Maastricht University

TAXATION AND GLOBAL MOBILITY:

BUILDING A COMMON UNDERSTANDING FOR THE TAXATION OF MOBILE HIGHLY SKILLED AND WEALTHY INDIVIDUALS FROM AN INTERNATIONAL PERSPECTIVE

Author: Nicole Gibbs

INTRODUCTION

In an era of increased globalization and digitalization, human capital is more mobile than ever, and many states have tax regimes that facilitate the immigration of both wealthy individuals and highly skilled individuals. Such regimes may contribute to harmful tax competition and undermine the ability-to-pay principle.

The information on this poster forms a part of ongoing PhD research which addresses the extent to which ongoing parallel developments in the area of corporate income taxation are similarly at play in the area of individual income taxation, and whether solutions for the former can provide inspiration for addressing the latter.

GLOBAL MOBILITY IS INCREASING...

Globalisation and digitalisation:

- Increasing inter-state and inter-individual inequality = migration flows from developing-developed countries.
- Reduced financial & psychological barriers to migration via e.g. cheaper travel, cultural exchange, availability of information.
- Increasing climate change & conflict further induce migration.

Demographic shifts:

- Many developed countries with ageing populations need to fill labour gaps.
- Brain drain from less developed to more developed countries.

Lowering of regulatory barriers

- Policies to facilitate highly-skilled migration.
- Residence- or citizenship-by-investment programmes to attract wealthy investors.

...AND TAX PLAYS A ROLE

Neo-classical migration theory:

- Taxation has an effect on migration insofar as it affects income differentials.
- Those in higher income brackets are more affected by taxation and thus more predisposed towards mobility.

Empirical evidence:

- Confirms tax has an effect on mobility.
- Effect is stronger for highly-skilled and wealthy.
- Effect is tempered by factors such as national amenities, barriers to migration etc.

TAX POLICY RESPONSES TO INCREASED MOBILITY

As wealthy and highly-skilled individuals are affected by taxation, tax can be used to attract such individuals, and certain countries compete to do so them via favourable taxation. Low or no taxation can be caused by low/no statutory rates or by preferential regimes, which target foreign highly-skilled individuals, wealthy individuals, or pensioners, and treat (a part of) their domestic or foreign income favourably. As countries compete for these individuals, the countries which they emigrate from are put under pressure to retain them. In both scenarios, the ability-to-pay principle is compromised.

COUNTRY OF IMMIGRATION

Statutory tax rates

1. Tax competition causes declining top labour tax rates & low investment tax rates
2. Highly-skilled and wealthy individuals (top earners) are not taxed according to their ability to pay
3. Tax burden shifted onto lower-earning taxpayers
4. Collapse of progressivity & hampering of redistributive goals

Preferential income tax regimes (PITRs)

1. PITR ring-fences (a part of) beneficiary's income, shielding them from the ability-to-pay principle
2. Foreign beneficiary of PITR is subject to lower taxation than their domestic counterpart
3. Tax burden shifted onto domestic taxpayers
4. Collapse of progressivity & hampering of redistributive goals

→ Often, low or no taxation taxation also goes hand-in-hand with residence or citizenship-by-investment schemes, meaning individuals can essentially pay to avoid being taxed according to their ability-to-pay.

COUNTRY OF EMIGRATION

1. (Threat of) mobility of wealthy & highly-skilled individuals causes declining tax rates
2. Highly-skilled and wealthy individuals (top earners) are not taxed according to their ability to pay
3. Tax burden shifted to non-mobile (lower-earning) tax base
4. Collapse of progressivity & hampering of redistributive goals

SIMILARITIES WITH PARALLEL CORPORATE DEVELOPMENTS

In both corporate and individual taxation, barriers to mobility have decreased due to globalisation and digitalisation, making tax more of a consideration in mobility decisions. The 2013 Action Report that spurred the OECD/BEPS project to address these issues in the corporate context is based on 3 core pillars: coherence, substance, and transparency. Developments in personal taxation similarly relate to these principles.

COHERENCE

Gaps and frictions caused by interactions between domestic tax systems and the application of DTTs may lead to double-non taxation or very low taxation. Certain countries use tax measures that exploit these interactions and erode the tax base of other countries while maintaining or boosting their own, i.e. harmful tax competition is created.

SUBSTANCE

Where a state's threshold for tax residence has a low or no physical presence requirement (e.g. through a residence- or citizenship-by-investment scheme), it is possible that formal residence does not coincide with a substantial connection to the jurisdiction.

However, where a preferential regime does not require some form of economic activity, it is a considerable indicator of a policy aim to simply increase the tax base (at the expense of another state's).

TRANSPARENCY

Residence and citizenship-by-investment schemes allow individuals to circumvent cross-border reporting standards, leaving room for tax avoidance and evasion.

NEXT STEP: HOW CAN RECENTLY-INTRODUCED GLOBAL REFORMS IN CORPORATE TAXATION PROVIDE A THEORETICAL FRAMEWORK FOR ADDRESSING SIMILAR CHALLENGES IN PERSONAL TAXATION?