

Real effects of anti-abuse measures in the area of direct taxation – within the EU and in relation to third countries

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Abstract

This paper addresses the use of anti-abuse measures in terms of limiting deductibility of interest payments in the corporate sector. The difference in tax treatment of debt and equity financing, with double taxation of equity financed investments and single taxation of debt financed investments, has encouraged corporate entities to increase their leverage. A number of governments have responded by introducing various measures, like thin capitalisation rules and income earning stripping measures. These measures have however not only affected highly leveraged companies but have also often increased the cost of investments for companies with ordinary financing structures. Governments have often presented these measures as means of protecting the revenue base. It can however be questioned if these measures often do not reduce revenues rather than protect revenues. The European Commission has issued a Communication on how countries may introduce anti-abuse rules without being in conflict with EC law. From these it is clear, that anti-abuse rules can only be targeted on wholly artificial arrangements. Even though some governments have challenged this, it may be in their own interest to implement anti-abuse rules in a very restrictive way in order not to jeopardize their tax revenues.

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Introduction

What should legislators do if companies or individual taxpayers incur purely artificial expenses to reduce tax? This is not a new question, but in recent years, parliaments in various countries have taken entirely different approaches. When individual taxpayers in the Netherlands used the “interest box” combined with the full deduction allowable on debt interest (up to a ceiling) to offset the marginal tax rate on earned income, the Dutch parliament lowered the tax on earned income. Many countries have elected to reduce incentives to make artificial interest deductions by sharply cutting corporate tax rates. Other countries have chosen to try regulating the markets by implementing more or less arbitrary rules on when interest payments may or may not be deducted.

Most pundits agree that purely artificial arrangements should be impeded or even prevented through legislation. The focus has often been on transactions with companies domiciled in tax havens where the tax rate on interest received is low or non-existent. However, the tax revenue loss in the individual state is the same if debt interest is deducted and taxation occurs in a country where the tax rate is comparable or even higher. When selective measures are implemented, the baby is at great risk of being thrown out with the bath water. In this respect, the matter of limitations on interest deductibility resembles the issue of drafting and applying transfer pricing rules or CFC rules. The risk is that lofty ambitions to preserve the national tax base will result in lower rather than higher tax revenues, as intended.

As far as I know, few assessments and little analysis have been done of the magnitude of tax avoidance by means of interest deductions through purely artificial arrangements and of the effects tax avoidance legislation may have on the national tax base. The absence of limitations on the deductibility of interest may be an inherent incentive that attracts foreign direct investments and thus increases the tax base. There is evident risk that the wrong measures may lead to a country losing more on the swings than it gains on the roundabouts, even though a complete lack of legislation may seem abhorrent.

The aim of this paper is to shed light on a few of the difficult deliberations that must be made to assess the extent to which limitations and regulations can be introduced to uphold the legitimacy of the tax system without jeopardising the tax base in the process. The case of Sweden is used as an example. Sweden abandoned after many decades the unlimited deduction of interest payments in the corporate sector. The change came about in a peculiar way and it deserves to be examined. The conclusions are however not country specific but general in nature.

Background

The principle of full deductibility for interest expenses has been guarded in Sweden consistently for the century modern income tax has applied. As far as possible, various types of debt have been treated the same way, and the principle of taxing the net income has governed the taxation of both individuals and companies. However, a strategic decision was

taken, departing from earlier principles, through a vote in the Riksdag on 10 December 2008 (thus passing Government Bill 2008/09:65 on the introduction of provisions to limit corporate interest deductions related to intercompany loans to acquire equity instruments from an associated enterprise). The new provisions have been inserted into Ch 24 secs.10 a – 10 e of the Swedish Income Tax Act (“ITA”). They took effect on 1 January 2009 and apply to interest expenses that accrue after 31 December 2008 (Swedish Statute 2008:1343).¹

The stated reason for the decision to depart from earlier principles was that in the course of performing business tax audits, the Swedish Tax Agency had identified certain transactions among associated enterprises which it judged as having been carried out exclusively or virtually exclusively to obtain interest deductions for Swedish tax purposes. A court decision was understood as implying that the deductions could not be denied based on the Tax Avoidance Act. The strong reaction from the Tax Agency came about in part due to the Supreme Administrative Court’s ruling of 6 November 2007 in *AB Industrivärden*.² In an earlier case (RÅ 2001 ref. 79) the Supreme Administrative Court had considered whether the Tax Avoidance Act as amended up to 1 January 1998 could be applied to a municipality that had transferred all shares in a number of operating subsidiaries to another subsidiary against a promissory note. The subsidiary paid interest on the promissory note to the municipality that was tax exempt on interest, and financed these interest payments with group contributions from its own subsidiaries. The Supreme Administrative Court found that the Tax Avoidance Act was not applicable to these practices. The Court now found that the circumstances in *AB Industrivärden* essentially coincided with those in RÅ 2001 ref. 79, and thus should be judged the same way as in the earlier case.

