

What Will the Tax Systems Be Like in 2030? What Will Change, and Why?



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Introduction/Background

Transition to a new “sustainable” tax model – almost 10 years to go



I. The Why of a future tax reform – Drivers of future tax reforms

Why?

1. Changing of geopolitical situation
2. Rise of populism and growing inequalities
3. Three interrelated crisis: environmental, health , financial
4. Shift to a service economy
5. Aging of population
6. Changing attitudes to the role of government

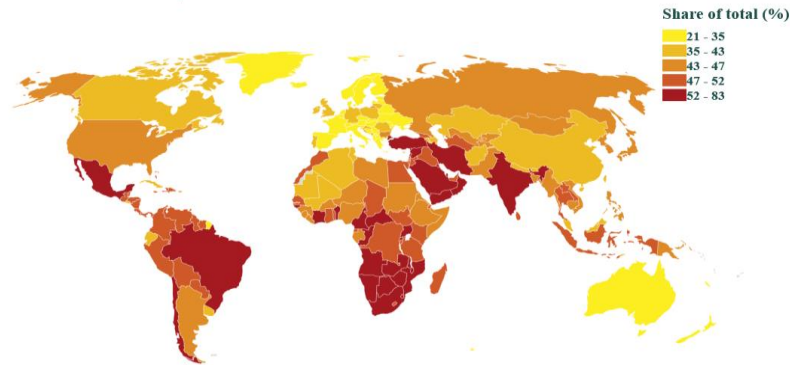


- a. Deterioration of public finance
- b. Need for structural, long-term changes

Inequality – Killer facts

Inequality Global level

Top 10% national income share



Graph provided by www.wid.world

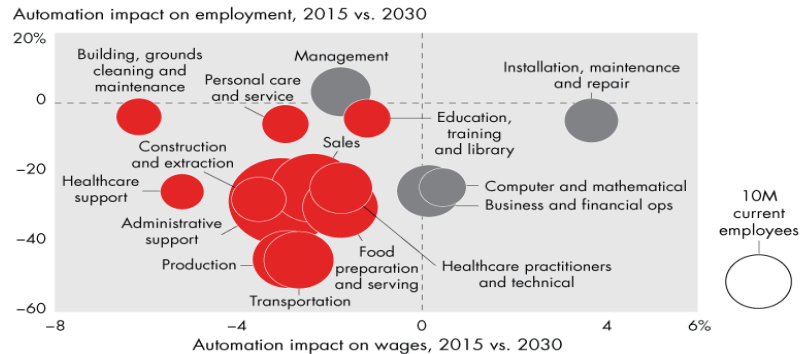
- A double London bus full with the richest billionaires would account for approx. 25% of the world wealth
- Over the past two decades the number of global billionaires has rose fivefold (2700)
- Musk's wealth in 2021 went from 25 billion to to 150 billion
- Indian billionaires account for 17% of GDP and 20% of US

Link between Inequality-Digitalization-Automation

Inequality within advanced economies

Figure 26

- Automation will affect 80% of workers through wage suppression and job loss



Notes: Seven smallest employment categories omitted (architecture and engineering; life, physical and social sciences; community and social service; legal; art, design, entertainment, sports and media; protective service); projections do not include baseline forecasts of employment and wage growth; wage impact weighted by current employment
Sources: US Bureau of Labor Statistics; Bain Macro Trends Group analysis, 2017

Automation raises wage polarization and inequality within income classes



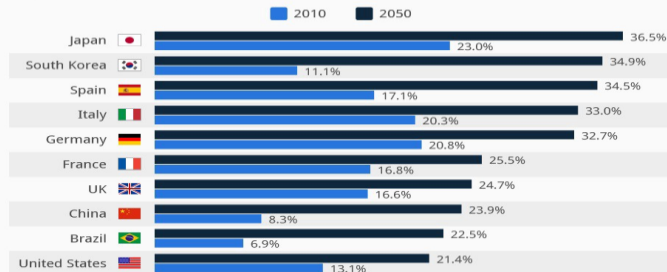
The Link between Automation –Ageing - Health?

Populations are getting older

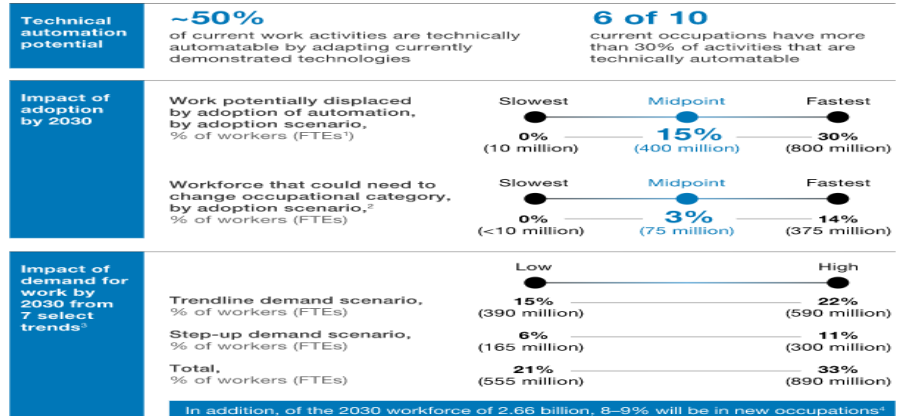


Rapid Aging Will Become a Major Problem

Proportion of people estimated to be aged 65 and older in 2010 and 2050 (%)



Automation will have a far-reaching impact on the global workforce.

