

Summary in english

The faster changes occur in our society, and the greater these changes are, the more important it is for us to prepare our activities to meet these changes. RSV, Riksskatteverket, (The Swedish National Tax Board) has begun the execution of the "Future Project" which is intended to prepare a basis on which it will be possible to determine the future roles of the RSV, the regional and local tax administrations and enforcement agencies, their activities and the allocation of their authority and responsibilities. This report represents the final report from the project.

In our first report¹⁰⁵² we presented a broad description of different phenomena which can be expected to affect our society and our social environment during the coming 10 years. We used a scenario technique to describe different possible lines of development and to make it easier for the reader to see that any development is not necessarily predetermined but is a result of what people, and above all, nations and politicians, wish for and realize. In this report, we have considerably deepened the analysis, particularly in areas which are specially relevant to the development of our activities. The result of this analysis has been a clarified, even if not unequivocal view of the future. It is more clearly defined as the underlying factors have been studied much more closely but it remains equivocal because the picture which appears presents previously unimagined possibilities and at the same time, complications and alternatives and consequences which can hinder a positive development.

Before the effects on our activities can be discussed, a summarized description of this view of the complicated future must be presented.

The future perspective

Long-term sustainable growth

Researchers in different countries appear to be almost unanimous in believing that the world is entering a period of long-term sustainable growth, from the end of the 1990's to 2020-2025. The explanation of this is in part the expected growth of a new economy with a high rate of production and low inflation. This development is naturally dependent on a series of different factors.

OECD has presented an anthology in which different researchers have studied how such a growth can be explained and the necessary preconditions. Long-term sustainable growth in this context is a growth during the coming decades giving an annual increase in income per capita of more than 3 % per annum. The forces which can power such a development are:

- The development of a global knowledge economy and a global knowledge society.
- The growth of a global economy based on international trade, investment and technology transfer.
- The endeavours to ensure a global environment-friendly development.

¹⁰⁵² RSV Rapport 199:3: *Vår omvärld år 2010 – Rapport från Framtidsprojektet, etapp 1, 1999*

The preconditions for such a development include actions at national level intended to obtain macroeconomic stability based on low inflation, sound national finances, flexible labour markets, open and transparent capital markets and competitive markets for goods and services. On the international level, a breakthrough is needed in the form of a transfer of concentration on strictly national interests to a logic which allocates a higher priority to specifically global interests. This will include the solving of problems by making maximum use of electronic communication. Individual nations must abandon traditional practices in dealing with the problems of corruption, narcotics trading and similar criminal activities. The future generators of growth – computers, communication, bio-technology, fuel cells and similar have only begun to influence development. The growth generators can very well redistribute (to USA and the Pacific Rim) and accelerate growth rates to levels of 4-5 % annually. This contradicts conventional economic wisdom which says that economies mature and presently tend toward a lower growth rate of 1-2 % per annum. Some contributors to the OECD anthology question this and point out that growth generators have, historically, been seen to have been restrained by other circumstances.¹⁰⁵³

The great investments which have been made in new technology during recent decades have not led to growth and increased productivity. Manuel Castells believes however that technical developments do so, but with a certain delay. When technologies change, it is a relatively long time before institutions and enterprises begin to exploit them and learn to make use of their full potential. There is support for this viewpoint in the development of productivity and growth during recent years when the maturity of industrialism during the years 1950-1973 was based on a large number of innovations appearing during the first half of the century. Against this background, Castells predicts that we will soon witness the greatest growth in productivity in the history of the world.¹⁰⁵⁴

The Swedish Long-Term Planning Commission has arrived at a similar conclusion. In their basic scenario, they envisage long term sustainable growth forward to the year 2015. Growth rates will be of the order of 2.5 % per annum until 2004, then somewhat less, 2.2 %, between 2004 and 2008. During the following years until 2015, the rate of growth will decline to an average of 1.3 %. Until 2004, taxation as a percentage of GNP will be reduced from 56.2 % to 52.7 % but it will then be necessary to raise taxation again as public expenditure is expected to increase at a faster rate than GNP. The Commission warn of a number of difficulties because of decreasing numbers in the future active labour force, increasing demands for social services and the growing difficulty of financing welfare with taxes alone.

A global economy

We now have a new global economy characterised by the integration of the world financial system with free movement of capital in search of the best economic result. We see increasing competition between nations, encountering difficulties in controlling their own economies. Companies are becoming more international at the same time that they concentrate on their own core activity, outsourcing different functions to suppliers in a chain of subcontractors. Companies are participating in ruthless global competition and scouring the world for the most competent employees. The development of IT and the new possibilities of communi-

¹⁰⁵³ OECD: *The Future of the Global Economy – Towards a Long Boom?*, 1999

¹⁰⁵⁴ Castells, Manuel: *Nätverkssamhällets framväxt, Band 1: Informationsåldern. Ekonomi, samhälle och kultur*, 1999

cating are affecting most business areas and we are beginning to see virtual companies. Electronic trading is increasing in all respects.

Characteristic of this new globality is the mobile economy. Capital is transferred between countries at electronic speed. The production of goods and services is moved smoothly between countries and business deals are finalised across borders. Ideas, knowledge and technologies are spread between individuals, industrial and commercial enterprises and organisations, without respect to national boundaries. Markets are integrating. Competition is stiffening. The capital market and customers with many options have greater possibilities of exerting powerful pressure on companies.

Castells considers that the global economy will expand by utilising the considerably increased capacity of telecommunication and information processing. It will affect all countries, all regions, all cultures, all communication flows and all financial networks and it will search the planet intensively for possibilities of profit-making activities.

The global economy is internally divided into three main regions with associated spheres of influence, North America, EU and the Pacific rim with Japan as its center. Commerce and investment are increasing both between and within these blocks. Parallel with this is a marginalizing of other areas, primarily Latin America, Africa and Russia.

In the global competition, it is a paradox that the importance of localisation is increasing. Geographic, cultural and institutional proximity lead to closer relations, more detailed information, stronger motivation and other factors favourable to productivity and innovation which are difficult to exploit when distances are greater. This has given the leading conurbations a new strategic role. They function, parallel with their function as centres of international trade and banking, in four new ways. They constitute strongly concentrated command centres in the organisation of the world economy. They are key locations for financial operators and companies providing specialised services. They are places for innovations and production. They constitute markets for the resulting products.¹⁰⁵⁵

The Industrial and Commercial Sector

Many sectors of commercial life are undergoing significant changes. These are largely based on technological developments and the current globalisation but can also be said to be a driving force behind these. The changes are of such magnitude that a "new economy" is being spoken of.

The network company

The liberation of information from products and hierarchic structures together with new communication possibilities based on information technology has resulted in different ways of organising and executing business activities. It has permitted a global distribution of research and development, production, marketing and sales. Each of these activities can be concentrated where the necessary preconditions are most favourable. Traditional vertical value-adding chains are being dismantled and more and more companies are establishing themselves in specialised niches as suppliers to other companies instead of offering goods or

¹⁰⁵⁵ Castells, Manuel: *The Information Age. Economy, society and culture. Volume 3: End of Millenium*, 1999

services to the general public. Business projects are executed by continually changing strategic alliances of competitors, large companies with several levels of subcontractors, constellations of smaller companies and individual specialists. The assembly and management of such groupings has become the business of the new virtual companies, responsible for purchasing, selling and coordinating their services for a particular project. The capacity of a group to change its form becomes of decisive importance in an economy which is characterised by continuous change and organisational flexibility.

The network economy

One of the most important of the characteristics of the network economy is the powerful network effect, i.e. the increase in its value, to all its users, as the use of a particular product or technology increase. Directly after its introduction, it is not necessarily certain that a product will be a success. The costs of investing in an unsuccessful technique or product can be great and many prospective purchasers adopt a cautious attitude until sufficient have been sold and its value to others has been demonstrated. This means that a critical mass of users is required before a product or technology becomes interesting to the volume market. When a product or technique has sold sufficiently to become a market leader, its sales can be expected to increase rapidly to the disadvantage of its competitors.

Information differs from other products by its marginal costs tending to zero. In the digital economy, there are more and more products for free, these reaching many users who can then be expected to purchase more advanced or complete versions or profitable peripheral products.

The network economy can be expected to have effects of different magnitude in different branches. The largest effect is in electronic commerce, the communication sector and the sales of computers, soft ware and hardware components, telecommunication products and other products to be used in networks. The information sector is that which is most clearly affected by declining marginal costs and increasing volumes of products free of charge but even traditional industrial sectors such as the automotive industry show steeply declining marginal costs.

The network economy is also characterised by a relative lack of stability and balance. We can expect a situation in which there are large numbers of new businesses and intense competition for customers. The need for risk capital and competent personnel to permit this development will be great during this phase. A few of the companies will be particularly successful and profitable while the majority will close voluntarily or compulsorily. The network economy will create enormous profits but enormous risks will be involved.

Electronic commerce

There is at present great faith in the promises of electronic commerce. It is encouraged by politicians all over the world wishing to improve the competitive position of their countries and thereby expand their national economies. Companies are interested in electronic commerce as a means of exploiting the new business possibilities it offers. During the next few years e-commerce business to business is expected to increase more than e-commerce business to consumers. The belief of companies in the advantages of the Internet is increasing rapidly and increasing numbers are using the Internet for business purposes in preference to

private communication via EDI. It provides companies with greater business flexibility and permits temporary and expedient cooperation with others.

That which today hinders e-commerce business to consumers is the consumer's lack of faith in the technology involved and fear in dealing with an unseen and unknown counterpart. Extensive work is currently in progress, both nationally and within different international organisations to find solutions to these problems which will give the consumer a stronger position in e-commerce. The legal position of the buyer and different technological means of identifying the seller and confirming and legally securing the contents of a transaction are under study. An example is the development of technical systems or systems involving a third party which guarantee that the delivery of products transferred digitally and payment for these are simultaneous. It is not impossible that a similar system can be developed for trade in physical goods and there is reason to believe that consumer sales via e-commerce will have considerably increased by the year 2010.

E-commerce involving consumers is today largely concentrated to a few items such as books, compact disks and computer accessories. On the service side, it is primarily in the sale of financial services, in banking, the stock market etc in which it has been successfully introduced. We can expect e-commerce to expand progressively into more business areas. Above all, we can expect the development of new digital products and services which will be delivered directly over the Internet. These will include the sale of music (it is already possible to download MP3 files from the net) computer programs and consultant services of different kinds (translations, accounting, legal consultations, health care consultations etc). As many of these areas are new or are developing in new forms, it is difficult today to judge the degree to which they will spread and how they will influence the development of e-commerce itself.

Alienation

According to Castells, the new global economy will create clearly defined boundaries between valuable and worthless peoples. Valuable segments will be integrated and less valuable and non-relevant areas will be abandoned. There will be a territorial inequality in production which will lead to sharp contrasts between countries, regions and conurbations. Castells means that a third world is no longer a relevant concept. He speaks instead of the fourth world. This includes not only Africa – a continent torn asunder by starvation, ethnic conflicts, the absence of infrastructure and, with the single exception of South Africa, no significant economic activity – but also even parts of the US. Exclusion and ghetto development constitute a social rejection. An American subclass is in the process of destruction. These are people outside the educational system and the labour market but inside the prisons. A further example of the development of the fourth world is perhaps the most shaking. This is the exclusion of children. Child labour is becoming more common, the number of street children is increasing and child prostitution and pornography is spreading. Numbers of children die as soldiers in military combat in war-torn areas. The fourth world is here with us today.

The new economy is contributing to this development. Increasing numbers of children weave mats in Asia because of the development of the global distribution network. Increasing numbers of paedophiles visit countries where child prostitution flourishes and child pornography is spread widely on the Internet.

Davidson and Rees-Mogg have arrived at a similar conclusion. They see, during the 21st century, the appearance of a new super-class of citizens of 500 million very rich people of which 100 million will be sufficiently wealthy to become "sovereign individuals". These will be entrepreneurs, private businessmen with complete control over their finances, who decide themselves where they live and what they are prepared to pay for the services provided by the community.¹⁰⁵⁶

According to Castells, two kinds of reaction from those excluded from this group can be expected. In the first place, there will be a significant increase in global capitalism but under quite different premises from those to which we are accustomed today. The global criminal economy will be a basic characteristic of the 21st century and its economic, political and cultural influence will affect us all. The question is not whether society can eliminate criminal networks but rather to what degree they will control a significant part of our economy, our institutions and our daily life.

Secondly, the exclusion of people and countries will not result in their peaceable acceptance. It will lead to a fundamentalist confirmation of new values which will reject coexistence with a system which so cruelly excludes and inhibits the development of so many of the world's people. Fundamentalists of different kinds will constitute the most obvious and uncompromising challenge to the one-sided dominance of global capitalism. Castells sees their potential acquisition of electronic weapons of mass destruction casting a gigantic shadow over the optimistic aspects of the information age.¹⁰⁵⁷

The global criminal economy

We see today an advancing global criminality. Criminal organisations utilise globalisation, technological developments, and networks for their purposes across national boundaries, laundering profits from illegal activities in the international financial system for reinvestment in corruption and in legal activities.