Based on this ruling, the Tax Agency’s head analyst stated in an interview with the Swedish News Agency that the corporate income tax was for all practical purposes a voluntary levy and that the state coffers could lose SEK 60 billion of the approximately 100 billion generated by the corporate income tax. “In the Tax Agency’s view, intragroup transactions have no commercial basis. They do not constitute purchases to expand or deepen the business; they are transacted solely to avoid tax.”³ In a televised interview on Christmas Eve 2007, the head analyst expanded on the Agency’s thinking and pointed out that large companies with more than 100 employees could dribble away tax revenues of SEK 60 to 65 billion.

In this context, the Tax Agency also decided to withdraw a large number of cases from the courts and matters under review. Instead, the Agency asked the Government to change the law. Over the course of 2008, the Tax Agency successively revised the purported tax losses downwards to a few billion. The political process had begun and the legislative process continued after a record-short consultative period during the summer, which was followed by extensive revisions to the draft bill produced by the Tax Agency. If the draft circulated for comment by the Ministry of Finance had not been changed, it would have driven corporate internal financing activities out of the country and Swedish companies would have sustained a significant competitive blow. However, the proposal was still considered far too detrimental to the economy and tax revenues. A comprehensive escape clause was inserted in response,

¹ For a description of the new limitations on interest deductibility, see Richard Hellenius, SvSkT 2/2009, pp. 161-178.

² Supreme Administrative Court ruling in case RÅ 2007 ref. 85.

³ From the article “*Statskassan kan förlora 60 miljarder*” [“*State coffers could lose 60 billion*”] DN.se, 24 December, 9:06 p.m. It may seem remarkable that a ruling in a case involving an investment firm garnered so much attention, since tax avoidance in investment firms presupposes a net interest loss, while investment firms tend to show a net interest income virtually every year. The analyses of the investment firms’ tax situation, by the Tax Agency and later the Ministry of Finance, seem to have been substandard.

which solved the worst of the problems. The concrete legislative drafting process began after a consultative period of only one week for the revised proposal. However, the scope of the final proposal was also much broader and not confined to purely artificial arrangements. Ordinary business operations were severely affected, despite the Government's assurances that this would not occur. Among the adjustments made, restricting rules were inserted in favour of long-term shareholders in investment firms and economic associations. As said, the law was enacted on the 10th of December, Nobel Prize day.

Preserving the tax base

Since tax revenues are used to pay for public expenditures resolved by the Riksdag, it is imperative to make sure that there is a tax base allowing revenues to flow into state coffers. Taxes naturally affect the targeted activity – taxes are frequently used to reduce the prevalence of harmful activities, such as smoking and emission of pollutants. Taxes are also used to encourage certain behaviour or simply to bring in a needed amount to the public purse. The design of the tax system is largely determined on the base of observations of how these activities, and thus the tax base, are affected by the taxation.

There is broad consensus in Sweden and abroad that purely artificial arrangements whose sole purpose is to avoid tax should be impeded or preferably wholly prevented. EC law provides opportunities to intervene against such schemes and phenomena. A communication from the EU Commission clearly states the Commission's view on how tax avoidance rules must be designed in order to harmonise with EC law.⁴ The Commission states, *inter alia*, that to be legal, national tax rules must be proportional and intended to prevent purely artificial arrangements. The Commission also points out that the objective of minimising the tax burden is in itself a valid commercial consideration as long as the arrangements entered into with a view to achieving it do not amount to artificial transfers of profits. Insofar as a taxpayer has not entered into abusive practices, Member States cannot impede his exercise of the rights of freedom of movement simply because of lower levels of taxation in another Member State's tax systems. This is the case even in respect of special favourable regimes in that other Member State.

CFC rules and thin capitalisation rules are two types of legislation whose stated objective usually is that of preventing tax avoidance. Here, the Commission points out that short of abolishing CFC rules altogether or refraining from applying them within the EU/EEA, it is necessary to ensure that the CFC rules are targeted at wholly artificial arrangements only. With regard to thin cap rules, the Commission says that measures to prevent thin capitalisation are not per se impermissible, but their application must be confined to purely artificial arrangements.

From a legal standpoint, it seems clearly established that tax avoidance rules can and may be applied in the EU to protect the tax base against purely artificial arrangements and transactions. However, whether this is desirable from a national perspective, and whether such measures have resulted in maintained, increased or even decreased tax revenues is another matter.

⁴ COM(2007) 785.

Effects of tax avoidance rules on tax revenues

It is important that the tax system do not encourage transactions that are purely artificial and jeopardise the tax base and thus the tax revenues, but it is difficult to delimit the coverage of tax avoidance laws so that they affect only purely artificial arrangements. An international comparison of corporate tax revenues as a percentage of the economy provides no support for the notion that tax revenues from the corporate income tax is higher in countries that have enacted various forms of tax avoidance legislation (see Figure 1). On the contrary, tax revenues in the countries that have extensive, or even very extensive, tax avoidance laws aimed at preventing purely artificial interest deductions are lower as a percentage of the economy than in other countries that have no such laws.

