

## BUILDING TRUST IN TAXATION

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*Edited by*  
Bruno Peeters, Hans Gribnau  
and Jo Badisco



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## Building Trust in Taxation

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# PREFACE

Recent developments show that the contemporary tax-landscape is going through a legitimacy crisis in virtually all Western democracies and even beyond.

This open crisis seems to be triggered during the last decade by a few important macro-economic disturbances. The US real estate crisis in 2007 disturbed the financial sector, which in its turn led at the beginning of this decade to a fiscal crisis within many European countries (such as Greece, Spain, Portugal) and consequently – within the EU – to the so-called Euro crisis. In reaction national authorities were forced worldwide into greater fiscal orthodoxy. As a result they planned important cuts in government spending and focused on a more stringent monitoring of compliance by taxpayers. In this context the Stability and Growth Pact (SGP), as a set of rules designed to ensure that countries in the European Union pursue sound public finances and coordinate their fiscal policies, is exemplary.

At the same time revelations in the public media (such as Swissleaks, Luxleaks and the Panama papers) revealed that some multinational companies, still succeed in minimising the fiscal pressure on their globally acquired profits by pitting the fiscal regimes of countries in which they operate, against each other. The multiplicity of fiscal regimes and the inconsistencies between these regimes still offer numerous possibilities for fiscal optimisation. Also high net worth individuals are able to circumvent taxes on their income and/or assets through a variety of national and international tax schemes. There is even a high-tech industry that seeks to guide and assist clients with their tax dealings in order to have them pay as little tax as possible.

On the other hand, many countries (often smaller countries) – even in the European Union – use their tax sovereignty as a lever to compete with each other to attracting businesses and high net worth individuals with very attractive fiscal conditions by means of various techniques such as tax-friendly regimes (tax shelters), tax exemptions, tariff reductions and rulings. In the European Union the Commission tries to tackle these national tax regimes within the framework of the state aid rules and by recommending some policy rules against harmful tax competition.

Moreover, tax competition is not only harmful to government budgets, but also companies that do not operate (or operate less) cross-border have therefore fewer opportunities for such fiscal optimisations. It also generates unfair treatment between individual taxpayers. More than ordinary taxpayers, high net worth individuals have the opportunity to avoid taxes. In addition,

non-governmental organisations (NGO) are also intervening in this debate. They experience aggressive tax planning schemes as detrimental for the developing countries.

For many years countries were not able or sometimes not willing to deal adequately with these tax avoidance schemes. Apparently even international fora (such as the G20 and the OECD), and supranational institutions (like the European Union) were initially not able or interested to tackle appropriately tax avoidance or tax evasion schemes.

It is therefore not surprising that people and corporations have less trust in their governments and are reluctant to give their share of money for redistribution. They seem no longer willing to pay taxes that serve the general good of the community; they no longer trust governments with their money. Nonetheless the essence of taxation consists in collecting state revenue in large sums. This revenue is then redistributed or reallocated based upon political decisions which are made by the representatives of the people.

Equally governments have lost trust in their citizens to pay their taxes, which results in them implementing aggressive tax-collection policies and a rising level of uncertainty.

However, the foundation of a sound taxation system in a democracy is the trust of the public that taxes have been equitably levied and will be efficiently and effectively used to support collective facilities that also benefit the taxpayer.

One of the key questions with regard to this issue is whether states or collective institutions are able to generate sufficient levels of trust so they can collect enough revenue? As mentioned above, this is less and less frequently the case. So the next question arises: who or what is responsible for this decline in trust? What are the key factors contributing to the general decline in trust? Some other relevant questions that might shed light on the issue include: why do different states have different levels of trust? Related to this question is the question whether this is a strictly fiscal issue; meaning should we search for the issue in the properties of tax systems and the differences between tax systems? Or are there rather institutional structures and political ideologies which differ from country to country that might be able to explain this difference?

