Kluwer International Tax Blog

Tax & Innovation: 3 axes, a few links and some (personal) views

Raffaele Russo (Senior Advisor OECD, on loan to the Italian Government since 2016. Fellow at the UvA ACTL) · Wednesday, June 1st, 2016

I recently participated in a seminar on tax & innovation in Naples, my home town where I stay often to arrange personal issues, which has a sparkling start-up community, in an increasingly conducive ecosystem. I was trying to remain engaging for non-tax folks and not sleep them out with tax technical issues, so I structured my short intervention along 3 pillars. As I have little to do before I pick the kids up at school, I decided to share them.

If you feel like, do the same (sharing is caring) and let's start an e-discussion on these issues.

#1 Tax : Innovation

Adapt tax rules to changes brought by innovation. This is squarely the BEPS Project, its 15 actions to update the international tax rules to the changes in the global economy, the introduction of new business models, the immense potential of scaling, and the hyper-creativity and talent of lawyers and accountants dedicated to planning based on loopholes and lack of coordination across the border. An interesting aspect of the BEPS Project is its geopolitical charge, with all G20 and OECD countries on an equal footing and a considerable number of developing countries at the table. No need to get into the details of BEPS here, why, what for and what it is about. If you are reading this post, you know what it is about. Plus with the inclusive framework on which my colleagues are working, all countries will be on an equal footing. Ground-breaking.

#2 Tax * Innovation

Tax rules should support and encourage innovation. The flavor of the month (year) is patent boxes. Even if the economic doctrine is squarely against it, the way things go in this world is that once someone starts, others follow. The OECD/G20 BEPS consensus was able to find agreement on the criteria to be applied to ensure that, once a country has decided to go down this path, these incentives do not end up attracting artificial profits. Those countries that will have to change their regimes in line with the international consensus may want to look at R&D credits, which favor and support also research that did not end up in successful assets/outputs and is less prone to being abused. We shall see.

#3 Tax + Innovation

Exploit the (tax) potential of innovation. This is about what is being done and what can be done to make tax compliance easier and more user-friendly. Let's start easy, pre-compiled tax returns should become the norm soon in many countries, saving time and resources for taxpayers. It is also about fully exploiting the potential of data mining and matching, for example via the use of e-invoices for both B2B and B2C transactions. There are many innovative start-ups that have a made living of making inefficient processes efficient (think about captain train, leveraging on the stiffness of train companies websites I am told). There are other interesting developments in this space, including the drive to create an ecosystem for digitally-driven inclusive growth and innovation. I am thinking for example about THEFAMILY, which is already big in France and whose model can be recreated or outreached all over Europe. My thought: in a region where the presence of the public sector is so important, innovation offers should focus also on that. How can we make government services more efficient via innovation? In countries where being in line is the norm, Qurami can make rounds.

Start thinking about and discussing the taxation of next decades. One of the paradoxes of our time is that we sometimes we have to go so fast that at the end we run in circles and do not advance a single bit. By all accounts, the next 10-20 years will see radical changes to the way we all do things. If you are my age or above and hence have most likely no idea what I am talking about, just look around for a kid of around 12 and see how they spend their day. Alternatively, watch this video about how life (so to speak) can look like with augmented reality. Then start pulling a number of things together: according to a WEF commissioned survey, out of 800 CEOs interviewed, 45% believe that artificial intelligence will a seat in the board by 2025. Let's think about 3D printing and how it will affect value chains in manufacturing. And what about the sharing economy, which brings to a global scale the potential of barter transactions in the internet nation. Interestingly, Italy's MPs have published the first proposal on the regulation to the sharing economy, online for input from everyone interested, with an interesting tax section. The pic below show the nomination of the last pope. If you look at the same picture re the previous pope, there was barely a smart-phone (they are 8-9 years old, eh). What will the next election (long life to both popes, eh) look like? No idea, but probably different. Maybe holograms of all those watching from home with virtual eyes? Boh! But that is not the point. The point of this post is: we should definitively start thinking about that.

As someone else said, something big is going on. Let's not lose the opportunity to make it bigger, and sustainable. To do so, tax has to be part of the debate.

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