Figure 1:

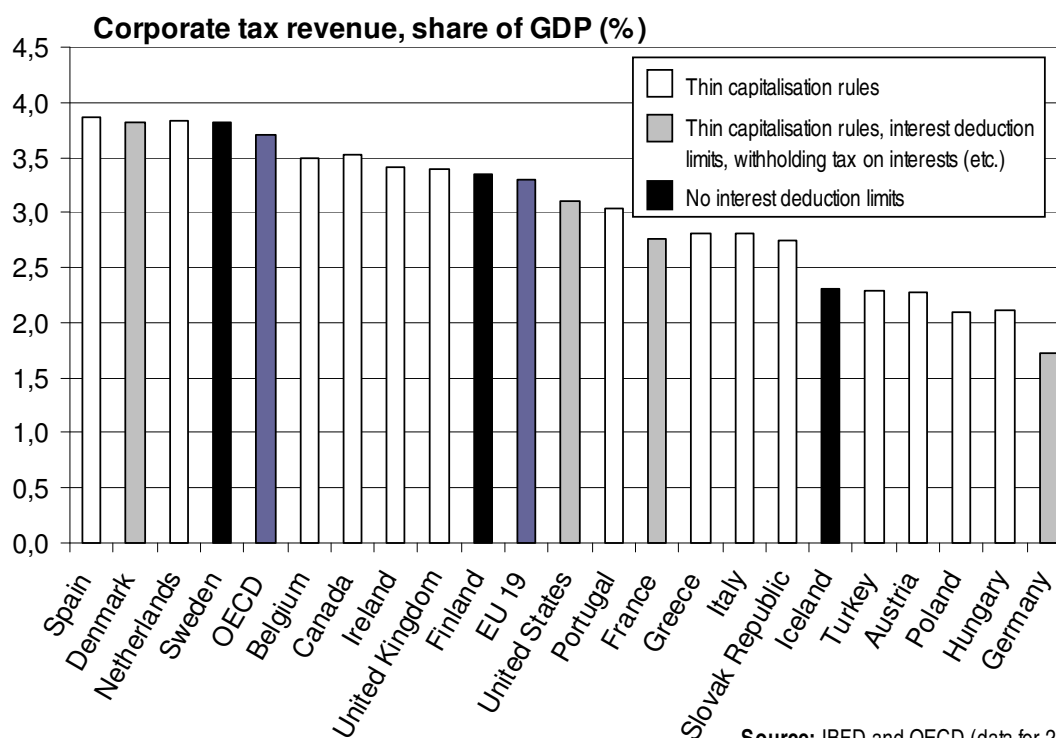
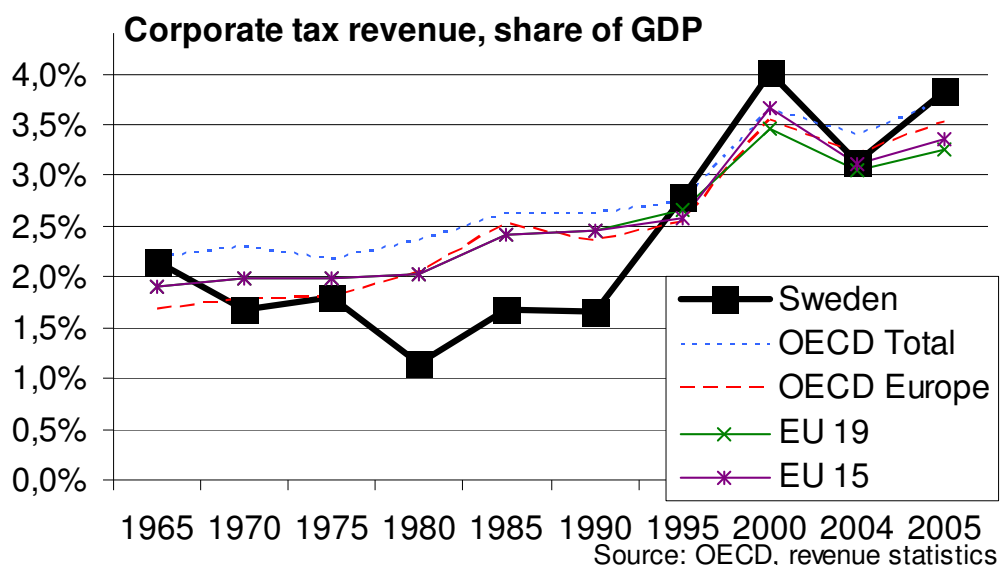


Figure 1 shows that Denmark, a country with extensive rules to prevent artificial interest deductions and artificially high indebtedness, has high corporate tax revenues, but the figures refer to 2005, when the more restrictive Danish rules had yet to be implemented. A country like Germany has comprehensive tax avoidance rules, but low corporate tax revenues. It seems as if the level of the corporate tax rate and extensive tax avoidance laws should covary. Limitations on the deductibility of interest are implemented more often in countries with high corporate tax rates, but their tax revenues remain low.

Despite its erstwhile very high corporate tax rate, Sweden has never before imposed limitations on the deductibility of debt interest. The corporate tax rate was reduced when the tax system was reformed in 1990-91, which was followed by a steep rise in corporate tax revenues, still with no limitations on interest deductibility (see Figure 2).

