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BETTER POLICIES FOR BETTER LIVES DES POLITIQUES MEILLEURES POUR UNE VIE MEILLEURE

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SEMINAR H – IFA/OECD: "LIABLE TO NO TAX"

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Richard, first let me thank you for the generous introduction. I must say that retirement is a word that I am still trying to come to grips with but I am sure that with a little help from my friends I will be able to deal with it.

Richard asked me to spend twenty minutes looking at what I consider to be some of my successes over the last three decades. As I said to him, I am far too modest to do this so what I will do is to spend five minutes to look back over these three decades and identify some of the highlights in the life of the CTPA (OECD's success in the tax area is not due any one individual) and perhaps identify the way in which the OECD has changed. I will then spend the remaining fifteen minutes to look at what challenges the Organisation will face over the next decade.

Looking Back

I was the first director of the CTPA, which was created in 2004. Prior to that, I headed up for ten years what was then called the Fiscal Affairs Division. There have been many changes in these two decades but the things I would highlight here are:

Expanding mandate

The OECD has expanded its mandate to cover all aspects of taxation. We created the Forum on Tax Administration, which has very quickly become the premier forum for the engagement of

Commissioners in 43 countries. This is where the Chinese, the Brazilians, the US and the Japanese, the French, the UK, South African commissioners now meet. And it is a very powerful forum which (1) influences the environment in which tax administrations operate; (2) provides benchmarks against which Commissioners can evaluate the performance of their tax administrations; and (3) identifies best practices.

The mandate was also expanded to cover consumption taxes. This was not an easy process since traditionally most of the work carried out by the OECD has very much focused on the direct tax side.

We also put more emphasis on domestic tax policy issues. Countries are now willing to ask the OECD to contribute to their domestic tax reform debate. There is also greater, recognition that taxation impacts on a whole range of other issues: Investment, Social Affairs, Environment and in the fight against illicit activities. Last Spring we held a high level meeting in Oslo, which emphasized that in today's global environment, there are increasing opportunities for illicit activities. It is important that tax authorities and other law enforcement agencies begin to cooperate more effectively. Since progress is made on counteracting offshore tax evasion, very frequently progress is also made on counteracting bribery, or money laundering. This cooperation between tax authorities and other law enforcement agencies is something we are going to see increasingly as governments recognize that there is a very real role to use tax administrations to counter non-tax crimes. Interdepartmental cooperation is also important in the debate on climate change. In the run up to the Copenhagen Summit, you hardly heard the three letter word tax and then suddenly it came back onto the political agenda. A recognition that economists are right when they say that one of the most effective ways of dealing with climate change is to put in place a CO_2 tax. I believe we will see a renaissance, a renewed interest on the part of governments in these taxes. Post Copenhagen, there was also a recognition that if we are going to have tradable permits, we need to ensure that tax does not act as a barrier to the effectiveness of these markets and there was also a recognition by governments around the world that tax measures can be used to encourage energy innovation and environmentally friendly investment. One of the OECD's emerging roles is to take a holistic view of these instruments and see how they interact with each other and with the regulatory framework.

Changing work methods

So these are some of the ways in which the mandate has expanded but we have also seen a change in the methods of work that we have. There is greater willingness to engage with non-OECD economies. A willingness to break down the distinction between a member country and a non-member country, recognizing that the only important thing is that big countries like the BRICs and economies in transition have a seat at the OECD table.

A second major structural change in the way that we work has been our willingness to engage with business, and lately with civil society. I am particularly pleased that very little goes out from the CTPA that has not gone through a consultation process. It takes more time, it's not easy, sometimes we disagree but at the end of the day, the product we have is always better.

This annual seminar is one of the tools that we use to inform you about our work and to get your input. From a hastily organised luncheon presentation on the 1992 OECD Model at the 1992 Cancun Congress, our cooperation with IFA has evolved into a seminar which is one of the important features of the IFA Congress.

The OECD-IFA cooperation, however, goes well beyond this seminar. Members of the OECD Secretariat participate in other seminars (my colleagues and I are involved in four different seminars in this Congress alone) and we are always happy to recommend names of tax officials as potential speakers. And as Richard has already noted, we have been delighted to work with the organisers of the Paris Congress, and with its president Hervé Lehérissel in particular, in order to combine the first day of our annual tax treaty meeting with this last day of the Congress. The result is the presence, in this room, of an extra 230 participants representing close to 100 countries and international organisations.

