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Shaping Your Future in the Knowledge Society

The future of taxes

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Amsterdam,
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Where are we coming from?

Between 1990 and 2000: 'The Ethos at the time was to avoid as many taxes as possible'

Several major tax scandals such as Enron, Vodafone, Parmalat, etc

A shift as of 2000: a shift towards more corporate/ social responsibility and to be ethical

Events leading up to today

Vodafone targeted over tax avoidance

Financial Times
April 2004

THE TIMES

“any common-sense person would say that a highly paid private equity executive paying less tax than a cleaning lady or other low-paid workers . . . can’t be right”. 5 June 2007

theguardian

“Call for higher taxes to pay for damage to the planet”,
25 January 2007

Christian Aid
We believe in life before death

“The shirts off their backs” is being published alongside 'Tax us if you can' and targets multinational companies, the accountancy industry and banks for their part in undermining taxation in the developing world. September 2005

THE WALL STREET JOURNAL

“The unrecognized tax benefit [at company X] is equivalent to about 13 years' worth of cash flow from operations… A spokesman didn't return phone messages.”

Lifting the Veil on Tax Risk – article on FIN48 in The Wall Street Journal, May 2007

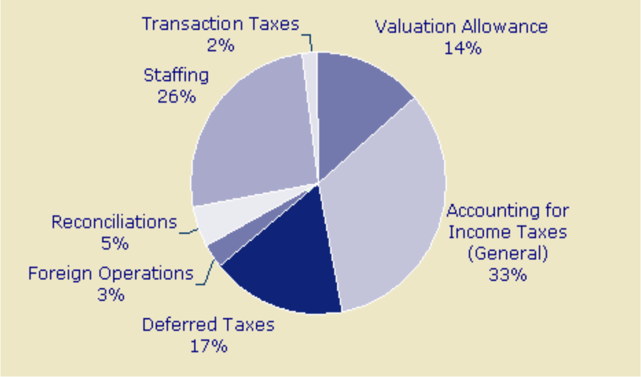
Events leading up to today

“Sunlight is said to be the best disinfectant, and the area of income tax could use some more sunlight”,
SEC comments on s.404 of Sarbanes-Oxley Act

CFO
THE BUSINESS END OF BUSINESS

“The flood of material weaknesses related to tax reflects a lack of expertise… if accounting is full of grey areas, tax is a pea-soup fog.”
CFO Magazine, November 2005

In 2006, tax was listed as the number one cause of Material Weaknesses. Failings in tax accounting was by far the largest contributing factor.



Fact: Between September 2004 and the end of October 2006 there were 691 companies with reported tax material weaknesses

Consequence: 255 companies have hired new CFO/VP Tax/Tax Director/FD

In 2006 alone, there were over 700 tax material weaknesses reported

An analysis

An analysis of the tax scandals lead to the conclusion that both internal and external controlsystems of listed companies in particular were insufficient, which lead to stakeholders becoming victim of mismanagement and abuse.

Demands of today

“Tax is the price we pay for a civilized society”

“to make profit, to obey the law, be ethical and be a good corporate citizen” Archie B Caroll Corporate Social Responsibiliy 1999

The Task Force on Financial Integrity and Economic Development is a consortium of Governments and NGOs and is guided by a coordinating committee which consists of the following entities:

Christian Aid

European Network on Debt and Development (Eurodad)

Global Financial Integrity*

Global Witness

Tax Justice Network

Tax Research LLP

Transparency International

Secretariat of the Leading Group on Innovative Financing for Development

The solution at the time

In several countries the solution to prevent new corporate failures was found in a sharpening of corporate governance

* In de US: Sox (Sarbanes-Oxley Act) in 2002

* In Netherlands: Code Tabaksblat in 2004

Governance: ensuring a coherent way of managing, controlling and supervising an organization, aimed at an efficient and effective realization of goals, as well as an open communication and taking of responsibility towards stakeholders.

Both Sox as well as Tabaksblat demand that the board of an organization includes an in control statement in the annual reporting.

