Expert: Taxes should not kill growth

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If governments need to raise tax revenue, then they need to be careful about the burdens they impose on businesses because they might kill growth, Will Morris, global tax policy director for General Electric, tells EurActiv Slovakia.

Will Morris was one of the speakers at the Regional Tax Conference held on 5 March in Bratislava. He spoke to EurActiv Slovakia Chief Editor Zuzana Gabrizova.

What will be the economic impact of the measures proposed by the European Union in its action plan on tax evasion and tax fraud?

It’s hard to estimate. What is certain is that the €1 trillion number we heard about [lost every year to the tax evasion and tax fraud in the EU] is not a hard number. I think that is arrived at by a fair amount of extrapolation.

Clearly though there is income which is lost to fraud and to aggressive tax planning and what we heard about the VAT this morning only reinforces that. As to what will happen, it depends on what is done. I should also say that in addition to chairing the OECD BIAC Tax Committee, I am also the chair of the AmCham EU Tax Committee in Brussels, so I work equally with the European Commission and the OECD on these issues.

One of the reasons why I am anxious for business to be involved in these projects is that I do think there is a problem. In some areas it looks like the taxation has somewhat diverged from the substance of transactions.

But another reason why business has to be involved is because governments can’t fully understand everything that is going on on their own; sure the governments make the law and if government wants to change the law, that’s exactly what the governments can and should do. But they should also listen to business when business says don’t do it that way or don’t be thinking about this.

And there is also there is a bigger picture, because one of the key policies of the OECD has always been to foster cross-border trade investment and one of the main reasons for doing that is because that helps economies grow. If economies grow, then jobs grow. Therefore business needs to be kept in the forefront of governments’ minds and while governments may be very angry about some of the things they see, nevertheless they should not impose really Draconian solutions which actually prevent people from investing across borders.

That is not to say that aggressive tax planning doesn’t take place or that we do not need to look at the low tax jurisdictions, but we also do need to be careful that we don’t harm that critical cross-border trade investment. The private sector will play a very large role in the growing us out of current kind of trouble.

The economic crisis and the fiscal adjustment efforts have definitely brought the agenda of tax collection higher on the political agenda and that creates pressure on businesses of course.
**your view what is and what should be the reaction of business to this political pressure?**

One thing that business should not do is to say – there is no problem. And the answer these days of – “if it is legal, I can do it” - is simply not enough. The legal concepts are very important; I do think taxes are a question of law, not morality. But we also need to go into issues of how we interpret tax law and how we do our tax planning. We need to be responsible and proportionate.

If governments need to raise tax revenue, then they need to be careful about the burdens that they impose on business, because you don’t want those to kill the growth. Therefore you need to look at certain types of taxes in order to determine which of those would be the most effective to raise any additional revenue. I think the business accepts along with everybody else, that we will all need to be contributing more in tax revenue at the moment, but it’s very important that it will be done in a way so that the playing field moves up for everybody and no one thinks “that guy over there is getting the deal than I am getting”.

If business engages with governments and is prepared to talk about this in a sensible way, then I think we are getting a better outcome.

**Going back to the structural level, how should the synergy between the OECD efforts and the EU efforts in the field of effective tax collection look like?**

In some case they are aimed at slightly different things. Part of the EU effort is clearly aimed at VAT. The OECD has probably more of a lead on things like the tax treaties, which is the core competence of the OECD. Some coordination is very important, because it would be dangerous if the EU suggested one set of actions and the OECD another set of actions. I don’t see that happening at the moment.

But I should also say, that while governments are worried about the double non-taxation (about income not being taxed anywhere), nevertheless we all have to continue to remember that the one thing which really kills cross-border investment is double taxation. People are trying to take different pieces of the pie, but what actually ends up is more than a whole pie being taxed. And then I think we have a problem. But, to repeat, I don’t see any real clash at the moment between what the Commission is suggesting and what the OECD is doing.

**Mr Nicodeme, from the EC DG responsible for taxation, mentioned using the behavioural economy approach in their studies of the tax realities. Does OECD work with some similar concepts?**

I am sure the OECD will look at those, but traditionally the OECD has engaged in relatively straightforward economic analysis. The behavioural impacts are always part of budget estimation; the question is how far you’d take those. You’d always assume that if you offer an incentive, the people will respond to that. So that is relatively straightforward. But you can go beyond that and then assume that if you lower taxes dramatically, there is going to be this huge flowering of enterprise. Some countries do take this approach and some countries don’t.

