

# Anybody out there? The Future of Tax

Gitte Heij  
Melbourne University Law School  
Australia

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## Abstract

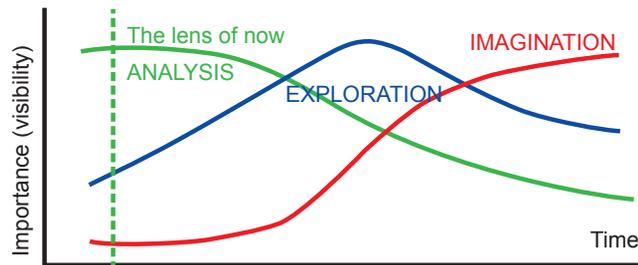
*Most tax revenue and tax policy research papers discuss historical developments and the current challenges of raising tax revenue. This paper takes a long term view and addresses the possible futures of tax revenue using the Three Horizons model. With the help of this model, it outlines possible futures for raising tax revenue in an environment of rapidly evolving technology, automation, globalization, the rising power of powerful interest groups, and the trend of increased accumulation of wealth in the hands of fewer taxpayers. By analyzing possible futures, the assumptions of key stakeholders are tested.*

**Keywords:** Tax policy, foresight, tax revenue, Three Horizons model, future tax

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## Introduction

Tax policy is a very broad subject, with very little research focusing on the long term future in the context of wider changes in societies. The Three Horizon Method is a foresight theory, which has demonstrated usefulness in public policy, exploring different futures and widening as well as developing new views regarding public policy. This theory is the result of the work of Baghai, Coley and White (Baghai, Coley, & White, 1999), and was subsequently further developed by foresighters including Andrew Curry, Anthony Hodgson and Bill Sharpe (Curry & Hodgson, 2008). The theory assists in organizing the interaction between trends and emerging changes. Horizon 1 covers the 'now' (analysis), Horizon 2 looks ahead (exploration), whereas Horizon 3 covers the futures (imagination). Tax policy operates almost entirely in Horizon 1, the lens of now. Policies are refined and tweaked to deal with faults in the system. Tax policy is no exception; policy makers have to ensure to 'keep the lights on' today and think how to keep them on for 25 years. In the words of the IFF (International Futures Forum), it is actually the gentle art of redesigning the plane whilst flying it.



Horizon 1: e.g. Current drivers and trends

Horizon 2: e.g. Emerging drivers of change

Horizon 3: e.g. Weak signals of emerging drivers of change

Figure 1. Horizon Scanning Source: (SAMI Consulting, 2016)

Three Horizons is a way of working with change, focusing on patterns rather than individual events or unexamined trends; it frames the discussion in terms of the shift from the established patterns of the first horizon to the emergence of new patterns in the third, via the changing activity of the second. The central idea of Three Horizons, and why it is the preferred model for this paper, is that it draws attention to the three horizons, as existing, always in the present moment, and that we have evidence about the future in how people (including ourselves) are behaving now (Sharpe, 2015).

Horizon 1 (H1) highlights trends in the present, wherein things are disappearing or diminishing. It provides a clear picture of those methods of improvement and innovation that may sustain the old way of doing things, but it is losing its effectiveness (Sharpe, 2015). Policy makers operate in H1.

Horizon 2 (H2) discusses trends in the present, where things are first appearing or becoming more prevalent, besides any new issues and struggles that support H2 of turmoil and uncertainty. The results of H2 are summarized in the third horizon.

Horizon 3 (H3) is the future system; new ways of living and working that will better fit with the emerging needs and opportunities. H3 change is transformative, bringing new patterns that are hard to comprehend in the H1 system (Sharpe, 2015). There will be many competing visions of the future, and early pioneers' predictions are likely to appear quite unrealistic; indeed, some of them may very well be. While crafting a Three Horizons map, it captures the trends that are playing out for all of us. H3 will present different scenarios to reflect the different trends (Bishop, 2009).

The paper is based on desk top research, using a range of information sources, including books (Piketty, 2014; Brynjolfsson & McAfee, 2014), journal articles (foresight, tax and economic journals), blogs, video's (block chain), online courses (international tax), newspaper articles (in particular New York Times) and web sites. It has received expert review feedback from specialists in foresight and fiscal/tax policy. It aims at forming basis for discussion on the future of tax policies. Key words include fiscal policy, tax policy, foresight, three horizons, tax evasion, tax revenue, future tax policy, tax revenue, future tax revenue.

