Considerations Regarding the International Taxation

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Abstract. *Taxation, an essential element of an efficient public finance system, is the best way for* collecting income *to achive the public expenditures programs and, in the same time,* a way to redistribute the income, *in order to get rid of poverty and to ensure social equity. Studies on the topic of international taxation, in its traditional meaning, were addressed to the problems regarding the international taxation* effects on trade and investments, unequitable and discriminatory taxation, also the means of preventing such cases, international fiscal evasion, *all these aspects being comprised into the area of* fiscal competition. *The present concept of international taxation, meant to cross states borders, in order to* redistribute the income *or to achive* other objectives with international implications, *such as fight against poverty, maintaining world peace or environment protection, is a quite recent one.*

Key words: international taxation; fiscal competition; mandatory; pigouvian taxes.

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1. Taxation and its fundamental objectives

Taxation is an extremely unpopular subject, sometimes rejected in an open manner by the taxpayers. Representatives of governmental structure and politicians are chosing not to discuss it in public, and when they are forced to approach it they are trying to emphasize the fact that they are not aiming to increase fiscal pressure. Yet, economists dare to study and to discuss this topic in an open and objective way because it is unanimous recognized that taxes and taxation are unavoidable(1).

According Swedish economist, *taxation is the most flexible and efficient instrument of social reform, though at the same time the most dangerous* (Myrdal, 1953, p. 188).

Taxation represents an essential element of an efficient public finance system, being the best way for *collecting income* to achieve the public expenditures program. This automatically represents an attribute that is missing from within the financing schemes on voluntary basis, meaning *obligatory*.

Taxation can be, at same time, a *way to redistribute the income* in order to get rid of poverty and to ensure social equity. Last but not least, taxation can be a *motivation*, or, on the contrary, an *impairment for certain objectives*, as public goods supply, regulation of activities with negative external costs for society and environment and promotion of activities with positive external effects.

2. The traditional concept of international taxation

If at national level the fiscal framework and laws regulating the taxes and duties are well defined, things are different at international level. International taxation, in its traditional meaning, placed the *private finances* at the core of the matter, taxes and duties being submitted to national jurisdiction, thus engendering conflicts at national taxation law level. Studies on this topic were addressed to the problems regarding the international taxation *effects on trade and investments, un-equitable and discriminatory taxation* (for example: double international judicial taxation), also the m*eans of preventing such cases, international fiscal evasion*. All these aspects are comprised into fiscal competition, term that, even though present for many decades within the economic science, entered the European institutions only in the '90. In an important article published in 1956, Charles Tiebout was discussing the situation of local communities that had tried to attract wealthy inhabitants by offering a reasonable combination of taxes and public goods.

Fiscal competition has two distinct dimensions: *fair fiscal competition* and *damaging fiscal competition*. Fair fiscal competition comprises the general aspects of fiscal system, like general decrease of the taxation rates that would lead to a broadening of fiscal base. Unlike fair fiscal practices, both the European institutions and Committee on Fiscal Affairs within OECD tried to identify elements of the fiscal regime considered damaging, *such as decreased rates* or even their *absence, fiscal facilities for foreign investors, lack of transparency, lack of information exchange, artificial definition of taxation base, exclusion of the incomes stemming from external sources, negotiable fiscal rates* or *negotiable fiscal base, secret provisions, unreal economic activity.*

It is considered that a fiscal competition between Member States, having in view rules preventing inadequate behavior, can encourage a positive approach of Member States, *stopping fiscal pressure from reaching an excessive high level.*

3. The present international taxation concept

The present concept of *international taxation*, meant to cross states borders in order to *redistribute the income* or to achieve *other objectives with international implications*, such as fight against poverty, maintaining world peace or environment protection, is a quite recent one, included within official studies at the United Nations Conference of 1977. At that time, international taxation was included among the possible supplementary measures by means of which resources can be mobilized to fight against desertification. Institutions such as World Bank or International Monetary Fund, considered as international bodies, do not offer all the elements needed to solve these issues, mainly due to financial difficulties because public funds are almost entirely gathered on voluntary basis and are politically motivated. *It is crucial to define and implement a taxation system that has a periodical character, is adequate and has a positive results possibility for society*. Collection of taxes and duties could be done by national authorities, in the same way as administrating the national fiscal obligation towards the budget, and the supervision of operation the collecting system of incomes and use will be the responsibility of the specialized international bodies.

