

TAE on the Reform of International Business Taxation Reforms, yes! Ideology and Populism, no!

The current push of the US government to introduce worldwide minimum tax rates for businesses brought new impetus into the negotiations on the OECD level. The community of nations has been trying for years to modernise international business taxation and make it fit for the age of digitalisation. Since the USA have now declared themselves in favour of a global minimum tax, an international consensus seems possible even by the middle of 2021.

With this statement the European taxpayers' association (TAE) is not aiming to make an assessment of the motives of the USA regarding this change of direction, but with it we want to make a contribution for the objectification of the discussion.

A reform of business taxation could be a real chance to make the competitive conditions regarding taxation fairer. Because unlike small and mid-sized companies, multinational corporations have the possibilities to move profits into low tax countries. For this reason, the population and also large parts of the economy support a coordinated move against international tax avoidance.

The Taxpayers Association of Europe (TAE) is generally open towards tax reforms. But it also poses concrete demands towards an appropriate and practicable reform of international business taxation. It is certainly also undisputable that an appropriate taxation of digital enterprises should also be embedded into the international reform package. But it is also certainly not expedient, although thus far often done by the political side, to stigmatise large international US corporations like Google, Apple Facebook and Amazon (GAFA) or Chinese corporations like Alibaba. It must not come to international or European solo runs like the planned implementation of an EU Digital Services Tax.

The European taxpayers' association categorically opposes new business taxes like the Digital Services Tax (DST), which are not aimed at profits but rather the achieved revenue! A reform like that does not take into account the economic situation of a business and therefore would be a blatant violation of the net principle!

Under no circumstances must the tax competition be eliminated, for taxes are and remain an important location factor. The only thing to be made sure of is that tax competition is equal and fair for all, and no special deals and exemptions for individual enterprises that exclusively benefit them happen "behind closed doors" – as has happened in the past. Therefore, at the core of the tax reform it needs to be all about simply making sure that enterprises fulfil their tax obligations, taking into account criteria like location, seat of the board, value creation, manufacturing site, place of revenue, and especially profit made. Which country the taxes are then paid in is irrelevant for reasons of tax fairness!

The current architecture of international taxation intends the distribution of results between the respective states after manufacturing profits have been incurred. This will be changed by the international business tax reform according to the new plans. The category of place where sales profits are realised will then become important. It should be clear to everyone that such a business tax reform will lead to an outflow of taxes from countries with export surpluses to the importing countries. Policy makers need to ensure that the reform will not become a "loosing deal" for the economically strong export countries. Otherwise, increases of tax burden is looming for the taxpayers of those countries. In either case, possible revenue shortfalls must not later on become a justification for national tax increases.

The European taxpayers' association, TAE, calls for an extensive regulatory impact assessment in order to create transparency of the results of a possible business tax reform. This demand also pertains to the parallel plans for a harmonisation of the assessment basis.

During future negotiations the interest of the export-oriented countries therefore need to also be taken into account. It is especially important to avoid legal uncertainties, double taxations risks and additional bureaucratic burdens. Additionally, the new taxation rules must not only be implemented in the EU, but worldwide and as uniform as possible, for a "regulatory gap" between Europe and other economic regions would cancel out the goal of fair tax competition.

An international agreement changes nothing in the situation of the current high tax countries. Due to the longstanding standstill a large reform jam has built up especially regarding business taxes. This must not be intensified even more by the pursued reform. Policy makers therefore need to do significantly more than to just aim for worldwide minimum tax rates. If one discusses about minimum taxes, one has to at the same time also address the limits of taxation. The taxpayers' association therefore demands the establishment of effective "tax breaks" side by side with the national "debt breaks". This would ease the return to solid public finances as political scopes for excessive tax burdens and for a long-term sidestepping into public debt would be reduced.

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