### The lens of now<sup>1</sup>

The key objective of a tax policy for most countries is to fill the state coffers. They will also use taxes<sup>2</sup> as an instrument for non-revenue purposes to serve their social and economic policies (The author is mindful that using taxes as a policy instrument is controversial for some people, for a thorough discussion (Heij, 2007)). These instruments may be in the form of tax incentives, subsidies etc. or additional levies such as high excises on tobacco, tax incentives for research, redistribution from the wealthy to the poor, and policies to encourage particular economic activities. Over the last three decades, tax incentives have lost their popularity, and overall lower tax rates rather than specific incentives are now favored.

Tax policies are generally developed by experts. However, political realities can hinder the adoption of the proposed policies. Governments are often led by electoral considerations in their tax policies (Even in non-democratic countries, governments are sensitive to their citizens' needs, needing a support base to stay in power). Many special interest groups eg. oil and gas, financial institutions, unions, and wealthy individuals also lobby governments. The wealthiest top 1 percent of income earners often have access to politicians and may influence agenda setting resulting into tax policies that serve a few rather than benefitting the majority of citizens.

Tax regimes were originally developed for economies based on the exchange of physical products made and sold at physical locations. Currently, the share of global trade in services domestically as well as internationally is larger than the trade in goods (Asher & Kwan, 2016). Many economies depend heavily on services and intangible goods that flow across borders.

Most tax revenue in the OECD (Organization for Economic Co-operation and Development) countries is generated through personal income tax and consumption tax (Crivelli, Mooij, & Keen, 2015). The revenue derived from corporate tax represents less than 10% of the total tax for most developed countries. It does contribute a much larger share in developing countries (as other taxes, like consumption tax, may be harder to collect)<sup>3</sup>. Generally, consumption taxes are an increasing source of revenue. Individuals pay most in tax via personal income tax and social security contributions. Governments may decrease taxes whilst increasing other government levies<sup>4</sup> and fees. The official tax burden declines whilst the overall financial burden on individuals actually increases.

Historically, the point where the taxing of income or profits occurs is based on three areas: residence, source or destination. The residence means a place where the company's owner/owners or a person are based; the source means a place where the goods or services are produced; and the destination means a place where the goods or services are consumed. This, however, is less than clear cut as corporations like Apple, IKEA, Google, Facebook and Starbucks pay minimal or no tax in the countries, where the goods or services are produced or consumed, letting alone where they are based. The issue of taxation is further complicated as the sources of income become more diverse. Traditionally, the main source of income has been labor. Increasingly different sources of income including interest, royalties, capital gains, service fees, and dividends now exist, and they are taxed at different rates.

Tax policy makers and revenue authorities are working towards improving their tax systems to ensure that the correct amount of tax is paid, particularly by multinational companies (MNCs). The OECD is adopting its policy for Base Erosion and Profit Shifting (BEPS) towards securing tax revenue into the future. The BEPS policy provides governments multifarious tools to ensure that MNCs cannot shift their corporate profits to low or zero tax environments, where little or no economic activity takes place. Currently, 90 countries are working together on BEPS policies. Revenue losses from BEPS are conservatively estimated at USD 100-240 billion annually, or anywhere from 4-10% of global corporate income tax revenues (Crivelli et al., 2015). Bearing in mind developing countries have a greater reliance on corporate income tax revenues as a percentage of tax revenue, the impact of BEPS on these countries is particularly significant (OECD, 2015). Given the mobility of the tax base, the efforts to collect these revenues have been very costly for tax administrations.

United States based MNCs shift the largest amount of profits out of G20 countries. Twelve countries, including the US, Canada, Germany, France and China miss out 90% of the profits from US multinationals' profits worldwide<sup>5</sup> (Tax Justice Network and Global Alliance for Tax Justice and PSI and Oxfam, 2015).

Resentment and anger grows as the wealthiest entities are able to avoid their tax responsibilities and get away with paying less tax. Events and trends can also influence each other. An example occurred in 2013 when the International Consortium of Investigative Journalists, ICIJ, the non-profit group, released 2.5 million hacked records of individual offshore bank accounts, naming

names on their website (the International Consortium of Investigative Journalists, 2013). Public outrage followed and tax authorities in many countries used the data to collect additional taxes. The 2016 Panama Papers is a recent scandal, a leak over 10 million documents, providing details of widespread tax evasion by wealthy individuals, politicians and companies using Mossack Fonseca, the Panama law firm, for providing a safe haven to foreign wealth and income using complex shell companies (Obermaier, Obermayer, Wormer, & Jaschensky, 2016). These events illustrate a new trend of individuals and organizations using technology to expose the injustice, they believe, the current tax system reflects. For such tax avoiders, leaks may lead to large legal bills, and for corporate avoiders, reputational damage, although difficult to quantify, is a high risk. For politicians, it may mean the end of a political career.