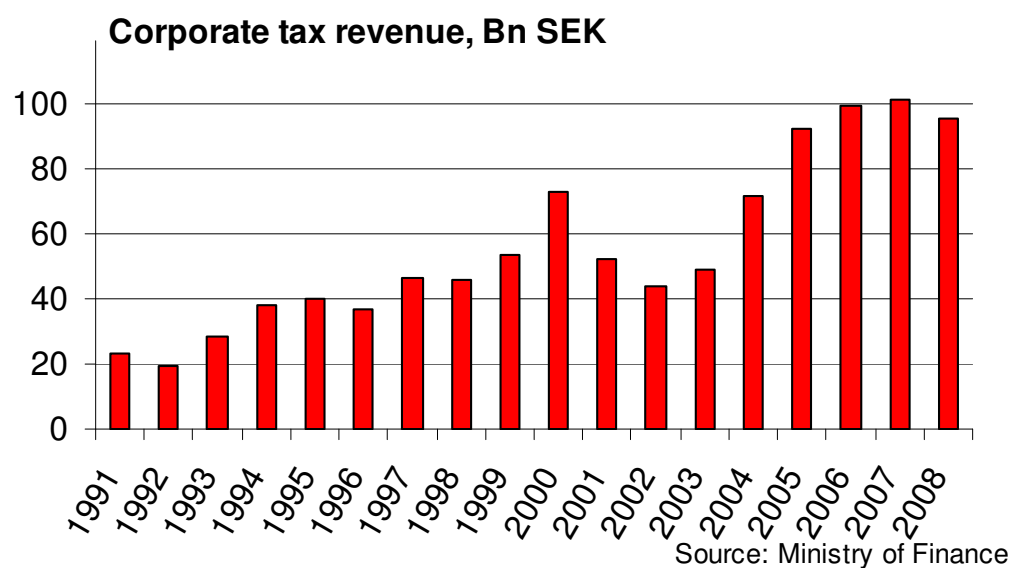
Figure 2:



Corporate tax revenues are high in Sweden compared to many other countries, but they are sensitive to economic trends. No trend-related downturn due to the purported large number of cases involving artificial interest deductions can be seen in the statistics (see Figure 3). However, corporate tax revenues are expected to decline dramatically in the next few years due to the recession and the losses incurred.

Although it could not be proven that tax revenues had been undermined, the Tax Agency argued that this would occur after the Supreme Administrative Court's ruling in the above-mentioned *Industrivärden* case on 6 November 2007. However, for the decline in tax revenues to reach SEK 60 billion, companies would have to raise new loans to such a magnitude that the debt would exceed the value of the total capital stock of private enterprise (the value of all property, plant, and equipment). However, even less dramatic borrowing could entail a decline in tax revenues. The question is whether there were any indications of an increase in borrowing.

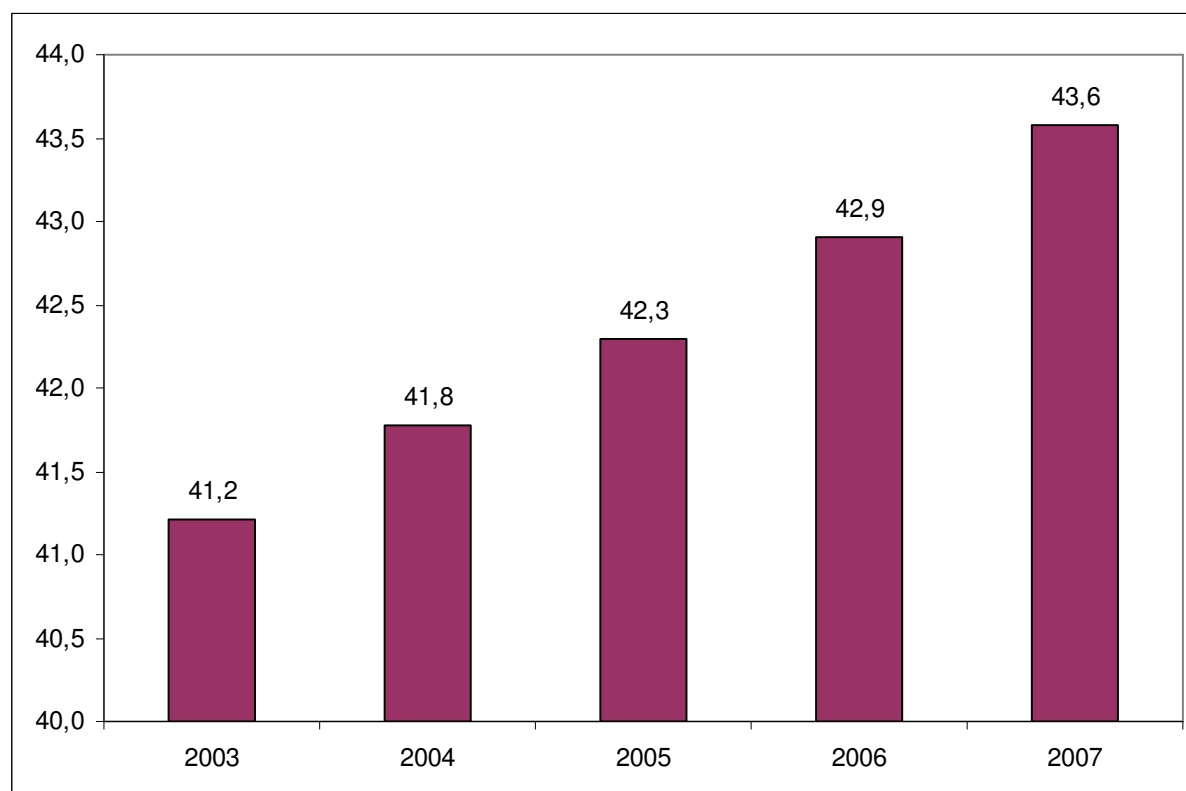
Figure 3:



