreciate that it is unlikely that this will happen in the near future.

### **Common Consolidated Corporate Tax Base (CCCTB)**

A second potential solution, at least within the EU is the CCCTB. From a business perspective this is attractive because of increased simplicity and certainty and because it ensures that all profits are taxed once and only once. The CCCTB would have the effect of virtually eliminating tax competition between member states, leaving only the tax rate under their control, as well as removing opportunities for taxpayers to arbitrage between different tax systems. Under this system tax rulings would presumably apply across the EU.

However, CCCTB involves member states surrendering their ability to control their tax base or use their corporate tax system to incentivise business behaviour, and the macroeconomic effects of the proposal are difficult to predict. What is certain is that there would be winners and losers. Member states understandably fear the budgetary consequences particularly in the current financial climate. But if CCCTB is viewed as an answer to greater transparency and certainty on direct taxes then a political solution needs to be found. I do not underestimate the

political engagement which would be needed to persuade member states to cede their sovereignty over tax matters.

## **OECD Base Erosion and Profit Shifting Actions (BEPS)**

Finally, whilst not a complete solution, an important step forward will be achieved by the implementation of the OECD BEPS action plan. I have been impressed with the progress that has been made so far on this and I hope it continues. Particular priority needs to be given to the actions relating to hybrids, the definition of permanent establishments and the deductibility of interest costs. I will come on to the issue of country by country reporting later. In the interests of achieving a more harmonised and stable international tax system I would hope that governments do not " jump the gun " by introducing unilateral measures, which are likely just to produce more inconsistency, but on the other hand act quickly together to introduce the reforms which we all agree are needed.

## **Transparency**

I would like to specifically address the issue of transparency as much store has been set in this as a solution. I have been saying for a number of years that greater transparency by business in relation to taxation is both inevitable and desirable. As with any other business practice, if companies can't explain what they are doing on tax then either they shouldn't be doing it or they need to get better at communicating.

There are two particular aspects of transparency which I would like to comment on further, country by country reporting and automatic exchange of tax rulings.

### **1 Country by Country Reporting**

This is a potentially useful tool for tax authorities and external stakeholder to aid the understanding of a group's tax position. However, looking at existing provisions my concern is that we have a growing patchwork of different rules with different objectives. Following the Dodd-Frank Act in the US, the EU introduced similar, but not identical, rules in the Accounting and Transparency Directives. Next, with different objectives, country by country reporting requirements were added to the Capital Requirements Directive IV. In addition, the OECD has put forward its proposals for country by country reporting to tax authorities by all businesses from 2016. And there are, of course, calls from various quarters for the public disclosure of this information. This means that businesses are being faced with multiple requests for information without any clear general understanding of what the overall objective is.

More discussion needs to be had amongst the various stakeholders to try and agree a form of public tax information reporting including explanations of tax policies and governance, as well as data, that minimises the disruption to business whilst providing the information that stakeholders legitimately want to have. KPMG in the UK are helping to support a discussion on this topic involving a wide range of businesses, NGO's and other stakeholders.

### **2 Automatic exchange of tax rulings**

I welcome the Commission's initiative to introduce automatic exchange of information on tax rulings as this provides tax administrations throughout the EU with better understanding of the

overall position of a taxpayer group. Whilst the exchange will not, in itself, solve any of the problems of the international tax system, it would provide tax authorities with much better, timely information and encourage closer working between administrations.

Whilst greater sharing of tax information between tax authorities would be welcome, and I am no means against public disclosure of information where it is possible without causing harm, I would make the following important point. It is of utmost important that businesses have completely open and honest relationships with tax authorities and disclose all relevant information to them, even if this information is confidential or market sensitive (eg where it relates to an intended takeover or divestment or a new market entry). If sensitive information supplied to tax authorities is then published this will make businesses less likely to seek rulings and risks reducing or slowing the flow of information to the tax authorities. I know that this is a concern to the tax authorities themselves.

As the new international tax rules are developed tax rulings will continue to be important to business as a way of ensuring that their interpretation of the law is correct, agreed by tax authorities in the relevant member state and, in accordance with the wider laws within the EU. If the automatic exchange of tax rulings helps the Commission to achieve this that would be very welcome.

### **Summary**

I understand and share the current concerns surrounding the basis of international taxation. Realistically, despite its obvious benefits, the CCCTB will be very difficult politically to achieve, and of course, only solves the problem within the boundaries of the EU. Whilst political efforts in relation to CCCTB should not be abandoned at the current time the BEPS process seems to be the best way forward. Through engaging with the BEPS process and embracing transparency I believe that we have a unique opportunity to ensure that the international tax system is improved and fit for the future.