More tax authorities, with the assistance of technology, are now cooperating and exchanging information at an international level. Countries facilitating tax evasion (Switzerland, the Netherlands, Luxembourg, Ireland, Bermuda, British Virgin Islands, Cayman Islands, and Jersey) are under increasing pressure to end these practices. Local communities are also exerting pressure in response to the inequity of large corporations escaping their tax responsibilities and leaving small companies and individuals to shoulder the tax burden (Sherwin, 2015).

In the lens of now, the different stakeholders rely on their own assumptions and hold their own views. But, it is really important that we acknowledge this diversity. Consideration needs to be given to their beliefs and differences and common ground. From today's standpoint, we are able to examine a number of stakeholders and their individual views and assumptions.

### **Public policy makers**

Governments, the OECD and the EU make the assumption that there will be income and consumption to tax. New legislation secures future revenue from corporate tax for member countries. More countries will collaborate in the future as reason prevails. The role of government cannot be replaced, and citizens have an understanding of this and will continue to be willing to pay tax. Tax credits can be used as compensation for low income earners for effectively addressing inequities. The impact of new technologies on future government revenue is unknown as it is, in fact, the impact that block chain technology will have on individual governments' fiscal policies.

### **Tax collection authorities**

Payment of tax will be in monetary form. The people will earn revenue rather than in kind goods or services; the bartering and free exchange economy is, therefore, not a major focus. Technology assists in the collection of revenue; the impact of block chain technology is not (yet) relevant to tax collection. The costs of tax collection (expensive court challenges, long investigations) are an important factor. Power vectors in tax policy making, defending specific interests (often wealthy individuals and large corporations), are directly influencing collection strategies and tax revenue authorities' budgets in some countries (the United States), but less so in others (Denmark). Power vectors in tax policy making are often large corporations or wealthy individuals defending specific interests. They directly influence the collection strategies and budgets of tax revenue authorities in some countries e.g., the United States but have less impact in others e.g. Denmark.

### **Large tax payers**

Large tax payers will continue to explore tax minimization strategies unless they believe that it will not serve the sustainability of their companies or their public image. Many multinationals assume that they will continue to exist in the digitalized world, and most MNCs believe that social corporate responsibility can coexist with tax minimization. At the end of the day, capitalism still remains the best option for world markets, and the winner takes all is not a realistic picture of capitalism.

## **Tax advisers**

Minimizing tax is a core service provided by lawyers and accountants. After tax avoidance has eroded corporate tax revenue and potential loopholes are subsequently closed by legislation, advisers are seeking new markets that focus more on services for high net wealth individuals and minimizing other taxes. Public finance, government revenue has nothing to do with the services provided by tax advisers<sup>6</sup>, even though the large accounting firms are key drivers in the public tax policy debate. Tax advisers do not have any responsibility involving government revenue well illustrated by the 2015 report of Ernst and Young (Ernst & Young, 2015). The impact of block chain technology on the need for tax minimizing services is yet unknown.

## **Social advocacy groups**

Consumption tax is unfair for low income earners. Low earners will continue to purchase goods and services (rather than use, swap, barter, pay in kind etc.). Tax credits for low income earners serve as a good tool for avoiding inequality (Leigh, 2010). A basic income for all is not feasible in the near future. Poverty increases as the wealth gap increases, and more people move from middle income to low income earners. The free market economy has resulted into increased struggle for low income earners.

## **Individual taxpayers**

They will continue to carry the major burden of funding government coffers as they will continue to be in employment, earning a salary and paying taxes. The concept of not working or only very part time work as a result of automation is not yet on their radar. The possibility of a decline in income, as only low paid non-automated jobs remain, is, particularly for white collar workers, unthinkable.

## **Wealthy philanthropists**

Most wealthy philanthropists engage in tax minimizing strategies with the companies they control. They believe that tax avoidance and charity are compatible. This belief illustrates a limited faith in the ability of governments to act for the public good. They have the right to say how much they will spend and where they will spend via their charity funds, be it supporting particular political parties, funding anti-abortion campaigns, or alleviating poverty.

