RECOMMENDATIONS FOR EUROPE

- Europe can and should do more to be competitive with the major players (United States and China) in the digital sector. In particular, it could try to lead by example, providing a third way that would couple innovation and entrepreneurship with protection of privacy and freedoms, perhaps by giving individuals a choice in the amount of privacy they surrender.

- Europe should bring down barriers for cooperation and data exchange within the European internet companies, scale up the European venture capital industry, and possibly provide EU-wide fiscal incentives for the most prominent platforms "made in Europe" that would act in accordance with the European privacy laws.

- Fairness is an important property of tax systems; although views about fairness differ widely, a situation where different companies are taxed very differently and some companies are able to avoid part of the taxes on their profits is clearly unfair.

- A lack of clarity exists with respect to the magnitude of profit shifting and tax avoidance by multinational companies. Data collected in the framework of country by country reporting has the potential to improve the informational basis of the discussion about tax avoidance. However, currently this data suffers from a lack of clarity and standardization as to what exactly is reported. Better standardization is needed to make sure that this data is appropriate and internationally comparable.

- Plans in the European Union to make this data public for EU companies are harmful. In its current state, the data would give rise to misinterpretations. In the absence of global coordination, the publication of this data would put European companies at a competitive disadvantage. Rather than making this data public it should be made available for economic analysis by researchers, safeguarding the anonymity of individual companies. We propose that the European Union publishes a regular report on the basis of country by country data, combined with other available micro and macro data, to highlight the extent to which multinational companies pay taxes in European and other countries.

- We think that the current proposals to reallocate taxing rights to the market countries are unnecessarily complex. This is primarily a result of splitting the profits into routine and residual profits and using only residual profits for the allocation of taxing rights to market countries. While this may protect the fiscal interests of the 'headquarter countries', this complexity runs the risk of generating new tax avoidance opportunities and new conflicts about taxing rights between countries.

- Shifting taxation from mobile to less mobile tax bases is a solution to the mobility of individuals and jobs. It is also possible to maintain progressive elements in taxation, while it may not be possible to change the top statutory tax rates, by focusing on the definition of tax bases and tax exemptions, in particular for taxation of capital gains.

- On the expenditure side, we argue that the subsidies for tertiary education, study grants, absent or subsidized fees, should be rethought. Such policies are regressive in a lifetime perspective, and with increasing skill premiums they also reward the winners. While there are substantial arguments for subsidizing primary and secondary education, this argument is less compelling for tertiary education. One way to reduce educational subsidies is to substitute state-guaranteed loans for study grants; this also reduces the extent to which emigrants can free ride on tax-financed education. Such a change is consistent with maintained incentives for education, and it improves public finances.

- Taxing inheritances (or donations) is part of a fair tax system since receiving an inheritance increases an individual's ability to pay. It is important to eliminate exemptions in order to broaden the tax base and keep the system simple so as to reduce the possibilities for tax optimization.