

Taxation is always on the agenda for reform of politicians, academics and the general public, but at present there are at least three factors that are combining to bring it nearer the top of the list: the first is the economic crisis and the rapid fall in revenue obtained from taxes in our country. The second is the unstoppable process of globalisation of the economy, which brings to light the weaknesses of traditional tax systems when it comes to guaranteeing contributions to sustaining public expenditure on the part of the most mobile economic actors. And the third, which affects the academic world in particular, is the publication of a new «tax Bible» in the form of the splendid Mirrlees Report (2010, 2011), in which the world's leading financial experts provide a diagnostic analysis of the main tax-related problems and propose potential solutions based on recent advances in both the theoretical and applied sides of their discipline. This report has quickly become as influential as the prestigious Carter (1966) and Meade (1978) reports before it.

As a result of this renewed interest in tax matters, a great many congresses, books and monographic studies on taxation and tax reform have been produced in recent years, looking at the matter from many different perspectives. The Spanish government appointed a committee in 2013 to draw up a proposal for reforming the tax system. The result was the so-called Lagares Report, published the following year.

The Spanish tax system faces a number of challenges similar to those faced in other developed countries. Some of the problems to be tackled are chronic, and a variety of solutions (some of them mutually contradictory) have been tried over time in an effort to deal with them. Others have appeared more recently, as a result of the ever-increasing complexity of economic relationships. The points listed below are just a few examples of the questions raised by any analysis of the tax system:

What level of public spending will enable the collective needs of the country to be met at all times, and therefore what is the most suitable level of tax burden?

What role should be given to the tax system in correcting inequalities in income and wealth?

What tax structure will enable national requirements for the collection and distribution of funding to be met in the simplest possible way, with the lowest possible cost for the economy? How much weight should be given to direct taxation, e.g. income tax, and how much to indirect taxation, e.g. VAT? Should environmental taxes be increased? How should equity and the yield that it generates be taxed?

- What can be done to palliate the negative consequences of globalisation as regards national tax sovereignty and tax collection?
- What instruments can best be used to effectively combat tax fraud on the domestic and international fronts?
- What can be done to make the upward and downward surrendering of tax sovereignty on the part of states compatible with the benefits of tax harmonisation?

How these and many other no less important questions are answered will certainly affect the welfare of our citizens, so all thoughts intended to bring order to the tax system are welcome. And that is precisely the purpose of this monographic issue of *Ekonomiaz*. The articles included have been selected on the basis of two criteria: firstly, of course, their relevance, and secondly the avoiding of overlaps with existing publications that pursue similar goals to ours. As a result this issue places special emphasis on articles concerned with the implications of globalisation in terms of the survival of tax systems, and with measures for combating tax fraud. However, it also examines the wealth redistribution capabilities of the tax system, the integration of personal income tax and capital gains tax as an alternative to the prevailing tax structure, at the possibility of combining taxes and benefits in order to tackle problems of poverty and employment at the individual level and at the comparison of direct aid and tax incentives as instruments for encouraging R&D. An outline of each article follows.

The article by **José M. Domínguez Martínez** provides a highly suitable lead-in to this monographic issue of the journal. It offers a tight-knit outline of all the main problems affecting tax systems, especially since the onset of the Great Recession. It describes recent trends in the tax systems of developed countries and the measures taken by those countries to tackle the crisis. It also touches on the eternal debate on what position the principles of taxation should occupy in a tax system. The last part of the article looks at current problems and challenges in the field of taxation and the main lines and options for tax reforms.

I would like to highlight two of the many issues raised by José M. Domínguez: the first can be found in several other articles in this issue. It refers to the asymmetry between economic development and the development of political institutions, which constitutes a major liability when it comes to adapting conventional tax systems. The second issue is largely derived from the first: it concerns the increasingly scant tolerance of the public for tax evasion and planning on the part of large-scale taxpayers, and for the misuse of public resources on the part of governments as they realise that both these attitudes have direct, negative effects on their well-being.

