Economic & tax policy trends around the world: Impacts on tax reform in Austria

WIRTSCHAFTS UNIVERSITÄT WIEN VIENNA UNIVERSITY OF ECONOMICS AND BUSINESS

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*The author would like to thank EY for assisting the author in compiling the data in this paper.

Section I

Global economic outlook update

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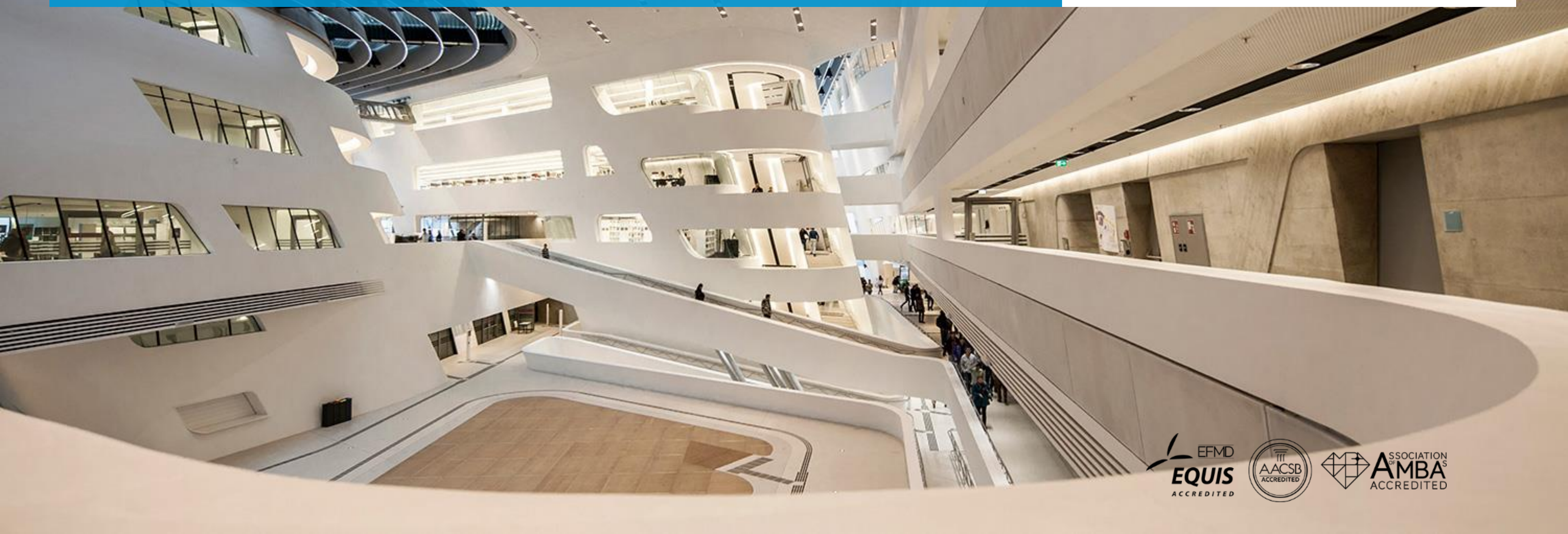
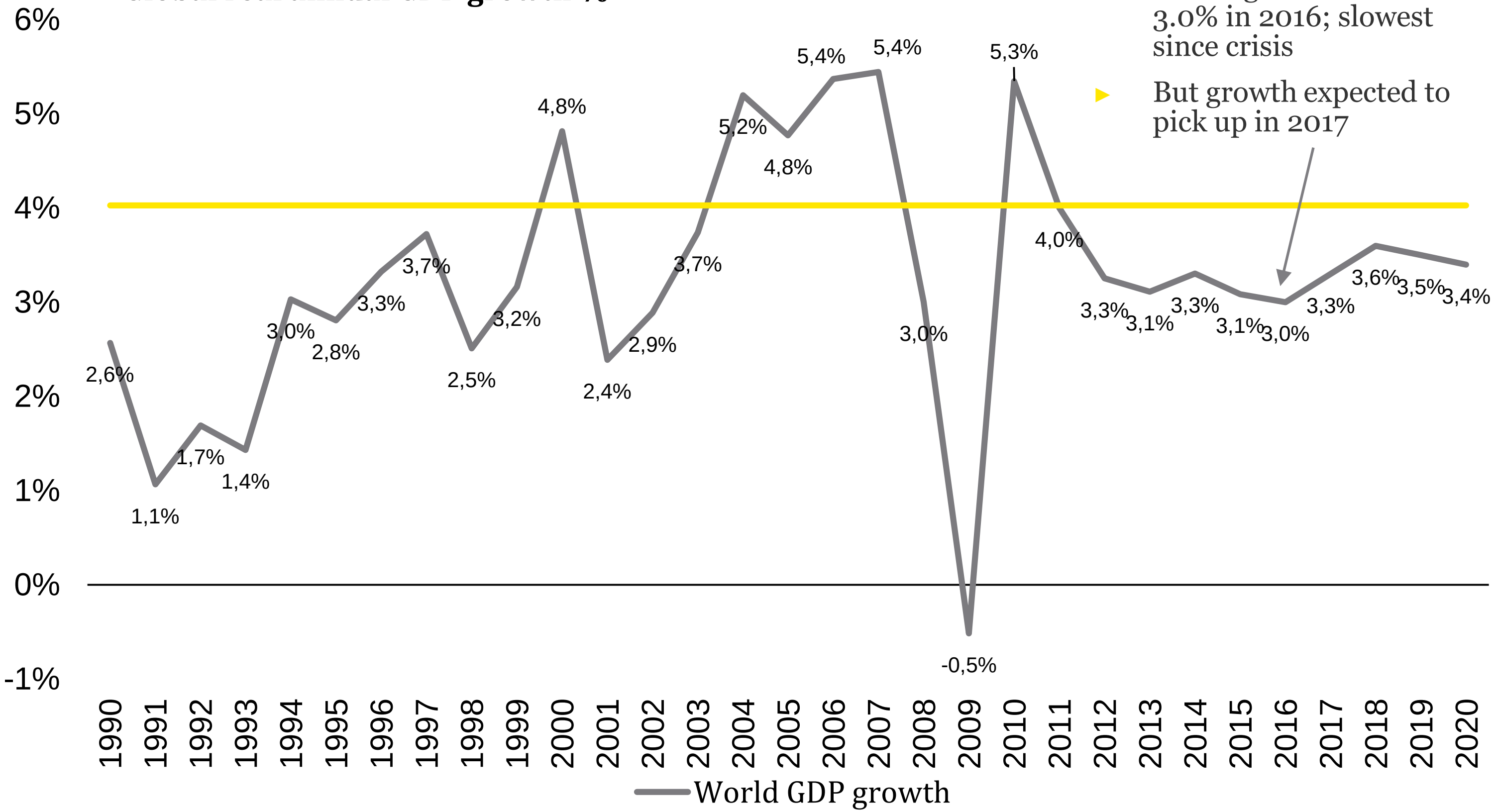


Global economic growth expected to pick up in 2017 after falling to a post-crisis low in 2016

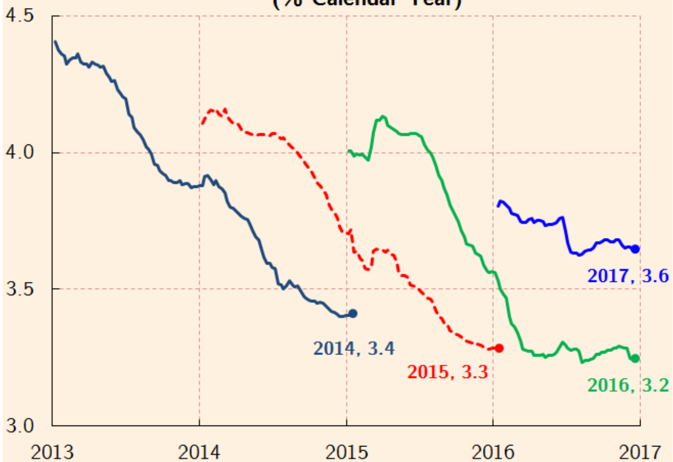
Global real annual GDP growth %



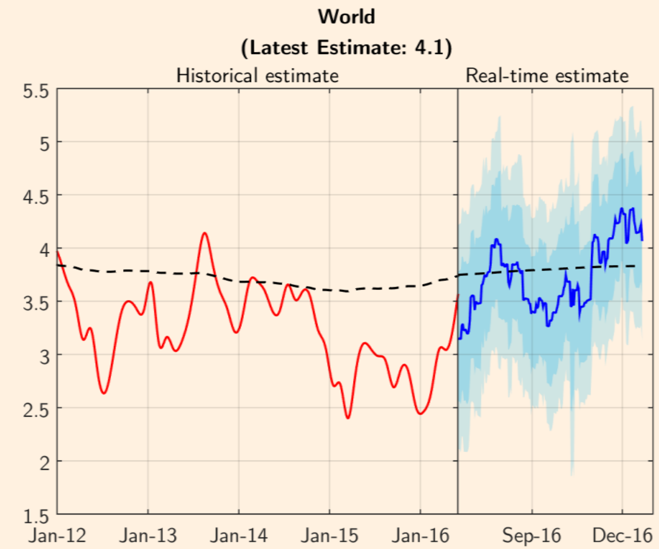
- Global growth slowed to 3.0% in 2016; slowest since crisis
- But growth expected to pick up in 2017

Source: Oxford Economics forecasts updated December 2016; countries weighted at PPP exchange rates

Notable improvement in global outlook in 2017

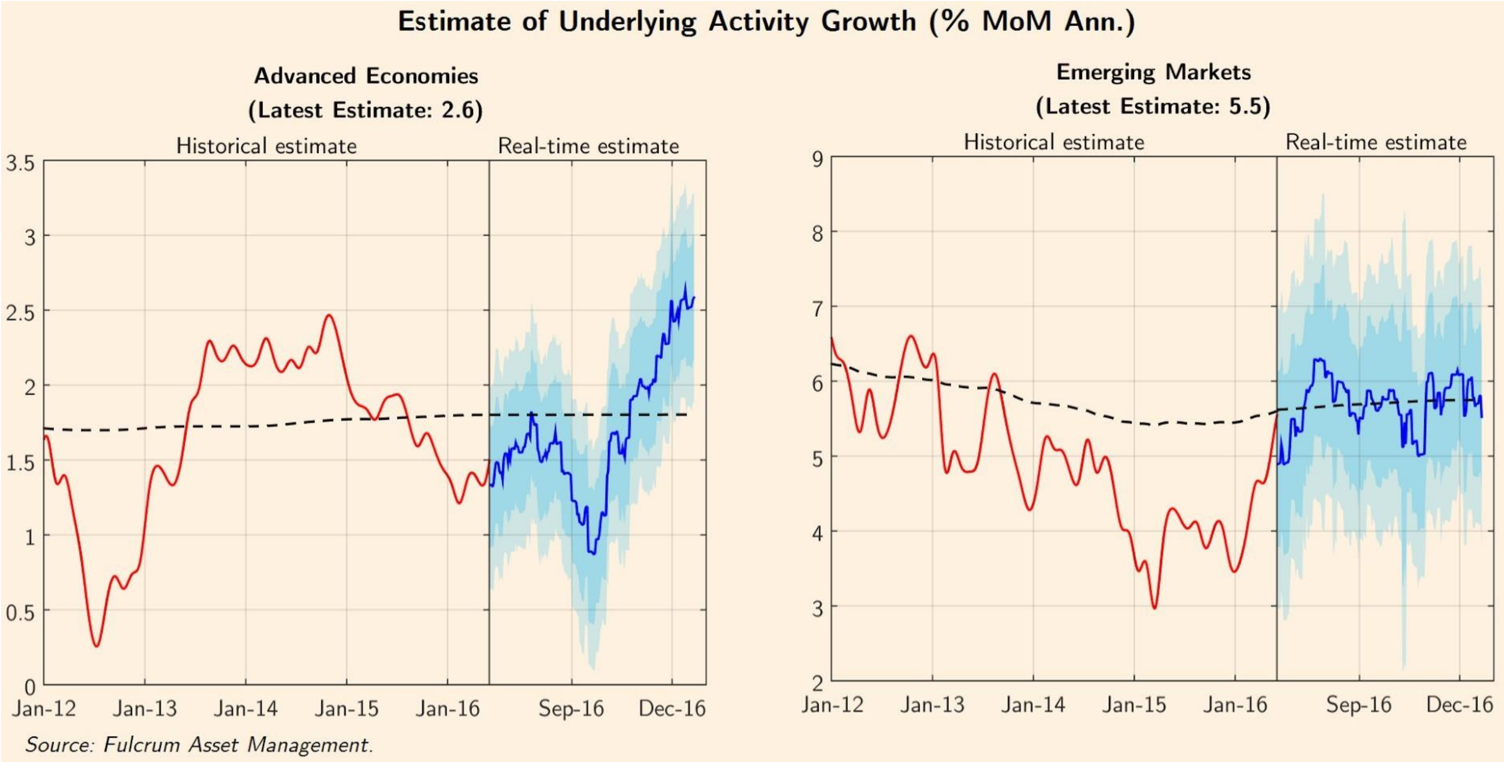


Note: The lines represent the evolution over time of 2014, 2015, 2016 and 2017 annual forecasts.
Source: Consensus Economics, Fulcrum Asset Management

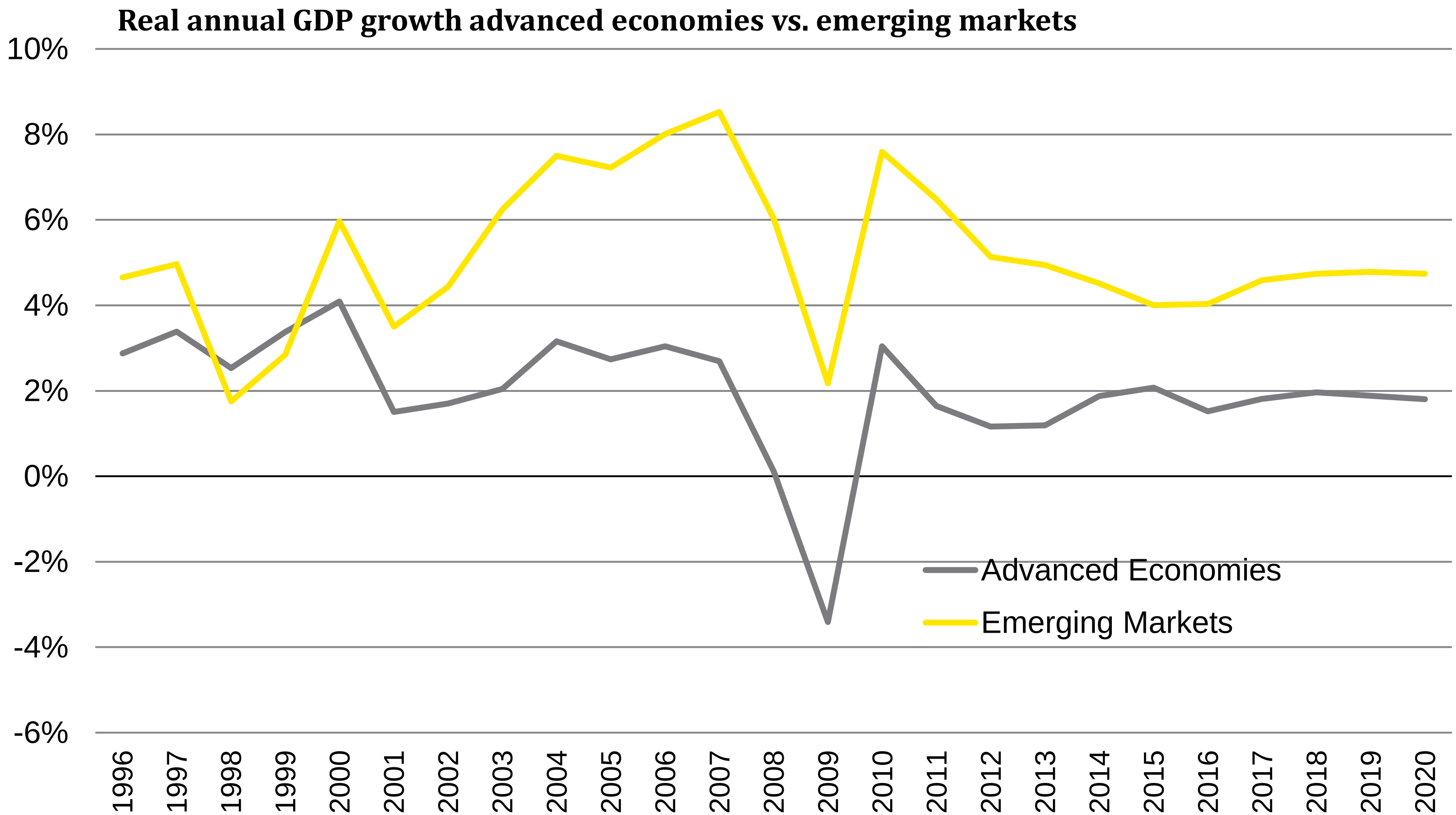


Note: The black dashed line represents the model's estimate of long-run growth. The real-time estimate of underlying activity (blue line) considers only the data available at each point in time. The historical estimate (red line) uses all available data as of today, including revisions.
Source: Fulcrum Asset Management.