Admitting such an opinion as valid and possible, international taxation could produce effects within the present international political system by means of conventions or multinational treaties, which would ensure the legal basis for o wide range of international taxes and duties. For their implementation at least the following should be taken into account: *definition of tax base, establishing taxation rates, means of collecting, requirements that should be met before joining a convention or treaty, penalties sanctions for non observance of conditions and withdrawal procedures*.

The United Nations Organization, which is closer to the status of a purely international institution, proposed more categories of international taxes and duties, comprising: tax on income from international commerce, duty on surpluses of trade balance, duty for "drain brain", pigouvien duties.

3.1. Possible means of taxation of the income from international commerce

Main purpose of considering an income tax, at international level, is to mobilize on a continuous base the resources for supplying public goods and goods with positive externalities.

▪ *General duties on international commerce*

These duties are levied on commerce across the national borders, for goods and materials and invisible services. Duties on commerce could be collected either at the import customs point or the export customs point, the second one preferably, as long as the import taxation is a more frequent practice. In respect of invisible goods and services, such as tourists, diplomats and military personnel expenditures, one of the practice, yet hardly to establish, would be the comprising of insurance and transport duties within the duties imposed at the custom point. Of course, are exempt of this kind of duties the implementation of this policy, especially as members of the European Union. It is possible that the European Union be considered as a single state, as is China or USA.

There is no solid reason for an international tax system would not to be technically feasible, even if it is confronted with all kind of administrative problems. From an economic point of view, a possible disadvantage would be the substantial increase of dealt goods' price at international level and the decrease of the total external exchange volume, if established at high value. Due to the size of the tax base, it's yet obvious that for mobilizing as much resources as possible, the duty could be established at a lower level that other tariffs whose main goal is to discourage the imports. This form of taxation needs special attention taking into consideration the fact that the dimension of international commerce, measured by means of the imports amounts, is increasing continuously.

▪ *Duties on international commerce specific primary goods*

When such measure applies to producers, it would may have as effect the encouragement of preservation and internalizing of negative externalities.

▪ *Duties on oil international trade* were proposed within United Nations by different entities, especially due to the large taxation base. As in the case of general duty on international trade, the oil duty could be collected either at the import customs point or at the export customs point. Oil is one of the few primary goods taxed by the exporting countries at the export custom point. A frequently asked question is whether it should tax the whole value of the refined goods or just the value of the crude oil out of which they are obtained. As the fiscal pressure should be sustained by the OPEC, they are expected to be against such a duty and to mobilize the opposition of other developing countries too. If the duty would be imposed mainly to the consumers, it would raise another set of problems. The countries having enough oil reserves, such as USA, Canada, United Kingdom, Norway, could benefit from this measure. Instead, developing countries would suffer.

The taxation system should ensure a more even equitable distribution of fiscal pressure. A possible solution would be taxation both of the oil for internal use and for international trade. This modality would be easy to administrate because the entire production would be involved and in addition it does not raise the re-export matter, or if it appears it is insignificant. In order that this tax be put in practice the entire cooperation of the national government is needed, a thing hard or impossible to obtain.

▪ *Duties on non-renewable minerals (coal, oil and natural gas)* international trade. It is recommended that taxation points to both minerals for internal consumation and for international trade. Duties on petrol would have an internalization pigouvian effect upon negative externalities that affects the environment.

▪ *Duties on primary raw materials (aluminum, copper, iron, manganese, zinc).* Trade with these materials is quite large and the taxation base would allow a low rate to generate substantial income. And, at least at theoretic level, all states would be involved within this exchange the fiscal pressure would distribute among them.

3.2. Possible means to tax the surpluses within the commercial balance

▪ Duty on surpluses within commercial balance for the trade with manufactured goods

According to this duty proposal, initiated in 1978 by the third world countries, contributions should be done by the developed countries, calculated upon a percentage rate on surplus within commercial balance for the manufactured goods exchange with the developing countries. Although this category of duty was a topic of intense debates, more details were never known. The main purpose of the implementation was clearly aiming to ensure the income redistribution from industrialized countries towards developing ones.