## **Horizon 1 - Analysis**

### **So, what is continuing and what is diminishing?**

A logical continuation through the lens of now means that tax authorities will continue to tackle tax evasion, within the boundaries of the political environment. Governments will continue to improve tax legislation as long as the electorate is willing to accept such changes, and as long as powerful interest groups do not interfere. Wealthy individuals and corporations will influence government agendas whilst setting their own agenda (in some cases by setting up their own charities as a vehicle to represent their interests) besides participating in public debate. What is crystal clear is that wealth has never been as concentrated in the hands of a few as it is at the present time. The concentration of power is in the hands of fewer than ever before, who have increasingly disproportionate access to agenda setting, lobbyists, the media, and influencing government. Horizon 1 perceives a trend of a decrease in the influence of large groups of citizens as well as an increasing influence of an ever smaller though more powerful and wealthier group, which is habitual of paying less tax.

Corporate tax revenue has been declining since the global financial crisis in 2008. The reframing of property rights in this current era of intangible assets is crucial as intangible property has become a major source of revenue and wealth. This demands the rewriting of tax laws and provides a field day for tax consultants and lobbyists trying to limit the tax burden of their clients. Governments are grappling with how best to capture intangible property in their national and international (double tax agreements) tax legislation. Defining as well as taxing intangible assets affects all sources of tax revenue. Horizon 1 perceives tax laws based on tangible goods becoming irrelevant, whilst tax policy makers struggle to incorporate the developments in intangible assets.

As corporate tax revenues decline, there is increasing taxation pressure on individuals to ensure that governments have enough money in their coffers. This condition is expected to continue under Horizon 1. As mobile tax bases of tax revenue escape the jurisdiction, governments are also looking at further tax potential of immovable property (Norregaard, 2013). Governments consider wealth taxes and estate taxes for raising taxes on the rich, but there is a limit to how much money one can squeeze out of such a small group of people. In Europe, most states generally rely on a highly regressive value-added/sales tax, usually levied at around 20 to 25 percent, to fund their budgets, with only a very small proportion of their revenue derived from wealth and/or estate taxes. The trend of taxing easy targets, often low and middle income earners (both individuals and small businesses), is not sustainable. Likewise, the tendency to go after wealthy individuals cannot completely resolve the revenue challenges.

The European Union is now adopting novel ways to tackle tax evasion, as it demonstrates how destructive the tax evasion of large multinationals (for example: Starbucks and Fiat Chrysler) is for small businesses worldwide. Vestager, European Union (EU) competition commissioner, argues that entities shifting profits to low tax countries have an unfair advantage, which is not available to other companies. She is currently analyzing 300 different tax rulings from a variety of member states, which lack a real commercial basis, and are biased against start-up companies and small and medium size businesses that cannot afford the advice required for complex tax structuring (Kanter, 2015). The era of EU states competing with each other is at a turning point as the EU is considering forcing its member states to automatically exchange information regarding their tax rulings, so that EU member countries can police each other and their taxpayers more effectively.

Tax advisers, particularly in the light of the Panama papers' revelations, are reconsidering the use of costly tax havens and structures in response to tax authorities becoming more aggressive in their requests for information when tax havens are used. They continue to develop new tricks such as "inverting", whereby American companies change their tax nationalities on paper whilst their operations remain exactly the same. Their focus is now more on deferring tax bills and minimizing tax on financial income via the use of life insurance and investment certificates. The services focus on the principle of providing a buffer between individuals and their taxable income until they actually receive that income in their pocket. Tax advisers move from tax planning to assisting customers with tax disputes. Litigating with tax authorities is becoming a growing line of business (Da Palma Borges, 2015).

Overall, there appears to be a decrease in avoiding taxes with authorities clamping down on tax evasion.

## Horizon 2 – Exploring

### What's new? Who and what's left to tax?

As clearly outlined in *The Second Machine Age* (Brynjolfsson & McAfee, 2014), most OECD countries will witness an exponential trend, where employment decreases, as intangibles (e.g. intellectual property, patents, algorithms etc.) are replacing labor, where using goods rather than owning them is the trend and the inequality of wealth increases combined with decreasing the

middle class. In such a scenario, accounting software replaces accountants and bookkeepers, online course replaces in class teaching, driverless cars and trucks replace drivers, text recognition and scanning replace lawyers, self-service checkouts replace supermarket staff, online ordering replaces retail shops, and clever ATMs replace bank tellers. Furthermore, as stated by Rushkoff, joblessness may be a feature, not a bug, of new economy (Reese, 2016). Top performing companies will be technology-based, even though determining the value of their intangible assets is challenging.