Growth running above trend - especially in advanced economies



Advanced economies slowed in 2016; signs of recovery – but growing impatience after the GFC?



Source: Oxford Economics forecasts updated December 2016; countries weighted at PPP exchange rates

Many major economies face long run demographic challenges: ageing populations a drag on growth

Broadening the tax base is becoming more important?

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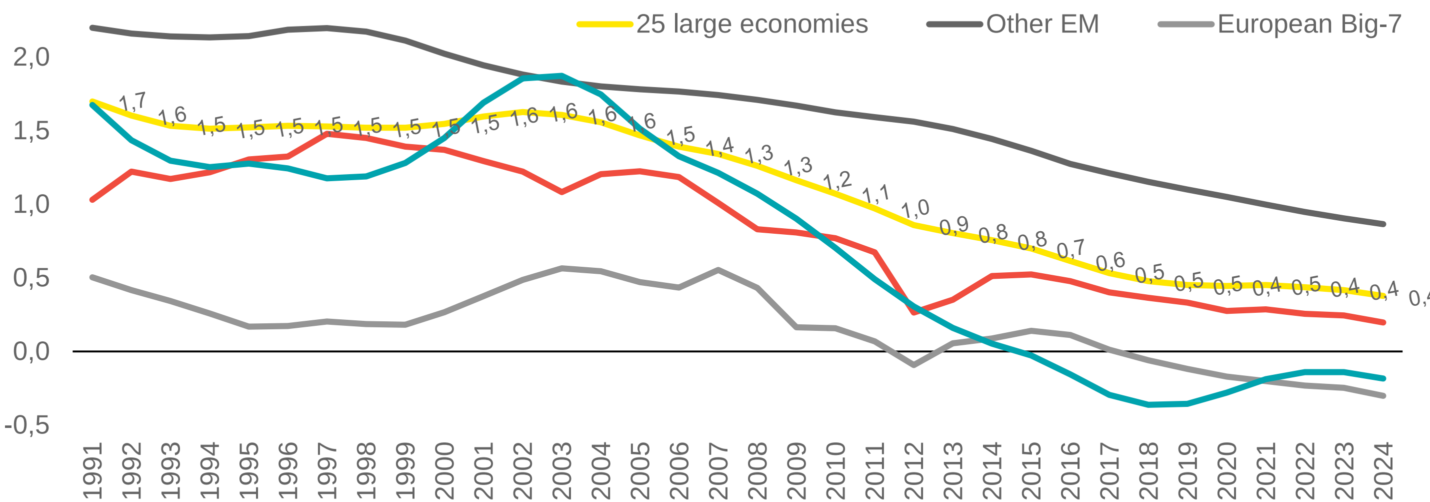
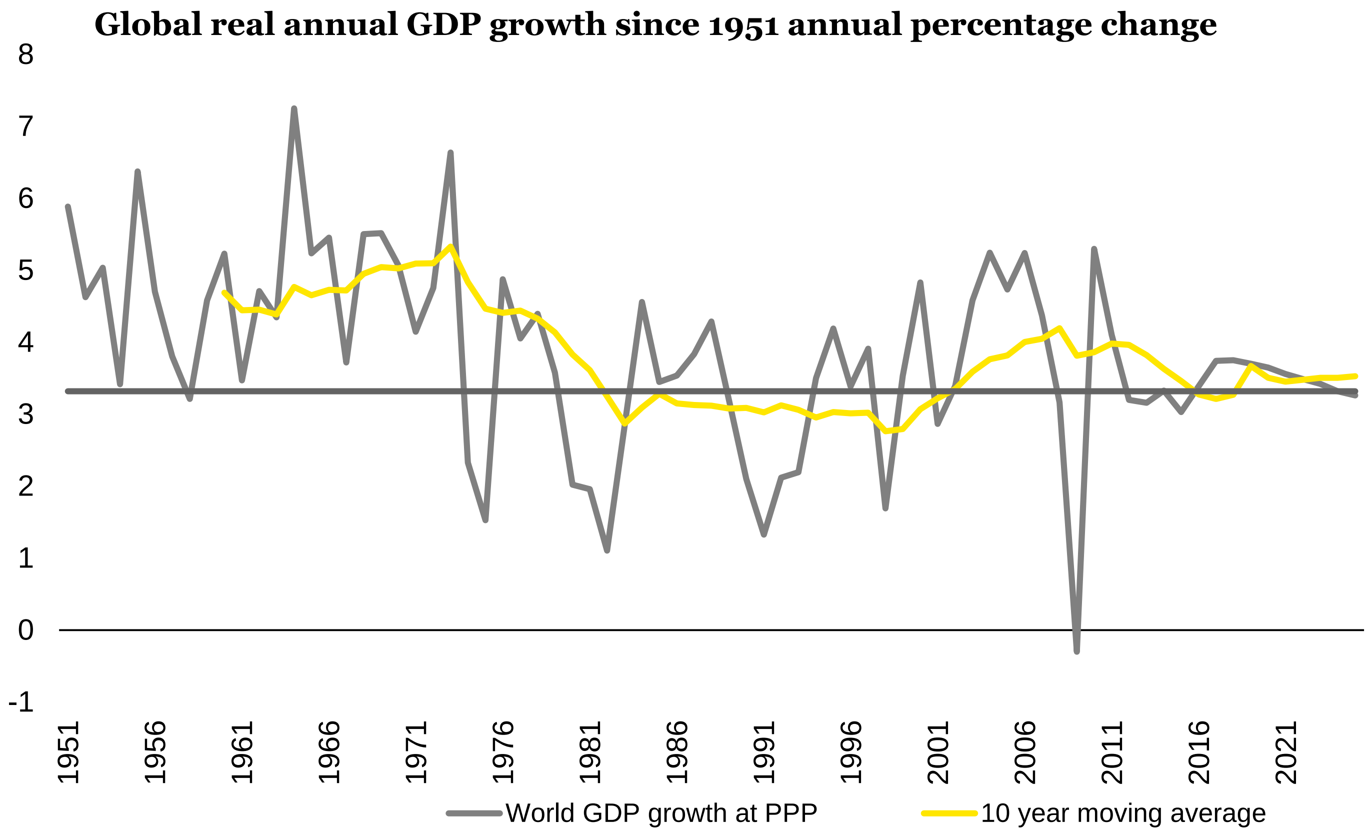
World working population; annual percentage change



Main efficiency and cost-related arguments in favour of broad tax bases as a growth-oriented tax strategy			
Increased allocative efficiency	**Reduction in administrative, enforcement and compliance costs**	**Increased tax compliance**	**Lower tax rates**
Minimizes the distortions and resulting dead weight losses that arise if different tax rules apply to similar types of taxpayers or types of activity	Simplify the tax system and result in lower tax administration, enforcement and compliance costs for the taxpayers	Lead to higher rates of tax compliance, mainly because the opportunities for tax-arbitrage behaviour are reduced	Increases tax revenues which can finance tax rate reductions, leading to further efficiency gains and reductions in tax avoidance and evasion incentives

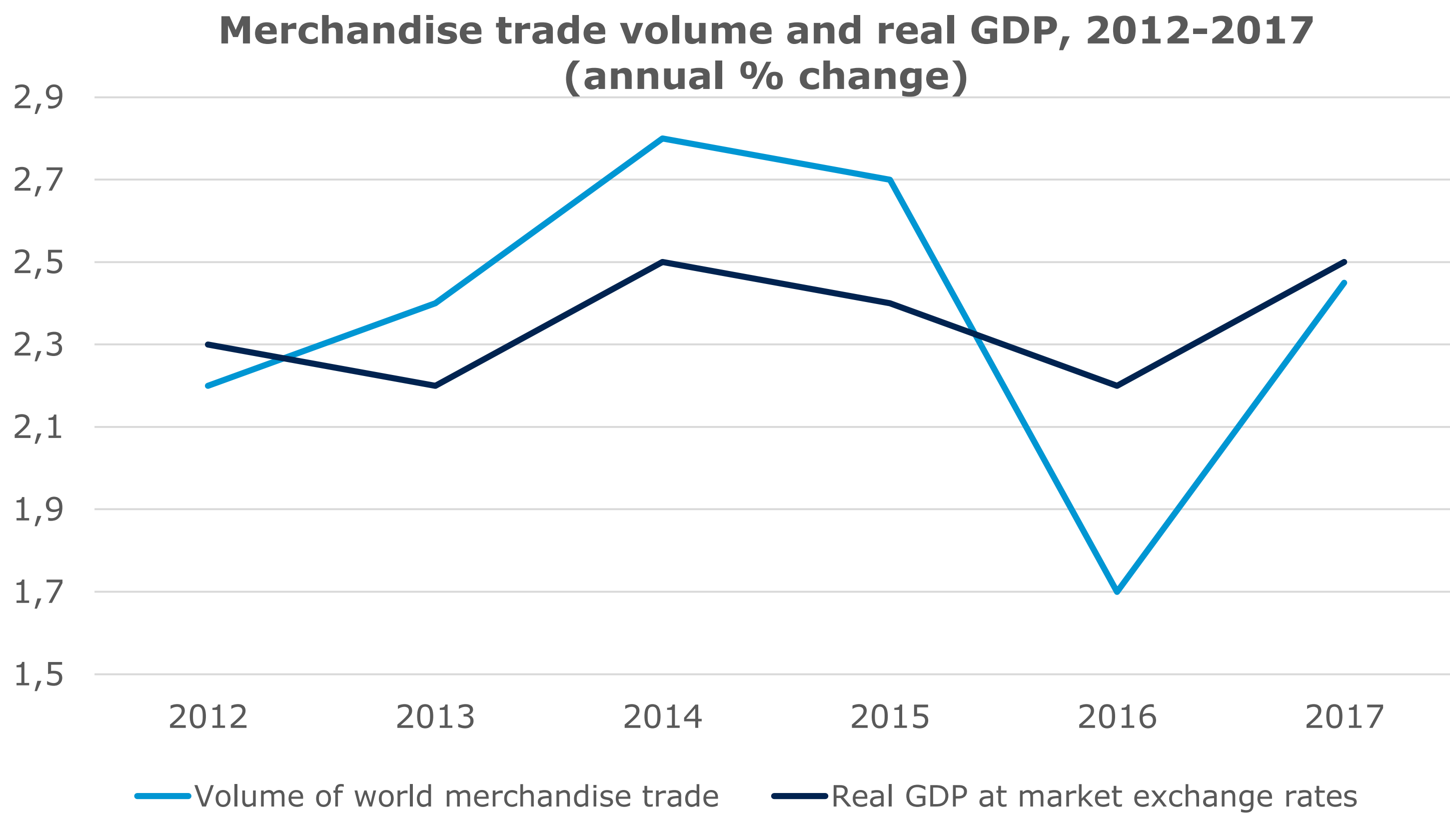
Source: Oxford Economics; "Tax Policy Reform and Economic Growth", OECD, accessed 2010

Weaker productivity growth + demographic challenge is leading to worries of permanently slower growth



Trade

Trade in 2016 moved at slowest pace since the GFC - but is expected to pick up in 2017



Source: World Trade Organisation

Potential shocks, concerns in 2017

- Continued weak growth, ten years on from the GFC
- Rising populism / protectionism / nationalism
- Elections – Germany, France
- Brexit
  - Greece?
- US political environment, impacts
  - US tax reform / border adjustability
  - Non-US government responses? (see later slide)

