

Joy of Tax Orlando 26-2-16

The Joy of Tax

- My argument is simple
- Tax is the tool with the greatest opportunity to shape the world we want to live in

This is a macroeconomic argument

- We now know how money works
- According to the Bank of England every text book is wrong
- We now know loans create deposits and not the other way round

How tax works

- Suppose we got tax wrong too?
- Suppose governments don't spend and tax
- But spend and then tax?
- Let me assure you that's what they do

How do we know?

- Over \$6 trillion of QE proves it
- But in fact we've always known this - this is why we have a national debt
- And why we have any government created money - because all of that is created by government over spending not claimed back by tax

So what does this mean?

- Tax never, ever, pays for government spending
- The primary goal for tax is to reclaim the money the government spends into the economy?
- Why? To prevent inflation. I told you this was macroeconomics

Is that it?

- No!
- But what it means is that we have to completely re-appraise what tax is for

The six reasons to tax

- Reclaiming the money spent by the government into the economy as far as is needed to control inflation
- Ratify the value of money
- Reorganise the economy
- Redistribute income and wealth
- Reprice market failure
- Raise representation in a democracy

To put it another way

- Tax is not about paying for anything
- Tax, from beginning to end is all about shaping the economy in the way we want in accordance with our democratic principles

Principles

- Adam Smith
 - Equity
 - Certainty
 - Convenience
 - Efficiency
- But this is not 1776
 - And these were largely standards for the administration of tax, not principles on which to base the tax system

So in 2016

- Peace
- Equality
- Truth
- Simplicity

Applying this to a real example

- Country-by-Country reporting
- An incredibly simple idea I created in 2003
- Why?

Peace

- John Christensen and I, who were cofounders of the Tax Justice Network were sure there was a transfer pricing problem
- Developing countries were not collecting the money they were owed
- Multinationals were transfer mispricing profits to tax havens

The consequences?

- Developing countries were not able to control their economies: the money they need to reclaim is not there to be had
- Nor is it available from the tax havens
- So there is international stress: the wrong people have the wrong money in the wrong place
- Developing countries are constrained on their spending because they have no ability to reclaim money
- And in many other countries the need to reclaim tax has been shifted from corporations / capital to wealth
- Stress!

But more than that

- Equality
- Large and small business are not being treated the same: result a bias to the big
- And nor are countries being treated the same
- Whilst access to tax havens has been deliberately designed to create inequality
- Faith in the integrity of the system was being undermined
- This was an issue to address if macroeconomic credibility and faith in government was to be preserved

Truth is key then

- Regrettably some governments have not been committed to truth. Opacity has been their watchword
 - I have defined them as secrecy jurisdictions
 - If you want to know who they are read the Tax Justice Network Financial Secrecy Index
- And some companies have not either
- Our aim when we set out as tax justice campaigners was to
 - Put large companies on the front pages of newspapers
 - If they used tax havens
 - And if they cost developing countries money
 - With the aim of forcing change from countries and companies
- And crucially we were always solution focussed
 - Automatic information exchange
 - Beneficial ownership on public record
 - And country by country reporting
 - There were others, but these were key

Country by country reporting

- A method to encourage companies to pay the right amount of tax in the right place at the right time
- Where right means that economic substance matches accounting form
- Tell us
 - Third party sales
 - Intra-group sales
 - Number of employees
 - Profit before tax
 - Tax provided
 - Tax paid
 - Equity
 - Retained reserves
 - Tangible assets
- We can do the big data:
 - Does your reporting match where your profits are likely to be earned
- So far the evidence is they definitely do not

Won at the OECD as part of BEPS

- Fir tax reporting

Now heading for public record in the EU, I suggest

Why

- To provide a tax risk template
- For
 - Tax authorities
 - Investors
 - Civil society
 - The media
- This is about holding global companies to account locally
 - And restoring equality for all - as efficient markets demand

And what of simplicity

- Let me not forget the Holy Grail of tax
- There is no simple tax system in a modern economy
- But go back to Smith
 - The job is to make sure tax is paid
 - Equitably
 - Certainly
 - Conveniently
 - Efficiently
- And that requires
 - Good law
 - Investment in tax authorities
 - Every encouragement to transparency
 - And cooperation - call it peace in our time

We set out to change the world of tax

- In some ways that is what we are doing