When machines take over most of our work, do we assume that the benefits are shared by all and we will all work less? Or, as pointed out by Stephen Hawkins in 2015, do the machine-owners successfully lobby against wealth redistribution? This would mean that the benefits are for a few and the rest end up poor, performing the remaining low paid casual and temporary jobs, which machines cannot replace. Based on their tax avoidance behavior, we can conclude that the second assumption is the most likely one. What are the implications for tax revenue structures as a result, and what future tax policies are required? If income declines for most individuals, so will their ability to pay income tax. It also means that they consume less, resulting in a drop in consumption tax revenue. In H2, there will be personal income tax combined with a more scheduled way of taxing the different kinds of other income. Each stream of income will have its own tax rate, incentives, exemptions and rules. With personal income tax revenue decreasing, other sources of revenue will receive more attention from tax policy makers.

Over the last 400 years, the trend is that those with capital assets accumulate more wealth than those who work hard. We have more income inequality, which means that down the road, we are bound to have more wealth inequality and more inequality of inherited wealth (Piketty, 2014). Piketty's work has been criticized, but the essential findings of his work remain standing (The Economist, 2015). Oxfam claimed that in 2015, the 62 richest people having as much wealth as the poorest 50% of the population five years earlier would have taken 388 individuals to have the same wealth as the bottom 50%(Tax Justice Network and Global Alliance for Tax Justice and PSI and Oxfam, 2015).

The tech economy in Silicon Valley heads towards being one monopolistic winner, based on three key ingredients--algorithms, infrastructure, and data (Malik, 2015). If companies have these three ingredients in networks, they will monopolize the market. Therefore, there is one Google, one Facebook, one Uber, and one Amazon, all very powerful at influencing the tax debate and in the use of aggressive tax avoidance strategies. One may argue that the emergence of oligopoly is not new (It has happened in the past in railroads, oil, communications and automobiles). What is new is the intangible and international nature of it, meaning it is difficult to trace and knows no borders. Their power is worldwide. Their intangible services are easily hidden in low tax countries, and their owners feel comfortable with the combined concept of tax avoidance and running their own charities.

If inequality is not addressed, the income gap will most likely be resolved in one of two ways: by major social unrest or through higher taxes on the wealthy (Reich, 2015). Governments will endeavor to expand or introduce wealth taxes and estate taxes to partially address revenue shortfalls. Conflict between social classes has existed for centuries. What is new this time is the magnitude of the gap between the wealthy and the rest of society. Governments face less tax revenue and a further accumulation of wealth and political influence in the hands of a very few.

Governments and multilaterals like EU and OECD foresee automatic international exchange of information of financial accounts in the very near future. There is a plan for the registration of beneficial owners of EU companies accessible by member states and, in the context of customer due diligence, the entities such as banks and insurance companies (Da Palma Borges, 2015). Technology also supports closer collaboration between agencies fighting different crimes such as money laundering and tax evasion. Governments are using information systems' sharing technology to share (double share perhaps exchange) information obtained with anti-money laundering

investigations for measures against other crimes. This translates to greater collaboration between government departments as well as between governments at an international level.

New taxes are coming our way. Internet companies like Google, Twitter, Facebook pay very little tax in the countries, where they provide their services. This does not escape the attention of government tax policy makers. France tried to unilaterally introduce a Google tax, but failed. The problem, however, continues to be addressed, and we can expect governments examining new ways of taxing internet companies. In some countries, tobacco revenue may decline as less people smoke. Fines may decrease if driverless cars become a common good. A tax on sugary drinks or products is the start of a new range of taxes. Although environmental taxes have been introduced, most countries are nowhere near raising a significant part of their tax revenue from environmental taxes. In the near future, new and expanded environmental taxes will be implemented. A financial transaction tax i.e. a per-trade charge on buying and selling of stocks, bonds and derivatives is a concept, whose time has finally arrived. Although first conceived by James Tobin, economist, in the 1970s, now it may be the right time to receive sufficient support for it to be introduced. More governments are considering supporting a narrow tax on certain high-frequency trades, which generate windfall profits on small price differences often at the expense of longer term investors.

In 2015, a United Nations (UN) panel proposed a raft of micro-payments levied on mass volume transactions, such as world cup soccer tickets and Uber taxi rides. Some of these micro levies are already in place. The UN's global health initiative UNITAID convinced 10 countries to impose a small tax on airline tickets to raise funds to fight malaria and AIDS (Georgieva et al., 2016). The UN also considers the possible use of Islamic alms-giving, or "zakat" to fund its humanitarian aid. The Islamic Development Bank estimated that such donations amount to between US\$338 billion and \$816 billion annually. If one percent of "zakat" would be available for humanitarian funding, it would provide a significant revenue source (Georgieva et al., 2016).