A third change in our work methods has been the professionalization of our staff, and that partly reflects the expansion in the number of staff that we have but also the fact that today we can attract people of the calibre of Mary, shows that working at the OECD on tax issues is seen as a good career move.

If somebody asked me, looking back over these two decades, what was the greatest achievement, I have no hesitation in saying it's building up a very professional team who enjoy their work, that feel they are making a difference, that feel that when their children ask them 'Mummy or Daddy, what did you do in your life,?', they can say 'I changed just a little the way the international tax world operates'.

And the fourth area in which there has been a change is the increasing political recognition for our work. I spent many years trying to persuade politicians to associate the work 'tax' with the "OECD". We have achieved this with the G20 (yet sometimes I think that we may have been too successful).

I could continue; there are many other things that I am particularly proud of. Getting a consensus in 1995 on the Transfer Pricing Guidelines, getting arbitration onto the OECD agenda; moving the Model Tax Convention from a static to a dynamic format, getting the OECD onto the G20 agenda, getting a global endorsement of OECD standards on Exchange of Information (today, nobody stands up to defend bank secrecy as an acceptable reason not to exchange information).

Looking Forward

Let me now move on and talk a little bit about what I would see as some of the challenges facing us in the next decade. We are moving into a new era at the OECD. I will retire on 1st February as Director and Pascal Saint-Amans, who many of you know, will take over. I am sure he is going to do an excellent job. There will be other changes in the senior management team – replacements for Mary and Caroline, we also have a new chair of the CFA, Masa Asakawa; this is the first time that a Japanese has chaired a major committee at the OECD. We all know that change is unsettling but it also provides new opportunities. And quite frankly, I think we need that change. We need to stand back and ask "can we do what have been doing over the last twenty years better?" I think the answer is, as President Obama would say, "Yes we can".

What are some of the challenges that this new team is going to face? I would identify four First, without any hesitation, would be how we intensify our engagement not just with the BRICs but with other economies in transition and with less developed countries. This is a key goal for the OECD. We must continue to break down the distinction between an OECD member country and a non-member country. CTPA has pioneered different models at the OECD – the Forum on Tax Administration, which now has 43 countries (and which was chaired by South Africa [Pravin Gordhan]). Another model we have is the Global Forum on Transparency and Exchange of Information for Tax Purposes, which brings together 101 countries. A Global Forum on Transfer Pricing will be launched in March is another opportunity. But to me what is important is for the major economies that are not members of the Organisation to recognise – and I think they do recognise – that when they have technical issues to resolve in the international tax field, then the OECD is the place to have that discussion. I see that role as being complementary to the role of the UN. The role of the UN, as Michael Lennard continues to tell us, is to ensure that the voice of developing countries is heard and the special needs of these countries are met. That is why the OECD has consistently supported and reinforced the work that is done in the UN Committee on Taxation, both at the level of the Secretariat and the level of our member countries.

So we must continue to reach out to non-OECD countries. As the economies of countries like India, China or Brazil change, as these economies become closer to the structure of our member countries, as their service sectors expand; as their multinationals begin to expand globally (we have seen a three-fold increase in the last ten years of the number of BRICs multinationals) so the governments of these countries will begin face similar international tax issues that are faced by our member countries.

A second challenge is on the question of how we deal with VAT. Value Added Tax started with 6 countries. Today there are over 150 and the number is still growing. There is a debate on whether it was the French or the Brazilians who actually invented the tax. To me, this is irrelevant. The key question now is how do we move forwards towards globally acceptable standards. I think that this is particularly important not just because of the expansion in the number of countries that have this tax but also because this is an increasingly important source of revenue. It accounts for one fifth of revenues in OECD countries and significantly more in non-OECD countries. VAT is, and will continue to play, a crucial role in the way countries go about fiscal consolidation, in the way they try to put into place growth oriented tax reforms. Our research suggests that a shift towards VAT away from income taxes may support economic growth. Having said that, if VAT is to meet these expectations, we need to improve the performance of VAT. When you see some of the estimates that are around of the potential to increase the VAT by counteracting tax fraud, by counteracting aggressive tax planning, by broadening the tax base, it shows that there is still an enormous potential to raise more revenue from VAT without having to increase standards rates. But as we do that, we must also be conscious that we must address the risks of double taxation and of unintended non-taxation that arise from the uncoordinated interaction between VAT systems, a potential that is growing as global trade grows. And I believe strongly that we do need some internationally agreed principles on the application of VAT to international trade, particularly in the service area.