Money laundering is simplified not only by the existence of a global financial system operating on a 24 hour working day basis and the endeavours of the banks to make profits in a competitive branch but also by the integration of different economies, the trend toward many small companies, relaxed alliances and the appearance of network companies. Even if the amounts are relatively large in absolute terms, the proportion of illegal money in the great global flow is relatively small and more difficult to detect than previously.

There are obvious signs of increasing corruption. The political systems of countries are affected by criminality through corruption. Political parties require financing in a world in which political messages must be disseminated via expensive mass media. There is therefore a recognisable need which criminal organisations identify and are in a position to satisfy. The belief that many politicians are corrupt need not be considered unreasonable in view of the scandals which have come to light. Even the judicial systems of countries are not free from corruption.

¹⁰⁵⁶ Davidson, J.D. & Rees-Mogg, W: *The Sovereign Individual. The Coming Economic Revolution. How to survive and prosper in it?* 1997

¹⁰⁵⁷ Castells, Manuel: *The Information Age. Economy, society and culture. Volume 3: End of Millenium*, 1999

Traditional organised crime has at the same time begun the infiltration of legal business activities, retaining its criminal values but protected by a façade of respectability. It engages in value-creating partnerships with legal entrepreneurs. When "legal", these criminal organisations have wider possibilities of acting illegally. The more energetic and effective the combating of narcotics trading becomes, the more profitable it becomes to invest in economic crime. The blurring of the boundary between organised crime and economic crime is characteristic of our time.

The Internet creates new possibilities for criminals as well as for businessmen. Those committing certain types of crime are offered a new and effective infrastructure. Traditional crime begins to appear to a great extent in a new guise as the world enters a new era of conflict and crime in which the strategic objective is interference and interruption rather than physical destruction. Information warfare is aimed at other actors and the information systems of businesses and states and the boundary between crime and warfare is becoming indistinct.

The principal cultural effect of global criminality on society is far beyond their own cultural identity, it is instead within the new culture which their activities promote. In many situations, successful criminals have become heroic figures for a young generation who see no easy way out of their poverty. In a world of alienation, and with a crisis threatening the legitimacy of politics, the borders between protest, immediate reward, adventure and criminality become increasingly diffuse.

The nation state

The role of the national state is changing. Some write of the decline and fall of the national state. Others believe that welfare states in their present form will remain viable and that the supposed problems are merely new liberal propaganda.

The ability of the national state to defend itself and its citizens against other states has become of less importance. States have instead chosen to protect their citizens against economic threats by creating the welfare state but today those which can be described as welfare states are beginning to reduce their responsibility. This is partly due to financial problems such as large borrowings and difficulties in protecting the national taxation base and partly due to a mutual interdependence between states and other actors in the economic field. This has led to a situation in which it is difficult for a state to follow a policy requiring a high degree of taxation financing. The state becomes instead, an actor competing with other states for favourable development. Castells¹⁰⁵⁸ and Strange¹⁰⁵⁹ explain this as the effects of a combination of two factors. Technological developments leading partly to the loss of state control over information and partly to a mutual interdependence between states in the case of military defence. The other factor is globalisation, particularly the deregulation of capital and credit markets which has led to mutual interdependence between states and businesses and also to increased taxation competition.

At the same time that companies distribute their activities over the whole world, there has been a geographic concentration of certain types of particular activities to a few cities in a few countries. The combination of geographical distribution and global integration has given the

¹⁰⁵⁸ Castells, Manuel: *The Informations Age. Economy, society and Culture. Volume 2: The Power of Identity*, 1998

¹⁰⁵⁹ Strange, Susan: *The Retreat of the State – The diffusion of power in the world economy*, 1996

leading cities a new strategic role. When new activities are concentrated to certain areas, there are growing differences between these areas and their surroundings. The relation between city, region and country has declined in importance in comparison with relations between cities in different regions and countries.

Törnqvist has described globalisation as thesis, antithesis and synthesis. The thesis is that the technological-industrial sphere and the political sphere are not sufficiently compatible when companies transgress traditional political and social boundaries. The antithesis is that this picture is incomplete and without nuances as all flows have a regional and local association in the form of collective utilities, community functions, infrastructures and different forms of cultural and social services. Synthesis is increasing globalisation accompanied by increasing regionalisation, each of these lines of development supporting the other.¹⁰⁶⁰

The regional concept is gaining importance in the EU. The economic and political significance of regions is being increasingly recognised. With increasing integration, many regions can demand a larger role and Brussels can, in many cases, be felt to be more relevant than their official capital city. It is a matter of an orientation toward the region and an orientation toward Brussels. From the economic point of view, it is a question of controlling the resources of the region in terms of taxation. In a Europe with strong regions and a growing supranational integration and autonomous networks, we must be prepared to change our ideas of how a political and economical arena is to be organised.

Democracy

Both the national state and democracy are faced with a number of challenges. These include a development in which the individual is primarily oriented to a region, city or town or some non-territorial association rather than to the national state. At the same time, power on a global level is the prerogative of states, companies and organisations. To achieve their own purposes, and make use of their share of global power, national governments must act on a higher level than their own. In the same way that businesses and criminal organisations act in concert, states cooperate in networks such as EU. In an international perspective, the considered viewpoint of the Swedish Riksdag is no more than one of several competing viewpoints. This can lead to international organisations being criticized as being less than completely democratic but this does not imply that they are not desirable. It would appear that democracy has considerably greater functional possibilities on the local and district level.

Castells describes the central problem of democracy as the absence of any single instance which can control global power. The situation is characterised instead by powers and their rivals. In Sweden, democracy has traditionally been associated with the sovereignty of the people as expressed in the power of the Riksdag. It would appear however that the view of democracy based on shared power is more likely to explain and legitimize the power in the network society.¹⁰⁶¹

¹⁰⁶⁰ Törnqvist, Gunnar: *Sverige i nätverkens Europa*, 1996

¹⁰⁶¹ Castells, Manuel: *The Information Age. Economy, society and culture. Volume 2: The Power of Identity*, 1998

Financing of the public sector

The on-going globalisation of the world economy is increasing the mobility of capital, businesses, goods, services and personnel. This tendency is strengthened powerfully by the borderless Internet environment and the elimination in many respects of geographic distance. Large amounts of capital can be transferred over the entire world and increasing numbers of goods and services can be both bought and sold via the Internet. Even physical products can be marketed and sold over the net. Many firms have a global character and in principle, have no physical home base as they increasingly distribute their various activities world-wide. The large internal trading within such concerns makes it difficult to determine which activity and which result can be attributed to a particular country. The companies which operate via the Internet can also more easily decide where their "head office" is to be located and can change its location by moving servers and the like between different countries. Elements of the personnel, particularly those with the highest income, can move more easily between different countries.

Capital income is particularly mobile. Increasing numbers of Swedes have savings in foreign countries without declaring these assets for taxation. Even if it is difficult to calculate exactly the magnitude of these assets, the Finance Department estimates it to be of the order of SEK 300 billion. Klas Eklund¹⁰⁶², chief economist at Svenska Enskilda Banken, sees greater motivation to evade taxation as the values of investment portfolios increase and the taxation of capital in other countries is lowered in relation to that in Sweden. The state thus loses annually 10-15 billion in taxation because of the erosion of the tax base in the global economy. Germany attempted to solve this problem by introducing a tax at source of 10 % on bank interest. This led to a noticeable outflow of capital to Luxembourg and the new law was revoked. The Austrian solution has shown itself to be more successful. An anonymous tax at source of 25 % on capital income was introduced at the same time that amnesty was granted to all those found guilty of evading tax on capital income. Many experts consider that the upper level of acceptance of capital income taxation lies between 10 and 15 %.

Kari Tikka, Professor of Fiscal Law at the University of Helsinki points out in a paper ("Progressivity: A Waning or Disappearing Feature in Income Taxation?") the difference which has developed between the marginal taxation of income from personal exertion and that of income from capital. In Finland, this difference amounts to 33 percentage points with a maximum rate of marginal tax of 61 % and a capital income tax of 28 %. The explanation of the low level of capital income tax is that capital is a more mobile tax base. Wider awareness of the injustice of the differing taxation of the two production factors will probably undermine faith in the validity of progressivity.¹⁰⁶³ The difference is almost as great in Sweden.

Highly qualified personnel are also relatively mobile. For this reason, a number of countries have introduced a lower rate of income tax for foreign experts to encourage their immigration. Sweden has recently obtained EU permission to tax only 75 % of the income of foreign experts. There are authorities including Professor Sven-Olof Lodin who believe that the problem will be exacerbated as more countries introduce such taxation reduction. It will become easier for companies to recruit foreign experts but more difficult to recruit their own

¹⁰⁶² Eklund, Klas: *Jakten på den försvinnande skatten. Globaliseringen och rörliga skattebaser*, 1998

¹⁰⁶³ Lindencrona & Lodin & Wiman (ed.): *International Studies in Taxation: Law and Economics*, 1999

countrymen who will leave the country to enjoy tax advantages abroad. A side effect may be a general lowering of taxation and marginal taxation in particular.¹⁰⁶⁴

Most OECD countries have considerably reduced company taxation during the most recent 15 years while broadening the tax base so that the real tax reduction is often lower than the nominal. This evident trend is illustrated by the following table:

Country	Tax reduction	Final objective
Ireland	Reduction from 38 % to 32 %	12.5 % in 2003
Luxembourg	Reduction from 33 % to 30 %	
Denmark	Reduction from 34 % to 32 %	
U.K	Reduction from 33 % to 31 %	30 % in 2001
Germany	Reduction from 30 % to 25 %	
Poland	Reduction from 34 % to 22 %	
Estonia	No tax on non-distributed profits as from 2000	

*Ongoing reduction in company tax in Europe.*¹⁰⁶⁵

The trend is obvious. Many believe that the lowering of company taxation rates will continue and that the lowest rate will be the final objective of this continuance.¹⁰⁶⁶

In the case of Sweden, the taxation reform of 1990 has had a positive effect in this connection, for example, through lower nominal company tax rates and separate taxation of capital income and capital gains at lower rates than previously. The effective capital income tax appears, despite this, to be subject to evident erosion with appreciable tax evasion in the form of investment of capital abroad. Swedish company tax appears no longer to be low, even in a European context. The company tax rates in Sweden cannot be discussed without reference to the double taxation of dividends and the taxation of wealth. The generally high rates of value added tax and the high taxation on tobacco and alcohol must also be considered. That Sweden in the future will be successively forced to a gradual adjustment to the international taxation level cannot be excluded.

In the case of indirect taxation, the mobility of the tax bases is particularly apparent for excise duties. It is sufficient to mention the Swedish excise duty on tobacco which the state has been forced to lower because of the increased illegal import from countries with lower rates. Electronic commerce has also been envisioned as having a similar effect on the level of taxation in Sweden. E-business imports from third non-EU countries to consumers will probably be from the European country with the lowest VAT rates and this is likely to force the Swedish rates down to the lowest European level.

Klas Eklund, chief economist at SEB, concluded in 1998 that mobile tax bases during the succeeding five years will reduce the possible taxation income in Sweden by fully SEK 50 billion at least.¹⁰⁶⁷ In a ten year perspective against this background, it does not appear unrealistic to fear a taxation leakage considerably greater. Even if taxes should not need to be

¹⁰⁶⁴ Lodin, Sven-Olof: *What ought to be taxed and what can be taxed – a new international dilemma*, 2000-01-24

¹⁰⁶⁵ Andersson, Krister & Fall, Johan: *The Ongoing Tax Competition in the EU to Attract Capital*, The conference "Economic Integration in Europe: New Directions in Swedish Research", 2000-05-23--26

¹⁰⁶⁶ Andersson, Krister & Fall, Johan: *The Ongoing Tax Competition in the EU to Attract Capital*, The conference "Economic Integration in Europe: New Directions in Swedish Research", 2000-05-23--26

¹⁰⁶⁷ Eklund, Klas: *Jakten på den försvinnande skatten. Globaliseringen och rörliga skattebaser*, 1998

reduced to present EU levels of 40 % of the GNP, it is possible that SEK 100 billion of taxation will be remitted for private persons, that the tax on capital income will be reduced to 15 %, that property tax will be abolished, that VAT will be reduced to 17 % and that excise duties on alcohol and tobacco will be reduced by one third. These reductions would amount to slightly more than 10 % of the present taxes collected.

A consequence of the conceivable development described is that the different countries will attempt to compensate for the above reductions by taxing other bases more rigorously or by introducing taxation in other areas. It may be difficult for many countries to raise taxes on fixed bases while mobile bases are taxed more lightly – or not at all, as this would further reduce the redistribution effect of the taxation system.