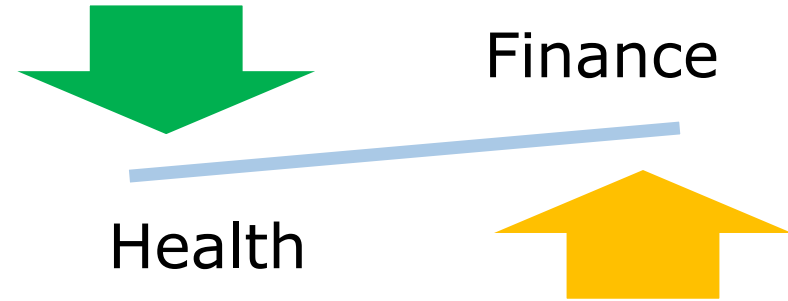
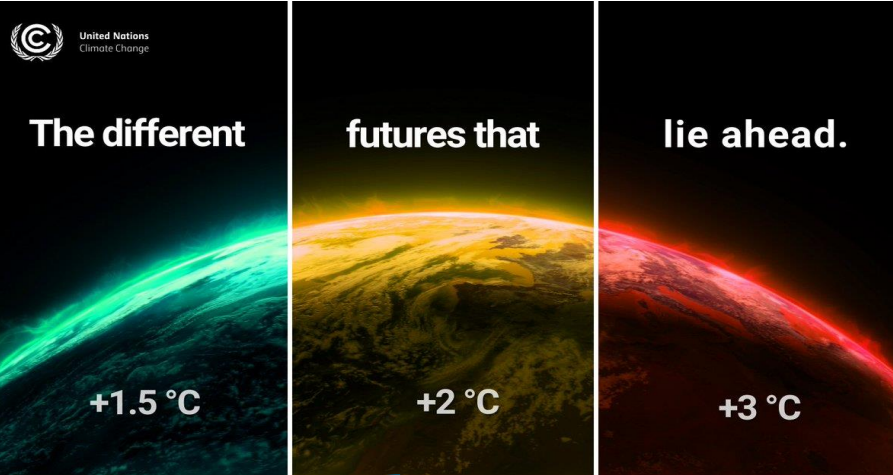


¹ Full-time equivalents.
² In trendline labor-demand scenario.
³ Rising incomes; healthcare from aging; investment in technology, infrastructure, and buildings; energy transitions; and marketization of unpaid work. Not exhaustive.
⁴ See Jeffrey Lin, "Technological adaptation, cities, and new work," *Review of Economics and Statistics*, Volume 93, Number 2, May 2011.

McKinsey&Company | Source: McKinsey Global Institute analysis

By 2030, the EU's working population will be in decline. While in 2019, the working-age population was 59% of the EU population, it will only represent 51% of people by 2070.

I. The Why Climate Change/Finance/Health



II. What will need to change?

What?

- New Tax Bases?
- New Tax Principles?
- Multilateralism/international coordination?
- The Invisible Tax Administration

Global/Regional approaches and scholars' tax proposals: OECD, UN, EU

1. Wealth taxes/capital taxes
2. CIT and PIT reform (including wage taxation)
3. VAT
4. Automation and robot taxes
5. Environmental tax policies; i.e. Carbon Border Adjustments
6. Digitalization of tax processes
7. Space taxation

1. Wealth taxation and alternatives

- **Rationale**
 - Wealth concentration corrodes social contract and democratic institutions
 - Regressivity, due to erosion of income tax base and estate tax base
- **Solution?**
 - Net wealth tax on household (family units) or capital gains taxation at accrual
- **Issues**
 - What is wealth?
 - How progressive? – Exemption thresholds
 - Liquidity, Marketability, Tax evasion, International Coordination, Enforcement

Is the current transparent and digital era more suitable for the implementation of a **wealth tax?** (i.e. AEOI, possibility of prepopulated tax returns)

2. CIT and PIT reform (including wage taxation)

- PIT
 - Impact of remote working
 - Need for an entirely new nexus rule?
 - Cohesion between labor expense deductibility and taxing rights

- CIT
 - Do we need to tax companies?
 - Reasons to impose CIT in the first place
 - Would we have invented the CIT today?
 - Possibilities of technologies and taxation of ultimate individual shareholders

3. VAT

- VAT
- Do we need a redesign?
- Why did a VAT replace a sales tax? Are the arguments still valid?
- What would a VAT look like in 10 year time?

