To: FACTI Panel Secretariat

From: Daniel Mitchell, on behalf of the Convention of Independent Financial Advisors, a Swiss-based NGO with General Consultative Status

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Dear FACTI Members and Participants,

Thank you for the opportunity to participate.

We suggest that the Secretariat and various participants use the following three principles to help guide their analysis and recommendations.

1. **Taxes and the economy**. The ideal fiscal environment is one that has a vibrant and productive economy that generates sufficient revenue with modest tax rates that do not needlessly penalize productive behavior. Public finance experts generally agree on the following features of a tax system that produces robust amounts of taxable activity.
    a. **Low marginal tax rates**. A tax operates by increasing the "price" of whatever is being taxed. This is most obvious in the case of some excise taxes – such as levies on tobacco – where governments explicitly seek to discourage certain behaviors. People will have differing opinions, of course, about the degree to which governments should try to discourage certain products, but there should be a general consensus in favor of keeping tax rates reasonable on the behaviors – work, saving, investment, risk-taking, and entrepreneurship – that make an economy more prosperous.
    b. **A "consumption-base."** Because of capital gains taxes, death taxes, wealth taxes, and double taxation of interest and dividends, many nations impose a disproportionately harsh tax burden on income that is saved and invested. This creates a bias against capital formation, which is problematical since every economic theory – including various forms of socialism – share the view that saving and investment are necessary for rising wages and higher living standards.
    c. **Neutrality.** Special preferences in a tax system distort the relative "prices" of how income is earned or how income is spent. Such special tax breaks encourage taxpayers to make economically inefficient choices simply to lower their tax liabilities. Moreover, loopholes, credits, deductions, exemptions, holidays, exclusions, and other preferences reduce tax receipts, thus creating pressure for higher marginal tax rates, which magnifies the adverse economic impact.
    d. **Territoriality.** This is the simple notion that governments should not tax activity outside their borders. If income is earned in Brazil, for instance, the Brazilian government should have the authority over how that income is taxed. The same should be true for all other nations.
2. **Tax cooperation and dispute settlement** – A very important consequence of a growth-oriented tax system is that there is less reason for there to be conflicts between governments with territorial taxation. Brazil taxes economic activity in Brazil and Germany taxes economic activity in Germany. There would be some issues requiring varying degrees of cooperation, to be sure, most notably transfer pricing rules for cross-border businesses. Governments also might find it

advantageous to adopt agreements providing de minimis rules and other provisions that further simply the administration of tax regimes.

3. **The role of cost-benefit analysis**. When considering tax policy and financial regulation, policy makers should weigh both costs and benefits. Some tax laws impose disproportionately heavy economic costs compared to projected tax collections. Indeed, organizations such as the International Monetary Fund have found that some provisions may even reduce revenue because of adverse economic effects. The same is true for some financial regulations. Know-your-customer rules and anti-money laundering regulations impose billions of dollars in compliance costs, yet there is little evidence that they have a significant impact on underlying crime rates. Moreover, there is data showing that such policies contribute to the rise of "unbanked" individuals, particularly from low-income communities.

Thank you, again, for the opportunity to share these principles of good fiscal and regulatory policy.