It may therefore become necessary for the different countries to find alternative means of financing welfare. In the current debate, different forms of fees, insurance premiums and welfare accounts are suggested. These could be to different degrees, voluntary or obligatory, dependent or independent of income, administered privately or publicly.

Resisting forces and alternatives

If the extremes of the picture of the future now presented are considered, it can be summarised as a world in which the economy is global and income and wealth increase but at the price of a widening gap between the income and wealth of different groups, an increase in alienation, large scale international crime, weakened national states, eroded tax bases and greater tensions. As many reasonably fear such a development, it can be asked which resistant forces there are and which alternatives are available.

Political actors, researchers and debaters

David Korten does not believe in inevitable historical forces beyond human control. It should be clear that poverty cannot be eliminated by means of economic growth on a globalised free market which weakens and severs cultural and social bonds. His solution is a reinstatement and reinforcement of these bonds. The survival of humanity is dependent on the construction of a framework of institutions and values which promote such a revival.¹⁰⁶⁸

Hans-Peter Martin and Harald Schumann consider that the development toward a "one-fifth society" must be prevented. The political power of the actors on the financial market must be limited. In this connection they speak of a turnover tax on currency trading, a European currency union, European trade unions and social and ecological minimum standards in world trade.¹⁰⁶⁹

Paul Hirst and Graham Thompson do not believe that national states are necessarily in the hands of transnational forces but that the possibilities are instead in a distribution of labour and a coordination of the international, national and regional levels. The globalisation myth hinders every attempt to obtain such a division of labour by persuading people that the international economy cannot be controlled. In the long term, it is only if the major actors in the market see the advantages of regulation or if a group of influential governments intervene that

¹⁰⁶⁸ Korten, D. C: *När företagen styr världen*, 1996

¹⁰⁶⁹ Martin, H-P & Schumann, H: *Globaliseringsfällan*, 1997

it will be possible to reregulate the market, but impossible – it is not. The world financial market is not uncontrollable. The difficulty is the failure of the governments of the world to act – or their lack of will to do so.¹⁰⁷⁰

In an article printed in Aftonbladet, James B Wolfensohn, President of the World Bank, recommended global rules and regulations to find effective, permanent solutions to the problems. He sees the necessity of an international structure for development, a structure which balances the global economic structure. Such a development plan requires a sincerely engaged, world-wide coalition based on cooperation between all the relevant actors – the UN, governments, organisations for developmental work such as the World Bank, the private sector and the civil community.¹⁰⁷¹

Manuel Castells is of the opinion that the global economy will be controlled by multilateral institutions which themselves constitute a network. The kernel of this network will consist of the G7 countries with perhaps some few other countries. The executive organs will be the International Monetary Fund and the World Bank which will be authorised to intervene in accordance with basic rules to be established for global capitalism. Global politics will be managed by multilateral institutions such as the UN, ASEAN, OEA or OAU. These will be allocated an extended role even in the case of local conflicts.¹⁰⁷²

The Swedish Prime Minister Göran Persson recently said in the Riksdag that: "many of those elsewhere in the world who criticise our country, and we are a part of a global economy, do not understand that it is possible to combine a high rate of taxation and a large public sector with strong growth, an advanced technology and a position in the front line with respect to IT. They say that this defies the law of gravity," he continued: "they believe in very low taxation, and a very small public sector. The gaps are to widen and this is to be the motive force. There they are. We cannot ignore these actors.... We decide ourselves but there will be another recession and it is then we will borrow. For me, this is a strong argument in favour of membership in the monetary union. This is an argument which begins in my ambition and our will that also in a global economy, we will be able to provide the basics of the welfare state – rather a partnership with governments in Europe in a monetary project which may cause us some difficulties than a dependency on an international financial market characterised by values which are at a distance of light-years from what this chamber believes to be a sound policy and which would threaten the foundations of our welfare state."¹⁰⁷³

It is interesting that all of these persons favour an increasing degree of supranational action as a defensive weapon in the struggle for a more humane world. They oppose the ruthless global economy with faith in closer collaboration between governments, the UN and other supranational organs.

The United Nations

The UN has for a long time played a role in the struggle against organised crime, primarily through a series of declarations condemning corruption, money laundering and traffic in human beings. Such a document is the UN convention of 1988 against illegal traffic in nar-

¹⁰⁷⁰ Hirst, P & Thompson, G: *Myten om den globala ekonomin*, 1998

¹⁰⁷¹ Wolfensohn, James B: *Vi är värda en bättre värld*, Aftonbladet 2000-01-18

¹⁰⁷² Castells, Manuel: *The Information Age. Economy, society and culture. Volume 3: End of Millenium*, 1999

¹⁰⁷³ Riksdagsprotokollet

otics. The UN held a conference in Naples in 1994 at which a plan to combat transnational crime was adopted. In 1996, the General Assembly approved a "Code of Conduct of Public Officials" which was intended to limit corruption. The Council of Europe, the G7 countries and the EU are actively engaged in the defence against global crime.

The European Union

According to Castells, the European countries have combined to meet the whirlwind of globalisation. The success of EU, in his view, will depend on solving the historic puzzle inherent in the transition to the information society and the transition from the national state to a new collaboration between nations in the form of a network state.

The EU guarantees free movement of capital, goods, services and labour, within the union, across national boundaries. A precondition for this has been a harmonisation of the rules for indirect taxation. For this reason, it can be said that in effect, the EU countries have common value added tax laws but apply different rates of tax. The work involved in harmonising the indirect taxes has therefore been relatively successful.

This is not the case with direct taxes. Currently, there are no requirements specified for the taxation of individuals. It is not impossible that EMU will be increasingly interested in the harmonisation of direct taxation.

On December 1, 1997, The Council of Ministers presented a taxation package relating to direct taxation intended to avoid harmful taxation competition. This had three constituents:

- A proposed code of practice for company taxation.
- A proposal relating to minimum taxation of savings.
- A proposal relating to the abolition of tax at source on cross-border payments of interest and royalties between companies.

This was to have been accepted during December 1999 but unanimity regarding capital taxation had not then been reached.

The code of practice for company taxation is intended to reduce undesirable taxation competition. It contains an undertaking by the countries to discontinue harmful preferential taxation practices and not to introduce new such measures. The recommendation relating to savings provided the countries with the alternatives of either introducing a minimum tax at source of 20 % or of providing the country of the account holder concerned with relevant information. The purpose of the recommendation relating to royalties is to abolish taxes at source on royalty and interest payments within a group of companies.

Further recommendations from the commission include amendments to the proposal relating to the collection of taxes. Opinion is divided with respect to the extension of its area of application to include direct taxation. The question of mutual assistance in the collection of social contributions has been discussed and a proposal will probably be presented during the year 2000.

At Tammerfors, in late 1999, The Council of Ministers directed the Commission to appoint a working group to develop proposals for simplification of the execution of judgements in for-

aign courts. It is proposed that, inter alia, a European enforceable title be created which can be applied in all EU countries without preceding trial procedures in the country concerned.

OECD

OECD has been working for several years on a number of large projects all of which are prompted by the globalisation of the world economy and the difficulty of maintaining effective taxation in the member countries.

OECD has published a report "Harmful Tax Competition: An Emerging Global Issue". This deals with countries which tax certain geographically mobile financial and other service activities at lower rates than those elsewhere and is critical of 1) countries which levy low or no taxes, 2) countries with a largely normal taxation structure which give preferential treatment to sources of income as above and 3) countries with normal taxation structures but in which the rates of taxation are generally lower than in other countries. If a member country makes use of any such disloyal taxation practices it is required to present a list of these within 2 years and within five years, remove the relevant legislation from their statute books. Luxembourg and Switzerland have not accepted this report.

OECD is also working on a project relating to electronic commerce. After several conferences and a number of reports, no effective means of taxing electronic sales to consumers accepted by all has been presented. A compromise solution proposed is to invite companies in countries outside the EU to voluntarily register themselves in a EU country for all their business with consumers within the EU countries.

In 1995, OECD published new recommendations regarding Transfer Pricing (internal price setting) to replace the recommendations of 1979. These recommendations are under constant review.

As a measure against increasing tax competition between countries and the concomitant increasing tax evasion, OECD plans the establishment of a system for considerably increased exchange of information between the member states. This presupposes a harmonisation of the existing principles of the identification of subjects for taxation. In parallel, OECD is working on the coordination of the member countries with respect to taxation control and risk analyses as a phase of this work.

Finally, OECD is executing a project directed against tax havens. The organisations assumed to be legally responsible for the existence of each of these have been visited by delegations from OECD which have called for relevant changes in legislation and administrative routines. The management of this project is to present a report on the results of its endeavours during the summer of 2000.

Effects on our administration

The activities of our administration embrace a wide range, from civic registration to debt clearance but it is unnecessary to point out that the global problems facing the world are of infinitely greater import than those we could conceivably encounter in Sweden. If the world community does not find a solution to the increasing alienation of a large proportion of its population and its consequences, it is not probable that other problems can be solved in a

satisfactory way. At the same time, there is a connection between our activities and global problems as the changes in the global economy make it more difficult for individual countries to finance their responsibilities to their citizens. There is a serious threat from organised crime which, it is increasingly clear, is becoming more and more involved with international economic crime.

It may be appropriate to point out that this report is written with a perspective of the next ten years. As our view of the future shows, it is extremely difficult and not particularly meaningful to attempt to forecast the solutions which will be adopted by the world community to the enormous problems facing us. Nor, naturally, is it meaningful to attempt to describe with any exactitude or degree of detail their effects on our activities. Instead, we attempt to identify trends and lines of development. To the degree that we consider it to be significant, we suggest, in a separate section, more concrete proposals for future strategies.

The identification of trends and lines of development which present threats and possibilities impinging on the administration is necessary. The reader can perhaps conclude that the report deals more with the threats to the administration than the possibilities it is offered in the future. We have decided that the threats are more obvious. At the same time, the new global economy can in the long term, provide us with effective new capabilities, these requiring however a global coordination such as we have not seen to date. It is also realistic to expect the occurrence of events of such a nature as the disintegration of the Soviet Union or the development of the Internet (which hardly anyone expected as recently as 12 years ago) which can change the world. Such possible events cannot, naturally, be taken into account in our strategies for the future .

There can also be possibilities incorporated in threats. Threats are directed mainly at today's systems and existing structures. They are perceived as threats primarily because of our tendency to preserve the existing and even to return to the past. Threats can, instead, be seen as signs of the need for change. If existing systems and structures are adapted to cope with changes in their environment, threats can even lead to the development of new possibilities. It is naturally not possible to predict which increased possibilities will appear from threats and their magnitude.

We have also chosen not to attempt an analysis of the current strengths and weaknesses of our administration. Our opinion is, however, that in an international perspective, we have preconditions as promising as those of any other authority to meet the future developments we describe here. It is not for us to determine how this is to be done. It must be seen instead as part of the process of change which the future will require of our administration.

Companies

Considerably more companies with international activities

Increasing numbers of companies are engaged internationally. Many companies participate in a desperate global competition in markets in which they are pressed by the international financial institutions to give an optimum return and where buyers have access to immediate information about their competitors' products and prices. Many of the companies of the future will have no historic association with a particular nation state. Increasing numbers will instead select their home base on the basis of the taxation climate, the availability of competent per-

sonnel and other institutional preconditions. They will be prepared to negotiate with states, regions and not least cities to create as good an environment as possible for their activities.

Sven-Olof Lodin writes "Despite there having always been internationally mobile tax bases and tax evasion, taxation systems have been developed without them being taken into consideration. Today, governments and taxation theorists are faced with a new situation. The accelerating global economy and the deregulation of monetary systems and capital flows and trading in combination with the rapid development of electronic communication and business have reduced the significance of national boundaries. There has been an explosive increase in financial investment across borders. In accordance with IMS statistics, cross-border portfolio investment has more than doubled during the most recent ten years. Interest rates and the required return on invested capital are determined by the international capital markets. Banks function in a global arena. Monetary cooperatives such as EMU within EU eliminate the risk of speculation against a currency. Other production factors have become more mobile. Knowledge and nonmaterial assets have become just as mobile as capital and at the same time they are responsible for an increasing proportion of the product value. Qualified personnel sell their services in a global market today. The dependence on fixed plant assets for production has declined successively and even manufacturing has become more mobile."¹⁰⁷⁴

Virtual networks have been built to facilitate cooperation between companies otherwise independent, each of which has a limited share in the entire operation. For the taxation authority, it can be more difficult to obtain the relevant data and to relate income to the correct party. Multinational companies use electronic networks for collaboration between companies within or external to the firm.