In fact, consolidation and solvency have very tangibly increased in the private sector since the tax reform of 1990-91. This can only make sense because the difference in the cost of equity capital and loan-financed capital narrows when the value of interest deductions declines due to reductions in the corporate tax rate. Compared with other countries, there is still an incentive to high indebtedness in the private sector, above all, through the double taxation of distributed profits at a high rate in international comparison. In particular, the high capital gains tax on shares in Sweden (with no phasing-out rule) sets us apart from the rest of the world. However, the lowering of the corporate tax rate has had a decisive impact on corporate debt, which has declined. In addition, the double taxation burden was lightened for a few years in the early 1990s when the capital gains tax was cut by half, but it was increased again when the Social Democratic government took office in 1994. However, restrictions on the deductibility of corporate interest expenses were never discussed in this context. On the contrary, the deductibility of interest expenses was regarded as a logical and competitive means to stimulate higher investments in Sweden.

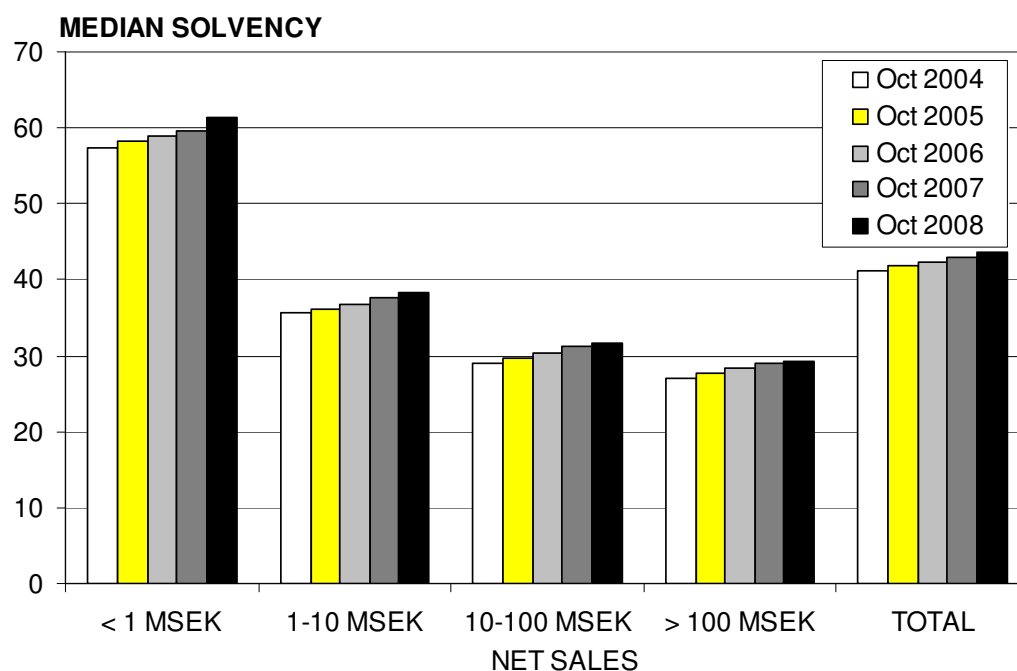
Figure 4 shows the median solvency in Swedish limited liability companies during the period of 2003-2007. As shown on the chart, solvency has increased every year. When companies are categorised by size, there are substantial differences in solvency between large and small companies. The smallest companies in particular are distinguished by high solvency (see Figure 5).