Section II

Government finance update

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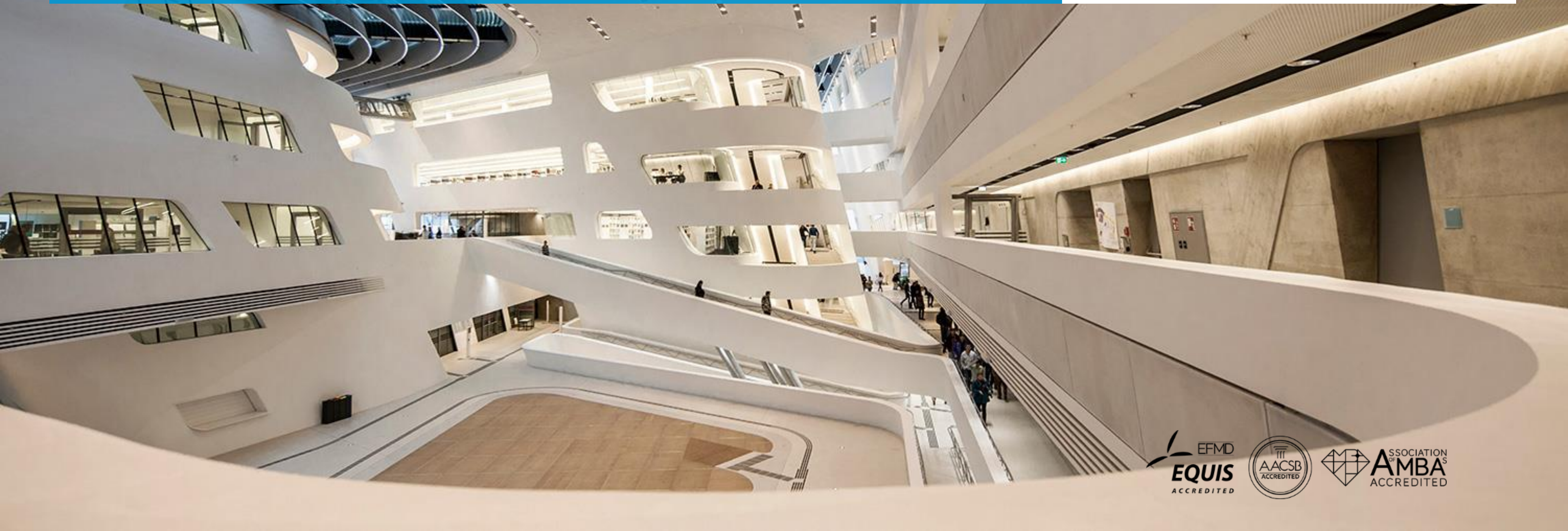
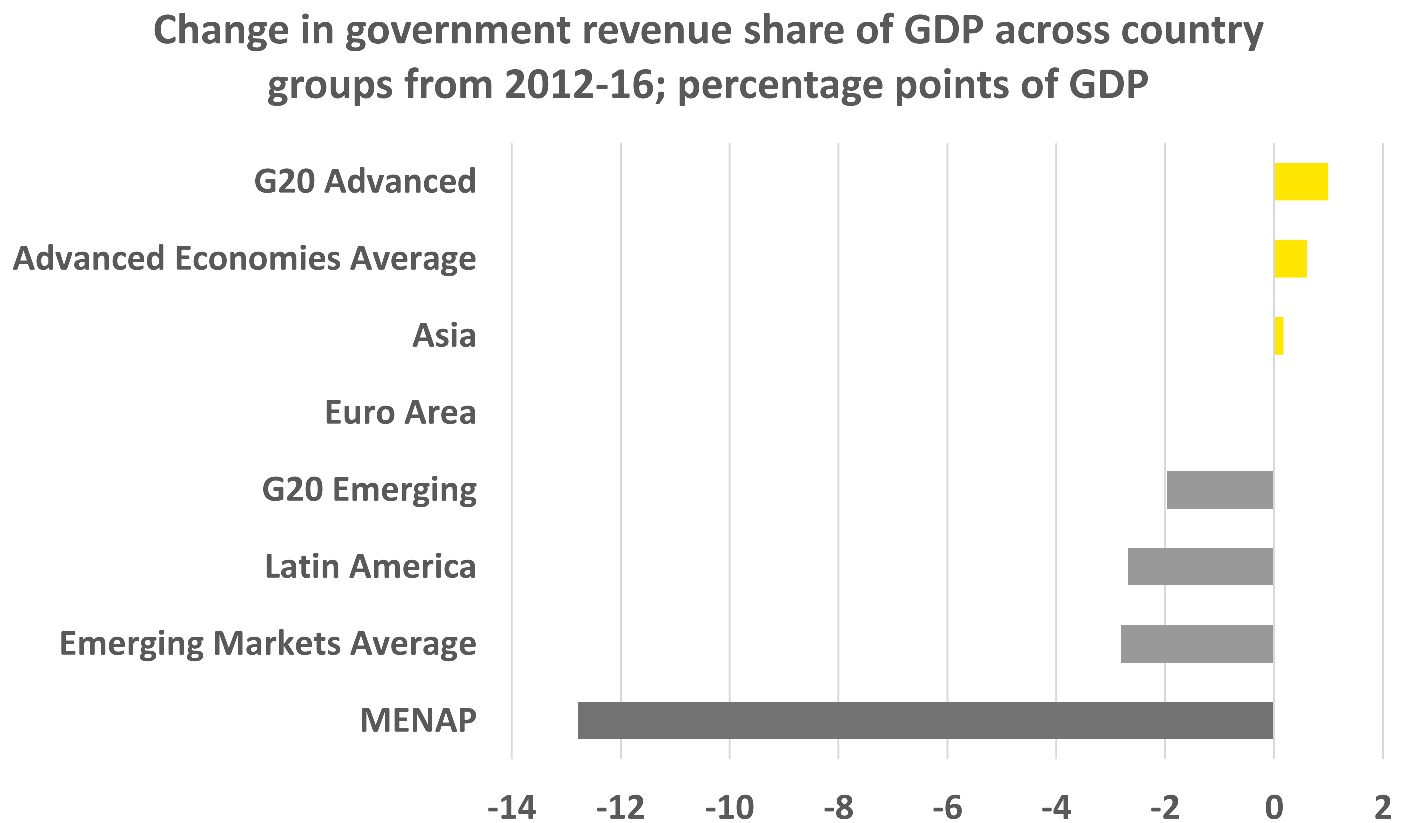


Over the last four years advanced economy governments increased revenues to reduce deficits, but emerging markets suffered a big drop in revenues & now saddled with large budget deficits



Budget deficits have come down but most major advanced economies still in deficit, sustaining pressure on tax administrations to maximize return as 'austerity fatigue' sets in

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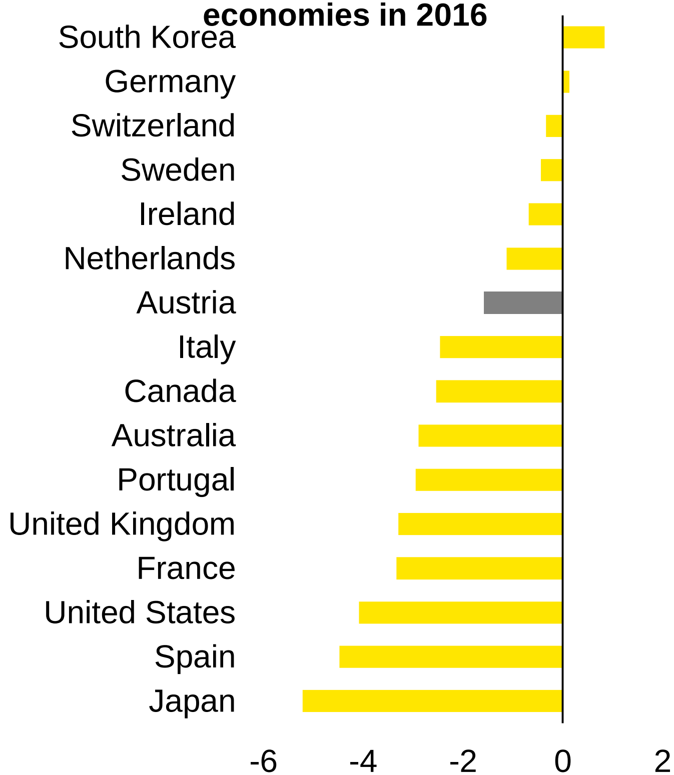
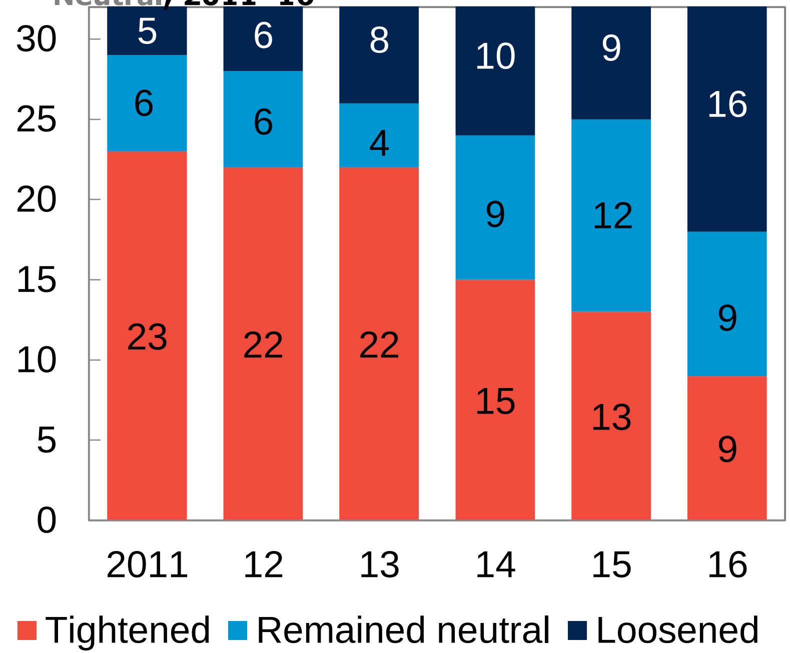
Government budget deficit % GDP across selected advanced economies in 2016



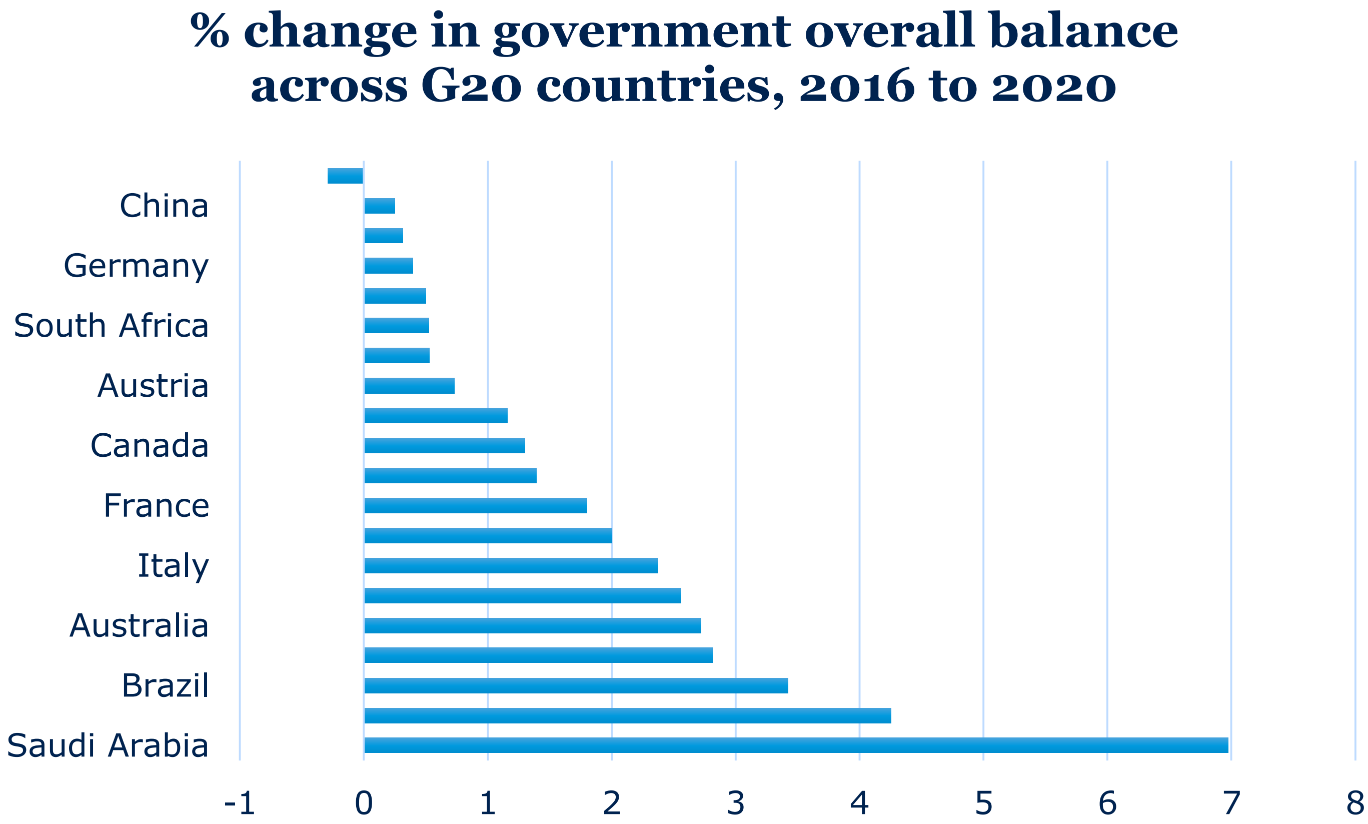
Source: IMF Fiscal Monitor data; October 2016

Number of advanced economies where Fiscal Stance was Tightened, Loosened, or Remained Neutral, 2011–16



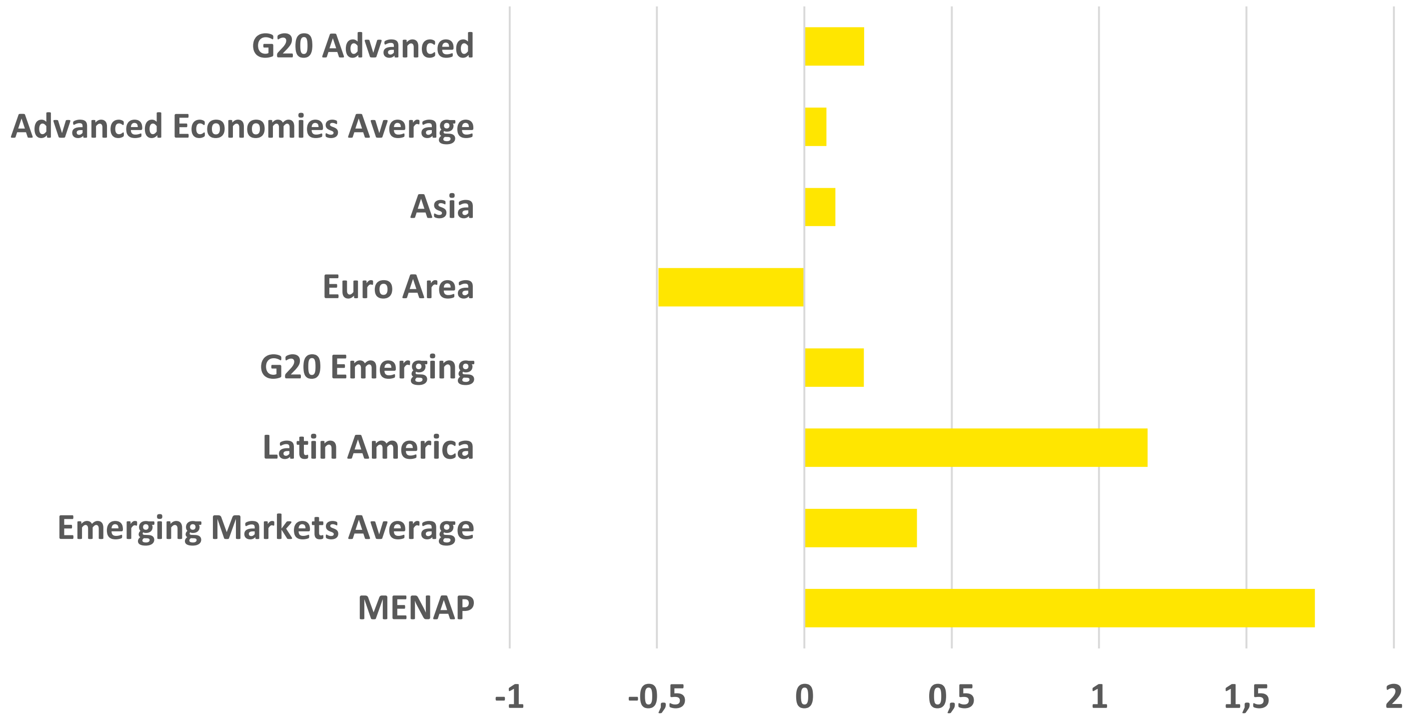
Fiscal stance is tightened if the ratio of the structural primary balance to potential GDP improves by at least 0.25 percent per year, it is loosened if it deteriorates by at least 0.25 percent per year, remains neutral otherwise. In panels 4 and 5, the fiscal stance in 2015-16 is based on the change in the structural primary balance to potential GDP between 2014 and 2016.