According to Vito Tanzi, Director of the International Monetary Fund, companies encounter large problems when they attempt to distribute their income on a world level to the different countries in which they operate. This is of special significance as most countries tax company profits in accordance with the tax at source tax principle. He means that the "arm's length" principle used with Transfer Pricing is uncertain and of no great assistance. In a global network economy, these principles will become even more questionable. He believes rather in some form of *Unitary Taxation*, i.e. methods by which global company income will be distributed in accordance with formulae. At the same time, he believes that an increasingly disintegrated world picture with respect to taxation systems can influence development in the direction of increased uniformity either by political pressure or persuasion from powerful institutions.¹⁰⁷⁵

The system with internal prices should, according to *The Economist*, be replaced by a system more closely adapted to the requirements of global companies. Even if there is no ideal solution, *The Economist* recommends a "unit tax" to be levied on the total profit of a company to be then distributed to the different countries in proportion to the company activity in each country. It maintains that the increased controls of the taxation authorities and attempts to reduce the possibilities of transferring profits to countries on the basis of taxation considerations alone have not given countries much extra income but have loaded the companies with the considerable cost of taxation consultants.¹⁰⁷⁶

¹⁰⁷⁴ Lodin, Sven-Olof: *What ought to be taxed and what can be taxed – a new international dilemma*, 2000-01-24

¹⁰⁷⁵ Tanzi, Vito: *Taxation in an Intergrating World*, 1995

¹⁰⁷⁶ *Gimme Shelter*, *The Economist* 2000-02-03

An expression of that concept can be the EU work with a model referred to as *Homestate Taxation*. The idea is that the income of a European group of companies should be determined on group level in the country where the parent company has its seat. This income would subsequently be distributed between the countries concerned in accordance with a certain principle. One possibility would be to use the VAT value in the different countries. When the income has been distributed, it would be taxed at the appropriate rate in the country concerned.

The global economy will result in a much larger number of companies than previously operating internationally. A not inconsiderable proportion of this internationalisation will be performed in partly new forms. Large companies forced into hard global competition will concentrate more on their basic activity and will outsource different functions to a chain of subcontracting suppliers. Companies will enter into more or less stable alliances which will result in increasing interdependence and call for a great amount of reliance on others. The companies' production systems will be integrated and access will be granted to a degree to each other's computer systems. This has resulted in what is already referred to as a *Trust Economy*. As mentioned above, there will be the formation of virtual companies and associations to execute specific projects.

The international activities of companies will consequently become much more complicated and difficult to comprehend than previously. It will be more difficult to determine how large a proportion of a company's total result can be attributed to different company units. It is even doubtful if it will be possible to use in the future environment, methods such as Transfer Pricing established now.

These internationally active companies will have access to the global financial market where they can finance their own projects and, when appropriate, also invest in different financial activities. At the same time, a growing proportion of their assets will be immaterial, patent rights in other forms, know-how and an established group of clients. These companies will probably in the future, if they wish, have greater possibilities than today, of making themselves inaccessible to investigations relating to taxation and immune to tax collection measures.

A large number of locally active companies.

Even if a large proportion of the economy becomes global, most people in the future will work, reside and live locally. Thus it is not only globalisation which is spoken of. Those who think globally but act locally have come to be referred to as "glocal" people.

These are traditional enterprises oriented to both private consumption and private investment and to the satisfaction of requirements within the company sector. Examples include the building industry and the maintenance of property, restaurants, taxis, hair-dressing and the like. There is also reason to believe that a large number of new companies will appear to provide household-related services within health care and the care of children and the aged.

These will often be small companies in which the owner is personally engaged and for which he or she manages the company economy. Such enterprises are discussed today from two points of view. One idea is to simplify the establishment and operation of an enterprise, to simplify the rules governing small companies and to create a favourable climate in which to

run a small business. As we have shown in our financing chapter, the 1990's have seen an interest in such simplification but the results have been meagre. We have attempted to explain this with high taxation, exaggerated concern for legal impartiality, and an increasingly complex social environment. A subject of discussion has even been how taxation can be changed so that many of these companies can be more effectively taxed. The taxation authorities are faced with almost insoluble problems in attempting to define the correct net profit to be subject to taxation. The RSV is therefore in another connection, attempting to determine if it is possible to apply purely schematic methods of taxing certain business activities.

Private persons

It is a truth universally acknowledged that globalisation increases the mobility of persons with high income. As companies become more international, the possibilities of their employees moving between countries increase. A consequence of this is that a number of countries with high rates of taxation have introduced systems of reduced taxation for foreign experts.

The Swedish taxation system is based on a society in which a considerable proportion of the population is employed by large companies or in public service. The taxation of employee income has been simplified and based on income statements provided by employers, banks and insurance institutions. Industrial and commercial life is now developing in a different direction. Companies and even public service departments are now outsourcing activities to separate companies. The result is fewer permanent employees and instead, a multiplicity of smaller firms, subcontractors, more internationally active companies, increased mobility and more assets in foreign countries. The responsibility of supplying income statements is being transferred to a not negligible degree to smaller and less than permanent companies. Fewer and fewer persons will, in the future, be taxed only on the basis of information from third persons.

In a situation in which private persons are increasingly placing financial resources in foreign countries, this effect will be compounded and there will be a greater need of information exchange between the taxation authorities in different countries. A European definitive tax at source of 15-20 % would change this situation in a dramatic way but in turn would increase the risk of deposits of capital in even more distant countries with even less enthusiasm for information exchange. There would also be problems involved in enforced collection of the taxes levied.

The tax competition described here has further effects on our activities. A demand for increased efficiency in assessment, control and collection is one such possible effect. RRV, (Riksrevisionsverket, the Swedish National Audit Bureau) has already criticised RSV for its failure to make the permission system for capital income taxation function as intended. The criticism is not unjustified but the system as such is based on persons with large capital sums abroad granting the Swedish authorities permission to obtain information from foreign banks to which they would not otherwise be entitled. This is equivalent to a voluntary submission to taxation and remaining passive means freedom from taxation with little risk of detection.

The Internet

The Internet could be described as a well-organised, anarchic means of communication with transport channels in the form of telephone cables of copper or special high capacity fibre

optical cables or of radio waves directly between units at ground level or via satellite. Each computer has a unique address – an IP number – which in turn is administered by a special organisation in the register of which it can be read which Internet operator has been allocated a particular IP number. To learn which client uses the number, it is necessary however to apply to the relevant Internet operator who is only required by the Swedish telecommunication statutes to divulge such information if an offence suspected would give a prison term of at least 2 years.

Per se, the Internet provides control possibilities as all communication it transmits leaves an electronic trace. It is possible to track certain communication via the Internet via logs kept at Internet operators. Certain logs are kept for a period of up to 1 year but others, for only a few days or even hours. The enormous amount of information in the logs prevents general studies of the traffic for mapping the scope of electronic business. If however the activities of a particular subscriber are to be studied with respect to an offence as above, it is possible to obtain the IP number concerned. If the trace leads to a foreign Internet operator, assistance is required from that country to obtain information. The long time taken makes such a procedure impracticable. A skilled IT user can conceal his true identity and IP number. Davidson and Rees-Mogg consider that a government can perhaps track evidence on the net relating to a planned assassination of the country's Prime Minister but not investigate individual business transactions in this way.¹⁰⁷⁷

More international activity

In principle, all businesses and private persons will have access to international banks and financial institutions. There are already methods for secure electronic payment for goods and services via accounts in off-shore banks. The interest on such accounts or the return on other investments is completely or largely free from taxation in the source country. The home country has normally no access to the information necessary to assess appropriate taxation.¹⁰⁷⁸ OECD anticipates the Internet favouring a rapid increase in offshore banking. Jeffrey Owens, Head of Fiscal Affairs at OECD says "Internet banking will offer simple access, low transaction costs, a degree of anonymity and instant ability to move money around the world, to an extent not widely available now. If this is combined with well-run, well-regulated offshore institutions, a much wider clientele is likely to be attracted to these services than are using them today."¹⁰⁷⁹

Sven-Olof Lodin foresees new problems in the future in the form of cross-border investment via the Internet. This market is still plagued by problems such as inadequate security. But when the Internet market for off-shore capital has matured, it will present a further threat to the taxation of income from capital. By then, today's Internet generation will have transformed themselves from consumers to accumulators of capital. Lodin considers that the taxation system as it is constructed today will not be able to cope with such new problems.¹⁰⁸⁰

¹⁰⁷⁷ Davidson, J.D. & Rees-Mogg, W: *The Sovereign Individual. The Coming Economic Revolution. How to survive and prosper in it?* 1997

¹⁰⁷⁸ Westberg, Björn: *Elektronisk handel – varför av skatterättsligt intresse?* Svensk Skattetidning no 2 1999

¹⁰⁷⁹ *Net losses*, The Economist 2000-02-03

¹⁰⁸⁰ Lodin, Sven-Olof: *What ought to be taxed and what can be taxed – a new international dilemma*, 2000-01-24

Information

In the physical world, there is information which supports existing tax bases in the form of financial reports from the taxpayer himself, the banks' registers, asset registers and, on the lowest level, source documents such as receipts and invoices. Such documents are valuable as they show the point in time and the amount of a transaction and have a high degree of reliability as alterations can be detected. Electronic documents, for example those which are generated in electronic business deals, are not so robust. They can be altered without leaving a trace of the change and their reliability can be questioned. An encrypted electronic document provides no information at all about the amount involved in a transaction.¹⁰⁸¹

In the electronic environment, electronic accounting can be stored simply in another country. The Swedish accounting laws require the permission of the taxation authorities to store accounting on a hard disk located abroad but this requirement can be ignored or transgressed without particularly serious consequences. If parts of the activities of a business are conducted in another country or countries, it can be difficult for the taxation authority to obtain the information required for an assessment. For example, the administration of sales, payments and customer register can be outsourced to some foreign company. Encryption performed quite legally to protect business interests can also be used to prevent access by the authorities to information relating to taxation.

Another special characteristic of electronic information is that it can be more easily stored physically separated from the company concerned. This can prevent an effective search of premises. It is often not known at which address or even in which country a server used is located. It is possible that authority to conduct a search is limited or non-existent in practice in another country.

Taxation of electronic commerce

Electronic commerce remains most developed between businesses even if a rapid expansion is expected in electronic sales to consumers in the future. Earlier in this report, we have estimated that the electronic business between Swedish companies will have increased to approximately SEK 600 billion by 2010. It is more difficult to estimate the corresponding sum for consumer purchases. If consumers continue their suspicion of purchases via the Internet, there may be a development in which e-business is concentrated to a relatively few large companies in relatively few countries. If the security problem is solved, and the confidence of consumers is won, e-business can expand very quickly. It is then not improbable that it will be used by a very large number of companies of varying size in all parts of the world.

E-business today creates appreciable problems with respect to both its control by the taxation authorities and the legality of the taxation of its profits. Examples of other such problems, are the determination of what constitutes a permanent site for on-line sales, how income is to be distributed between concern companies when it is obtained from different geographic markets, how the Swedish taxation authority is to gain legal access to information stored abroad and how it will be possible to prevent the development of competition in taxation when the possibilities of control are limited in a third country.

¹⁰⁸¹ Australian Tax Office: *Tax and the Internet – Discussion Report of the ATO Electronic Commerce Project*, 1997

The most acute problem is the location, outside the EU and in countries in which VAT is not levied, of a large proportion of the e-business companies selling to consumers. If e-business expands as rapidly as is suggested it might in the paragraph above, both the administration and control of VAT will become a large problem. There is at present no method whereby Sweden can ensure that a large number of small companies all over the world pay in the appropriate VAT on sales to Swedish purchasers. If the proposal that sellers in other countries should register and pay VAT in any optional EU country is accepted, there might be a serious erosion of the Swedish VAT base to the advantage of EU countries with lower rates of VAT.

An OECD proposal has been submitted to member countries in which a server is to be considered a fixed place of operations of a company if use is made of it by the company in conducting business. This relation is not to be changed if the goods are supplied from a warehouse in another country. A company would be entitled to have several servers located in different countries, the connection being then made to a server which is not currently engaged. It would then be chance which would determine in which country the fixed place of operations is located for the particular transaction concerned. RSV has questioned the validity of this in its response to the submission. This can however be seen as an example of the problems associated with the increased use of the Internet.

For e-business to be effective, there must be a functioning payment system which permits direct payment. Completely electronic money systems which can be used anonymously for all payments from micro payments of very small sums to payment of billions have been under development for several years but no system has yet been found generally acceptable. There is reason to believe that the taxation authority will lose an important control possibility if the large scale use of electronic money begins. E-business can then present problems of the same character as those experienced in certain cash payment branches today. There is the difference that e-business has a global range. There are no current plans in the US to control the issue of electronic money. The EU commission however is considering promoting the development of electronic money by changing the first bank directive by granting the rights to issue electronic money to institutes which have no intention of conducting a complete banking business.