Same as the income resulting from international trade of certain goods, duty on surplus would have a large taxation base: manufactured goods, excluding iron, steel and non-ferrous metals, represent the greatest weight in total world export. But such a duty would be inefficient if the taxation tares would have a high level, producing a constraint of the manufactured goods export. The involved cost of these duties could easily be transferred to the importing countries.

- *Duty on consume*

The application sphere of the duty on consume would be consisting in a limited number of goods of which acquisition indicates a relative high level of life standard. We can point as example private airplanes and pleasure boats, automobiles, tv sets, fridges, laundry and dishes washing machines. The contribution would be established according to a uniform reduced rate of about 0,5% of acquisition price, being collected by national fiscal authorities. Gathered incomes could be used for financing international development. It is up to governments to determine taxable persons and it will be considered that they concluded their mission when annually giving the collected funds to international development organizations, already chosen within a list adopted by General Assembly of the UN. These are the only details regarding this proposal given to the public. Yet it seems that such a duty would not enjoy great support.

3.2. Duty on positive externalities: brain drain

Brain drain duty represents a way to regulate the positive externalities generated by preparing and perfecting personnel that migrates from a country to other, usually from a developing country to a developed one. Modern economic growth theories analyzed relationship between *education, migration and economic growth.* While education is the determining factor of economic growth on long term, the human capital's migration will create negative externality for the country that invested into the educational system. Data presented in table no.1 can only sustain the affirmation according to which brain export is a determining factor of economic growth for countries of destination. A careful analysis of the immigrants into the OECD member countries from developing countries shows that the large majority of them posses tertiary educational qualifications.

Number of immigrants into the OEDC countries, according to the education level, 2000

Table 1

Country	Total Immi-grants	Education Level		
		primary	second-dary	tertiary
East Asia				
China	722.400	148.029	185.295	389.070
Indonesia	142.450	3.910	32.347	106.283
Philippines	356.134	27.604	70.079	258.451
Eastern Europe and Central Asia				
Turkey	1.913.782	263.078	534.429	1.116.275
Latin America				
Brasil	176.519	16.026	64.097	96.396
Jamaica	117.119	9.483	54.647	53.069
Middle East and North Africa				
Morocco	560.658	30.706	168.179	361.773
Tunisia	142.828	10.027	41.782	91.019
Egypt	20.372	733	3.796	15.844
South Asia				
Bangladesh	44.417	3.852	12.902	27.663
India	375.283	18.471	57.199	299.613
Pakistan	85.668	6.022	22.458	57.188
Sri Lanka	64.143	1.455	16.741	45.947
Total	**4.721.944**	**539.396**	**1.263.957**	**2.918.597**

Source: Adams (2003). International Migration, Remittances and Brain

Drain: A Study of 24 Labor – Exporting Countries.

World Bank Research Working Paper, No. 3069.

International economic migration is, in essence, determined by destination countries which are admitting or tolerate hiring of foreign citizens. It is highlighted that qualified labor force's migration represents a transfer of positive resources, which should be included into the international resources accountancy. Benefits associated to these fluxes should be divided between the two categories of countries upon the reciprocity principle. On the other hand, countries with industrialized market economies have the opinion that the suffered losses alleged by developing countries are not quite real if there are more aspects taken into account. These countries diminish their problems *related to unemployment, are beneficiating by returning into the country of incomes earned by the emigrants* through transfers that they are sending to the people remained within the country. The conclusion is that emigrants incomes should stay in the country where earned because the part sent back to origin country tends to produce inflationist effects, being same time a national source of income on which the country can not abide on, because is subject of unforeseeable fluctuations.

Generally speaking, labor force international migration is characterized by a transfer of considerable dimensions towards the emigrant's native country. In some cases, these transfers represents o major financing source next to direct foreign investments, as shown in table no. 2.