This book seeks to analyse a couple of issues related to the aforementioned loss of trust within the realm of taxation. It came into existence based upon a conference organised by the University Centre Saint-Ignatius Antwerp (UCSIA) and the Antwerp Tax Academy (ATA) that took place from 6th to 8th May 2015 at the University of Antwerp.<sup>1</sup> Several international scholars from different

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<sup>1</sup> The full programme of this conference can be consulted on the website of Antwerp Tax Academy: <https://www.uantwerpen.be/en/about-uantwerp/organisational-structure/centres-and-institutes/antwerp-tax-academy/activities/passed-activities/> or the website of UCSIA: [http://www.ucsia.org/main.aspx?c=\\*UCSIAENG2&n=119746](http://www.ucsia.org/main.aspx?c=*UCSIAENG2&n=119746).

areas of research came together to discuss the issue of trust and taxation. While this book is not a collection of the conference speeches given during those days, it is a bundle of texts that carries with it the same general spirit as that conference. Based upon the proceedings during the conference, several authors were contacted and asked to contribute to this book. The result is a collection of texts by some of the authors present at the conference, and on top of that a couple of extra contributions by scholars who are working with similar topics that have direct relevance to the proceedings of the conference. Some of the texts are based upon the author's presentation while others are not based upon their presentation but rather address some of the key issues dealt with during the conference.

The initiator of this conference was a concept note by UCSIA on the issue of taxation and trust. UCSIA<sup>2</sup> is an offspring of the former Jesuit institution of UFSIA. It is an independent non-profit organisation founded by the Jesuit Order and members of the former UFSIA with the aim of continuing the Jesuit tradition of involvement in university education, research and community service in the Flemish and Antwerp region. The main focus of UCSIA is problems and issues that express the Christian ideology, thus serving the faith and culture and contributing to a more just society.

The ATA<sup>3</sup> is an interfaculty institute for tax science within the University of Antwerp, that was founded on 20 November 2012 and results from a co-operation between the faculties of Law, Arts, Applied Economics, Political and Social Sciences, and the Antwerp Management School. The prime objective of ATA is to promote, facilitate and conduct multidisciplinary, fundamental and applied scientific research. ATA is also an open, pluralistic platform for collaboration between the academic world and society which aims to develop and acquire insights into taxation through multidisciplinary scientific research. By doing so, ATA hopes to contribute to tax science and thus to society.

Both organisations worked together to create the conference. Due to the interdisciplinary nature of those organisations the conference was also a coming together of scholars from all kinds of different areas: Law, Arts, Applied Economics, Political and Social Sciences and Philosophy. By joining hands and meeting each other outside their different disciplines, scholars were able to combine and discuss issues from various angles. By doing so the conference – as well as the book – is a multidisciplinary work that seeks to strengthen our understanding of certain issues based upon a joining of hands.

The editors express their sincere gratitude towards all the participants of the conference, the authors of the several contributions and especially to all those

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<sup>2</sup> <http://www.ucsia.org/>.

<sup>3</sup> <http://www.antwerptaxacademy.org>.

responsible within UCSIA and ATA for the organisation of the conference.<sup>4</sup> Special words of thanks go to Geert Vanhaverbeke (head of administration at UCSIA) and Sara Mels (Project coordinator at UCSIA) for their highly appreciated contribution to the (practical) organisation of the conference.