Proposals have been advanced suggesting different electronic taxation systems which could be integrated in the existing sales systems of e-business companies and would ensure that the correct VAT is added to all net prices for subsequent payment to the appropriate taxation authority. The purpose of these proposals is above all to make it easier for the company to honour its responsibilities. Some of the proposals are also intended to have a control function but it must be realized that those who wish to, will find a means of reprogramming the system to avoid the control. No such electronic taxation system has yet been developed, let alone used, and it is today difficult to determine when and if it could be.

Service

The Internet opens new paths for taxation authorities to administer taxation legislation, to collect taxes and new possibilities of communication with the world. This can be summarised briefly as follows:

- Increased possibilities of supplying taxpayers with information and assistance.
- Simplification of registration and the submission of tax returns.
- Electronic taxation and payment.

- Faster and more secure payments in and out.
- Simpler communication with other government departments.

The authority can communicate with taxpayers and companies via the Internet independently of office hours and geographic location. Such communication can involve everything relevant from the provision and collection of information to interactive possibilities of asking questions and obtaining electronic decisions.

It should be possible to register new companies more easily with the help of new technology. In Canada, for example, a system has been developed which permits the registration of a company by different government authorities concerned within 20 minutes.

An electronic medium for reception of tax returns can be designed as an interactive system which asks questions of the citizen or company. A system has been designed in the US for electronic tax returns in which the percentage error is 1 % as compared with 20-21 % for written returns.

In many countries, the governments have the objective of supplying all information from departments to citizens and companies via a common electronic channel. Behind this is the idea that the individual need not know which department or authority is responsible for the handling of any particular matter.

Criminality

As previously pointed out, there is today an expanding global capitalism with new characteristics including a global economic criminality. Criminal organisations are now utilising globalisation, technological developments and the network economy for their purposes, over national boundaries. They launder the profits from illegal activities in the international financial system and reinvest the results in both corruption and legal activities. Traditionally organised criminals have begun the infiltration of the legal business sphere, retaining their criminal values but with the outward appearance of typical respectable business men. The boundary between organised crime and economic crime has thus been erased. A consequence is that those combating economic crime now face more hardened criminals than they have previously encountered.

The global financial systems, the integration of different economies, the trend to smaller companies and the appearance of network companies simplifies money laundering. The network is an organisational form which is familiar to criminals who are not concerned by the absence of regulations but instead utilise this as a competitive advantage.

The investment of laundered money in the corruption of politicians and institutions is a blow at the foundations of the constitutional state. There are experts who consider that the increase in stockmarket values of recent years cannot be understood without taking into account the investments of organised crime.

International forces combating crime are faced with three different challenges according to Professor Ernest Savona. The first is the different attitudes of countries, some condemn tax havens while others provide them. The second is the present ineffective strategy of attempting to confiscate the profits of crime. The third challenge is the absence of a functioning elec-

tronic surveillance of communications between criminals. In this context, the Internet is significant in two different ways. In the first place, it is a new means of fast and anonymous transfer of information facilitating financial transactions. Secondly, it introduces a new field of economic activity which, as a weakly regulated global phenomenon, is vulnerable to criminal manipulation.

Savona proposes new ways, involving different preventive measures, of combating this kind of crime. It is of fundamental importance to prevent corruption which is a basic precondition for organized crime. Professional advisers, on whom criminals are largely dependent, must be controlled more effectively than at present. Finally, Savona will prevent criminal infiltration into the judicial system. Cooperation between countries and self-governing institutions in commercial life is also necessary.¹⁰⁸²

As criminality has, more or less, the business idea of utilising the new dissolution of borders and the new global networks for illegal purposes, it can probably be contained most effectively by measures and regulations controlled by the UN and other supranational organs. Professor Cyrille Fijnaut considers that the UN can play an important role in the definition of the problem and the development of an effective solution. The types of transnational criminality which cause the most damage, politically, economically, culturally and socially must be identified and the order in which they should be combated determined. Further, it is only the UN which has sufficient authority to achieve more economic justice and less political strife in the world by encouraging states and organisations to collaborate and control the logistics system of the world so that criminals are traced, apprehended, tried and convicted. This requires the member states to give the UN their unconditional financial support and that they accept supervision and control.¹⁰⁸³

In combating crime, the UN, the Council of Europe and the European Union already have important roles but anti-criminal measures still remain virtually exclusively the province of the national states. Even if more and more international initiatives are presented in the form of conventions and agreements, there are still appreciable international differences in attitude to what is acceptable and what is not, i.e. criminal. This leads to varying degrees of willingness to assist the police authorities of other countries. There are further, several important differences between the legislations of different countries in different fields such as the rules of criminal procedure, secrecy and company law. In combination with the inertia of the international crime combating agencies, these differences provide the criminal organisations with significant possibilities of successful global action.

Tax competition

As mentioned previously, the EU is preparing a code of practice for company taxation. This identifies tax advantages given to different activities and certain groups of taxpayers in the form of lower rates than those applied generally in the country. This code includes no sanctions as a consequence of its transgression and it is judged to be of limited effect. Among other measures, Ireland has decided to withdraw its current offer to certain investors of a

¹⁰⁸² Savona, Ernest: *The relation between Economic and Organized Crime in Europe*, Conference in Linköping, 2000-02-01--02

¹⁰⁸³ Fijnaut, Cyrille: *Transnational crime and the role of the United Nations in its containment through international cooperation: A Challenge for the 21st Century*, 1999

lower rate of company tax, 10.5 %, and instead, to introduce in 2003, a general company tax of 12.5 %.

The British government opposed the earlier EU proposal for uniform taxation and an exchange of information regarding capital income, on the grounds that these would threaten the existence of the London financial market. The British attitude indicates how important it has become, to be able to offer an investor tax exemption in the competition in the international financial capital market. Against this background, many experts have difficulty in visualising how the EU countries can develop a solution to the problem.

Kristina Ståhl, Reader in Economics at the University of Lund, in a paper on the EU and income taxes, expresses the view that the differences between income taxes in the different countries will continue to decline during the next ten years but that it is not realistic to believe that they will be harmonised as thoroughly as the VAT in the different countries. She expects more limited legislation on the EU level within, principally, company taxation and capital taxation because of an appreciable press from both market forces and from the EU courts. Her opinion is that the member states will find that their possibilities of maintaining their national taxation sovereignty are greater if they act in concert in the Council than if they leave it to the market and the EU courts to determine developments.¹⁰⁸⁴

The OECD report *Harmful Tax Competition* is directed primarily against tax havens and countries which offer special concessions to companies engaged in geographically mobile business activities. It has been criticised for not considering motives not related to taxation for investment in taxation havens and for being more critical of non-OECD countries than OECD member countries

There is also criticism of the international organisations' preoccupation with competition via taxes. As stated above, there is much evidence that taxes are only a part, even if not an unimportant part, of the reasoning when the location of a company's activity is chosen. Other factors such as infrastructure, the standard of educational facilities and social environment etc. can be of decisive importance in deciding where the senior managers of the company are to be stationed.

Sven-Olof Lodin questions if the measures recommended by the EU and OECD are adequate for reducing the international taxation competition. It is possible that the most obvious situations will be corrected but the measures will probably have little effect on neither international tax competition nor the flow of black money to tax havens. As long as individual countries reserve the right to determine themselves their rates of taxation, the increased mobility of tax bases and the increasing international economic integration will contribute to continued tax competition. This will lead, despite the work of EU and OECD, to lower company tax rates and reduced taxation income, even if not to the worst case, "a race to the bottom".¹⁰⁸⁵

According to Jeffrey Owens, Head of Fiscal Affairs at OECD, the intention of OECD is primarily to oppose increasing tax competition and tax evasion by a substantially increased exchange of information and cooperation between the world's taxation authorities. A system to simplify the identification of taxpayers in different member countries is under planning. OECD also recommends that the taxation authorities of member countries should engage in

¹⁰⁸⁴ Bernitz, Gustavsson, Oxelheim (ed.): *Europaperspektiv - Årsbok 2000*, 2000

¹⁰⁸⁵ Lodin, Sven-Olof: *What ought to be taxed and what can be taxed – a new international dilemma*, 2000-01-24

an exchange of experience to collectively develop and refine a system for risk analysis, in the first place, with respect to company declarations. At the same time, OECD is presenting its point of view and exerting pressure on countries with traditions of rigid bank secrecy and those which function as tax havens.¹⁰⁸⁶

Exchange of information

The exchange of information in this context requires legal sanction. The Swedish Law of Mutual Assistance and other elements in Swedish legislation assume that Sweden has entered into international agreements. These have in the first place, the character of bilateral agreements to avoid double taxation. There are more than 70 and practically all contain an article relating to the exchange of information. On the basis of these, agreements have most often been reached with the taxation authority of the other country to obtain an automatic exchange of information. Sweden also has a multilateral agreement with the Nordic countries which goes beyond the other agreements and which contains also the possibility of assistance in the collection of taxes. A convention, (The Multilateral Convention on Mutual Assistance in Tax Matters) was prepared within OECD during 1991 for multilateral cooperation which covers indirect taxes in addition to income taxes.

Work is in progress within OECD in the development of ways of transferring information in standardised form by electronic means. A standard for transfer by magnetic tape has been established and a corresponding standard for transfer via EDI is under development. How those liable to pay taxes can be identified is under study within OECD. This work has resulted in a recommendation requiring those liable to pay income tax in a foreign country to inform banks, employers etc. in that country, of their taxation registration number in their country of permanent residence and for these to convey this information to the taxation authorities in that country.

This OECD developmental work is to be seen against the background of the organisation's endeavour to use a large increase in information exchange in combating tax competition and tax evasion. Within the OECD there is an awareness that the exchange of information at present has shortcomings and efforts are being made to eliminate these. Some of these are hinted at in the RRV auditing referred to below. Other experts have fundamental objections to the method.

Together with the auditing organs of eleven other EU countries, RRV has studied the exchange of information between these countries. Several countries, Norway, France, Poland, the Baltic countries and the US – with which Sweden has a comprehensive exchange of information, are not included in this group. Of the twelve participating countries, only seven could provide exhaustive statistics for the years concerned, 1992- 1995. Only two countries, one of them Sweden, have been able to state the length of time taken to reply to a request for information. Despite several countries stressing the importance of relevant information being submitted to the group, it is very few which have supplied the results obtained. The four forms of information exchange are:

- Information exchange on request,
- Automatic information exchange

¹⁰⁸⁶ Owens, Jeffrey, Paris 2000-04-10

- Spontaneous information exchange
- Cooperation with officials of the country concerned.

RRV states that information exchange on request is used to only a slight degree (eight of twelve countries present on the average 50 such requests per annum), that eleven of twelve countries provide others with spontaneous information to varying extents, that most of the twelve countries have no agreement with respect to automatic exchange of information and that representatives of three of the twelve countries had visited other countries in connection with a taxation enquiry.¹⁰⁸⁷

Vito Tanzi of IMF does not believe that much will be gained by the exchange of information. He points out judicial, technological and political hindrances. Judicial hindrances can be the unresolved legality of the withholding of sensitive information, the limitation in agreements to particular taxes only, successful claims by tax evaders to residence in a third country or the lack of authority of investigators to obtain relevant information. Technical problems include the inadequate quality of the information, inadequate resources for evaluating the information obtained (Tanzi claims that in the US, only 1 % of tax returns are subject to checking) complex identification numbers in certain countries (e.g. Italy) and the absence of identification numbers in a number of countries (e.g. Japan). Amongst political hindrances, Tanzi sees the unwillingness of many countries, in a situation of intensive tax competition, to divulge information which could discourage prospective investors from placing their capital there.¹⁰⁸⁸

Vito Tanzi and Howell H. Zee, both of IMF, have written in their paper "Taxation in a Borderless World: The Role of Information Exchange" that information exchange is important but that there are far too many hindrances to the effective detection and taxing of trans-border portfolio investments. Their opinion is that current international practices which guarantee few rights to the country which is the source of these payments must be questioned. In the exchange of information between countries, each country is biased in defending its own taxation system. The authors consider however that the exchange of information can be an effective instrument with respect to knowledge of companies' investments abroad.¹⁰⁸⁹

A precondition for an appreciable increase in the automated exchange of information – in particular if it is to be the basis of taxation – is that the information is relevant in the taxation systems of the countries concerned. In the case of capital income, the current differences between taxation in different countries are very great. In Sweden, capital income is taxed from the first krona earned whereas a number of other countries such as Germany, allow very large individual standard deductions which make a large proportion of capital income less interesting to codify and collect. There is therefore reason to question if the exchange of information should not be concentrated on the combating of tax evasion.

In these circumstances, there is reason to believe that the exchange of information, as a result of the initiative taken by OECD, will increase considerably in the future. This increase is a consequence of the increased internationalisation and leads to further cooperation in the field of planning and execution of purely operative tasks. Taxation authorities world-wide must therefore review their strategies and divert resources from the handling of purely internal matters to the support of international cooperation in different forms.