Almost all G20 governments seeking to reduce budget deficits in the coming years



Governments will be looking to raise revenues over the coming four years – emerging markets especially

Change in government revenue share of GDP across country groups from 2016-20; percentage points of GDP



Section III

Tax burden, mix analysis

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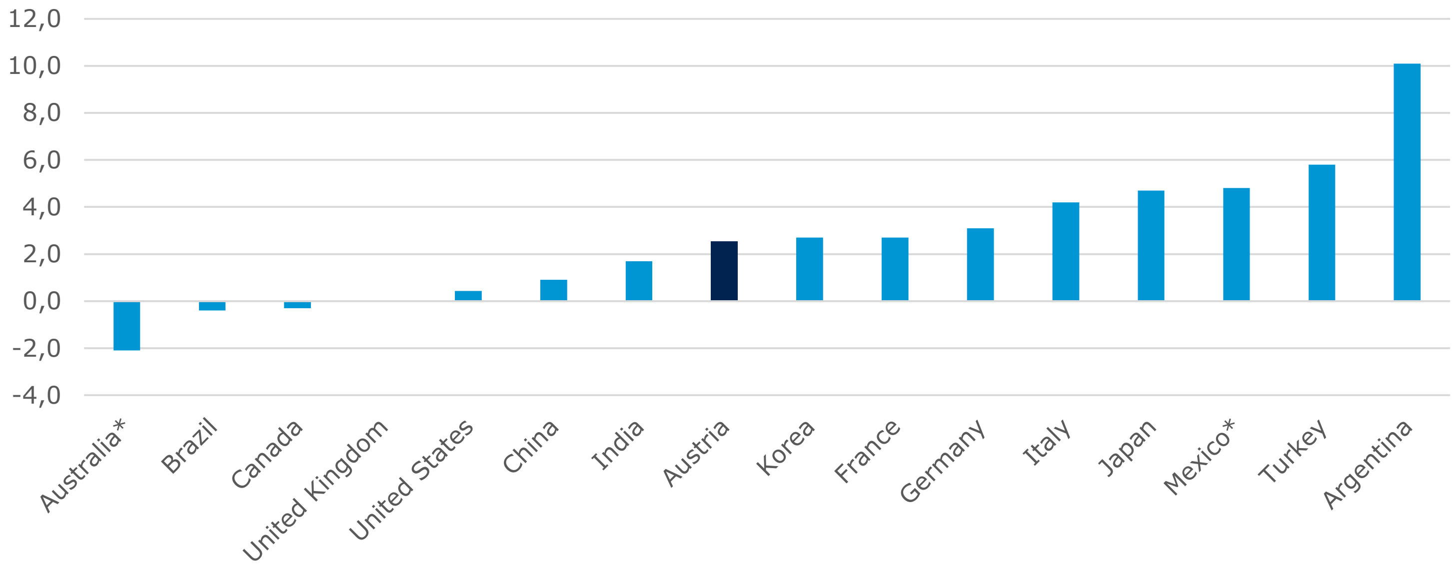
In general, tax burdens have been increasing across the global economy post financial crisis

Change in tax share of GDP across G20; percentage points 2005-15

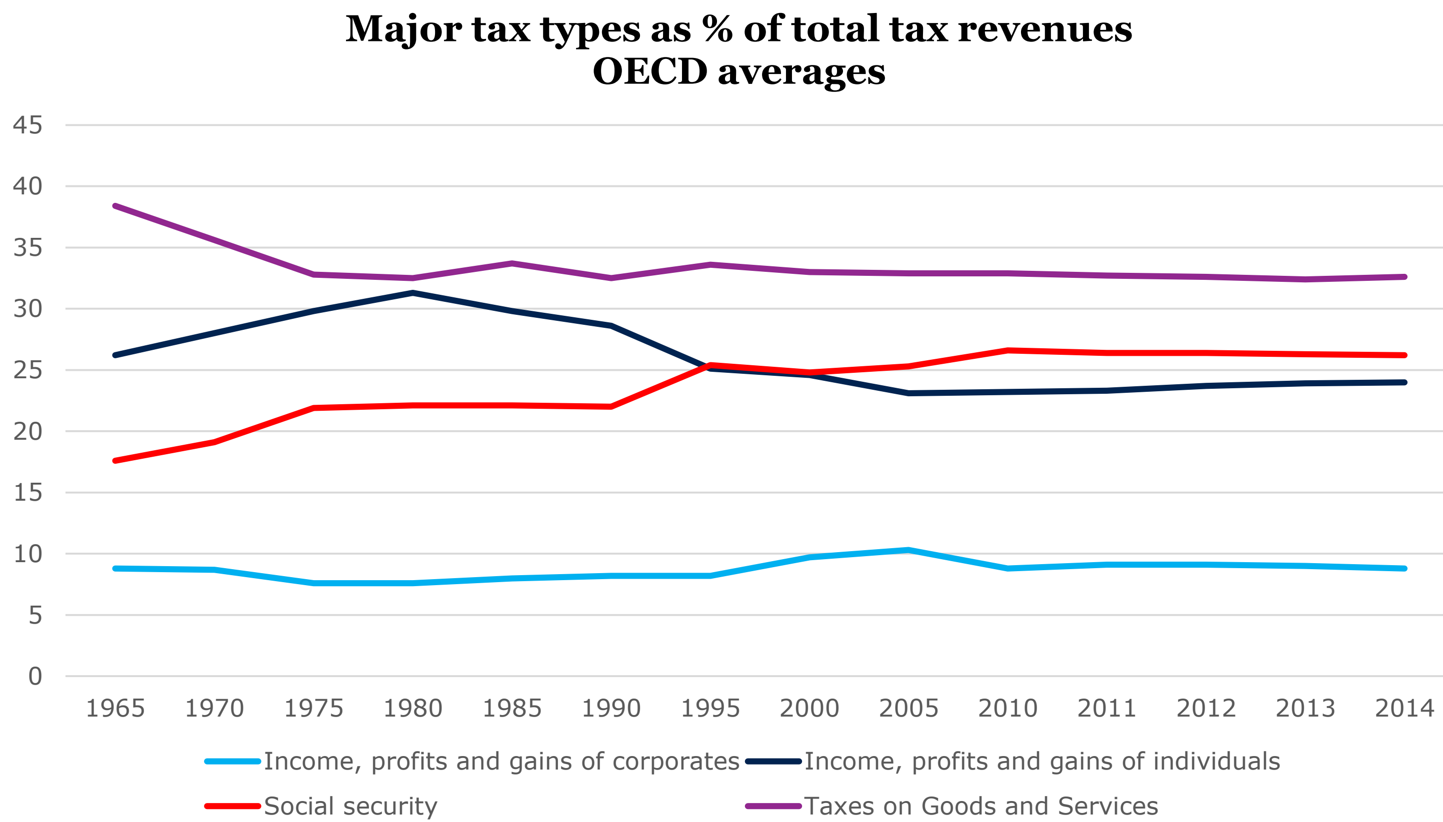


Source: EY Knowledge analysis of OECD data

*Data until 2014

Major tax types as % of total tax revenues

1965-2014 OECD averages



Austria: Major tax types as contributors of total tax revenues

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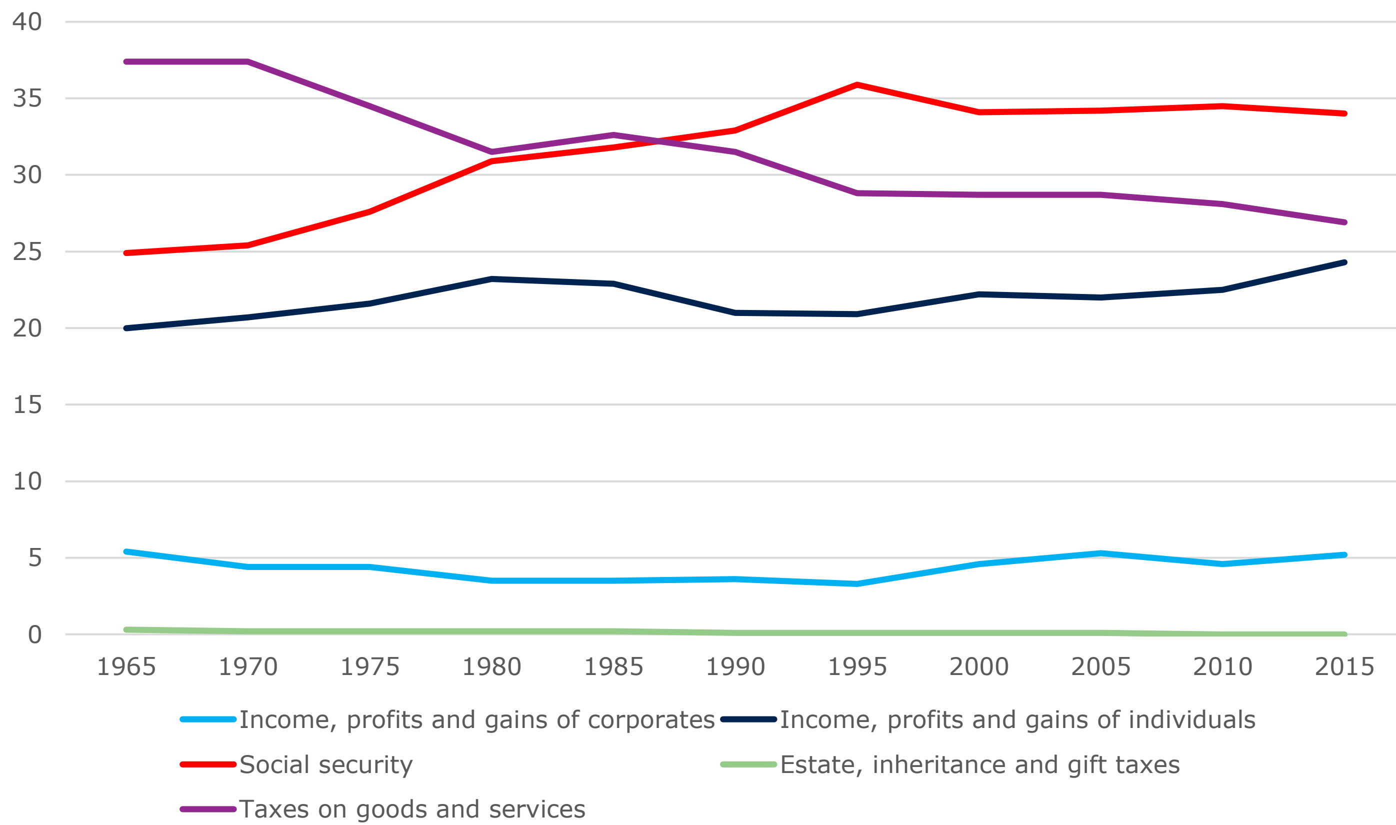

Tax policy outlook for 2017

"In 2017, there seems little to temper jurisdictions' desires to possess a competitive, 'low-rate, broad-base' business tax environment, continuing a trend that we have seen play out for some years.

Headline corporate income tax rates continue to fall. The number of countries forecast an increasing business tax burden continues to outstrip those forecasting a reducing burden, cementing the "broad-base" component of the trend – but at a slightly lower pace than in previous years.

Some tax measures are demonstrating a growing showing year on year incidence, while others are showing a similar fall in their use. And of course, BEPS-related changes are starting to snowball - and will probably continue to do so - across a broad range of tax measures, due to the imminent availability of the OECD's MLI.

But tax Incentives – both those supporting research and development (R&D) activity and also broader business investments of both new and continuing forms – are experiencing what can arguably be described as a positive knock-on effect in 2017.

Here, a "BEPS-effect" may be creating a rising tide of government support for more "acceptable" ways to deliver cutting-edge, competitive tax systems that in turn provide opportunities for business to gain support for new or enhanced investments or research activities."

In contrast, the relative contribution of corporate tax revenues has tended to decline over the last decade

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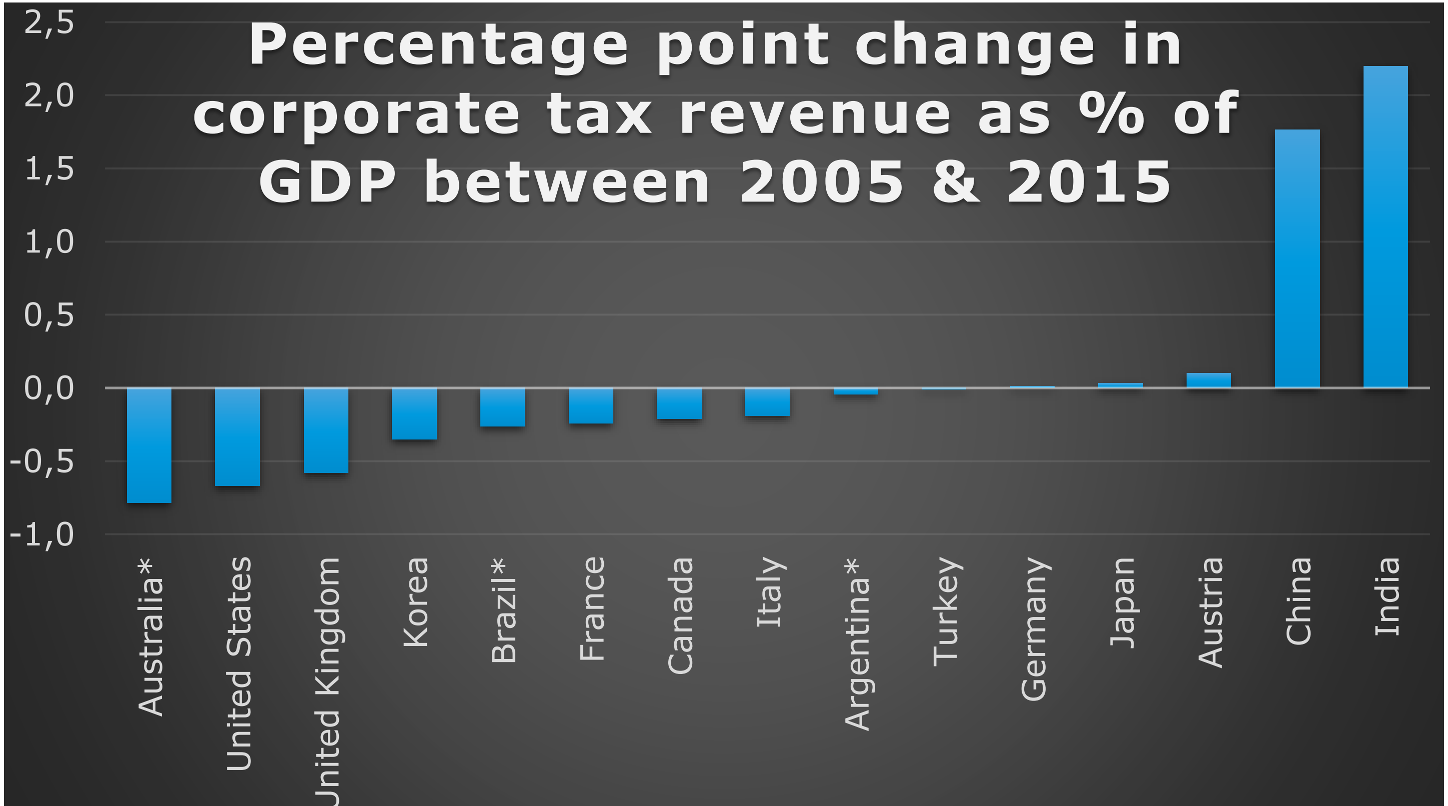
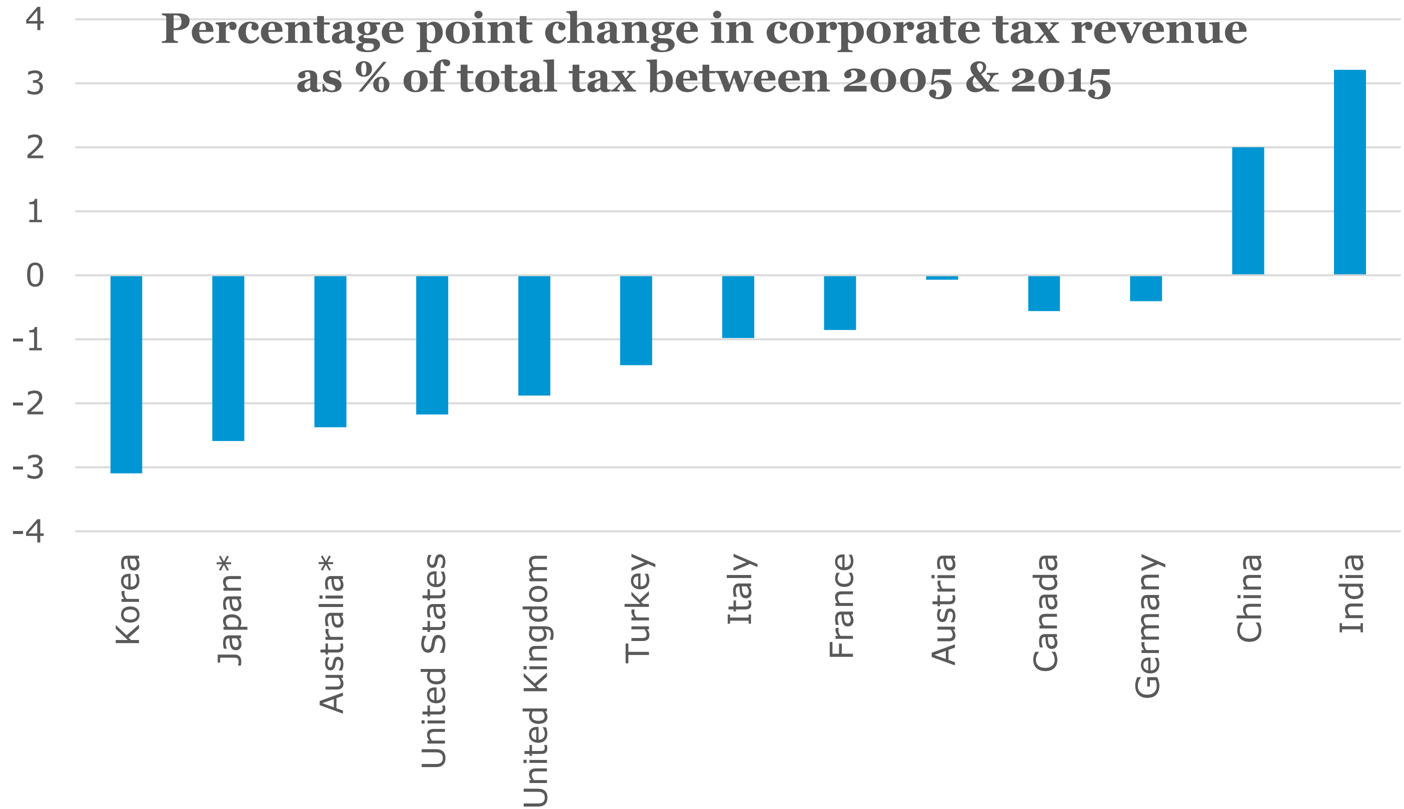