- The impact of technologies in tax bases' redesign

4. Automation and robot taxes

- Rationale
 - Labor displacement, wage inequality, demographics, externalities
 - Restore neutrality, due to unequal and inefficient taxation of factor shares, tax revenue raise, need for skills
- Solution?
 - Robot taxes, automation taxes (on the use of AI) or education or rent taxes
- Issues
 - What is a robot? person vs capital
 - Tax subjects: Robot/Automation users. Further classification criteria needed
 - Tax base: income or wealth (i.e. robots), production indicators (employees, capital, profits, revenues, sales), limitation of tax incentives – international coordination
 - Administrative costs

How likely are to be implemented? Could they be integrated in a broader tax reform?

5. Environmental tax policies

- **Goal:**
 - Transition to net zero greenhouse gas emissions-temperature stabilization
 - Global CO2 and other greenhouse gases must be cut by 1/4 to 1/2 below projected levels in 2030

- **Mitigation policies: Carbon pricing**

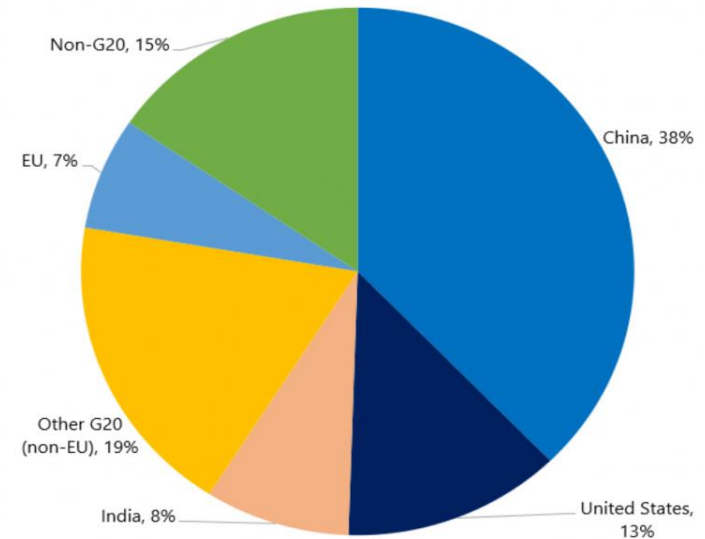
- Carbon Taxes
- Carbon Border Adjustments (ETS)
- Excises (fuel taxes, energy taxes, taxes on carbon intensive products)

- **Issues**

- Competitiveness
- Effectiveness
- Technology/public investments

Country shares

The United States and China account for half of projected baseline carbon emissions in 2030, so their actions will determine whether the world stays on track with warming targets.
(in percent)



Source: Parry (2021).

6. Digitalization of tax processes

- New forms of tax competition
 - Tax certainty
 - Low/no compliance costs
 - Effective alleviation of double taxation
- Role of technology
 - CBDC and automatic tax assessment
 - Cross-border interoperability – multiple-layers of blockchain
- Exponential data quantity
 - Role of quantum computing

7. Space taxation

- Lack of clarity under international law on sovereignty in space (or lack thereof)
- Satellite in geostationary orbit cannot create a PE because not physical location in any country
 - Holds true only if PE is tied up to physical presence – possible impact of Pillar 1 developments
- Space residents
- Companies with place of effective management in space/decision-making by automated equipment in space

Should we treat Space as the commons of mankind?

Further Indicative initiatives from International Organizations – the EU Action Plan

- EU Commission's Action Plan for Fair and Simple Taxation supporting the Recovery Strategy, COM(2020)312 (15 July 2020), with Annex:
 - Conference on data analytics and digital solutions (A20, Q2 2021)
 - Extension of automatic exchange of information to crypto-assets/e-money (A10, Q3 2021)
 - Digital solutions to levy taxes at source to facilitate tax payment/collection (A8, 2022)
 - Better quality and use of tax data (A2, 2022)
 - Package VAT in the digital age: update VAT rules for the sharing economy, move to a single EU VAT registration, modernise VAT reporting obligations and facilitate e-invoicing (A1, A4, A5, A23, 2022)
 - E-Commerce package for excise goods: facilitating distance selling of excise goods while minimising fraud and distortions of competition (A25, 2022)
 - Reinforcement of verifications of cross-border transactions by switching from exchanging to sharing of tax-related data (A12, A13, 2023)

Relevance of future tax reforms for small open economies like *Estonia*

- Where Estonia stands in the future tax reform debate
- How can it build on its lead in the digital economy?
- How can it use its tax systems to provide a competitive environment?
- What constraints will it face from the:
 - EU
 - OECD
 - WTO

Concluding Remarks

- Future reforms would have to be multi-faceted but highly depended on country specific circumstances
- Tax policy and new tax instruments should be related to spending policies
- Emphasis should be on long-term structural changes and principled-based tax changes for sustainability
- Information exchange is key both for tax assessment and enforcement at a global coordinate tax level
- Tax administrations will evolved more into the phase of "interact" and "transact"

THANK YOU!



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