Bruno Peeters, Hans Gribnau and Jo Badisco

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# CONTENTS

<i>Preface</i> . . . . .	v
<i>List of Authors</i> . . . . .	xv

## **Introduction**

Bruno PEETERS, Hans GRIBNAU and Jo BADISCO . . . . .	1
--	---

<b>PART I. TAXATION, STATE AND SOCIETY: RECIPROCITY AND THE LIMITS OF THE POWER TO TAX</b> . . . . .	15
--	----

## **Voluntary Compliance Beyond the Letter of the Law: Reciprocity and Fair Play**

Hans GRIBNAU . . . . .	17
1. Introduction . . . . .	18
2. Starbucks' Generous Gift . . . . .	19
3. Giving Through the State . . . . .	21
4. Starting Gently . . . . .	24
5. Voluntarily Paying Taxes: No (Forthcoming) Legal Obligation . . . . .	25
6. Back in Time: Classical Athens . . . . .	27
7. Financing Security, Society and Democracy . . . . .	30
8. Evasion and Avoidance are Ever Present . . . . .	33
9. From Ancient Athens to the 21st Century . . . . .	35
10. Justifying the Obligation to Pay Taxes . . . . .	36
11. Fair Compliance with the Law . . . . .	43
12. Conclusion . . . . .	48

## **What is Wrong with Endowment Taxation: Self-Usership as a Prerequisite for Legitimate Taxation**

Charles DELMOTTE and Jan VERPLAETSE . . . . .	51
1. Introduction: Towards a Theory of Legitimate Taxation . . . . .	52
2. What is Endowment Taxation? . . . . .	55
3. Self-Usership: Exploration of an Account of Autonomy . . . . .	58
4. Endowment Taxation: A Threefold Infringement of Self-Usership . . . . .	64
5. Some Objections . . . . .	68
6. Conclusion . . . . .	70



<b>Is Taxation on a Par with Forced Labour?</b>	
Paul FAULKNER .....	73
1. Introduction .....	73
2. Nozick's Argument Against Redistributive Taxation .....	74
3. Confidence and Trust .....	76
4. Trust and Cooperation .....	81
5. Two Objections .....	83
6. First Objection: Charity, not Redistribution .....	83
7. Second Objection: State Responsibility, not Individual Taxation .....	87
<b>Conflict of Trust: EU Member States' Fiscal Sovereignty and the Ideal of the Internal Market</b>	
Christiaan Vos .....	89
1. Introduction .....	90
2. Current State of Affairs – Need for Change? .....	92
3. Impact on the Ability to Change the Current State of Affairs .....	103
4. Impact on the Willingness to Change the Current State of Affairs .....	110
5. Conclusion .....	115
<b>PART II. TRUST AND MORALITY: TAX GOVERNANCE IN NEED OF TRANSPARENCY</b>	117
<b>Taxation and Ethics: an Impossible Marriage?</b>	
Willem LEMMENS and Jo BADISCO .....	119
1. Introduction .....	120
2. Taxation in Crisis .....	121
3. Beyond the Law .....	125
4. Trust .....	126
5. Property, State, Taxation .....	128
6. Institutional Trust and Taxation .....	130
7. Conclusion .....	134
<b>An Overview of Political Economy Issues in Taxation and Tax Reforms</b>	
Paola PROFETA .....	137
1. Introduction .....	138
2. A General Framework .....	139
3. Explaining the Empirical Evidence .....	142
4. Taxation and Democracy Around the World .....	146
5. Conclusions .....	148

<b>Trust in the Tax System: The Problem of Lobbying</b>	
Allison CHRISTIANS .....	151
1. Introduction .....	152
2. Context: The Profile of Political Influence .....	153
3. Challenges for Reform .....	163
4. Restoring Trust .....	166
5. Conclusion .....	172
<b>Restoring Stakeholders' Trust in Multinationals' Tax Planning Practices with Corporate Social Responsibility (CSR)</b>	
Ave-Geidi JALLAI .....	173
1. Introduction .....	174
2. 'Taxes are What we Pay for A Civilized Society...'	177
3. Tax Planning and Corporate Power .....	178
4. 'Aggressive Tax Planning' and Society .....	181
5. Trust and Tax Planning .....	186
6. Corporate Social Responsibility .....	191
7. Tax Planning and CSR .....	195
8. Conclusion .....	200
<b>PART III. INTERNATIONAL TAXATION: IN SEARCH OF DEMOCRATIC LEGITIMACY</b>	203
<b>Improving Democratic International Tax Governance: On the Power of Citizens, Transparency and Independent Watchdogs</b>	
Cees PETERS .....	205
1. Introduction .....	206
2. Counter-Democracy and the New Sources of Democratic Legitimacy ..	208
3. Transparency and the Taxation of Multinational Companies .....	218
4. Some Observations about the Transparency Initiatives .....	222
5. Recommendation and Conclusion .....	231
<b>International Tax Justice Between Machiavelli and Habermas</b>	
Peter ESSERS .....	235
1. Introduction, Research Question and Hypothesis .....	236
2. The Financial and Economic Crisis and the Debate on International Tax Justice .....	239
3. Key Role Players and their Actions Against Tax Fraud and Tax Avoidance .....	240