Source: EY Knowledge analysis of OECD data

*Data until 2014

Hence the relative contribution of corporate tax revenues to overall tax revenue has declined over the last decade



As countries compete for inward investment, corporate income tax rates have declined – decreasing the corporate income tax share of overall tax revenues

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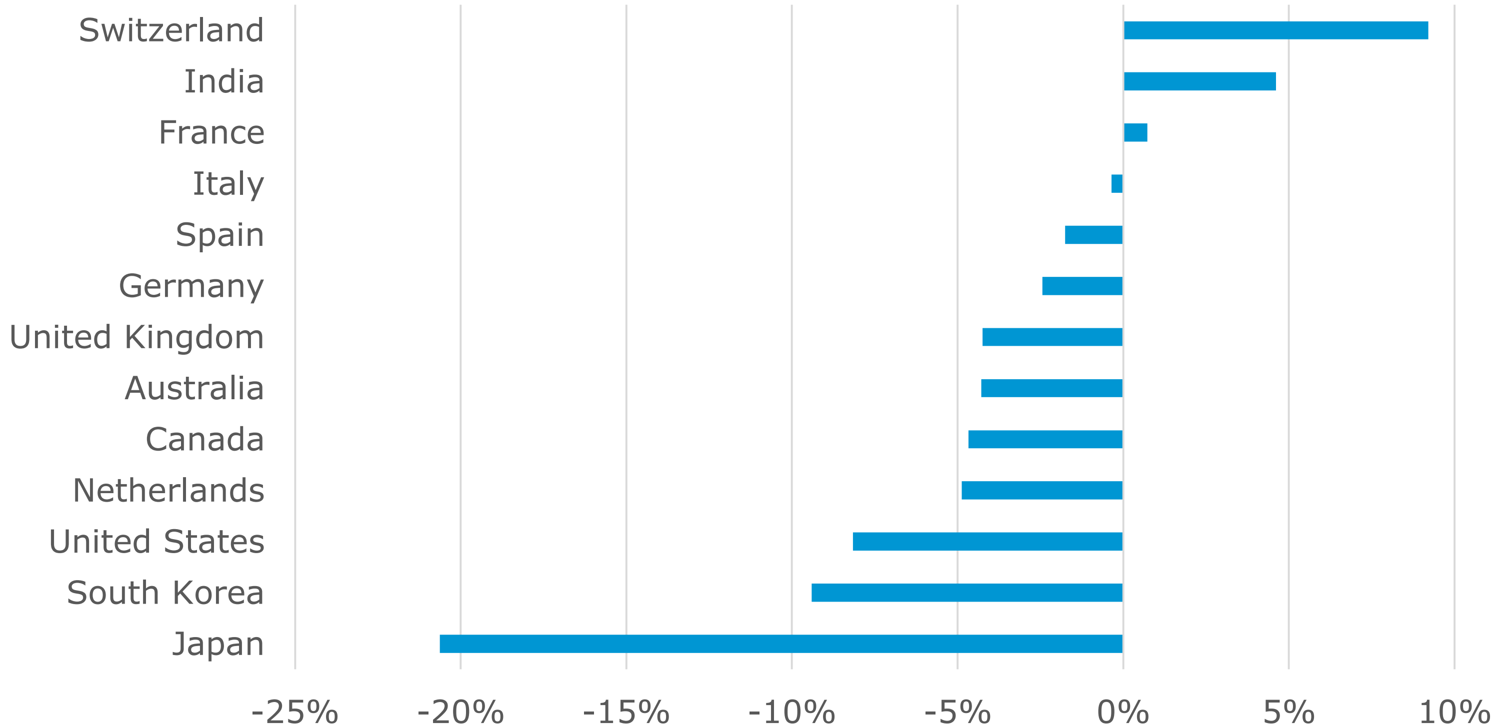
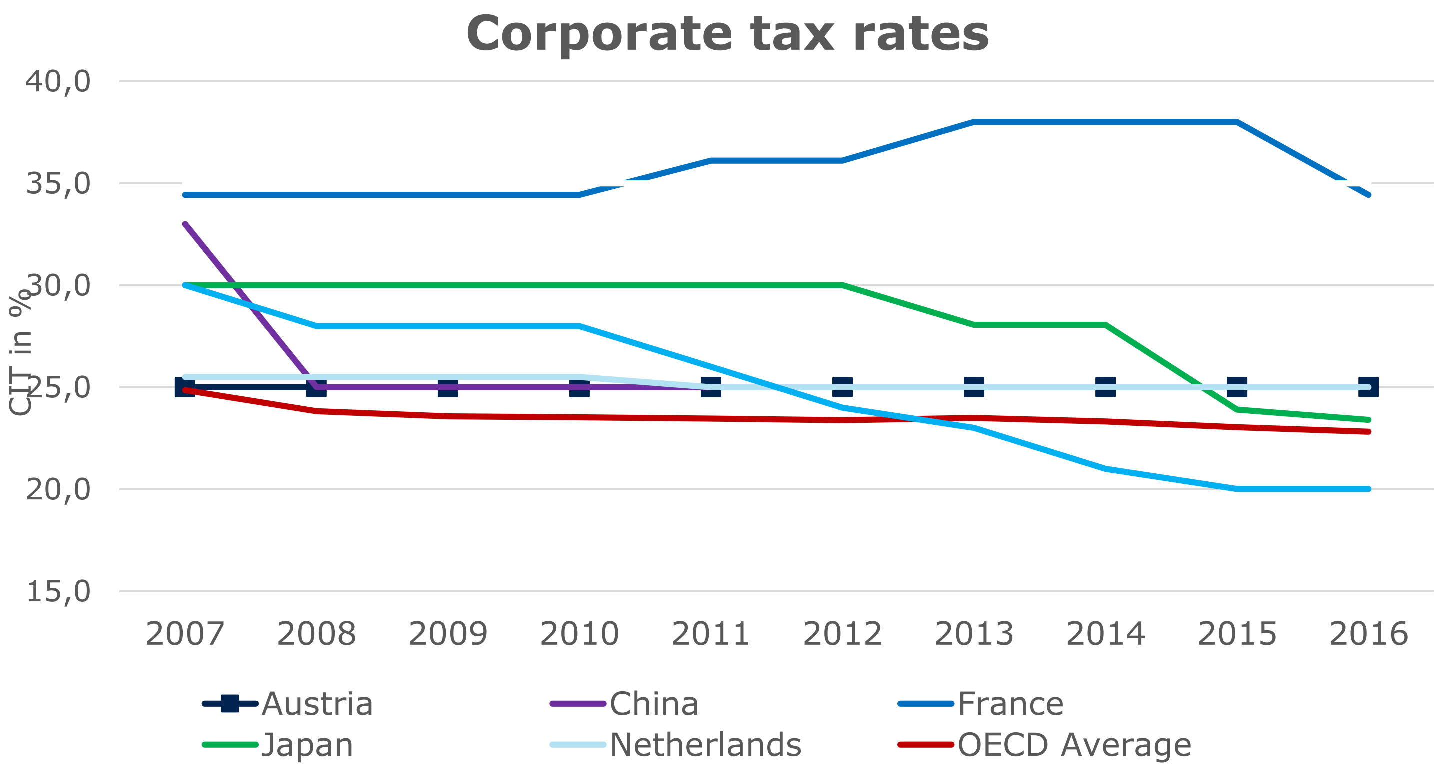
Long run analysis of total corporate tax share of total tax revenues, % point difference between 2000 & 2015



Source: EY Knowledge analysis of Oxford Economics & OECD data

*Data until 2014

Among major economies corporate income tax rates have generally been on a downward trend



Source: OECD; EY Tax Policy Outlook, Trading Economics

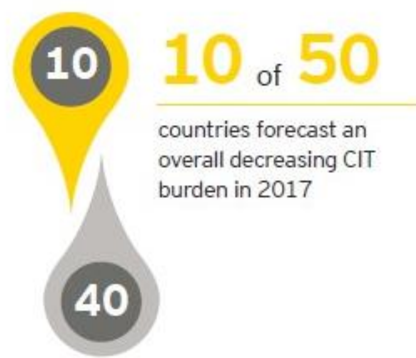
CIT rates / burden in 2017

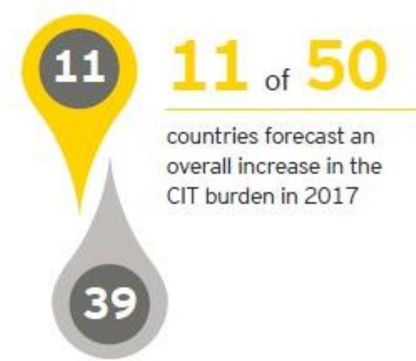
The countries reducing headline corporate tax rates in 2017 — listed in order of size of decrease — are:

- Hungary, from 19% to 9% (–52.6%)
- Italy, from 31.4% to 27.9% (–11.1%)
- France, from 38% to 34.4% (-9.4%)
- Luxembourg, from 29.2% to 27.1% (–7.2%)
- United Kingdom, from 20% to 19% (-5%)
- Slovakia, from 22% to 21% (–4.5%)
- Israel, from 25% to 24% (–4%)
- Norway, from 25% to 24% (–4%)

Excluding Malaysia (see speaker notes)

Israel and the United Kingdom are the only countries reducing rates in 2017 who also reduced rates in 2016





Russia report that their CIT burden outlook is *mixed*

Business taxes: base changes (contracting and broadening) 2015-2017

Positions	2015	2016	2017
1	Hybrid mismatches	Transfer pricing	Enforcement changes
2	Enforcement changes	Enforcement changes	Transfer pricing
3	Thin capitalization	Hybrid mismatches	Other business incentives
4	Transfer pricing	Other business incentives	R&D incentives
5	R&D incentives	R&D incentives	Capital gains tax
6	Other business incentives	Capital gains tax	Hybrid mismatches
7	Interest deductibility	Interest deductibility	Controlled Foreign Companies
8	Controlled Foreign Companies	Treatment of losses	Treatment of losses
9	Treatment of losses	Thin capitalization	Interest deductibility
10	Capital gains tax	Controlled Foreign Companies	Thin capitalization

Source: EY *Global Tax policy outlook*

Business taxes: base broadeners 2017

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23

Burden-increasing changes are forecast in 23 jurisdictions as a result of increasing tax enforcement

23

Burden-increasing changes are forecast in 23 jurisdictions as a result of changing transfer pricing rules

7 of 50

countries forecast an increased tax burden due to interest deductibility changes

7 of 50

countries forecast an increased tax burden due to Controlled Foreign Company rule changes

7 of 50

countries forecast an increased tax burden due to Hybrid Mismatch rule changes

Awaiting Losses / CGT graphics

Fostering growth via tax measures

Renewed focus in incentivizing investment, innovation, research

- Trends
  - 11 of 50 countries in EY’s 2017 *Outlook for global tax policy* report foresee more generous R&D incentives in 2017
    - Higher incidence of completely new incentives mechanisms - Japan, Mexico and Poland (who may also introduce a new patent box in 2018).
  - 14 of the 50 countries in the report foresee more generous broader business incentives (depreciation, capital allowances, etc)
  - Revision of Patent / Innovation “Boxes”
  - New Patent / Innovation “Boxes” (Israel, Singapore)
- Why?
  - Stimulatory – sense of impatience ten years after GFC started
  - A more “acceptable face” of tax competition?
- Austria
  - R&D subsidy of 12% is granted for qualifying R&D expenses incurred by SMEs and large businesses. Companies are entitled to the subsidy whether they are in a tax loss or profit position. The subsidy is paid in cash.

