

Globalization and the emergence of the transnational enterprise are bringing about sweeping changes in the relationships between sovereign states and taxpayers.

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# Tax planning in the global village

**T**he process of globalization may be regarded as an extension of the extraordinary developments in the areas of economics and finance, commerce and information. As a consequence of these developments, enterprises are increasingly able to conduct their affairs without being constrained by geography or national boundaries. Globalization makes possible a truly international marketplace in which cultural barriers are eliminated.

The development of international tax systems, the role of such systems as an evolutionary process of the tax policies of a given sovereign state, and the perception of these systems by the enterprises governed by them are all significantly influenced by globalization. For individual states or territories, globalization means it is no longer possible to implement tax policies with a narrow national focus. It is imperative that new tax policies be formulated by taking into consideration international competitiveness as well as national issues.

## Strategic tax vision of the enterprise

The strategic alignment of the taxation variable with the goals pursued by top management surely represents the most forward-looking approach within the multinational entrepreneurial scenario. The approach derives from the company's awareness of the significance of this variable within the current economic context, which is constantly changing, as well as a high degree of discontinuity.

On the one hand, states will be required to closely re-examine their principles pertaining to interventions in the economic field and, on that basis, reposition their policies to provide solutions to possible imbalances that might be caused by:

- the heterogeneity of taxation systems and consequent delocalization of resources to the detriment of less flexible production factors;
- e-business expectations and a broadened range of options deriving from new information technologies; and
- the disappearance, within the EU, of the balancing function of exchange rates following the adoption of the single currency.

Enterprises, on the other hand, seem to welcome these phenomena as key acceleration factors, seizing this opportunity to:

- leap into cyberspace, by means of a radical transformation of the entrepreneurial approach with a consequent expansion of the enterprise's boundaries, an in-depth restructuring process of the traditional customer-acquisition pattern, the creation of integrated platforms (in which enterprises will integrate their product range offer with different kinds of services), the disintermediation of traditional players and the reintermediation of new players;

- adopt a new structural vision originating from the separation of mind and management, and the working forces within the groups (the so-called multi-branch structure, with the whole mechanism revolving around one single brain centered in the middle of the company's network);
- define their own global core pertaining to corporate, governance and value creation functions, through the vehicle of strategic leadership, corporate image, risk management, performance monitoring, and coordination activities; and
- strengthen concentrated non-core activities for the group in service companies (shared service companies).

While globalization is undeniably opening up new opportunities for globally-oriented enterprises, these opportunities represent an obstacle for states in the exercise of their sovereignty in matters of taxation.

For a business to qualify as a global player, the primary strategic choice necessarily implies a secondary choice (that varies according to the mission envisaged by the enterprise, but which may not be ignored) – ie the territorial location. The third choice concerns the company's profile, viewed from a container-content (company-business concern) perspective, which does not require (becoming occasionally awkward for tax planning purposes) the territorial identity between location of assets and residence of the company.

The enterprise will thus be in a position to exhibit all of its strategic choice potential on the basis of a worldwide benchmarking system, according to which it will:

- identify the best possible legal infrastructure to support its entrepreneurial efforts; and
- plan the most profitable investment policies.

The new millennium paradigm – think global, act local – has become the watchword for combining transnational strategies with multinational (achievement) tactics. Further, taxation policies within a global enterprise are now pursued which, channelled to a centralized management, should satisfy any interest transcending that involving the single legal and economic entities which constitute the multinational group.

## Global taxation policies

The strategic vision for taxation policy within multinational groups takes place on a global scale, and is consequently implemented (on a corporate level) in a transnational spirit, to the primary benefit of the country in which the top holding resides.

The actual achievement of global tax strategies within a group requires the following:

- minimization of consolidated taxation through management-related choices designed to guarantee the effective management of financial resources by means of the allocation of the various income sources, as well as the location of companies belonging to the group in foreign countries;
- rationalization of intercompany financial flows to obtain the maximum benefits in terms of aggregate after-tax profits; and
- elimination of double taxation, which is a phenomenon (obviously crucial not only in the e-economy) arising from the taxing power of each state and resulting from the overlapping of taxation principles in two or more states, as a result of the income being subjected to taxation twice (or more).