**Jesús Ruiz-Huerta** and **Carlos Garcimartín** take a narrower viewpoint and focus their analysis on the European Union (EU). They begin by examining the level of the tax burden and the tax structures of EU Member States, and then go on to

examine in detail some of the main taxes, their importance, their problems and potential paths for progress. They pay particular attention to certain topics that have been at the heart of academic, political and, in some cases, social debate for some time: the harmonisation of corporation tax (with initiatives such as the CCCTB or Common Consolidated Corporate Tax Base); VAT on intra-Community operations; and the consequences in terms of efficiency, fairness and sufficiency of there being various rates of VAT.

It is worth reproducing the thoughts with which these authors and their article here: they believe that although major steps are being taken towards European unification as regards monetary and financial union, and although there is an increasing need for further progress towards the unification of tax systems in EU countries, it is not yet possible to talk in terms of European taxation. Taxation in Europe is merely the expression of the operation of the tax systems of the countries that make up the EU. There is a trend towards convergence, but no real integrated taxation.

**Eduardo Sanz Gadea** examines the problems associated with taxing multinational corporations. His article identifies three approaches drawn up by international organisations for tackling this problem: the first seeks to distribute tax revenue on the profits of multinationals appropriately between countries, thus eliminating international double taxation. It is based on the three classic principles of international taxation: territoriality, independent, separate undertakings and freedom of competition. The main outcome consists of agreements concerning double taxation. The second approach proposes an alternative paradigm, and its clearest outcome is the CCCTB system proposed by the European Commission. With this system the principles of territoriality and separate undertakings remain valid (though they are not interpreted in the conventional fashion), but the principle of freedom of competition loses its function. The third approach supplements the first: it concerns itself with avoiding failure to pay taxes and its main outcome is the OECD's BEPS (Base Erosion and Profit Shifting) project.

After a detailed analysis of the two most recent approaches the author maintains that the most significant aspect of the CCCTB system is consolidation, and that the BEPS project is pointing the way towards corporate taxation based on the CBIT (Comprehensive Business Income Tax) model, in which it is operating income that is taxed, so interest is not tax-deductible. He proposes a system for taxing corporations that combines both approaches as follows: the parent company will be subject to CBIT-type corporation tax in its country of corporate domicile, and the taxable base would be the operating income as per its consolidated accounts. Dependent companies would pay corporation tax in their corresponding countries of domicile. The tax paid by the latter companies would be considered as tax credits in favour of the parent company, which could be offset against its own tax debts via the ordinary credit method. The main doubt raised by this highly interesting proposal lies in its choice of the principle of domicile. In a context of ever lower

mobility costs (therefore making it ever easier for parent companies to choose their country of domicile) an exemption system may be optimal.

The article by **Santiago Díaz de Sarralde** and **Carlos Garcimartín** also deals with specific proposals. The authors begin by examining the recent characteristics of the Spanish tax system, and conclude that it is insufficient, unproductive, highly vulnerable to the economic cycle, based mainly on taxing earnings from work and permissive in terms of enabling individuals with a greater payment capability actually to pay less. They acknowledge that this diagnosis is shared by many other authors, but Díaz de Sarralde & Garcimartín shy away radically from the recommendations arising from what they call the «predominant tax structure», which focus on increasing revenue from indirect taxes, particularly VAT, maintaining the dual structure of income tax and reducing corporate taxation.

Instead, the authors propose an overall tax on personal income which would take in both current personal income tax and capital gains tax and which, instead of increasing the tax burden already suffered by those who pay «adequate» taxes, would increase taxation on income that is currently clearly under-taxed. Overall income tax would be levied on all income, regardless of origin (earnings from work, capital, economic activities), with a single tax basis determined by a homogenous direct estimation system. The tax would be levied on all capital returns declared and on implicit returns arising from the wealth of the taxpayer, by applying a set rate to their net wealth.