Section IV

Recent developments in personal tax systems

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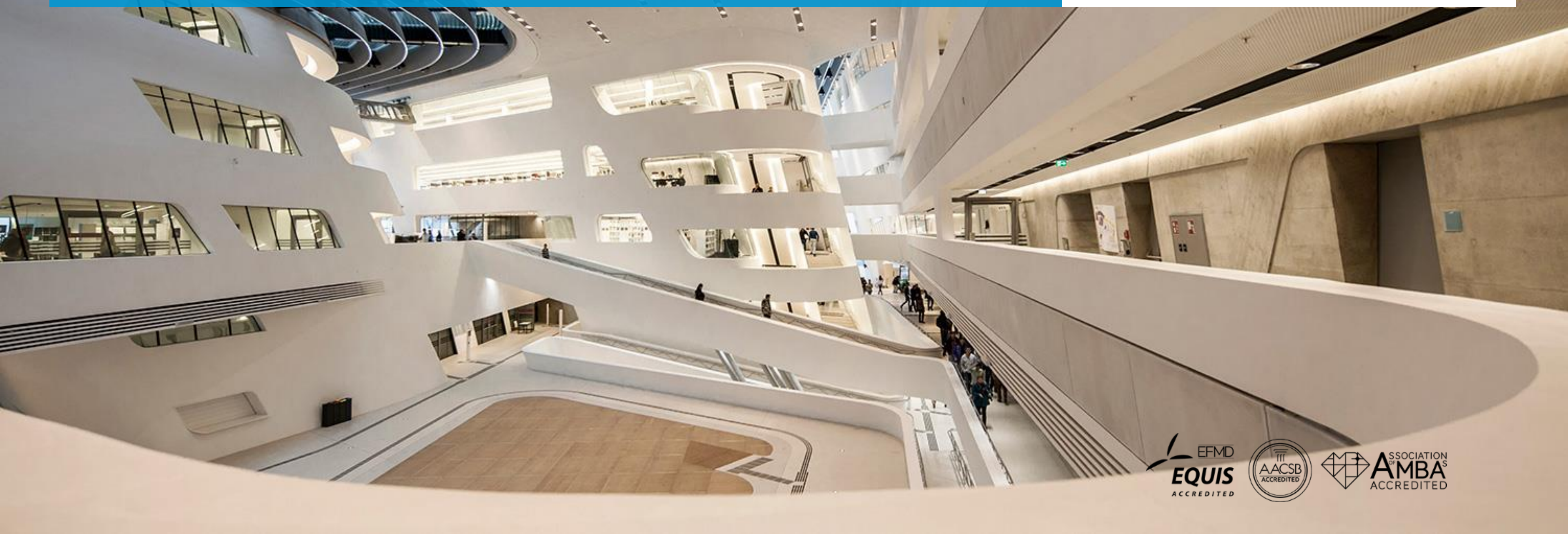
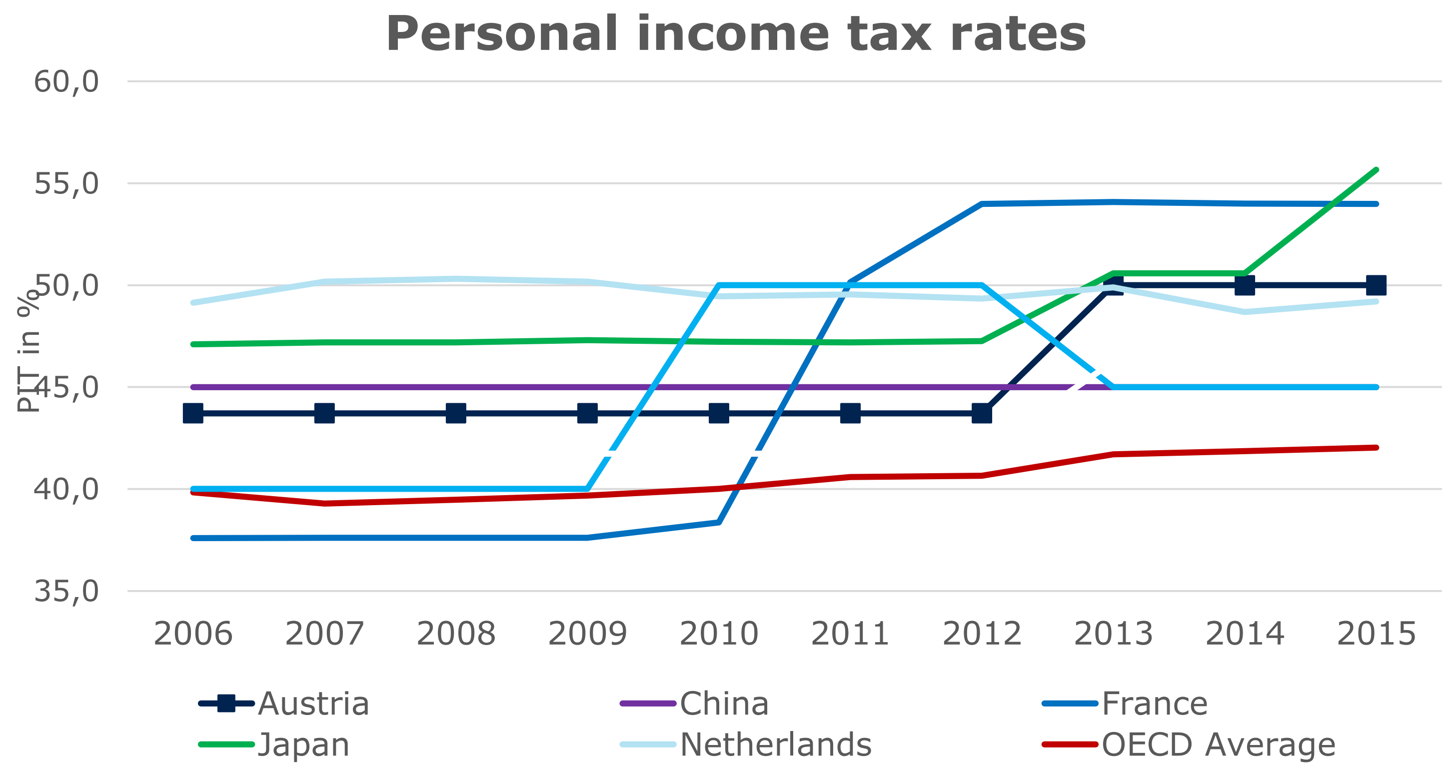


EFMD EQUIS ACCREDITED

AACSB ACCREDITED

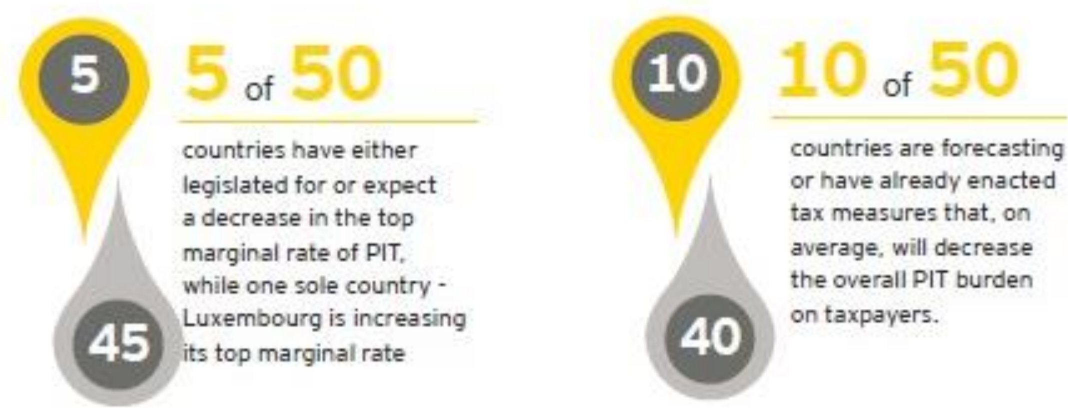
ASSOCIATION OF MBAS ACCREDITED

Mixed picture on top rates of personal income tax



Source: OECD; EY Tax Policy Outlook, Trading Economics

PIT rates / burden in 2017



Personal income taxes: base changes 2017

Base contraction (8 of 50)

- Argentina
- Australia
- Belgium
- China
- Finland
- Germany
- Luxembourg
- United Kingdom

Base broadening (7 of 50)

- India
- Israel
- Slovakia
- South Africa
- Switzerland
- Taiwan
- Vietnam

Section V

Taxes on capital and wealth

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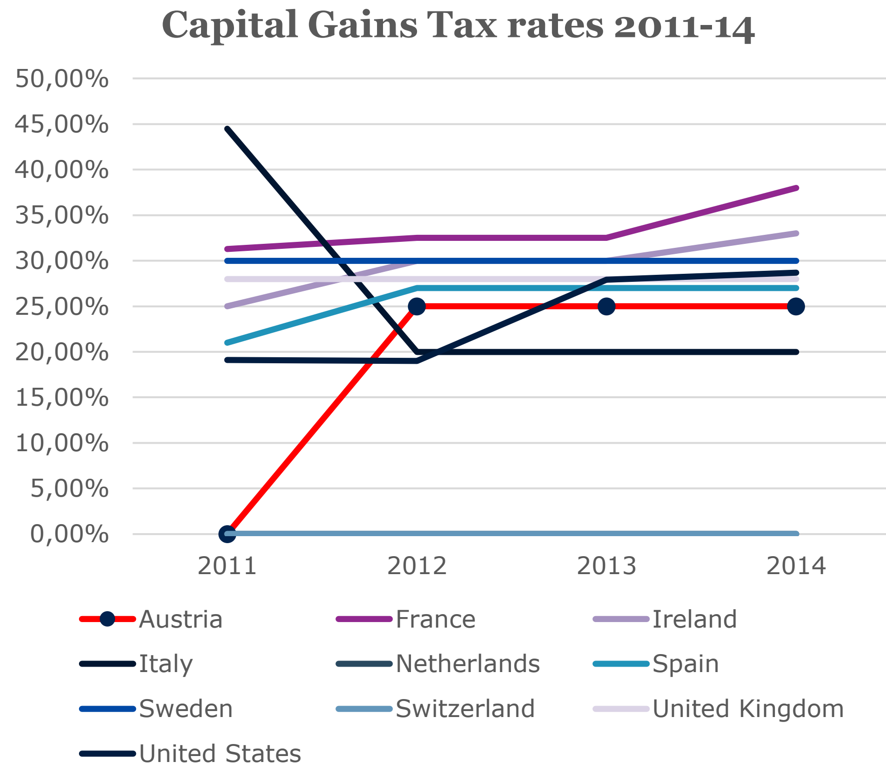
Capital Gains Tax (on individuals)



6 of 50 jurisdictions forecast burden increases in 2017 as a result of Capital Gains Tax increases

Belgium: Political parties constituting the Government publicly disagree on some points such as a capital gains tax on private capital gains on shares. Change possible in 2017

Brazil: Capital gains tax rate for Brazilian individuals has been increased from a 15% flat rate to a progressive rate system from 15% to 22.5%.

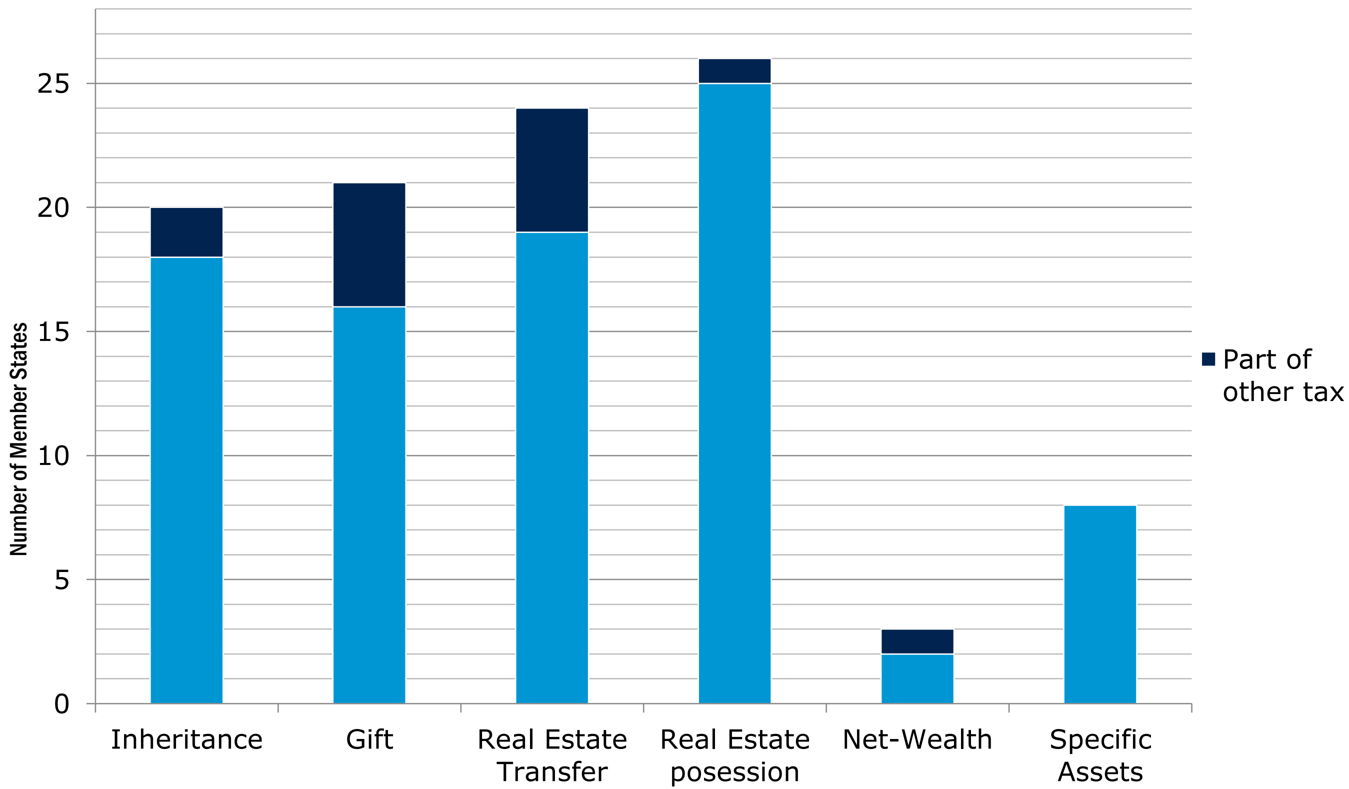
Chile: New real estate capital gain rules introduced in 2017

Norway: No further info

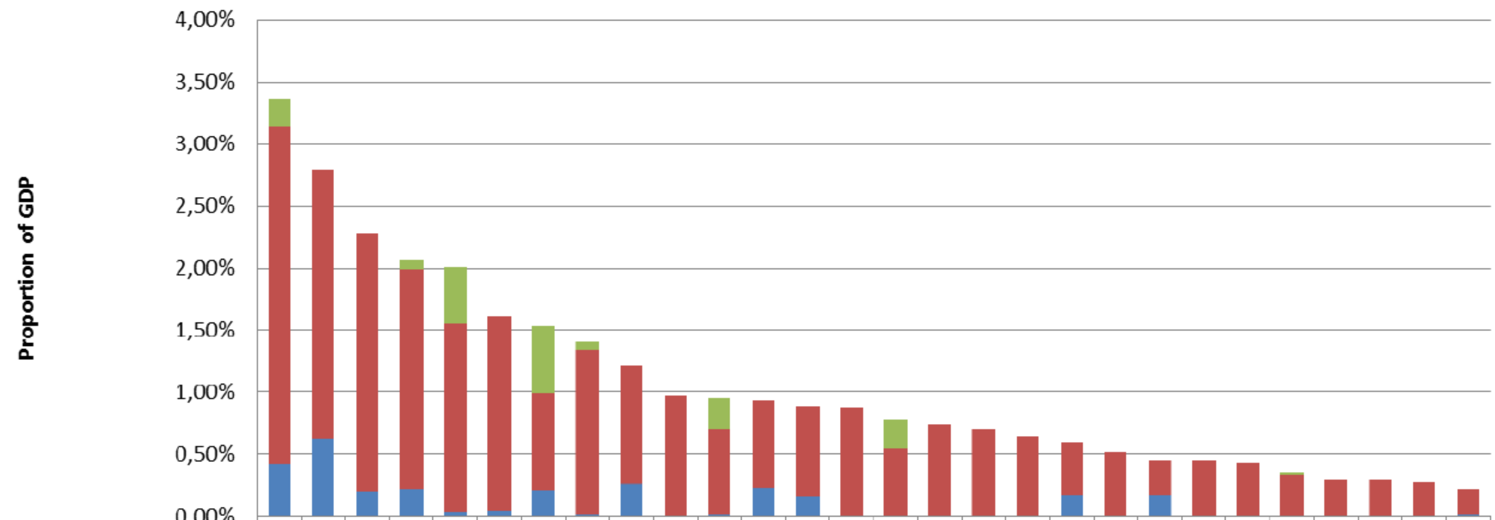
South Africa: November 2016: Government proposed to increase the inclusion rate for capital gains for individuals from 33.3% to 40 % and for companies from 66.6% to 80%

Turkey: A new exemption regulation, where a gradual system is accepted in proportion with the holding period, has been introduced for the capital gains derived from the sale of immovables, shares certificates, shares and other assets.