In Control Statement: a statement made by the board of an organization regarding the effectiveness of the internal controls and the extent to which the organization is in control

Where are we coming from?

20th century:

- Tax returns and assessments do not represent actual status quo, taxpayer always step ahead in information
- DTA not on top of all information gathering
- Additional assessments, reviews, examinations, fines and penalties

21st century:

- A growing trend towards transparency, trust, communication
- A need to be ‘in control’, Tax Control Framework
- Good Tax Citizenship
- ‘Preferred status’ for compliant tax payers

Where are we going?
A fully digitalised tax world

Developments such as:

•Personal Internet Page

•pre-completed tax return forms

•automatic data exchange between countries

•cross-border investigations (according to annual report 2011 by DTA 1200 requests from foreign countries, 200 answered)

•Permanent availability of tax data and ongoing tax assessments

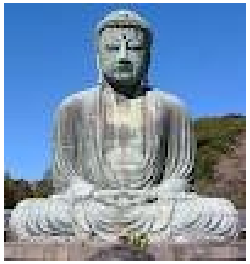
Will lead to :

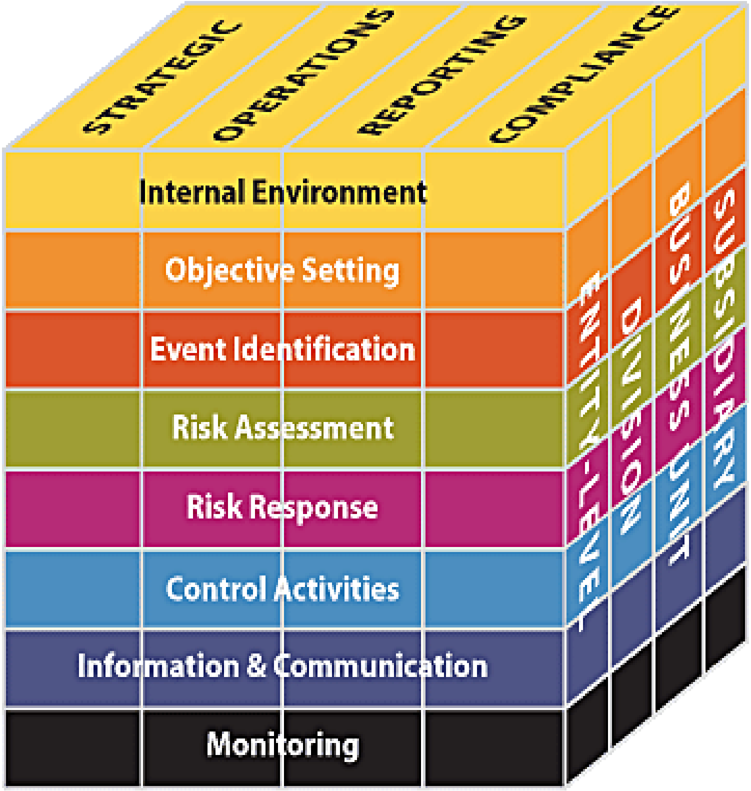
Taxation on a continuous, real-time basis with minimal reporting needs. DTA as 'Big Brother'....

In control

Organizations want to be in control again....

Different ways to be in control!





Setting up a Tax

Control Framework

What does this mean?

On the one hand.....

Easier control for DTA, more streamlined

Easier to be compliant for taxpayers

Fewer ways to avoid tax

On the other hand...

Tougher stand on non-compliant tax payers

Higher penalties

Broader range of offences (i.e. active duty to inform DTA, criminal charges against advisors, limited non-disclosure options for lawyers/notary)

Brave New Tax World

In a brave new tax world, tax payers will be divided between:

- The ‘good guys’ who are compliant and transparent and will no longer be bothered by or view the DTA as the ‘enemy’
- The ‘bad guys’ who do not comply and who will face a tougher DTA

Taxation will still be based on wealth and generating funds, but with well-being as an additional goal?

Challenges ahead

- no tax return forms
- no formal tax assessment on a specific date
- ongoing tax assessments.......

......where does big brother end?