The article by **Domingo Carbajo** is concerned with tax fraud at home and abroad. The author explains that the struggle against tax fraud can no longer be conducted only in regard to its consequences in terms of revenue; it must now cover many other aspects and must be used as a tool to build a new international governance based on transparency. He also states that fraud can only be combated in the context of international coordination and cooperation between tax authorities, with the setting up of some kind of «world tax order».

At international level the article reviews some of the initiatives taken by the OECD and the EU to combat aggressive tax planning on the part of multinationals and to deal with tax havens, which are also mentioned in other articles in this issue. The author suggests some measures (regulations, upgrading of material resources and staffing, etc.) that should be taken (and others that should not be taken) at domestic level to combat tax havens.

At domestic level the article recalls that fraud is not just a problem of revenue but is also related to other antisocial activities and behaviour patterns, and states that these problems call for the implementation of structural policies at national level, which must involve other public sector organisations apart from the central revenue service.

The role of the tax system in wealth redistribution is the subject of the article by **Jorge Onrubia** and **María del Carmen Rodado**. This article is in three parts, each of

which makes its own, interesting contribution. The first reflects on the role of taxes as a form of wealth redistribution according to the theory of public finance, with reference to the work and recommendations presented in the Mirrlees Report. The second measures the extent of the distribution of certain taxes (personal income tax, VAT, special taxes, employee tax contributions) in Spain between 2009 at 2011. The analysis confirms that personal income tax is the only one of the four taxes considered that actually helps reduce income inequality. Moreover, its wealth redistribution effect offsets the increase in inequality caused by the regressive nature of the other three taxes, so that taken altogether the taxes analysed have a positive wealth redistribution effect in the three years studied, an effect which increases from 2009 to 2010 and decreases from 2010 to 2011. However the redistributive effect of taxes is not sufficient to offset the increase in income equality before taxation from 2009 to 2011, so income equality actually increases after taxation too.

The last section of the article examines the redistributive effect of personal income tax from 1979 to 2011. I would like to mention two results of this detailed analysis here: the first is that the said effect increases (albeit not continuously) up to the early 2000's and then appears to reach a ceiling. In absolute terms, the Reynolds-Smolensky index doubles from 1979 to 2011. In relative terms personal income tax reduces income equality by 7.8% in 1979, measured by the Gini index of taxable income; in 2011 the figure is 11.4%. Thus, income inequality before personal income tax increases by 36% over the course of the period in question, while income inequality net of this tax increases by 31%. The second result is that the redistributive potential of personal income tax increases more over the period because of the tax becoming more progressive than because of increases in revenue.

A topic that has been studied very little in the relevant literature in Spain in spite of its significance for the country, especially now, is that of the integration of taxes and benefits to provide an affordable solution to the problems of poverty and employment that affect a large number of homes. These work-in-benefits are the subject of an innovative article by **Fernando Rodrigo**. He begins with a comparison of experiences, mainly in two countries: the USA, with Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) and the UK with Working Tax Credit (WTC) and Child Tax Credit (which are to be replaced by *Universal Credit*, UC). He then goes on to provide a careful review of the literature covering the effects of these measures on aspects such as employment and work intensity and wages, poverty rates, health and family decisions such as living as a couple and having children.

In this context Fernando Rodrigo seeks to draw lessons for Spain. He describes the monetary benefits and tax benefits in Spain that play similar roles to those of the instruments considered elsewhere, and concludes that they are insufficient, lacking in coordination, over-complex and uncertain in their effects. He holds that there are good arguments for defending the setting up of an integrated system of personal income tax and monetary transfers focused on certain groups, funded by the central

government, dependent on earnings from work and refundable in nature. The last part of his article is given over to a discussion on how such a system might be designed, highlighting the following aspects: regulation, management, cost and funding.