¹⁰⁸⁷ RRV 1997:51: *Informationsutbytet mellan skatteförvaltningarna i EU – En samordnad granskning genomförd av de nationella revisionsorganen i tolv EU-länder*, 1997

¹⁰⁸⁸ Tanzi, Vito: *Taxation in an Integrating World*, 1995

¹⁰⁸⁹ Lindencrona, Lodin, Wiman (ed.): *International Studies in Taxation: Law and Economics*, 1999

It can be mentioned that on the initiative of RSV, efforts are in progress to increase the international dissemination of information in the debt enforcement area. There is however great difficulty in obtaining an understanding of the Swedish approach to transparency in this connection, in other countries with different cultures and traditions.

New or changed areas of activity

Unforeseeable events can occur which will have considerable effects on our administration activities. Examples of these could be the introduction of new taxes, the transfer of certain taxes to the EU level or the allocation of some new activity to RSV. There are no indications at present of such developments but we wish to point out some areas in which RSV should be observant.

The loss of tax income could lead to a situation in which welfare must be financed to a degree by other means. The activities of the taxation authority could be affected if developments suggested by certain observers should tend to a greater dependence on insurance solutions via different public or private instances. If certain insurances should be related to income, how the authority determined and controlled the income of private persons would be of immediate interest to the insurance companies concerned.

One way of lightening the total taxation burden in relation to GNP is to allow tax rebates/tax reductions instead of paying social benefits – which in any case are often taxable. In Australia, for example, the administration of such tax reductions has been assigned to the taxation authority. This can be seen as a means of giving the taxation authority a comprehensive responsibility for the assessment of tax. Even if this is not under discussion in Sweden at present, the possibility should be considered, as changes could lead to new duties for the tax authority

Strategies for the future

Background

Our description of the background to this report indicates a future containing unforeseen possibilities of development. A force driving this development is new technology which permits instantaneous access to knowledge and information from the entire world. We are faced with a new global economy, a capitalism which utilises the new means of communication to scour the planet in a ruthless search for profitable activities. This is however a selective procedure which can lead to increasing gaps between the income and wealth of different groups of people and an increasingly growing alienation of the poor. There are already signs of opposition to this development, a global criminal economy and fundamentalism. The network makes the entire world a potential market for companies, a market where however, large volume purchasers and finance capital can exert great pressure on the companies. It becomes a question of survival in an unpardoning global competition. Companies are forced to concentrate on their central activity. Both companies and persons with competence in demand become increasingly international. The capital and finance markets become global and capital is moved at electronic speed to any point on earth.

The national states which no longer provide citizens with defence against military attack but the protection against poverty provided by the welfare state are threatened by these global forces. Experts unanimously point to an increased international pressure on mobile tax bases, exerted in the first place on capital income taxes, company taxes and income taxes due from persons with special competence in global demand. This results in an international tax competition which forces the lowering of nominal tax rates. Many believe that this in turn affects more stable tax bases. The lowered taxation of capital income and income of foreign experts increases the distance to the taxation of the income of the majority from personal exertion. It can be difficult to motivate the injustice of higher rates of marginal tax on wages and salaries than on capital income. Countries can be tempted to raise these tax rates to compensate for the loss of revenue from the mobile tax bases but it can be difficult to obtain democratic acceptance of such a method. The end result for the nation-states of reduced income from taxes is likely to be difficulty in financing their public services.

There are a number of protesters who see a danger in allowing the global market forces a free hand. There appears to be agreement among these that the actions necessary to change the direction of the threatening development are a greater degree of supranationality and increased global cooperation between governments, authorities and institutions. Both expanding criminality and increasing tax competition are examples of areas in which such actions are necessary. How strong these opponents are and the degree to which they can obtain coordination will be decisive for the development during the ten years period we have studied.

Compliance and payment morale

All tax systems are based on what is usually designated mass loyalty. This is founded on legislature relating to taxes being arrived at by normal democratic means. The rules of democracy require the minority to accept the decision of the majority. The citizens of a country have in this way decided how the welfare of the population in general is to be financed. The result is that the overwhelming majority of the people can be expected to comply with the rules of the taxation system. The disloyal are then a small minority.

While the situation corresponds with this description, a taxation system can be expected to function relatively effectively. The purpose of the taxation authority is to administer the system i.e. to ensure that all those due to pay tax are registered, that correct information is submitted, that the appropriate taxation is assessed, that the information provided is checked and that the taxes are paid. The checking is intended to ensure that the system functions correctly, that tax evaders are detected and payment enforced.

If the number of tax evaders increases, the will to cooperate of those previously compliant will be weakened. To a certain degree, such a situation can be corrected by increased control efforts. A precondition for this is that these efforts lead to identification of evaders, that they pay their tax and that any relevant penalties are applied. If the problem cannot be solved in this way and non-compliance spreads, another situation will have developed. The compliance of the mass of the taxpayers will then be threatened. The legislators must then return to their original position and ask themselves if it is their duty in a democracy to adapt the people to a system or the system to the people.¹⁰⁹⁰

¹⁰⁹⁰ RSV Rapport 1983:1: *Skatter och skattekontroll. Förutsättningar för en effektiv kontrollverksamhet*, 1983

In a global economy, this problem has other dimensions. If a failing faith in the taxation system is the result of taxation becoming less effective under the influence of new global communication systems, global finance and capital markets and a greater amount of free trade and free movement of goods, services, capital and personnel, the legislator will be faced with a completely different situation. If a majority of the citizens of a country do not approve of those with financial capital being able to invest this abroad and in this way avoid paying tax in the home country, but the legislator cannot change the taxation system so that such transactions are stopped, there is risk that taxpayer compliance will decline. If, in a similar way, if the majority of citizens do not approve of the lowering of company tax but the legislator feels forced to do so to avoid the company moving to a country with lower company taxes, the non-compliance problem can be exacerbated. The citizens permanently resident in a country will have difficulty in understanding that their income from personal exertion should be taxed more severely than income from capital – but globalisation forces such a development. It will become more difficult for the legislator to compensate for the loss of company taxation income by raising the taxation on less mobile bases such as labour, food and shelter. It will be no longer possible to adapt the system to the people and the system will no longer be based on mass compliance.

Richard G. Lipsey and Simon Fraser warn in a paper of such a development. They point out that in the long run, all taxes are voluntary. If sufficient transactions avoid taxation, the feeling of injustice of those who pay tax will reach such a point that it will lead to such widespread tax evasion that the entire system will collapse. If the social consensus that taxes should be paid dissolves in the light of a tax evasion via cyberspace, there will be a real crisis for the national state.¹⁰⁹¹

Davidson and Rees-Mogg write that a national state in such a situation will "turn nasty". In the absence of the possibility of taxing income, they will apply more arbitrary methods to collect taxes. Governments will disregard human rights, will censor the free flow of information and attempt to sabotage technical equipment. Western governments, in the same way as the Soviet government in its time attempted to prevent the acquisition of personal computers and copying machines, will attempt to hinder access to cyberspace by totalitarian means.¹⁰⁹² This is naturally a drastic and perhaps consciously exaggerated picture. It can however hardly be excluded that in a situation with seriously declining compliance with the taxation regulations, it may be tempting to react with a greater degree of repression in the form of arbitrary general taxation and draconian penalty measures.

A declining compliance with the taxation system need not necessarily lead to a general decline in debt payment morale. The increasing mobility of both individuals and companies and the ease with which money can be transferred at electronic speed over the entire world could lead to a decline in the willingness to pay debts to others than the state. On the other hand, the increased interactivity between companies and the increased interdependence between persons and businesses could lead to a general elevation of debt payment morale.

¹⁰⁹¹ OECD: *The Future of the Global Economy. Towards a Long Boom?* 1999

¹⁰⁹² Davidson & Rees-Mogg: *The Sovereign Individual. The Coming Economic Revolution. How to survive and prosper in it?* 1997

Citizen orientation

As a government department, we perform a duty in the service of the citizens. The staff are responsible for the execution of the decisions of their parliamentary representatives. In this way, it is we who stand up for the democratic values established in the constitution. It is therefore that civil servants are characterised as the guardians of democracy.

It is important that the civil servant operates strictly within the laws which apply but this is an excessively narrow view. It can also be said that the official has his/her own responsibility to defend democratic values such as legal impartiality, openness and participation. During the 1990's, officials have, to an increasing degree, also been forced to take into consideration economic factors such as efficiency and rationality. Economic values can however come in conflict with democratic values and should then take second place which can create problems for the individual official. Nor can the official avoid the moral responsibility for the laws to be applied. This can also lead to conflicts when the contents of laws which have been established in due order do not agree with what is generally accepted by citizens as good and correct and reasonable. The problem for the official is then to make a decision to strictly follow the law or to attempt to do that which is to the advantage of the individual and society. The official shall naturally not slavishly and indiscriminately follow the laws but react when these are imperfect and draw any imperfection to the attention of both legislators and the public.

In several countries, the taxation authority publishes documents – for example a Taxpayer's Charter in which the rights and duties of the citizen in this respect are specified. These can also inform the citizen of the reception he/she can expect and where complaints of dissatisfaction can be presented.

RSV is executing a project relating to the ethics of its activities and it is no coincidence that taxation authorities all over the world discuss ethical questions. The increasing interest in ethical questions is closely related to an increasing awareness that taxation systems in particular must be based on mass loyalty and voluntary participation. If the system is to function, it must be acceptable to the citizens and no system which for its function requires supervision in the form of extensive control activities intruding on the privacy of the individual will be acceptable. A widespread tax evasion cannot therefore be eliminated by intensified control.

The perspective for the citizen can change in the future. In a world in which borders are becoming diffuse, and people move freely, there are great possibilities that new identities will develop. The importance of regions will increase and new supranational institutions in addition to such as EU become a reality. A proportion of the legislative rights of the Swedish Riksdag have already been transferred to the European Union. The global economy will force Swedish legislators to adapt Swedish rules to a global reality which does not necessarily coincide with the values traditional in the Swedish community. All of these changes will naturally have effects on the role of the government official and the ethics of his activities.

Internationalisation

Our administration meets a progressively changing world-picture. That which is appearing is a picture of increasing numbers of companies with the entire world as a potential market. The new technology, the new network organisations and the global financial system make it possible for companies to locate different segments of their activities where the preconditions are most favourable for profit. The competition in their markets becomes ruthless and companies

are under constant pressure from large volume purchasers and the demand from financiers for a maximum return. They are concentrating on their basic activity while making increasing use of subcontracting chains and collaboration with other companies in varying alliances. Virtual companies are being created. Somewhat simplified, it can be said that companies are to a degree moving out into the net with the entire world as their market and as the base for their activity.

As companies become more international, many of their personnel will also be transferred between countries and continents to a degree greater than ever before. For the international individual, the Internet will become the natural channel for not only their business and personal communication but also for the management of their private economies. They will meet different cultures and other systems of society. They will of necessity learn the systems of rules of other countries and will compare these. Differences and imperfections in the rules of individual countries may be exploited for evasive purpose. At the same time, they will have an increasing need for the authorities in their homelands to have the competence to be able to discuss taxation matters on an international plane.

It can also be said that our taxation authorities are now playing in a different arena. The new world demands that the authorities in different countries collaborate much more intensively than in the past. We are experiencing a revolutionary change of focus. The authorities in different countries must reconstruct their organisations on the basis of a dramatic increase in international contacts. There is a completely new system for the exchange of information and experiences, about mutual risk analyses and purely operational cooperation. It can also be said that to perform their duties effectively, the authorities must globalise themselves, make the world a field of activity and move out with companies and individuals into the net.

The negative sides of globalisation will require today's governments to protect their tax bases by means of increasing international cooperation and an increasing reliance on supranational activities. This should lead to Sweden intensifying its engagement in this cooperation and activity. RSV will then be required to be prepared with resources and international competence for participation in the work.

Control and collection

As more and more companies spread their activities over the world, the distribution of the companies' income between different countries will become extremely complicated. This will become even more so if the OECD proposal that only one server is to constitute a fixed place of company activity takes effect. The method for estimating the correctness of Transfer Pricing used today in assessing taxation is criticised by many experts. Other procedures are being sought. Taxation authorities all over the world already have difficulties in arriving at an appropriate taxation of international companies which is adequate and just. It is no exaggeration to say that the globalisation in progress greatly complicates the taxation and control of companies with international business activity.

The new alliances created often require companies to give their partners access to their communication and production systems. The companies become in this way mutually dependent on each other and must select partners on whom they can rely. Hence the expression "Trust Economy". At the same time, it becomes more difficult to determine where the activities of one company end and those of another begin.

The new global environment creates opportunities for quasi-legal and perhaps aggressive planning of tax evasion making use of the global economy and differences in the legislation relating to taxation in different countries. It will therefore be of increasing importance in the future to follow actively developments in this field.