What do we have at present? We have the EU with its 27 member countries. We have our Working Party on VAT which encompasses the 34 OECD member countries plus the BRICs. But I believe we now need to extend the dialogue to other countries and one proposal that we intend to put on the table is the creation of a Global Forum on VAT. A unique Forum where policy makers from OECD and non-OECD economies could meet to share experiences and expertise to develop and promote best practices in the design and operation of VAT and to discuss what I call 'next generation issues': (1) the possibilities offered by the spectacular evolution of IT-technology to simplify VAT collection and compliance (VAT payment on transaction per transaction basis in real time; traceability of services/intangibles supplied cross-border...); (2) the use of VAT to address the challenges of ageing population (lower revenue from income taxes and higher expenditure for pensions and healthcare)Such a Forum would facilitate a dialogue between major stakeholders, particularly global business, since they are in the front trenches in their role as collectors of the tax. So I hope that next year we can lay the foundations for such a Forum.

The third area to which we will need to pay more attention is developing some globally accepted reporting standards for banks and financial institutions. We are very much aware of the current debate that is taking place on FATCA. We are very much aware of way countries are looking at the recent agreements signed between the UK and Switzerland and Germany. We have our TRACE project and our work on automatic exchange where we are about to launch our latest transmission standard; there is working going on in the EU both in the context of TRACE and in the context of the Savings Directive. But the time has come where we will need to start a serious debate on whether or not we can develop some form of common reporting standards that avoid the proliferation of too many different systems with all the adverse cost and resource implications this may have for both taxpayers and governments. Standards that would operate in conjunction with better exchange of information and which would operate in a way that helps governments to counter offshore non-compliance but at the same time minimizes the compliance burden on banks and financial institutions.

A fourth challenge is how can we reduce growing inequalities in income and wealth. When Warrant Buffet announced that he would like to pay more tax, it set off a flurry of articles in the Economist, the Financial Times and the Wall Street Journal, with titles like 'How not to soak the rich'. We saw Italian and French billionaires follow in Buffet's steps (Germany and UK billionaires seem more preoccupied with increasing further their wealth). But behind these headlines is a more serious question: can societies maintain their social cohesion with growing inequalities in the distribution of wealth and income? Or, as the debate is sometimes framed: are the costs and benefits of globalization being fairly shared? It is clear that the average man in the street would say 'no'.

We will see a renewed interest on the part of governments on how to use the tax system to reduce these inequalities. You only have to look at how these inequalities are growing in countries like the United States, China, India or the UK to see this is now beginning to put pressure on social cohesion, and a breakdown of social cohesion in any society jeopardizes the functioning of an economy. We need to address this issue but recognise that a return to highly progressive income taxes of the 1980s is neither desirable nor feasible. We should look again at how we tax land and buildings and other forms of wealth. Is there a case for having special consumption taxes apply to luxury goods?

How could we make death taxes more effective? And we need to continue to push for better offshore non-compliance since this is probably one of the single most important ways in which to improve the progressivity of the tax system (This is probably why only last week George Osborne, Chancellor of the UK, said ‘I will find you and your money!”). But as we move forward in this debate, let’s shift the focus from one tax (e.g., VAT), even from the whole tax system. Let’s have the debate on what the impact of governments – taxes, expenditures, regulations - in reducing equalities and let’s make sure this is a dynamic not a static analysis.

All of these challenges can be addressed if governments come to the table with a willingness to compromise, a recognition that they need to focus on the long term interest (to set short term pain against long term gain), and a willingness to engage business and other parts of civil society in the debate.

There are many other challenges that I could talk about, many other issues that I feel we should be addressing. Will the Arms Length Principle Survive? I have said on many occasions that the Arms Length Principle is workable even in the difficult area of intangibles and that it can work in favour of governments from developed countries, from economies in transition and from developing countries. But we need to make an investment to achieve that. And we also need to be flexible. There is nothing sacrosanct about the Arms Length Principle. It is a pragmatic approach based on commercial practices on how to divide the tax base. But it is certainly going to be a major topic for discussion at the OECD.

I would also like to put on record my appreciation of work of Mary and Caroline. Not only did they improve the quality of our work but they also made it more relevant and certainly helped raise the profile of the OECD in the international tax world.

So to end, there will be no shortages of challenges for Pascal and his new team, when he takes over on 1 February. I am confident that he will do an excellent job.