As tax revenue declines, governments look increasingly at other possible sources of revenue. Singapore or Hong Kong has low tax rates, but the real financial burden is much higher as governments obtain a large part of their revenue via the leasing of government-owned land. The new aspect is that governments, forced by lower tax revenue, are creatively thinking how their balance sheet assets can generate more revenue. For example, the sale or leasing of air rights above public-owned land for development and over road reservations as well as railway corridors. Local governments increasingly consider a levy for developers to contribute to local infrastructure (Langley, 2015). Another example is the selling of Floor Area Ratio (FAR). FAR is the ratio of a building's total floor area to the area of the land built on. If a developer wants to build higher than the regulations would normally allow, local governments can provide an exemption in exchange for a levy.

Land Value Capture (LVC) is another recent tool used to finance the public good. Land values may increase in response to regulatory decisions (e.g., change in land use or FAR) and with infrastructure investments e.g. the proximity of public transport projects. Relevant government authorities can sell such higher valued properties, thereby raising revenue, they can implement taxes such as property tax, or levies including betterment charges, special assessments etc. to capture the increase in land value. The LVC tool is particularly relevant as more people live in cities (currently 50% of the world population), whereas in 2050, this figure is expected to rise to 70%, however 90% of this growth will be in developing countries (Suzuki, Murakami, Hong & Tamayose, 2015).

## Social Saints or Fiscal Fiends?

The desire for control has resulted into wealthy people establishing their own charities, - about \$358 billion in the U.S. alone in 2014 (owned by 1.5 million non-profits registered in the US). In comparison, the European Union's development aid budget for 2014 was 63 billion US\$. Ego is

a powerful motivator or less kindly, as Ken Berger puts it: “Just because you were successful in the for-profit world, it doesn’t mean that non-profits are a bunch of bleeding-heart idiots that need you to come in and show them how it’s done,” (Kaufman, 2015). The Economist regards two other options (The Economist, 2015); hypocrisy as firms not only report to their shareholders but also have an obligation to society and paying taxes is crucial for that. Alternatively, they perceive charity donations as another way of paying tax, one that they can select and exercise greater control of, ensuring that their activities are run efficiently and effectively or align with their ideological agenda.

Many employees around the world cannot live on the income they earn from their employment. In real terms, wages in the UK have declined 9 percent in the last 5 years, whilst in the same period, the cost of living has risen 25 percent<sup>7</sup>. Automation leads to less work and a basic income for all accepts that full time employment is a myth for most. A universal income replaces lost wages and often inadequate and complex social security payments (that are costly to administer by governments). A basic income ensures that everyone, regardless of employment, earnings, age and gender, receives an income from the government. If countries like Finland are correct, the future is a basic income for all. A number of countries are considering a basic income in some form (Thompson, 2015). It is easy to administer, and with more automation and less work, it may become financially viable. It would simplify tax collection from individuals as most would not be paying any. Tax administrators can focus on wealthy individuals. Unions will become largely redundant.<sup>8</sup>

Internet sites where one swaps and barter goods and services are increasingly popular, often escaping the eye of tax collection agencies. As these exchanges are not quantifiable, mainstream economics may dismiss them as noneconomic activities. Their scale, however, is growing and tax authorities are lagging behind.

Independent tax advisers are trained to minimize tax. It is challenging for them to comprehend the sustainability concept of a 21st century company. They may view their advisory services as sustainable with a temporary increase in work to assist customers with inversion tricks, tax disputes, litigation as well as assisting high net wealth individuals. Working in the background, they have little appreciation for the bigger picture of their clients’ organizations. Gradually, more tax advisers and lawyers become in house advisers for the companies they provide services to and move from backroom to boardroom. Corporate tax and legal departments not only focus on their own area, but also on ethics and compliance issues along with regulatory risks and data breaches. By moving inside the organization, they witness the whole organization. In-house tax advisers are more likely to believe that tax minimization is not sustainable in the longer term (University of Leiden, 2015). This is a very important shift.

### **Horizon 3 - Imagine**

Under H3, we observe certain trends that result from H1 and H2. This is followed by several different futures, where the road of common views of H3 deviates.

#### **Blockchain**

What would a traceable global currency like Bitcoin, complete with an efficient infrastructure, mean for tax revenue collection by various levels of government? Bitcoin is using blockchain<sup>9</sup> technology; this technology is the interesting part. It has many uses to verify transactions; organizations like NASDAQ are now using it to settle their stock transactions, cutting out financial intermediaries, saving fees and time.