International business is increasingly digitalised and conducted via the Internet. This does not make control impossible but increasingly difficult. All communication via the net leaves traces which can be followed via logs held by the Internet operators. These logs are however preserved for a limited time, up to a year, but most often, for only several hours or days.

Today, Swedish operators are prevented by the telecommunication laws from divulging the contents of their logs unless a crime punishable with at least two years imprisonment is suspected. Similar and wider limits are in force in other countries and to obtain information requires assistance at the site which can result in critical delays. Information can be encrypted, traces erased, and the IT user can conceal his true identity and falsify his IP number. The server can be located in a country with which Sweden has no relevant agreement. It is no exaggeration to say that a company which wishes to, has greater possibilities than previously of making itself inaccessible to control and enforced payment actions. This shows at the same time, the need for RSV to closely follow developments in this area and to give priority to an increase in competence in meeting the threat from the new technology.

The authority of individual countries with respect to control in taxation matters remains within their national boundaries. In a world where home pages and servers can be located anywhere on earth, those combating illegal financial activities are now at a considerable disadvantage

Company accounting has become more computerised in step with technological developments. At the same time, computerised accounting is easier to perform and easier to manipulate from another part of the world. Erasures and alterations certainly leave traces in computers but there are means of concealing even such traces. A company in Sweden can store information at a server located on the other side of the globe. The Swedish Law relating to Accounting contains a provision that permission is required from RSV for the hard disk for a company's accounting to be located in another country but a businessman wishing to do so can be expected to circumvent or to contravene this requirement. The conclusion is that it is considerably more difficult than previously to guarantee the veracity of the accounting by subsequent control.

It is not only subsequent control which is made more difficult in this new environment. The collection of debts, both private and to the state can also be expected to become more complicated. This is due, to a degree, to financial capital becoming extremely mobile, transferable at electronic speed anywhere in the world, difficult to trace and difficult to collect. Another reason is that assets are increasingly becoming immaterial in character, in the form of patent rights, licences, etc. Additionally, the competence of personnel is becoming a more important asset to the company. A question of great importance is how such capital can be commercialised and its value in money estimated. In any case, the competence of personnel cannot today be sold or distrained. The collection of debts to the government such as taxation debts would probably be made considerably easier, not only by increased cooperation in the form of e.g. information exchange but also if the taxation systems of the different countries could be standardised both materially and procedurally. In the case of the collection of private debts, the civil process laws could be made more compatible e.g. within basic areas such as judicial

security measures, rules for summoning and the mutual acceptance and execution of judgements and decisions across borders. Against the background of the expected increase in international commerce, it is not improbable that the need for cross-border execution of, in the first place, judgements against debtors will increase. There will be pressure in the direction of reforms of this nature. As mentioned in the section about the EU, we can expect in the future harmonisation within the area of civil law procedures within the EU.

We have attempted above to show that there is a series of signs which indicates that we can expect times of increased criminality, partly new types of crime utilising the new technology, the network economy and the global financial system to grow and increasingly influence society. They then undermine democracy, the rule of law and other community institutions. As criminality in the extreme case is a threat to world order, many experts consider that the active combating of crime must be under the leadership of the UN. There is clear evidence that organised crime is becoming more closely engaged in international economic crime. This makes it a serious problem for our administration. An allocation of priority to the combating of the growth of economic crime as described calls for international competence and considerably expanded cooperation within and outside the country, increased resources and broadened authority. There is also a matter of preventing crime by combating corruption and the influence of questionable professional advisers. RSV must also collaborate with representatives of commercial life which, in the new economy, is increasingly dependent on being able to rely on its counterpart (trust economy) in together developing methods for the prevention of crime.

The Swedish taxation authorities today have particular problems in effectively assessing the taxation of a number of branches which primarily provide services to consumers. These include restaurants, taxis, hairdressers, certain private health-care services and household-associated services. A large proportion of the problems are due to the difficulty of controlling the income of suppliers of services from private persons. There is in reality no third man who can be required to provide the authority with information about transactions. This can be compared with the disappearance of many middlemen from the new economy. There is the difference that the branches mentioned must be considered to be non-mobile taxation objects. It appears to be important to introduce legislation which would be an attempt reduce the problem in those particular branches. Amended legislation can probably be combined with increased cooperation with the appropriate branch organisations. If this should be successful, the authority could devote more of its limited resources to the more difficult task of controlling mobile taxation objects.

Thus in the future, it will be important to make more efforts to control mobile individuals and companies. These are persons and firms with the world as an arena – and there is also a global organised criminality which is successively infiltrating the business world. The introduction of such a control activity presents all countries of the world and their taxation authorities with a great challenge. It presupposes a well developed exchange of information, organised exchange of experience, and coordinated operative activities. Under the aegis of the OECD, the larger countries are building up parallel systems for risk analysis. This is an example of activity in which Sweden must participate with the intention of adding the experience of the Swedish taxation authority to that of others.

It is extremely uncertain how far the authorities can succeed in taxing and controlling multinational companies adequately. As mentioned above, there are considerable doubts as to the satisfactory functioning of today's system with Transfer Pricing and even greater uncertainty

as to its possibilities of coping with the requirements of the future. Jeffrey Owens of OECD has even expressed the view that the largest of multinational companies can only be dealt with by governments in negotiating a reasonable tax on the company's profit in the country concerned.¹⁰⁹³

It will also become more difficult than previously to maintain a strict taxation morale by means of control and coercion. New ways to create guarantees for the assessment of correct taxation and minimising evasion must be explored. The taxation authority must be able to acquire knowledge of the management of taxable transactions long before returns need be submitted. Such preventive activity can be intended to encourage a general solidarity with the taxation system or to promote different forms of self-administration by citizens and companies. A first step could be the certification of auditing systems. A more ambitious objective could be to create systems for what could be described as certification of the entire taxation procedures of a company. RSV would then be able to certify the company's tax returns and guarantee the company that the information supplied would be accepted. A comparable system designated a service stair is currently used by the Swedish Customs Department.

Electronic self-service and personal service

In a system based on mass compliance, one of the most important tasks of the taxation authority, from the outset, is to make it as simple as possible for individuals and companies to pay the appropriate tax. Acceptance of the system increases when the tax paying citizen or company feels that information is easily accessible and is provided by the authority in a positive spirit. In a corresponding way, acceptance of the system declines if the provision of information is inadequate and there are consequent errors which must be corrected – with various penalties as a result.

Electronic self-service

In a global world, development requires information to be accessible, in real time, on a 24 hour basis. This can be provided in certain circumstances by systems for self-service. The Internet is largely replacing the telephone in this connection. The Internet is a medium with several dimensions by means of which information can be presented in a more user-friendly way. The Internet can then contain information about both the authorities and the relevant rules and different forms and brochures and in addition, function as a medium for filling in forms and submitting data. The next step is to couple these functions together and create an interactive system in which the computer communicates with the citizen or company. The electronic forms thus provided will not be accepted before the information submitted is complete and correct on the basis of a number of integrated quality tests. These save time for both parts and the annoyance resulting from unintentionally incorrect information is avoided. Certain routine decisions can even be automated so that the citizen or company is informed of these immediately by electronic means. It is only under extraordinary circumstances that the matter must then be referred to an official.

The possible gains are not as great on the debt enforcement side because this activity, as distinct from that of the taxation authority, is not concerned with the handling of large volumes of documentation.

¹⁰⁹³ Owens, Jeffrey, Paris 2000-04-10

In a 10 year perspective, it should be possible to provide services of this kind, integrated for all public service activities, via the Internet. In his program for change, Prime Minister Tony Blair includes the ambition that in the UK, all communication with citizens should be by electronic means by 2008. There is reason to believe that there can be a corresponding development in Sweden by 2010.

Personal service

Even if RSV succeeds in making possible digital communication with citizens and companies, the availability of personal contact between these and RSV will remain necessary. In the first place, it is not probable that all citizens or even companies will accept that they must provide information via electronic means. Secondly, it is natural that many situations will develop and questions will be asked which will call for conversations and even meetings. The personal service will not necessarily be provided, as today, by complete local offices. It is instead more likely that flexible solutions such as integrated citizen information offices (one stop shops), service stations, mobile field offices, co-operation with branch organisations etc. will be developed. RSV should successively develop forms for this and adapt solutions in accordance with requirements as they appear.

Our future staff

In the future, we can expect that our preventive work will have an objective different, to a degree, from that of today. A substantial proportion of today's information brochures and forms and telephonic replies to enquiries will be replaced with interactive digital systems. There will, however, still be the option of personal contact by telephone or by visits in person. Directed information will increase in importance and co-operation with branch organisations and auditor associations will change in character with the introduction of certification of systems of declaration by companies of taxable income. Control and collection activities will become much more international than they are today and we will be much more actively engaged in combating economic crime.

A consequence of this is that a wider range of competence will be required and the majority of the personnel will be university graduates. Parallel with material competence, there will be more demand for both pedagogic competence and the ability to collaborate with companies and private persons in developing practical solutions to the problems which arise. The authority personnel will need cultural competence, analytic competence, the capacity to recognise the essentials, communicative competence, the ability to work effectively as an individual and as a member of a team.

Cultural competence and co-operative ability will be required of all. Communicative competence, the ability to convey a message, will be required foremost of those in direct contact with the public and companies. The additional competences mentioned will be needed by those whose main duty is performing specialised analyses. It may become necessary to reorganise the work performed by the staff to ensure that their competences are utilised optimally. Our work places must be attractive for us to be able to recruit and to retain personnel with the necessary competences.

A great part of our most competent personnel with predominantly intellectual duties such as Internet investigation and others working internationally will be in great demand from commercial enterprises and the conditions under which they are employed must therefore be competitive.

Peter Drucker, an internationally known company management expert and professor in the fields of philosophy, politics and economics says that it is not known how the work of “knowledge workers” (intellectual workers with an academic training) of the future can be organised. He stresses however that it will not be possible to lead the work of these with the help of economic key figures. We know today as little of this as was known in 1900 of how manual factory work was to be organised. He adds that the organisation and management models of today such as Quality Circle, Continuous Improvement (Kaizen), Just-in-Time Delivery and Total Quality Management are all tayloristic and inappropriate in this new environment.¹⁰⁹⁴ It therefore appears to be no coincidence that RSV, from answers to an attitude investigation, learned that many of the personnel are dissatisfied with the management concept and lack confidence in the managers. Henry Mintzberg, Montreal Professor of Management and Organisation believes that the leaders of “knowledge workers” must have relevant technical competence and must therefore be recruited from amongst the “knowledge workers”.¹⁰⁹⁵

Management and guidance

Internationalisation, with its increased co-operation between states, means that the operations of taxation authorities, to a greater degree than previously, will be influenced by the contents of agreements between states and by the rules established primarily by EU. International co-operation will require compromises. An increasing degree of management by legal rules, not necessarily at detail level, can therefore be expected. Such rules will not be determined by the Swedish Riksdag alone. Despite an increasing application of this form of management, other methods cannot be dispensed with. That which is important is that the different control forms must be seen in a context and be compatible. There must be a continuous discussion within RSV in which the rules, their effects and the cost of their application must be considered. This is not least important in an environment in which the rules are largely promulgated on a higher level than the Swedish Riksdag. Such a discussion makes new demands on the supervision of the work of the authorities. The supervision should be more oriented toward the totality of its results such as its effects in the community at large rather than production within the jurisdiction of the authority. This type of supervision must be subject to political control.

Leading economists consider that there is a correlation between the stability of the environment in which companies and citizens can operate and the resulting economic growth. Low transaction costs are a precondition for such growth and an unstable environment tends to give high transaction costs. Stability is promoted if the activity of the taxation authority is predictable and transparent.

According to researchers, we must in the future, avoid authorities which have the precepts of commercial life as guiding principles. This means to a degree, a return to an earlier public service ideal. The stability seen above as desirable can, according to the same researchers, only be achieved by management by legal rules. Management by legal rules can be said to

¹⁰⁹⁴ Drucker, Peter F: *Management Challenges for the 21st Century*, 1999

¹⁰⁹⁵ Magretta, Joan (ed.): *Managing in the New Economy*, 1999

have the advantages, in comparison with more informal administration, of being democratically legitimate, relatively open to supervision, controllable and leading to stability provided that the rules remain largely constant. For the state, it can be asked if it is sufficient that the government administration in itself is cost-effective and creative or if it is the community at large which must function effectively and creatively. It is important that there should be a balance between different management models.

Organisation

There are two principal themes in our report, the development of technology and globalisation.

The new technology creates not only possibilities of effectivising all handling of large quantities of data and documentation. It also affects in a revolutionary way, the relation between the taxation authority and private persons and companies.

The major part of case handling will be performed digitally in the future. This calls for central systems and central solutions. Individual regional and local units will have little influence on these systems.