Figure 4: Median solvency in Swedish limited liability companies



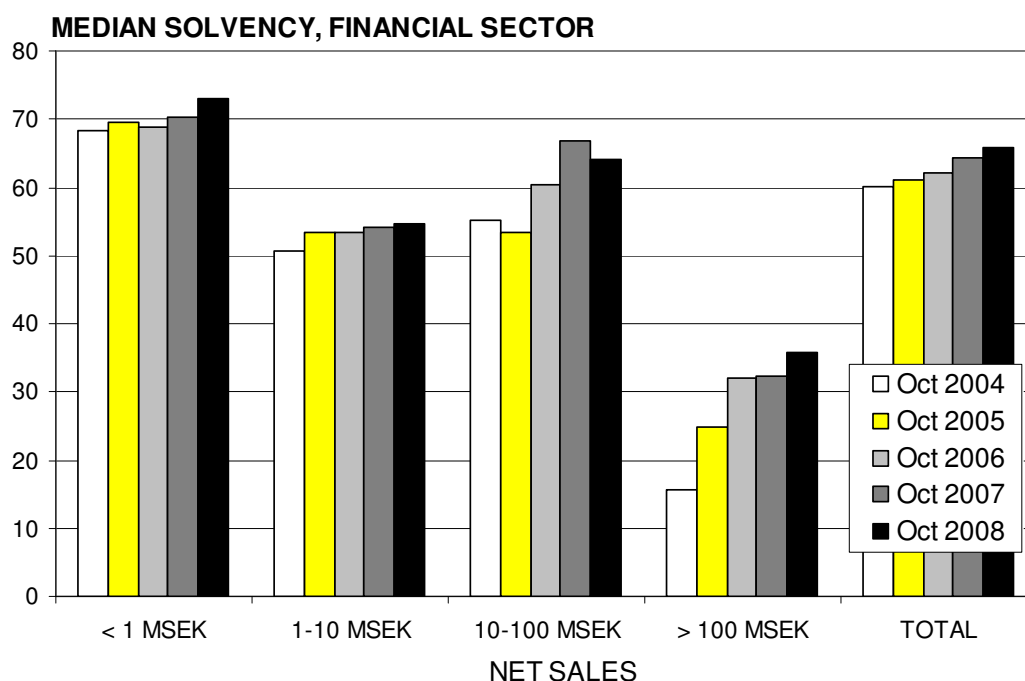
Source: UC (2008).

Figure 5: Median solvency in Swedish limited liability companies 2004-2008, ranked in order of net sales (MSEK)



Solvency also varies by sector. In international contexts, the financial sector is the one most often associated with artificial interest deductions, but solvency has also increased in this sector over the last five years (see Figure 6).

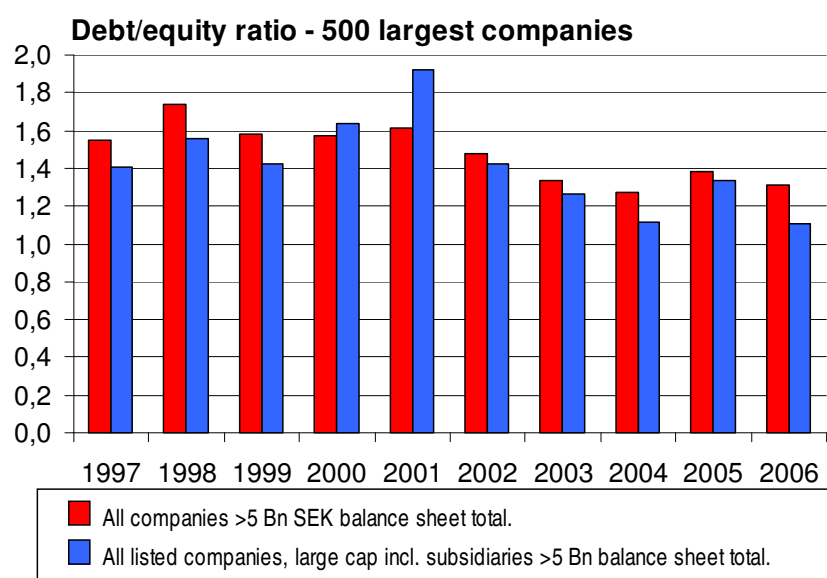
Figure 6. Median solvency in limited liability companies in the financial sector 2004-2008



Signs of higher indebtedness are nowhere to be found. However, studying aggregate data does not suffice to illustrate the threat posed by artificial interest deductions. Indebtedness could occur in a corporate group by using only a few companies to reduce the tax base.

Accordingly, a study of a large number of companies that are part of the same corporate group is required. However, it would take artificial interest deductions amounting to tens of millions of Swedish kronor to erode the tax base. The capacity to undertake such transactions is confined to relatively large companies. For small companies, the transaction costs would be so high that the tax reduction would not even cover the consultant fees. A study of debt/equity ratios in the 500 largest companies should cover the group of companies that have sufficient capacity to carry out transactions of a magnitude that could affect the corporate tax outcome in central government finances. But solvency has increased and the debt/equity ratio has decreased among this group of companies as well (see Figure 7).

Figure 7:



Source: Statistics Sweden.

Thus, by all of these measures, the Swedish tax base has not been exposed to any undermining. Although it seems unlikely, this naturally does not mean that companies will not act differently in future years. But considering the difficulties of borrowing at all during the prevailing financial crisis, it does not seem probable in the least. The problem the Tax Agency is determined to fight at any cost seems to have been extremely limited, which should have led to a cautious response from lawmakers.

The art of maximising tax revenues – the swings and the roundabouts

In order to judge how lawmakers intent on promoting the Swedish tax base and preserving high tax revenues should behave, it is useful to evaluate the consequences on central government finances of taking action against artificial interest deductions versus doing nothing. Earlier Social Democratic governments have not acted, even though the corporate tax rate was much higher then, and thus the risks of tax avoidance greater. Can there be rational reasons why no measures were taken?

As I suggested at the outset, it is a delicate matter to design taxation in such a way that the tax base is not adversely affected to the extent that tax revenues end up lower than they otherwise could have been.