Adoption of block chain technology by governments is a matter of time rather than a societal choice. In 2015, UK Government’s Chief Scientific Adviser proposed that the government should use block chain technology as a secure method of managing data, collecting taxes, issuing passports and registries, etc. (UK Government Scientific Adviser, 2015; Lyon, 2016). The government of

Honduras is using block chain technology to improve its land registry system. It reduces corruption (Prosser, 2015). By embracing block chain based encrypted currencies, the governments will become transparent at every level of government (Smith, 2015).

The key challenge for block chain technology is the loss of many government jobs (Lyon, 2016). The sudden loss of many jobs may not be acceptable to the electorate. However, it would solve a large portion of the revenue problems experienced by governments, resulting into reduction in government expenditures.

It could even be used to set up a worldwide financial registration system as proposed by French economist Zucman (Johannesen & Zucman, 2014). The register has information regarding ownership of shares, bonds and other financial papers. The information would automatically be shared with tax authorities worldwide. An organization like the International Monetary Fund could be the holder of the system.

### **Taxing the world over**

A worldwide financial registration system can form the basis for a worldwide corporate tax system. The revenue could be divided amongst the countries involved in generating that corporate income. California's corporate income tax is a good template; every corporation that sells goods and services in that state is taxed the same way. The treatment of U.S. and foreign companies is exactly the same. The state taxes a portion of each corporation's U.S. earnings based on a simple percentage: total sales in California divided by total U.S. domestic sales. By basing the tax calculation on in-state sales, businesses can no longer use various schemes to make it appear that profits were earned out of state (Parks, 2014).

Calculating the amount that every company owes by using a single sales factor is an approach that could be applied worldwide; total sales in a country divided by worldwide sales. Countries would be allocated the revenue based on the sales made in that country.

A global wealth tax of about 1% of the world's total wealth is another possible option. It may include individual assets exceeding about US\$ 1 million (including stocks and bonds) and all publicly listed companies and trusts. It would raise at least US\$ 600 billion per year (calculated at the rate of 1% of total world market capitalization, which, in 2012, was about US\$60 trillion) (cf. Jeffrey Sachs: The End of Poverty).

### **Tax collection made easy**

If the focus is to tax the top 5 percent of wealth owners in a country, a large part of tax administrations can fold. If the tax rate is particularly same for different categories of income, income shifting becomes irrelevant. The narrow focus on a small group of tax payers makes the cost of collection easier. The other 95% will be receiving a basic income and will pay consumption tax and their income is taxed at set rates if at all. If block chain currencies are embraced by tax payers and tax authorities, hiding funds may be a thing of the past. Tax advisers, in their traditional role, are no longer needed; they will transform themselves into holistic finance advisers and transparency advocates for all stakeholders.

### **Transforming societies**

Societies face major transformations. Firstly, the social order from a centrally controlled society changes to a horizontal, decentralized, and bottom-up society. Secondly, there is a changing economic structure: In the past, large bureaucratic organizations were necessary to produce cheap products. In the new digital economy, it is possible to develop products and services locally at a small scale. Thirdly, a change in power relationships develops. Where once political influence and economies of scale used to determine the access to resources, knowledge and information are now also accessible outside of political and social institutions (Troncoso, 2015). The change is inevitable, but the key question is how to bring humans back into the fabric of the digital age (Rushkoff, 2016)?

Governments participate in this transformation and evolve or do not take part in this and disappear. Sustainable local communities may entirely replace governments at the state and federal levels. Small scale communities become self-reliant and the role of government becomes obsolete. Utilities, once government owned, become redundant as people use technology to generate and exchange power, water, public transport, education and health. The key is the “externalities” – the free stuff and wellbeing generated by networked interaction. It is the rise of non-market production, unownable information, peer networks and unmanaged enterprises.

Alternatively, rather than totally abandoning the concept of ownership (because not everything is free), people are looking for an alternative method of embracing it. Innovative forms of ownership are possible; using workers cooperatives and collective authentication systems like bitcoin and block chains instead of top-down control (Reese, 2016).

### **When you have a lot to loose**

Right now, powerful owners of the digital platforms help us in sharing information, deciding who accumulates wealth from them and how (unless these tech companies are nationalized). Five tech companies, such as Amazon, Apple, Facebook, Google and Microsoft, have expanded and become more entrenched in their own sectors, more powerful in new sectors and better protected from competition<sup>10</sup> (Farhad, 2016). The main contradiction today is between the possibility of low cost, abundant goods and information and a system of monopolies. Journalist Paul Mason has pointed out this to the banks and governments, who want to protect these monopolies. It is the struggle between the network and the hierarchy: between old forms of society molded around capitalism and new forms of society that prefigure what comes next (Mason, 2015).