Wealth taxes in the EU
Number of EU MS with wealth taxes



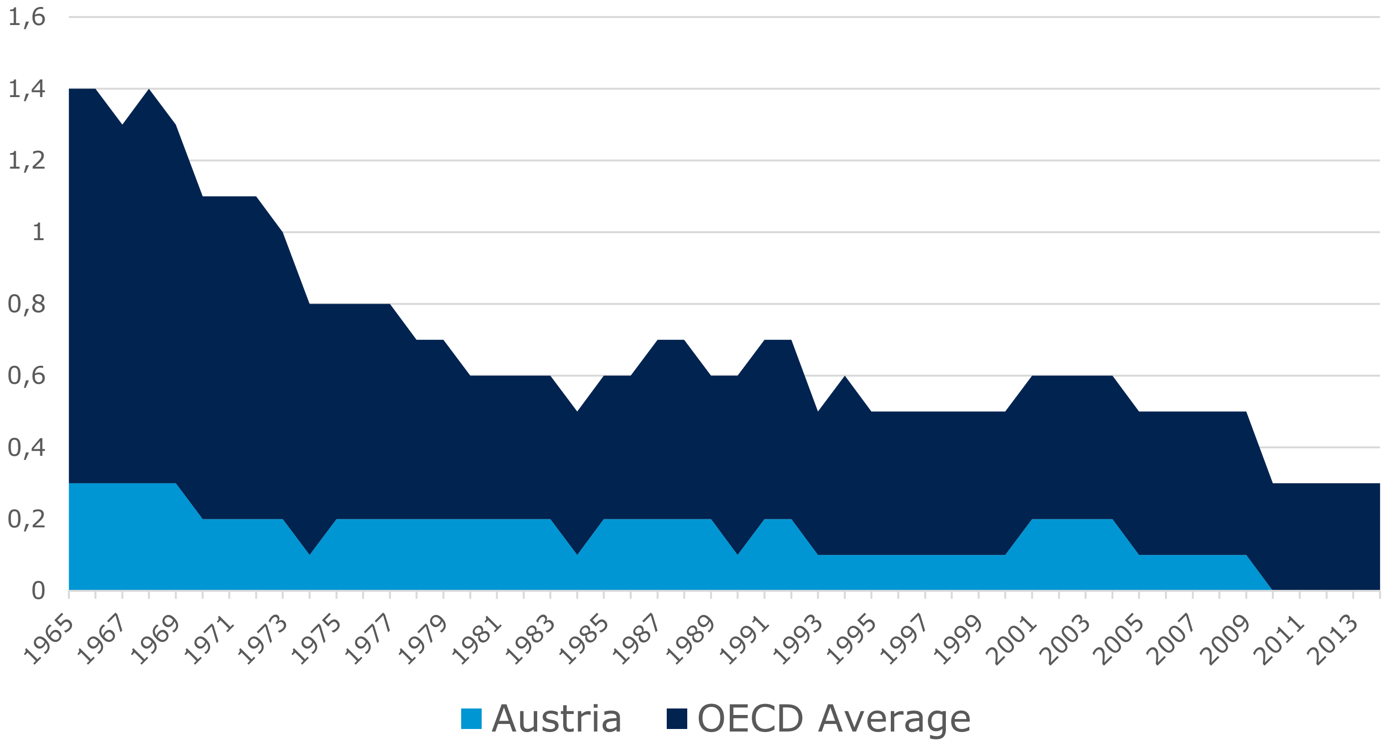
Relative importance of wealth taxes in the EU (% of GDP)



	FR	BE	UK	ES	IT	EL	DK	PL	FI	PT	HU	NL	DE	MT	BG	LV	CY	RO	LU	AT	IE	CZ	SK	EE	HR	SE	LT	SI
Net-wealth	0,2	0,0	0,0	0,0	0,4	0,0	0,5	0,0	0,0	0,0	0,2	0,0	0,0	0,0	0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Real estate and land	2,7	2,1	2,0	1,7	1,5	1,5	0,7	1,3	0,9	0,9	0,6	0,7	0,7	0,8	0,5	0,7	0,7	0,6	0,4	0,5	0,2	0,4	0,4	0,3	0,3	0,3	0,2	0,2
Inheritance and gift	0,4	0,6	0,2	0,2	0,0	0,0	0,2	0,0	0,2	0,0	0,0	0,2	0,1	0,0	0,0	0,0	0,0	0,0	0,1	0,0	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0

Austria: Estate, inheritance and gift taxes

% contribution to total tax revenues, with OECD average (OECD Code 4300)



Source: EY report for the European Commission, 2014

Inheritance and gift taxes

- 20 Member States tax inheritances, 21 tax Gifts
- Tax levied by the Central Government
- Low relative importance (av. 0.58% total tax revenue / 0.27% GDP)

- General structure of inheritance and gift taxes:

- Levied over the fair market value of a net-inheritance or gift;
- The tax payer is the heir or beneficiary;
- Most inheritance taxes (14 out of 18) are progressive;
- Gift taxes differ between flat taxes (7 out of 16) and progressive (9 out of 16);
- Close relatives are treated more favorably than third parties. In general they enjoy lower rates, higher exemptions or a combination of both;
- The (surviving) spouse or child are often fully exempt from paying inheritance or gift tax;
- Special regimes for business asset transfers are included in most taxes.

Real estate and land taxes

- 27 Member States tax the possession or transfer of real estate
- Tax levied by the Local (possession) or Central (transfer) Government
- Moderate relative importance (av. 2.98% total tax revenue / 0.85% GDP)

- General structure of real estate possession tax:

- The tax payer is the owner of the real estate;
- For the tax base a special tax value or a cadastral value is most often used;
- Because of the competence of the local governments rates will differ. Most central government however set a range of rates or coefficients which the local government can influence;
- In general the tax rates are relatively low, ranging between 1% and 3%;
- Tax rates will differ depending on the type of property;
- Exemptions from tax are numerous, but very specific and very practical. The taxes do not in general contain large scale exceptions eroding the tax base.

Real estate and land taxes
Additional conclusions

- General structure of real estate transfer tax

- The tax payer is the buyer of the real estate
- For the tax base is the fair market value represented by the transaction value
- In general the tax rates are flat
- Tax rate range between 1% and 8%;
- Tax rates will often differ depending on the type of property
- Exemptions from tax are much the same as taxes on the possession: numerous, but specific.

Net wealth taxes (NWT)

- In 1980 17 OECD member countries had NWT.
- By 2017, only 2 Member States have a net-wealth tax
- Low relative importance (av. 0.48% total tax revenue / 0.17% GDP)
- Trend noticeable: wealth taxes are being abolished

- General structure of net-wealth taxes

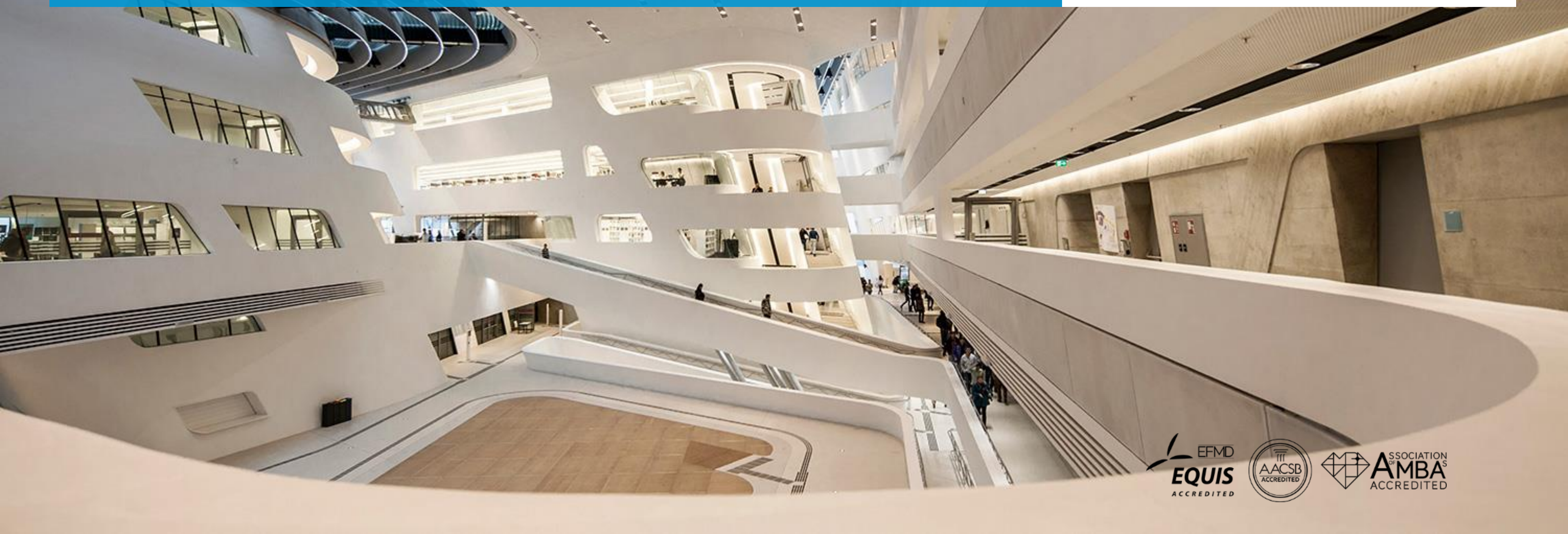
- Large tax-free threshold applies
- Exempt from the tax base are business assets
- The taxes are progressive, with rates between 0% and 2.5%

Time for a reassessment?

- Growing inequities in wealth
- Move away from progressive income taxes
- New exchange of information provisions reduce risk of non-compliance
- New technology open up easier compliance
- Possible source of financing of basic universal income?

Section VI

VAT



VAT and GST rates have been heading up in recent years although stable in Austria

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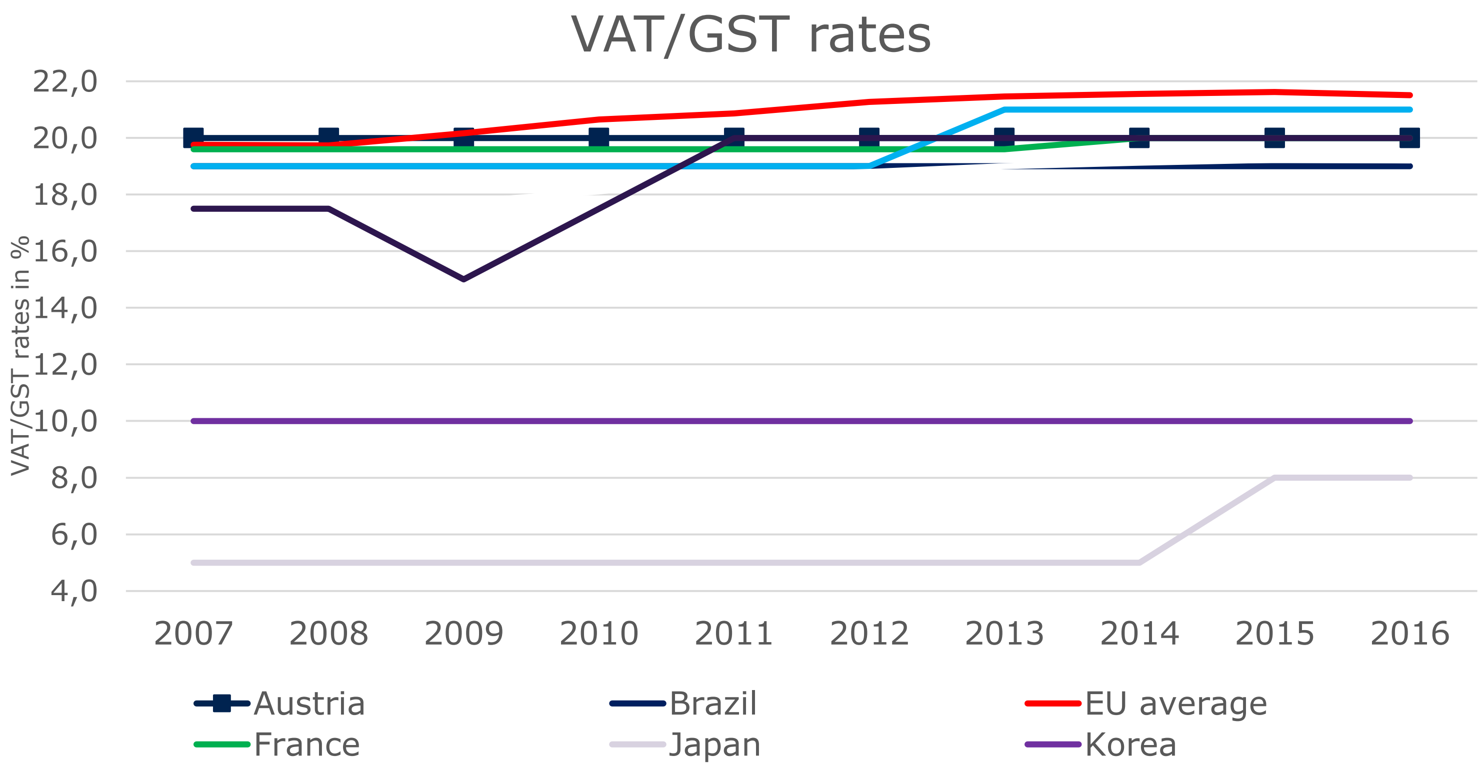
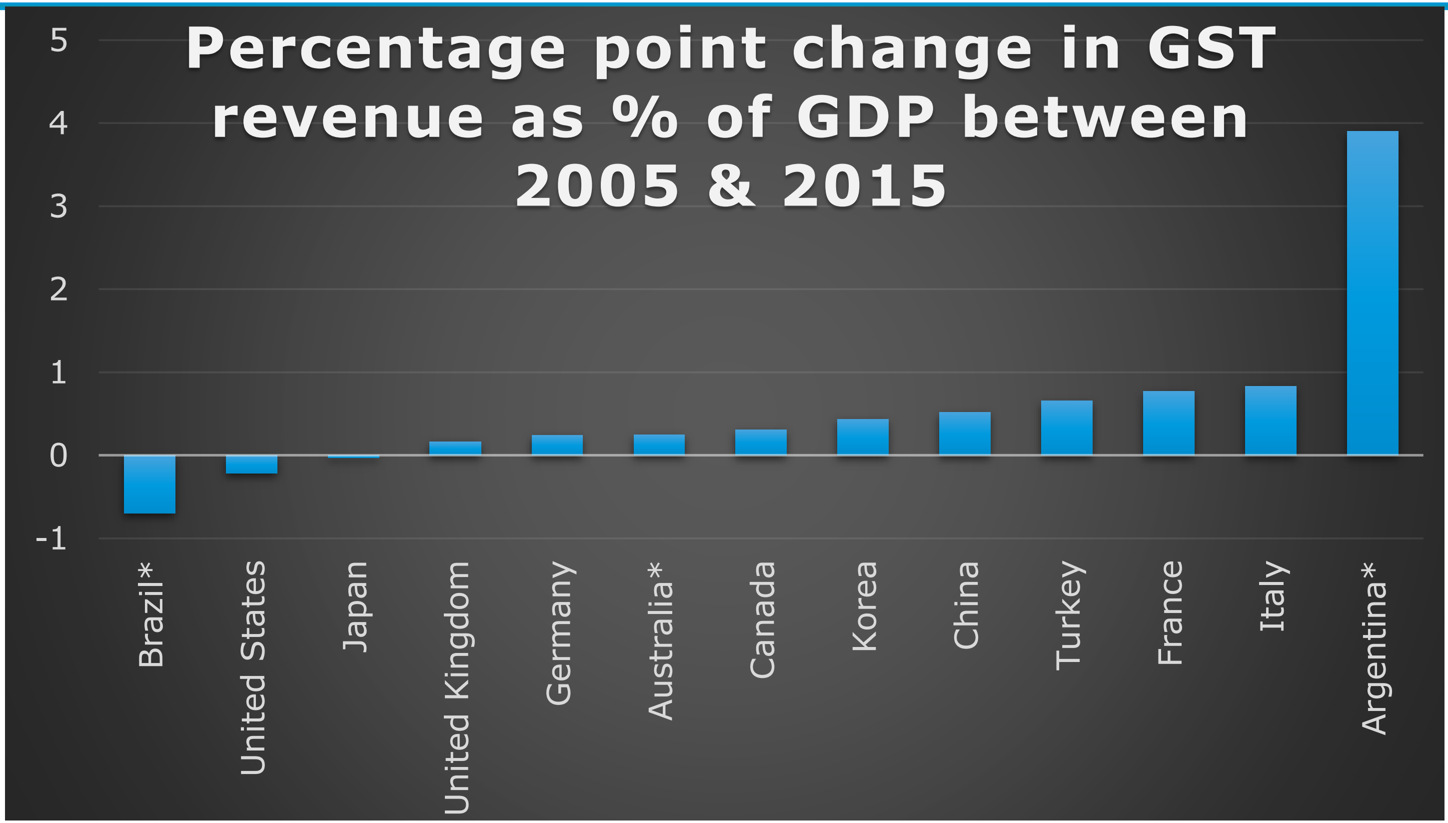