Main external financing sources for developing countries (billion dollars)

Table 2

External Financing Sources	1997 (Billion Dollars)	2005 (Billion Dollars)
Debt net fluxes	107,2	120,1
Direct foreign investment net fluxes	168,7	237,5
Emigrants remittance	71,2	166,8

Source: The World Bank, *Global Development Finance* 2006.

In table no.3 it is shown a presentation on each country of mentioned remittance and for year 2000 countries such as India, Mexico, Philippines and China are on top.

Evidence is bringing out the fact that a great number of emigrant return eventually home, where, applying the experience and knowledge gained within deveopled countries, substantially contribute to their country development.

Emigrants remittance, distribution on countries

Table 3

Origin Country	Remittance In 2004 (Billion Dollars)
India	23
Mexico	17
Philippine	8,1
China	4,6
Pakistan	4,1
Morocco	3,6
Bangladesh	3,4
Columbia	3,1
Egypt	3,0
Brasilia	2,8
Lebanon	2,7
Dominican Republic	2,3

Source: The World Bank, *Global Development Finance* 2005.

It must be emphasized that remittances come mostly from unqualified workers, being quite insignificant when talking about high qualified persons.

Duty on labor force international migration would be justified from public finances point of view considering that producers, represented by countries where the personnel gets education, are not receiving compensation for positive externalities they are generating. The taxation base will be represented by *net revenues of migrating labor force*, and the collected funds either will be distributed to the origin country or to the agents for multilateral assistance for further distribution. The duty will apply to *income earned at present* and not to the ones from migration moment. Without being a prohibitive duty yet represents an impediment to emigration, not totally violating the liberty principle in choosing the location. The difficulties the system is facing are related to the *determination of the taxation rate and establishment of imposing authority*, serious human rights constitutional problems been rose.

3.3. Pigouvian duties

▪ *Duty on polluting*

The purpose of this duty category is not as much to *collect income* but a *measure to decrease pollution and a mean to internalize the external costs* not accounted by the m,arket mechanism. Among biggest environment polluters are fossilized fuels like oil, coal and gas, which increased the “glass house” effect. In industrialized countries within Europe, also in Japan, there are already implemented more types of pigouvian duties that should be extended to international level because the entire world population will be, sooner or later, affected by pollution.

▪ *Duty on military expenses and for military weapons traffic*

Same as duties levied to polluters, military duties were proposed by The United Nations Organization and other international organizations in order to discourage military expenses and arming race. They have the characteristics of pigovian duties, to *internalize negative externalities* generated by such expenses. But the financial matter of *collecting revenues* can not be neglected, having in view that the amount of military expenses is extremely high. Implementation of the duty is confronting with a series of political obstacles, first of all due to the fact that governments have great restrains in reporting such expenses to an international authority. The duty for weapons purchase would almost be a pure international duty, applicable to all transactions between national governments or between those obtaining warranty or state’s agreement to establish such transactions. Having in view the main purpose of this duty, meaning the discouragement of weapons traffic, a higher level of taxation rate can be established as for the rest of the duty categories.

4. Policy's valences of international taxation

To ensure the feasibility of some duties and taxes at international scale, the most important aspect is unavoidable political one. States are very much looking to their sovereignty and are not loath to submit to an international organization. It's difficult to objective determine political feasibility, taking into account a much greater time horizon, and impossible to empirically verify. International taxation is confronting with a series of political obstacles, but the opportunities offered by this one are great. At national level, a lot of the components of present fiscal system were impracticable to a certain moment, and in United States income tax was considered unconstitutional.

Resistance to change will continue to leave marks on international taxation system but the evolution of long term political attitude regarding the financing of objectives is a positive increasing one. Political leaders recognize the need for equity within world economic relationships. International assistance, technical and capital programs, were more and more numerous after World War II. At present, a intergovernmental consensus was reached regarding need for international assistance for development and for international cooperation.

It seems that implementation of an *international taxation system* is just a matter of time. At least as principle, almost all countries are expressing their agreement regarding a compulsory contribution regulated by the budget of international public organizations. A positive example to this is the one of the European Union where already a harmonized taxation regional system is implemented.

Notes

(1) Benjamin Franklin was declaring that nothing in the world is for sure, except death, taxes and taxation

(2) engl. Committee on Fiscal Affairs

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