## The EU

For EU member states, the introduction of the single currency generated a phenomenal time gap between a (familiar) 'before' and an (evolving) 'after'; this permanent discontinuity compels member states to rethink their own taxation policies. As a matter of fact, since member states of the economic and monetary union (EMU) may no longer assume autonomous monetary behaviours to be wielded as a political tool, they must now essentially rely on the flexibility of their markets and, in particular, of the production sectors favoured by a taxation policy compatible with economic growth.

**“ As far as taxation is concerned, the EU is a building site under construction ”**

To guarantee the success of EMU, it would seem essential for true economic and financial integration to follow immediately. To create the necessary incentives for such integration, an action plan, meant to achieve conspicuous results on the European market, needs to be launched by introducing a certain degree of coordination of taxation policies. The coordination of the EU taxation systems represents a key factor for achieving the single market, as well as free circulation, without favouring the removal of investment from certain areas, to the detriment of others, nor by enhancing distorting phenomena within the resource allocation process. This will require the identification of coordination mechanisms on a European scale, as well as taxation structures within member states which would allow the:

- reduction of taxes and tax-related burdens on employment;
- optimization of taxation to boost employment along with anti-inflationary economic growth; and
- preservation of the current European welfare pattern while pursuing its further development.

## A closer look at the EU perspective

As far as taxation is concerned, the EU is a building site under construction, in which extremely critical issues still subsist – a sort of unfinished building that tends to obstruct:

- the creation of a true boundary-free space, capable of generating economic growth and boosting employment; and
- the realization of an inspired ideal of liberty compatible with the global village dimension to safeguard the development of a welfare pattern to rely on.

Nevertheless, the EU should draw its strength from the convergence of three different fundamental dynamics: the single currency, new market opportunities on a pan-European scale, and the opening of the EU towards eastern Europe. If the single market should

mirror the open European economy, its principles may be the inspirational basis for creating a new international economic scene of the future, for renewed solidarity and stronger social and economic cohesion among states.

## Tax coordination policies within the EU: a mediated solution

The coordination of the various national tax legislatures, while respecting the autonomous taxation power of each country, has the purpose of countering harmful tax competition, as well as that of simultaneously reversing a tendency towards a steady increase of the tax burden on the least mobile production factors, the most typical of which is employment.

The coordination process within the EU cannot, therefore, be channelled towards the total elimination of the dissimilarities between the various taxation systems (by means of their vertical alignment) nor aim at the total suppression of all healthy forms of tax competition among states, furthermore acknowledged by the European Commission as a key factor for economic and employment growth.

What should be supported is the hypothesis of a (certain degree) of vertical coordination of the various taxation systems among member states, according to fair horizontal competition criteria. This would be a solution for a pragmatic compromise between the harmonization-oriented view of the state intervention school (longed for by some) and the perspective of a (possible) deterioration, represented by interstate (harmful) competition (feared, at least in principle, by everyone). The above requires the formulation of a common taxation policy, which among the various development policies and guidelines, contemplates measures for a binding coordination (positive function) within the EU in favour of converging rules for:

- the redressing of benchmarking criteria for the comparison of healthy competitive dynamics by means of taxation country trends (promoting function); and
- the simultaneous prevention of a possible escalation towards hypercompetitive, delocalizing and discriminatory models (restraining function).

The EU would thus meet two basic requirements concerning:

- ensuring regulatory action aimed at achieving a balance between the spontaneous convergence of tax policies and mandatory coordination measures (reaffirming function within the EU to achieve a controlled convergence); and
- the prevention of a race with no rules, a catch-as-catch-can competitiveness where the lowest taxation system wins out (negative function within the EU for competitive coordination), whose effects might turn out to be extremely detrimental for those countries restricted by obligations relating to financial statements.

This would help to affirm the common principles supporting the definition of the common residence concept, which may be seen as the new hope for a policy in favour of non-EU residents.

In conclusion:

- better coordination on a European scale, free from state intervention, should be consistent with the objective of reducing taxation and tax-related burdens on employment, to optimize taxation, so as to enhance an anti-inflationary policy that would stimulate economic growth and employment while maintaining the integrity of the current European welfare pattern;
- the identification of coordinated forms of taxation policies among states would then drive market forces to act through 'controlled denomination' competition, by favouring, at the same time, the spontaneous alignment of legislation through the elimination of those obstacles still preventing a complete integration process, similar to that which occurred following the introduction of the euro on the financial and monetary markets; and
- less freedom in respect of taxation matters may be justified by the acceptance of a conciliatory solution aiming to prevent a race to the competition towards removal from tax exemption.