4. Machiavellian Elements: Power Play and Deception . . . . .	262
5. Consequences . . . . .	262
6. A Plea for more ‘Habermas’ and Less ‘Machiavelli’ . . . . .	263
7. Conclusions . . . . .	264

**International Taxation without International Representation?**

**Legality and Legitimacy in Global Tax Governance**

Tarcisio MAGALHAES . . . . .	267
------------------------------	-----

1. Introduction . . . . .	268
2. Under-Representation in International Tax. . . . .	269
3. The New International Tax Cooperation Advocacy . . . . .	274
4. A Model for Legitimate Global Tax Governance. . . . .	279
5. Conclusion. . . . .	284

**Tax Sovereignty and the Globalised Process of Law-Making:  
The Proposal of the UN Code of Conduct on Cooperation  
in Combating International Tax Evasion**

Maria LUISA GUERMANI . . . . .	285
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1. Background . . . . .	286
2. Globalisation and the Transformation of the State-Sovereignty . . . . .	288
3. The Crisis of the Central Role of the Law: An Insight from the Italian Perspective and the Position of Soft Law in European and International Tax Matters. . . . .	291
4. Democratic Deficit . . . . .	296
5. The EU Code of Conduct and the Tax Transparency Package. . . . .	300
6. UN Code of Conduct on Cooperation in Combating International Tax Evasion . . . . .	304
7. Conclusion. . . . .	307

**PART IV. BEHAVIOURAL ASPECTS OF TAXATION**

<b>AND TRUST. . . . .</b>	<b>309</b>
---------------------------	------------

**Public Attitudes Towards Redistribution Through Taxation**

Rebecca REED-ARTHURS and Steven M. SHEFFRIN. . . . .	311
--	-----

1. Introduction . . . . .	312
2. Redistribution to the Poor and Middle Class . . . . .	314
3. Disincentives and Preferences for Redistribution. . . . .	328
4. Conclusions . . . . .	334

**Does Information about Wealth Inequality and Inheritance Tax  
Raise Public Support for the Wealth Taxes? Evidence from a UK Survey**  
Rajiv PRABHAKAR, Andy LYMER and Karen ROWLINGSON ..... 335

1. Introduction ..... 336  
 2. Current Attitudes to Wealth Taxes ..... 338  
 3. Theoretical Approaches to Understanding Public Attitudes ..... 340  
 4. The Role of Information in Shaping Tax Attitudes ..... 342  
 5. Methods ..... 344  
 6. Findings ..... 345  
 7. Discussion ..... 348  
 8. Conclusion ..... 350  
 9. Limitations ..... 351  
 Appendix ..... 351

**Wealthy Tax Non-Filers in a Developing Nation: The Roles of Taxpayer  
Knowledge, Perceived Corruption and Service Orientation in Pakistan**  
Katharina GANGL, Erich KIRCHLER, Christian LORENZ  
and Benno TORGLER ..... 355

1. Introduction ..... 356  
 2. Tax Non-Filing in Developing Countries ..... 359  
 3. Service Orientation as a Means of Increasing Cooperation ..... 363  
 4. Method ..... 366  
 5. Results ..... 370  
 6. Discussion ..... 372

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