To assess the risk to the tax base and the tax revenues posed by artificial interest deductions (whether or not they can be attributed to purely artificial arrangements, against which EC law accepts preventive legal measures, if proportionate), the total economic picture must be analysed. To benefit from an interest deduction, a profit must first be created against which the interest expense can later be deducted. In an artificial interest deduction, the first level of double taxation cannot be maintained, but this requires a profit situation to exist. For a profit to arise, an economic activity must take place, which means that the production factors, labour and capital, must be used. Beyond this, the company also uses raw materials and energy to a varying extent. Economists usually describe this in terms of a production function, where labour and capital generate a return on equity. To put it simply, people, equipment, and machinery must be used to produce. At least three different production situations must be considered to assess the consequences of artificial interest deductions and any measures against them.

The first situation is when a Swedish company that has been using labour and capital to produce in Sweden for a long time decides to reduce its taxable profits through an artificial interest deduction. The profit generated, of which a percentage is paid in tax, will now decline or even be completely erased. Tax revenues decline and the national economy is the loser. Production in the company is not affected, however, and the same number of people are employed and continue paying taxes.⁵

In the second situation, things are starting to go so badly for a company that has provided both jobs and tax revenues through operations in Sweden that the owners are no longer earning the return on their capital they require. Assume that a reduction in tax dues can make the return to the owners high enough to meet those requirements and thus the company stays in business, but pays no corporate income tax. While the national economy loses the corporate tax revenues, jobs are provided and capital is employed by keeping the company going. This generates substantial tax revenues in the form of taxes on wages, social security contributions, value added tax, and capital income taxes (to the extent the owners reside in Sweden). The state would lose a great deal more in tax revenues if the company went out of business or moved abroad.

The third situation involves a foreign investor, who is looking for a country in which to localise production but is unwilling to pay corporate income tax. Countries that have no thin cap rules or limitations on interest deductibility will then appear to be attractive options. When the investor produces in such a country, he pays for labour, which generates tax revenues, but he pays no corporate income tax because a purely artificial arrangement is used to transfer taxable profits to a country where the tax is low or non-existent. The national economy actually does not lose even the corporate tax revenues because the country that did not permit artificial arrangements would never be considered for the localisation of production. However, a tax base is created because the labour can be taxed and the tax on labour is much greater than the tax on a potential profit.

⁵ Production could possibly increase in the company through the increase in competitiveness for the individual company that uses an artificial interest deduction. In that case, the effect on tax revenues becomes even more difficult to penetrate because labour and capital are reallocated by extension. Since wages, capital remuneration, and profitability may differ between companies that use artificial interest deductions and those which do not, the tax base is affected. A poorly functioning product market and lack of competition can by extension erode the tax base, especially if the economy is relatively closed.

There is actually a fourth situation that should be considered, which refers to the state of affairs when a company is sold. The situation becomes exceedingly clear if it involves a state-owned company sold to a foreign investor who intends to move the taxable profits out of the country and thus bids higher than all other prospective investors. The state then takes in a higher amount through the sale, an amount that also reflects the acquiring company's intention not to pay corporate tax in the future.⁶ The corporate income tax is thus prepaid, so to speak, and there is actually no rational reason to complain when the company later pays no corporate income tax, which the other prospective buyers would have done – but in return, they would have paid a lower price. However, this will not stop such a debate from ensuing when the acquired company no longer pays corporate income tax. Not least in the United States, comparisons of what companies paid in tax before and after a buyout have triggered widespread political reactions, with demands that companies taken over should pay at least as much tax as they did before.

The situations outlined above need to be assessed and quantified to judge the effects on central government finances of limiting interest deductibility. Comparative examination of the tax bases provides answers to these questions. In 2007, the corporate income tax yielded about SEK 100 billion. According to the figures reported by the Tax Agency and eventually by the Ministry of Finance, purely artificial interest deductions add up to SEK 7 billion and thus reduced corporate tax revenues from SEK 107 to 100 billion. Total tax revenues are estimated at SEK 1,513 billion (2008). Of these revenues, SEK 910 billion come from tax on labour while SEK 174 billion come from tax on capital income. Consumption taxes generate another SEK 431 billion.

As said, to benefit from an artificial interest deduction a company has to have a profit so that a deduction can be granted. If we assume that production is achieved by using labour and capital in fixed proportions (a common assumption in the economic literature, i.e., a Cobb-Douglas production function), we can estimate how much labour must be used to generate the profit that is subsequently diminished through artificial interest deductions.⁷ It is important to note that labour is taxed more heavily than capital. If 6.5% (7/107) of the corporate income tax is lost through interest deductions, a profit of SEK 7 billion must be created, which requires a great deal of labour. Through the use of this labour to generate profit, the state takes in SEK 59 billion (6.5% of the tax revenues on labour). In addition, the state takes in SEK 28 billion in VAT, which can also be regarded as a tax on labour.

Certainly, the state loses SEK 7 billion in corporate income tax, but on the other hand, the production that creates a profit of SEK 7 billion generates a full SEK 59 billion in revenues from tax on labour, as well as another SEK 28 billion in consumption taxes. The tax on labour alone thus gives the state SEK 52 billion more in tax revenues than it would have had if the production did not occur and thus no profit would ever have been made that could subsequently be “conjured” away.