Most governments are hampered by powerful interests (Kasem, Waes, Wannet, & Adviseurs, 2015). A privileged few control technology and set the political agenda. Those with accumulated wealth and inherited wealth will do everything within their power to maintain the status quo. They will fight government ownership of block chain technology, encourage higher levels of consumption taxes, and battle against taxing wealth. Philanthropists may use their influence to lobby for attractive tax regimes; Governments increasingly absorb the interests of the wealthiest and evolve or disappear, replaced by private charity funds and the wealthiest governing their countries. Some wealthy individuals and powerful companies may take a longer term view and understand that increase in equality is not in their interest and there is a role for governments serving public goods. They can be role models for paying taxes, participating constructively in tax debates and being world leaders in being good tax citizens.

### **Conclusion**

Different forces in the third Horizon are likely to co-exist. Self-empowered local communities will evolve with or without a role for government. Power to the wealthy few is unacceptable to many, who reject such inequality and carry the tax burden. Particularly young people, the group predominately paying tax for the wealthy, will rebel. Citizens use forms of protest and choice such as social media campaigns, voting, boycotting certain companies, promoting ethical investments, and encouraging governments to only deal with companies that are good corporate tax citizens. We do not know what that rebellion will look like when all these rather hollow sounding forms of protest have failed? Governments may continue to represent the interest of powerful few, making itself redundant as it cannot fund itself or create a role in serving the public good. Alternatively, it resists these interest group pressures with electoral support, reinvent itself serving community and citizen empowerment using sustainable sources of revenue to fund its role. Companies will need to find acceptable business models for their long term survival; this may force them to review their tax paying conduct. The table below summarizes Horizon 3.

Table 1. *Horizon 3*

	Less	Role of government	More
Less	Monopoly of technology, wealthy few who control countries, tax revenue decline, role of government taken over by multinationals and philanthropists.		Tax policy shaped by influential stakeholders, wealthy individuals and multinational companies, technology only selectively used. Government tax policies reflect power vectors in society. Low and middle income earners carry tax burden combined with new ways of funding government expenditures.
Sharing of assets	Civilization is up to people communities, technology is accessible to all. No role for government, technology makes many services and products free. No need for tax revenue.		Taxes are the price we pay for civilization, the wealthy pay more tax. Blockchain technology is the corner stone for government and citizens
More			Great transparency, worldwide tax system, broad public support, use of technology for transparency, efficiencies and combat tax evasion. Universal basic income is adopted.

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## Notes

1. For this paper, we have focused on the definition of 'tax' rather than taxation. For a detailed discussion on the definition of tax, please see (Heij, 2007).
2. The term tax in this article includes Zakat. Zakat is a tax as well as an act of worship in the Islamic religion.
3. The poorest developing countries are facing additional challenges, as their tax authorities often lack the capacity to assess the complex tax planning structures of large multinationals.
4. Levies are 'Required' payments. In contrast to taxes, they are payments, which are reciprocated or returned and do not qualify as a tax because there is a clear and direct benefit in exchange for the contributions made.
5. In principle, U.S. companies pay taxes on all profits, no matter where they are earned. But companies are allowed to "defer" taxes on profits made in other countries until those funds are repatriated to the United States.
6. Most commerce and tax law students have no courses in public finance in their curriculum.
7. See also <http://collectivelyconscious.net/articles/do-they-owe-us-a-living-7-reasons-the-universal-basic-income-is-worth-fighting-for/>
8. See also <http://collectivelyconscious.net/articles/do-they-owe-us-a-living-7-reasons-the-universal-basic-income-is-worth-fighting-for/>
9. For a very good introduction into the blockchain, see <https://www.youtube.com/watch?v=4sm5LNqL5j0&feature=youtu.be>  
<http://www.marketwatch.com/story/video-bitcoins-blockchain-technology-explained-in-2-minutes-2015-09-09>
10. Some point out that China's technology companies will create healthy competition for these five

and that may be so, but it won't eliminate them. Others hope that the EU privacy and antitrust laws may curtail.

## Correspondence

Dr. Gitte Heij  
 MA Tax Law, PhD Law, Grad Cert Foresight  
 Senior Fellow Melbourne University Law School  
 Senior Adjunct Sir Walter Murdoch School of Public Policy  
 International Affairs Murdoch University  
 Associate of the Asian Law Centre  
 Email: gheij65@gmail.com

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