Proposals for tax reforms tend to incorporate the elimination of the plethora of tax deductions as one of their basic tenets, as their effectiveness has not been proved and they entail high costs in terms of fairness, efficiency and revenue. However, this sweeping recommendation sometimes makes exceptions in the case of deductions for R&D activities, which are associated (though not conclusively) in the relevant literature with positive incentive effects. These tax incentives and direct aids for R&D are the subject of the article by **Isabel Busom, Beatriz Corchuelo and Ester Martínez-Ros**. After examining the reasons for public sector involvement in encouraging R&D activities and the instruments through which that involvement takes place, the article seeks to explain the differences between tax incentives and direct aid for R&D. It then goes on to present an empirical analysis based on examples from Spanish companies firstly of the obstacles in the way of innovation that justify the use of such measures and secondly of whether any degree of persistence in their use by companies can be observed.

The article presents two highly interesting findings: firstly, tax incentives and direct aids are used by different firms and for different projects. Large or small firms that find it difficult to access funding for innovation are more likely to use direct aid. Moreover, there is a significant persistence over time in the use of this type of aid by firms. The second finding is that the capability for encouraging investment in R&D at firms with no prior experience is highly limited, regardless of which instrument is used. The authors believe that certain supplementary policies such as structural reforms and improvements in human capital, especially in SMEs, may be more important in increasing the level of innovation in the private sector in Spain.

The last two articles published in this issue tackle problems of taxation from the viewpoint of the Basque Country. **Lourdes Serna, Mercedes Vallejo and Ignacio Zubiri** study fraud in the Basque Country although, as they themselves assert, their analysis is largely applicable also to the rest of Spain. They estimate that the level of tax evasion in the Basque Country is similar to the average for Spain as a whole. They also hold that there are two basic factors that determine the degree of compliance: willingness to pay (or fiscal morality) and political will (on which the probability of detection and the extent of sanctions for non-compliance depend), and that levels are low in both cases. Among the known repercussions of tax fraud, Serna, Vallejo & Zubiri believe that the most important for economic purposes are its ethical consequences and its implications for the fiscal legitimacy of the state. They assert – rightly in my opinion – that there is a need to combat fraud even if the cost of doing so exceeds the revenue recovered (though they believe that this is unlikely to be so).

The last part of the article is given over to presenting and assessing the anti-fraud measures adopted in the Basque Country in recent years, and to proposing some additional measures. The authors believe that progress in the struggle against tax evasion has been limited, and that there is a risk that when the economy begins to grow again and the tax burden on those who pay decreases the previous attitude of tolerance may reappear. They therefore suggest a number of eminently reasonable «simple principles» such as the following: closer cooperation between administrations; greater likelihood of detection and of sanctions, and improvements in measures to enforce collection; the incentivising of voluntary compliance by means of public recognition for those who comply; continuous assessment by tax authorities; efforts to combat the use of tax havens and the delocation of profits.

**José Rubí** and **Gemma Martínez Bárbara** describe and assess the participation of the institutions of the Basque Country in the new international tax scenario. Their article begins with a review of the actions currently being taken on the international stage (by the G20 countries, the OECD and the EU in particular) to bring the increasingly obsolete rules governing international taxation into line with the demands of globalisation. This part of the article stresses – understandably – many topics that are also dealt with in other articles in the issue.

The authors then reflect on the role played to date and to be played in the future by the Autonomous Community of the Basque Country in the construction of this new tax order, given the region's broad powers in regard to the regulation and application of taxes. After an examination of the legal and political foundations of that participation, they detail how the Basque Country can take part in the upward (creation) and downward (application) phases of Community law. Their conclusion is that the Basque institutions have ceased to be mere onlookers in decision-making processes concerning taxation and are now active participants in those processes; however they believe that the channels for participation are still insufficient.

The issue ends with an article written by **Beatriz Rosado, Inmaculada Domínguez** and **Juan J. Alonso** in which they analyse the financial solvency and fairness of the Spanish contributory retirement pension system in the wake of the reforms enacted under Act 27/2011 and Act 23/2013. To that end they use the Continuous Sample of Working Lives and the Labour Force Survey. Considering various types of employment behaviour they conclude that assuring the financial solvency and fairness of the system is a matter that remains pending.