Source: OECD; European Union; EY 2016 Worldwide VAT, GST and Sales Tax Guide

Across the G20 economies, VAT/GST revenue is making a bigger contribution



Source: EY Knowledge analysis of OECD data

*Data until 2014

VAT and GST

VAT in 2017

48

None Of the 48 countries with a value-added tax (VAT) or a goods and services tax (GST) has announced either a rate increase or a rate decrease for 2017

9 of 49

jurisdictions forecast a higher VAT / GST burden

VAT and GST
EU developments

- VAT Digital Single Market package
  - One-stop shop for intra-EU B2C e-commerce in goods
  - Commission has proposed abolishing the current exemption for imports of low-value consignments from third countries
  - Commission has proposed that Member States should have the option to apply a reduced rate to e-publications, such as e-books and online newspapers, when they apply such a rate to their printed equivalents.
- The generalized reverse charge mechanism proposal
- Possible further VAT proposals in 2017
  - As foreseen in its April 2016 Action Plan toward a single EU VAT area, the Commission in December 2016 launched a trio of public consultations on reforming other aspects of the VAT regime. These concern:
  - The definitive VAT system for business-to-business (B2B) intra-EU transactions on goods
  - The special rules for small and medium-sized enterprises
  - The VAT rates that can be applied by Member States

VAT and GST
Tax of choice in regard to the Digital economy?

- Examples
  - **Australia:** From 1 July 2017 Australia's GST is extended to Business-to-Consumer supplies of digital products, services and other intangibles
  - **Taiwan:** In August 2016, Taiwan’s Ministry of Finance announced its plan to amend the Business Tax Act by requiring foreign e-commerce operators who provide services to Taiwanese individual buyers, to register with Taiwan’s tax authority and pay business taxes in Taiwan
  - **New Zealand:** GST imposed on cross-border supplies of digital services from 1 October 2016.
  - **Belarus:** Introduction of VAT at 20% on electronic services provided by nonresident suppliers

Section VII

The international dimension

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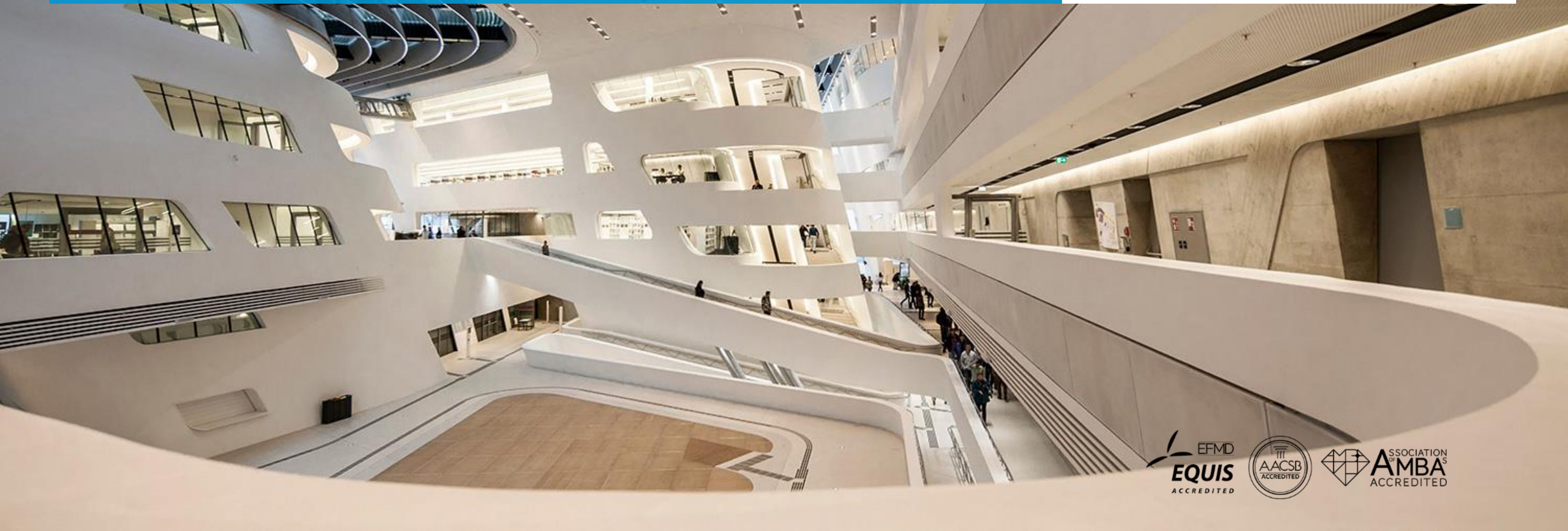


Status of BEPS implementation

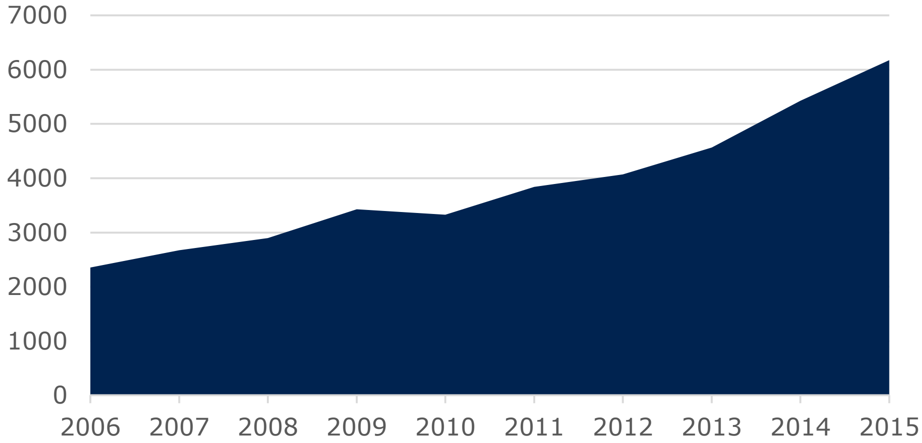
- CBCR implementation leading the way among BEPS Actions
- A Multilateral Instrument will be available from June 2017
  - Action 2 - Neutralizing the effects of hybrid mismatch arrangements
  - Action 6 - Preventing the abuse of treaties
  - Action 7 - Preventing the artificial avoidance of PE status
  - Action 14 - Making dispute resolution mechanisms more effective
  - Mandatory binding arbitration provision
- EU ATAD
  - Lays down common minimum rules in the areas of interest limitation, exit taxation, GAAR, controlled foreign companies and hybrid mismatches. However, the rules regarding hybrid mismatches are limited to hybrid instruments and hybrid entities between Member States.

Developments in tax transparency

- CBCR
  - Plethora of countries legislating for CbCR
  - Many countries extended CBCR notification periods- companies under pressure
  - OECD Peer review process
  - European Parliament proposals for Public CbCR: Two conflicting legal opinions
- EoI
  - MCAA – 57 countries signed CbCR MCAA / 87 countries signed CRS MCAA
  - As of 1 January 2017, EU MS obliged to automatically exchange information on all new cross-border tax rulings they issue.
- Other
  - OECD: Registry of Beneficial Owners?
  - European Commission proposal on disclosure of Aggressive Tax Planning
  - United Kingdom: Businesses to publish their tax strategy online

Rising disputes: The Mutual Agreement Procedure
Under pressure, or just being well utilized?

Total inventory of OECD MAP cases, 2006-15



Data includes double counted cases between two OECD member countries

Source: OECD Data accessed 05 February 2017

Refresher: BEPS Action 14

Three Minimum Standard principles
- Allowing taxpayers access to the MAP process when the requirements for taxpayers to access the MAP process are met
- Assuring that domestic administrative procedures do not block access to the MAP process
- Implementation by countries of Article 25 of the OECD Model Tax Convention in good faith

In addition, the Final Report introduces eleven so-called "Best Practices" that complement the respective Minimum Standard principles

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Burden-increasing changes are forecast in 23 jurisdictions as a result of increasing tax enforcement

Section VIII

Possible US tax reform & Impact on Austria and Europe

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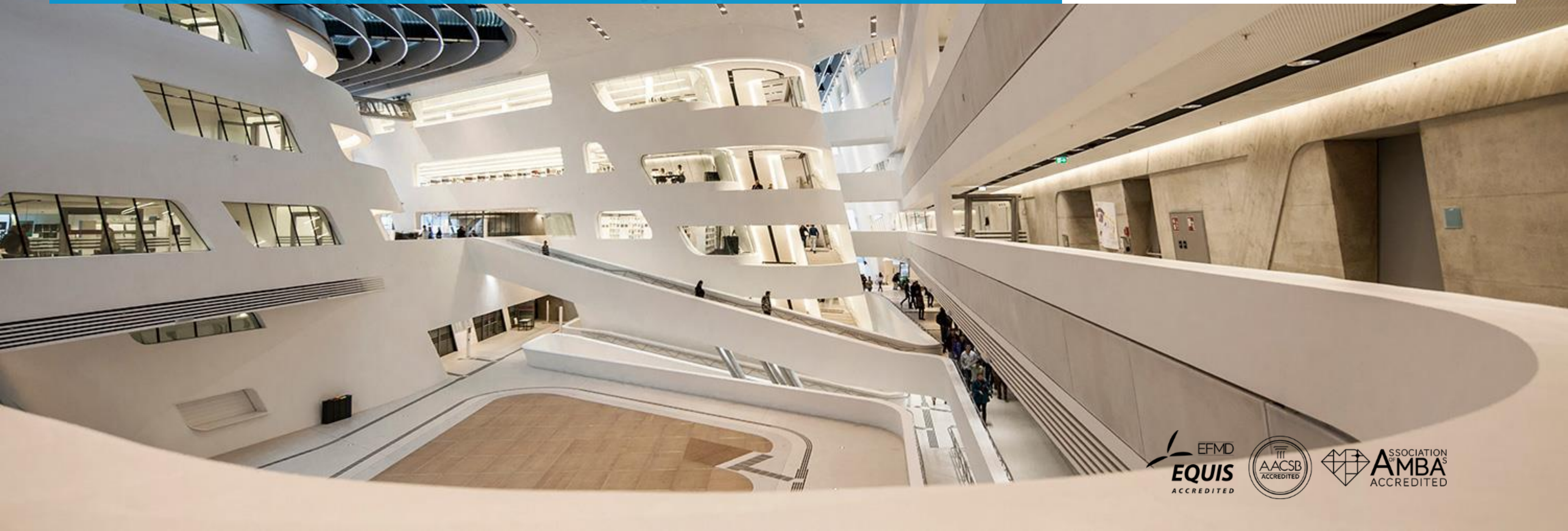

“We’re going to … lower the overall tax burden on American businesses big-league. That’s coming along very well. We’re way ahead of schedule, I believe. We’re going to be announcing something, I would say, over the next two or three weeks,”

President Trump - 9 February 2017

US international tax reform: Outlook

Trump *(TBC)*	Blueprint	Senate
• 15% business income rate and 15% pass-through rate • US manufacturers could elect to expense their capital expenditure but lose interest expense deduction	• 20% corporate income tax rate and 25% rate for business income of pass-through • • Immediate expensing of capital expenditures with no interest expense deduction	• Senate Finance Committee Chairman Hatch – readying proposal to eliminate the double taxation of corporate income • • Senate Majority Leader McConnell – insists that any tax reform be comprehensive
• 20% tax on imports (Border Adjustment) • Most business provisions eliminated, except for R&D credit	• Territorial system of taxing future foreign earnings - Destination-basis tax system exempts exports while taxing imports	• • Senate Democratic Leader Schumer – supports international tax reform to fund infrastructure spending
• 10% mandatory tax on accumulated foreign earnings • "trillions of dollars of American corporate money overseas can now be brought back "	• Mandatory tax on accumulated foreign earnings - 8.75% if in cash or else 3%	• TBC
• Individual: 12%, 25%, and 33% rates; deductions capped at $100,000/$200,000	• Reduced individual tax rates: 12%, 25%, and 33%	• TBC

US international tax reform: An Austrian perspective?

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Impacts on business, individuals	Impacts for government	Heightened urgency for tax reform
• Mobile businesses may consider relocating to the US – for example in the technology, pharmaceuticals, services and financial sectors • Businesses might tilt their expansion and investment decisions to the US • considering US headquarters for internationally oriented Australian businesses • individuals might relocate for tax as well as business reasons.	• Tax reforms should provide a stimulus to the USA domestic economy and the US is a significant trade partner. Lower tax rates and potential infrastructure spending should support growth. • Economic impact may see volatility in currency and interest rates. A stimulus may lead to interest rate increases: these and the reforms might strengthen the US currency with economic and business impacts. • This places has even greater importance on Austria's own reform agenda. That includes more and better bi-lateral free trade agreements.	• Austria must be an attractive place to work, to invest and save. But CIT rate will go from being substantially below the US rate to substantially above that rate. Other OECD countries are also reducing their rates. • It's not just about Austria meeting the challenge of lower tax rates. Need to consider tax incentive and business tax settings - especially for innovation, for R&D and for capital investment – if the US reshapes tax incentives in favour of new capital expenditure in the US.

Upcoming challenges to tax systems

- A new form of tax competition
- The gig economy
- The robots are coming?
- Other technological innovations
- Backlash on the tax transparency agenda

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