Contacts with citizens and companies in the future will, to a much greater degree, be digital and via the Internet. Personal contacts necessary for geographic reasons will most probably become, successively, of less importance. It will be much more important to make contact with the appropriate competence, irrespective of its location. At the same time, there will be an increasing demand for promptness. Correct information and the appropriate competence will be demanded in real time and not from a local office but from the authority itself. In connection with contested assessments through tax audits and enforced collection, there will remain the necessity of personal contact and meetings.

We have previously presented arguments calling for our operational departments to follow the citizens and companies out into the net and become network organisations. This requirement is also incompatible with our present geographic dispersal, regionally and locally.

Globalisation implies increased internationalisation and the need for increased collaboration with our counterparts in other countries. It can be difficult to handle the considerably increased international cooperation and exchange of information in a geographically dispersed organisation. It can be sufficiently difficult to manage the discrimination between different countries and a further geographic division on the national level would exacerbate this problem.

Against this background, it can be asked if, in the future, a geographic division of the authority administration into regions and local offices and units is the most appropriate. If not, the natural alternative would be a single authority solution and RSV would constitute that authority. It would be necessary to develop a modernised internal organisation, a network organisation adapted to the practices and procedures of its working environment. This would probably further simplify contacts with citizens and companies and authorities in other countries. Instead of a geographic division of activity, the division could be based on different "client categories" with different demands on our services. Whether such a division would be in accordance with company size, the nature of business activity, the degree of international

activity or some other criterion can be expected to vary in time. A flexible organisation would be required, able to adjust quickly to changing circumstances and prepared to redistribute its resources accordingly.

The taxation authority has by definition the role of a creditor. The efficiency of the authority in obtaining payment is largely dependent on the performance as early as possible of its actions in the form of reminders, demands and discussions of possible solutions. In most other countries, as distinct from Sweden, taxes are assessed and collected by a single authority and therefore the Swedish procedure in which the enforced collection of taxes assessed by one authority is the responsibility of another might appear to be anomalous.

On the other hand, from the point of view of the debtor and in ensuring general legal impartiality, it is advantageous if payment enforcement activities are the responsibility of a single expert organisation. In other countries with different executive authorities for enforcing different kinds of judgements, it can happen that different authorities lay claim to the assets of a debtor. A result of this can be that the relevant rules are not always observed and an excessive proportion of, for example, the debtor's salary may be appropriated. A consolidation of debt collection would mean that the contacts necessary with indebted citizens would be fewer, which would result in improved service, greater efficiency, and a higher degree of judicial impartiality. Such a debt collection solution could also favour international cooperation between taxation authorities.

A single authority solution however, would accentuate the existing problem associated with the dual role of RSV in being responsible for both assessment and collection of taxes. Being both the representative of the community as creditor and the organ for collecting the private debts involved means that RSV can be questioned as being partial. This disqualification would be extended if both tax assessment and enforced tax collection were to form an organisation together with the present RSV. There are different possible solutions to this problem. One would be to retain the present RSV and establish two subsidiary organisations, one for assessment and one for the enforced collection of taxes. Another would be to amalgamate the present RSV and the Regional Taxation Administration (SKM) (including its role as creditor) as one authority and separate the enforcement function as in Finland.

IT-System

We propose that RSV build up a network organisation which will promote close co-operation with citizens, businesses, companies, other Swedish authorities and foreign organs. For this co-operation to be secure and effective, a completely new infrastructure which supports interactive communication within the entire network will be required. This can only be achieved with an Internet-based solution.

It will not be easy to build this simply on the basis of our existing system and a completely new IT system must be constructed in its place. A system based on the existing would be a very complicated and unstable solution incorporating technology compatible with both the existing technology and system and at the same time Internet-adapted and compatible with systems in other parts of the network. Quite simply, it would not be an acceptable solution.

In developing a new system, it must be decided to what degree the system is to be innovative, the result of the experience of others or developed in collaboration with others. We believe

that a combination of these is required. We can not just await the results of the work of others but must also have a short-range policy and permit systems to merge in the long term.

Statskontoret, The Swedish National Office for Administrative Rationalisation and Economy, has recently released a report dealing with the "24-hour authority" in which they show how Sweden, in four steps, could build up a digital administration:

1. Introduce the department administrations into the net.
2. Provide the citizens with information.
3. Develop interactive solutions.
4. Connect all the department administrations in a common system.

Such an IT solution would permit very flexible working arrangements. The work could be shared in different ways by individuals in different locations, in project groups, with information and data transferred instantaneously from computer to computer.

It is not certain that we can build up this system within the framework of our present organisation. RSV should determine if the personnel who have been working with the present IT system for 10-15 years are capable of introducing a new system or if the system development should be outsourced to others, professionals constantly keeping abreast of all the changes within the field of information technology.

Proposed strategies

As this report shows, there is considerable agreement among researchers and other experts that we are in a process of change which presents both opportunities and threats. The picture appearing is complicated and the factors which can be considered to be influencing developments are many. It is possible, however, to distinguish two main factors which can be considered to be forcing changes, technological developments and globalisation. Both present unforeseeable opportunities with positive results and evident risks with negative consequences.

As, hopefully, we have demonstrated, it is possible, to a degree, to identify threats and possibilities. It is however much more difficult to quantify the possibilities and to specify the effects of the dangers which may appear and to forecast the time of their appearance. Nor is it easy to predict when events will have important consequences for, in the first place, the community and secondly, for our activities as an authority. This naturally makes it difficult for us to give unequivocal recommendations which also predict when the changes will occur and when countermeasures must be introduced. In such a situation it becomes particularly important to recognise which risks follow the development without neglecting the possibilities. As we have previously pointed out, an apparently threatening scenario can include new possibilities, this further complicating the issue for those given the responsibility of making recommendations.

Technological developments introduce series of *possibilities*. In the context of our activity, they should lead to a radical effectivisation of the handling of large volumes of data and information. This would involve the construction of interactive systems for the submission of data, for information and service. The technology now available enables the authority to cooperate with other government departments and authorities both within and outside the

country via networks. Such cooperation need not only be in the exchange of information but also in planning and in purely operative cooperation in concrete cases. Technological development can have an entirely new influence in operative activities, in, for example the use of certification of company accounting by means of "smart cards" which would guarantee a correct assessment of taxation. Technological developments are not without *threats*. One such is the possible digitalisation of company accounting which can, in principle, be stored anywhere on earth and unaccessible to taxation authorities. Another is the increased difficulty in following and then checking financial and business transactions via the Internet. This is due to the enormous volume of information relating to transactions transferred and the limited time the information is stored at different Internet operators. There is in addition the variety of techniques used and the difficulty different countries have in adapting their legislation to the new conditions. There are also difficulties in obtaining information from other countries. Economic criminals are able to effectivise their activity by utilising the network and other new techniques and taking advantage of the inadequate adaptation of legislation in certain countries.

Globalisation correspondingly also presents *possibilities*. It makes essential an increased cooperation between national states and in turn, between government departments in different countries. An increasing flow of information is a natural consequence. At the same time, extremely serious *threats* are inherent in globalisation. It makes possible a new global capitalism and a financial system which enables the transfer of unlimited amounts over the entire earth at electronic speed. Both capitalism and large volume purchasers force companies into desperate competition where national considerations are of declining significance. Small and large businesses which disperse their activities all over the globe can have their registered office wherever most economically favourable. This is expected to lead to much greater problems than today when attempts are made to allocate the correct proportions of a multinational company's profits to different countries for taxation purposes. Even highly paid private persons employed by such companies can select their permanent residence where they find the most advantageous taxation situation. Parallel with this is a growing risk of increasing tax competition between countries and an erosion of mobile tax bases. The companies operating globally will have greater possibilities of evading controls and collection procedures. The global finance system makes it easier for organised crime to launder money which can then be reinvested in corruption and legal business activities.

In the case of technological developments, many of the possibilities which appear can be made use of within the country, irrespective of initiatives from the different international organisations and supranational groups. Cooperation with other countries can already be expanded within the frame of existing international agreements but to expand this cooperation requires the amendment of these agreements or other international covenants. At the same time, characteristic of the threats is that to combat them effectively, solutions on a supranational or even global level are required. It is this which makes it particularly important to stress the threats developing. This type of cooperation has to date been very limited.

Against this background, it is of very great importance that RSV continuously follows developments and successively adapts its activities in accordance with changing situations. In the following, we present the strategies which in our considered opinion should be discussed as starting points for this adaptation work.

Electronic self-service and personal service

RSV should engage in an energetic expansion of electronic self-service for the volume handling of taxation matters. The goal should be that all communication with citizens and companies should be electronic and integrated for all public service activity no later than the year 2010. The larger part of RSV's activities should be adapted to electronic communication long before that, to a large degree, within five years.

As a complement to this, it is important to further develop systems for personal service in step with evident needs. This will require flexibility and a variety of solutions to adapt the services provided to the demands of citizens and companies.

Internationalisation

To cope with future developments, our administrative activities must "globalise", i.e. make the entire world its field of action and move with companies and citizens out into the net in the form of a network organisation. RSV must therefore, during the coming years, change the focus of its activities. A larger part of its resources than today must be applied in the international field and cooperation with authorities in other countries. RSV must also increase its engagement in different international organisations.

IT-system

We propose that RSV build an entirely new Internet-based IT-system to provide effective IT support for a modern and future-oriented network organisation. The system must be open and permit communication with its environment. It is to be designed to be easily adjusted and supplemented. The development work should be performed in cooperation with other authorities in Sweden and abroad. The possibility of outsourcing the work of system development should be considered.

Control and enforced collection

RSV should allocate priority to the control of mobile tax bases and economic crime and different kinds of aggressive tax evasion planning. The operative cooperation with the taxation authorities of other countries must be expanded. It is also necessary that RSV is engaged effectively in the development work in progress in the areas of Internet tracing and different forms of risk analysis under the direction of different international organs such as OECD and EU. Within the EU, this work is related to both taxation and the civil justice area and primarily, enforcement of payment.

It is recommended that RSV should to a greater degree, cooperate with other crime combating authorities and the institutions of commercial life in, as far as possible, creating systems and supporting actions to prevent criminal activity.

Parallel with this, RSV should replace a proportion of its control activity of today with different preventive activities. As part of these it is important to follow technological developments and systems which can be used to create increased guarantees for correct declarations of income from serious enterprises.

In addition to this, it is important that RSV should be actively engaged in Sweden in minimising as far as possible, the effects of the present difficulty of taxing and controlling certain non-mobile domestic types of business activity.

Compliance

RSV has developed a vision for its activities "A society in which all wish to share the burden" This can be said to be an expression of our awareness that mass compliance and voluntary participation are required for our activity to function. This can be undermined as tax bases are eroded. This development is naturally dependent on whether and how the legislators succeed in adapting the rules to the new reality. In a number of investigations, the citizens have indicated that their compliance is dependent on all bearing their share of the burden. RSV must therefore follow, with exceptional vigilance, changes in the attitudes of the citizens and companies. Tendencies in a negative direction must be immediately reported to the government so that the effects can be limited as far as possible.

Citizen orientation

RSV must progressively follow the effects of the different aspects of globalisation on the citizen's perspective. It is important that our activities are adapted to changes in the relation between state and citizen. This is of significance for the content of the civil servant's role and for the ethics which are to govern our relations with citizens and companies. That which the citizens and companies can justly expect of the authority is to be progressively discussed on the basis of these changes.

Our future staff

RSV must in good time plan for the future with respect to the greater competence required of both new and present staff. The present salary structure must also be reconsidered. It is important that qualities required of managers must be reviewed in view of the new situation and the influx of highly qualified staff.

Management

In a dialog with the Finance Department, RSV should work to obtain a balance between management by legal rules and other management forms. At the same time, methods must be developed to measure the effects of its administration in relation to the total situation and the community as such. This means that the relation between the rules adopted and the resources required by the authority to implement them effectively in its activities must be kept under constant review. This will have in turn, effects on the manner in which RSV is to manage its internal organisation in the future environment

Organisation

It is recommended that RSV abandons the present regional and local distribution of its administration. Technological developments, globalisation and the need for a network organisation require the establishment of a single authority administration.

Additionally, RSV should transfer its role as a creditor with respect to taxes claimed, from the enforcement agency to the tax administration. The enforcement of payment should, on the grounds of judicial impartiality and to protect the interests of debtors, remain the duty of an expert organisation corresponding to the present County Enforcement Agency.

A single authority solution however, would accentuate the existing problem associated with the dual role of RSV in being responsible for both assessment and enforced collection of taxes. Being both the representative of the community as creditor and the organ for collecting individual debts means that RSV can be questioned as being partial. This disqualification would be extended if both tax assessment and enforced tax collection were to form an organisation together with the present RSV. There are different possible solutions to this problem. One would be to retain the present RSV and establish two subsidiary organisations, one for assessment and one for enforced collection of taxes. Another would be to amalgamate the present RSV and SKM (including its role as creditor) as one authority and separate the enforcement function from this as in Finland. We consider the latter alternative preferable.