⁶ The eliminated corporate tax payments are capitalised in the purchase price, which represents the value of the company. This effect also arises when privately owned companies are sold. The higher purchase price leads to an increased capital gain for the seller of the privately owned company. To determine the effects on state tax revenues, the capital gains tax that the seller pays must be compared to the eliminated corporate tax. When the capital gains tax is high (as in Sweden) a tax revenue loss need not arise. In addition, the tax is paid earlier than the tax that would be paid on any future profits.

⁷ Customary assumptions that the production function is linearly homogeneous and that artificial interest deductions do not affect the relative factor prices are assumed to have been met.

A loss of 7 should thus be weighed against a profit of 52. The very best outcome for the state would occur if the state could prevent companies in the first category from venturing into artificial interest deductions. However, it is impossible to design tax law in such a precise fashion. The other company categories will inevitably be affected, and the outcome of the measures would impact central government finances in the wrong direction. If only one out of eight companies were in either the second or third category, it would be enough for laws limiting interest deductions to result in *lower* tax revenues. If consumption taxes are included, the ratio becomes one out of eleven. A rule of thumb could be that if one company out of ten that use artificial interest deductions chooses to move production abroad, shut down operations, or not locate the business in Sweden because limitations on interest deductibility are introduced, the state will lose tax revenues by restricting the deductibility of debt interest. In other words, the state loses more on the swings than it gains on the roundabouts.

Earlier governments, both Social Democratic and non-socialist, have concluded that limitations on corporate interest deductions should not be implemented. They have judged that the tax base is best preserved if production is located in Sweden. As a result of the relatively high taxes on labour and consumption, even a marginally adverse impact on production and employment is so detrimental that it risks a negative outcome for tax revenues. Unfortunately, after the initial alarming reports from the Tax Agency, the current government has judged otherwise and has even gone so far as to impose special restrictions on such truly long-term Swedish owners as cooperative associations and investment firms. The preceding Social Democratic government also acted on similar matters, and also upon the Tax Agency's initiative, by implementing tighter CFC rules and taking a more aggressive stance with regard to transfer pricing. It is not unlikely that these rules are also reducing production and thus employment in Sweden, to the detriment of tax revenues. On the other hand, it can be difficult to refrain from acting against purely artificial arrangements and transactions, but there is apparent danger that the economy will suffer, especially in a small, open economy like that in Sweden. To ameliorate the risk that tax revenues will be reduced, legislation must hit the target with great accuracy.

Conclusions

Analysing the possible effects on central government finances of changes in the tax system is no easy task. Individual and corporate actions are affected by the changes, and a purely statistical analysis is an extreme assumption that rarely gives an accurate picture of the actual tax outcome. It is important to uphold and strengthen the legitimacy of the tax system. Accordingly, measures to preserve the tax base must be designed to fit their purpose to prevent the risk that they will lead to the diametrically opposite effect, that is, a decline in total tax revenues. The legal drafting of tax avoidance rules must be very restrictive and proportionate to achieve the purpose of preserving the tax base. Legislation per se also risks legitimising similar practices and instilling greater tax awareness among individuals and companies. It is thus extremely important that tax avoidance legislation be carefully considered and analysed before bills are presented and enacted. Unfortunately, this was not the case in the decision to deny deductions in certain cases for corporate interest expenses.

After the Tax Agency frightened the politicians with the claim that more than half of the corporate tax revenues would vanish, Sweden abandoned its traditional strategy of allowing full deductions for interest expenses. Even though the Tax Agency revised the tax revenue loss due to purely artificial arrangements from SEK 60 billion to 7 billion (or even just a few

billion), the Government still chose to legislate against long-term Swedish owners by implementing provisions that limit corporate opportunities to deduct interest in connection with intercompany loans to acquire equity instruments from an associated enterprise. This was the biggest strategic decision within corporate taxation in many decades and it was carried out with no analysis of the consequences for central government finances and the impact on Swedish competitiveness in a globalised world.

Very few companies use artificial arrangements to obtain interest deductions in the form of artificial interest deductions, and there is no statistical support whatsoever for claims that artificial interest deductions have undermined the tax base or have increased in scope. On the contrary, the statistics show sharply increased solvency in the private sector. With respect to analysing the consequences for tax revenues, there is no clear-cut answer, but the preceding simple analysis shows that a rule of thumb could be that the state loses tax revenues by restricting the right to deduct debt interest if only one out of ten companies that use artificial interest deductions chooses to move production abroad, shut down the business, or refrain from establishing operations in Sweden in response to limitations on interest deductibility. In other words, the state loses more on the swings than it gains on the roundabouts. That does not mean that legislation against purely artificial arrangements cannot be justified, but it does stress the need for precise legal drafting.

It is of course regrettable that no strategic analysis and discussion was initiated in a matter of such great national importance. It is to be hoped that future bills will be more thoroughly supported and analysed before they are presented.

In general, governments should be cautious about the effect on other tax bases when anti-abuse rules are contemplated. There is an obvious risk that so called revenue protecting measures are nothing else but an attempt to re-regulate investment and financial markets, with adverse effects on overall tax revenues. However, governments will have to react to wholly artificial arrangements in order to protect not only the revenue base but also the legitimacy of the tax system.

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