It is clear that some of these things, like “nudging” in the UK, do work and therefore we need to look at those. I think we also need to be careful, I don’t think that criticising people for doing what law necessarily allows is necessarily sensible. If we are worried about the law, we should change the law. But clearly, making people more compliant by taking into account some useful behavioural tools is very smart.

**You are based in London. Do you see any significant differences between the Western and Eastern part of the Europe when it comes to the nature of the problems in tax collecting?**

I was surprised about what I heard about VAT fraud. VAT for “carousel” fraud has been a problem in the UK and Western Europe for quite a while, but the widespread avoidance of VAT is something which may be a little greater in this region [the Visegrad countries: Poland, Czech Republic, Slovakia and Hungary]. In
any country, of course, you'll always find some workers who will say this is what I'll charge you with the invoice and this is what I'll charge you without that. But this sort of widespread fraud, where 50% of steel in the country is outside the VAT system, that is a bit unique, and that is a problem.

In terms of what some of the Western European countries do, I think the UK and the Netherlands have had a great success with what the OECD has called the "enhanced relationship". You get all the large taxpayers in a room and you say OK, let's reach an agreement. If you want us to be much more open with you, then you have to be much more open with us and we will then try to solve all of the problems at the beginning of the process, and we - the government - will get our money quicker. It's all about building up trust between tax payers and tax authorities. And that I think is very important.

For me, the key question is how you build up confidence in the tax system so that when I pay my taxes I think that is all right because everybody else is paying theirs as well. That's a question for the government and the society. It needs crimes to be treated as crimes, and for people to be punished for criminal activity.

**What is your view on the European discussion on the Common Consolidated Corporate Tax Base (CCCTB)?**

It is an interesting discussion. There are some clear advantages which would flow from the Commission's proposal, like the cross-border consolidation. Particularly in a time where people have losses in many countries, that would be very useful. I think that would also help with transfer pricing, because within the borders of the common tax base area, there wouldn't be need for transfer pricing. Also, one of the really important things about the Commission's proposal is that it does provide for "one face to the tax payer", so a lot of administrative simplicity for taxpayers. And of course, it's optional, that gives businesses the choice and it's also quite important for the foreign investors.

But I worry about what I hear that some of the member states think about it. It's clear that some don't like the consolidation aspect of it, so you'd lose that benefit; some countries don't like the optional side of it, so you'd lose that benefit; and then finally, some tax authorities aren't terribly interested in giving up authority over their taxpayers to somebody else. So, I do worry about how it will be actually implemented, but I think as an idea that the Commission has put forward it is very interesting.

**There were also some disputable points where experts had an argument, one was linked to the correlation between tax rates and the amount of tax evasion. What is your view on that?**

Well, there are studies which prove, very clearly, that if you bring the tax rate down, then the compliance improves. That's relatively straightforwardly understood. What level you have to bring it down to, I don't know. There are some people for whom anything more than zero is going to be too much. But there is a large proportion of people for whom somewhere around one-third sounds about right. One-fifth may sound even better. There's a lot of people who think that effective tax rate of 20-25% means that it isn't worth engaging in tax planning schemes and engaging in reputational risk.

If you go much about 50%, you'll find a larger number of people who think, "They are taking more than half what I earn and maybe I'll risk some of this stuff." It's very hard to say exactly where the level is, but clearly, within a certain range, tax compliance increases dramatically.

**Do you think that the discussion on tax collection should be also linked to the discussion on the expenditure side?**

Interestingly, in the UK, the government has just started to put out a tax expenditure statement so each taxpayer gets a breakdown on where his or her taxes go to. And that is to try to build confidence in the tax system.
There is an important link in terms of citizens' confidence between the amount of tax paid and what the government actually spends it on. However, having worked for the government myself, I completely agree with what one speaker said, which is that it is very, very dangerous to say I don’t agree what the government is spending my money on, so I don’t need to pay my taxes. Dead wrong! Paying taxes is a matter of law, and if the law says you should pay then you should pay. If you don’t like what the government is spending the money on, then vote against the government in the next election.