



Editorial

Tax inspection in a society in transition

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Editorial

Tax inspection in a society in transition

Tax inspection along with its *raison d'être*, tax avoidance, has become increasingly important amidst the challenging public context currently faced by numerous States. At a time when the sustainability of public finances as well as the need to make our economy competitive are key concerns.

We are all aware of the importance of tax inspection. It is a system that is absolutely necessary for States but that is nevertheless a paradox with potential grey areas leading to all sorts of adverse effects. It is through inspections that the most sensitive and controversial issues of taxation arise, particularly those dealing with relations between the administration and taxpayers.

Its positive aspects are undeniable. Inspections are necessary as regards the sustainability of public finances previously mentioned as well as the proper mobilisation of tax resources. It is also necessary for reasons related to tax justice and tax acceptance. On the one hand, it is not fair that some taxpayers are able to get out of their tax duty by passing over the burden to those taxpayers who pay their taxes honestly. On the other hand, failing to effectively fight against tax evasion undermines the civic attitude towards taxation, in other words tax consent. Tax inspection is therefore one of the source of citizens' trust in their institutions. It therefore upholds democratic tradition, as its effectiveness is one of the conditions of this trust. In other words, tax inspection is certainly a legal matter but like any legal matter, it is rooted in the way we live as a society.

As regards the grey areas, tax inspection may have different adverse impacts depending on the taxpayers concerned. The impact and consequences of an inspection vary depending on the size of the company, i.e. medium, small or very small company compared to a large or very large company. For smaller companies, a “three-part psychodrama”¹ may often arise formed between the taxpayer, their

1. MAURE G., « Tax official » [*L'agent du fisc*], in *Revue Esprit* N° 1-1973.

advisor and the inspector, resulting in a combination of emotions and professionalism. Inspections can be a very difficult time for the head of the company who is likely to take it as a form of aggression and intrusion into their personal life. Whereas the situation is very different for large companies. Inspections are played out between vastly more sophisticated tax and accounting experts which considerably limits subjective reactions. It is not far-fetched however to think that these scenarios may soon become obsolete with the arrival of quasi-impersonal inspections related to the company's transmission of dematerialised documents to the administration which are likely to be automatically processed. In this new context, discussions and relations between taxpayers and inspectors that have until now seemed so important would be reduced to the bare minimum.

While the question of how inspections should be conducted remains an important and recurrent issue that has been of interest in France during the tax revolts in the mid-1950s (Poujade movement) and the 1970s (Nicoud movement) having led to the implementation of measures instituting rights and guarantees for inspected taxpayers, the notion of the tax inspection now finds itself in very different context from several years ago.

It is clear that in today's context of globalisation where tax evasion involves more than simple resistance, the issue of tax inspections now more than ever raises an underlying question on the nature, function and legitimacy of taxation. Given the growing development of evasion that takes advantage of a globalised economy, it would appear crucial to question not only the improvement and future of tax inspections but also the future of taxation itself. However this analysis cannot be limited to using the mindsets specific to the context of the 20th century, if we consider that growing international tax evasion is in part the result of a reorganisation of the planet and the operations of companies, for example through a new distribution of functions between entities in the same group, an area where tax law is not always suited.

We are caught between two models of society. We are experiencing the transition from an old economic and political world organised vertically into a world that is structured across horizontal networks. The phenomenon tends to accelerate with the creation of networks of companies at an international level that are increasingly integrated into territorial networks and supporting metropolises with their expanding economic and political power and ever-increasing urbanisation (the global urban population is set to rise from 30% in 1950 to 70% in 2050).

In this context, while tax evasion continues to be a goal for some companies, it is also the logical consequence of an increasingly competitive and open world that is self-organising and lacking any external control. The phenomenon should raise questions on the relevance of our tax systems faced with new balances between territories that are taking shape today. For example, between metropolises that are becoming economic and even political powerhouses and States that struggle to regulate their environment.

The consequence of globalisation means that more and more economic players, companies and employees live in environments very different than those bound to national or local territories, like those of the majority of SMEs and also those of the national political and administrative players in charge of tax policies. These two sides do not share the same cultures, the same time, the same space or even the same standards. Yet, while the economic space transcends borders, the tax, administrative and legal spaces still remain largely confined to national spaces. This is one of the biggest challenges facing tax inspections and that may have fatal consequences on taxes.

All the evidence suggests that the tax base is threatened by unprecedented erosion that is linked not only to the development of a globalised economy but also to its integration with the digital economy. The combination of globalisation and digital economy gives rise to a new civilisation in which the role of taxation does not seem so clear. Herein lies a major obstacle for tax inspections and the crux of matter. It can be found in a form of deterritorialisation that is nearly invisible and therefore formidable practised by major companies in the digital economy. It fundamentally calls into question the standard tax, legal and administrative frameworks. It directly undermines and reveals their weakness and fragility.

We can therefore wonder whether tax law is suited to its environment. Whereas the 21st century's economy has been built and developed at a considerable speed, taxation still remains rooted in the 20th or even the 19th or 18th century. Broadly speaking, the political and administrative organisation of our societies, including taxation, plays an essential and structuring role in accordance with its era.

In the end, it is not only taxation that is attacked and undermined both externally and internally but also the survival of taxes that is under threat. While it is clearly essential for budgetary reasons and for tax justice to know how to tax the earnings of digital companies and where to tax them, it is just as important to take control of the underground economy. It has become urgent to connect such a concern

to the question of the existence of taxation, its nature, its purpose and its meaning within contemporary society. Is it taxation itself or rather our notion of taxation that is to change? Therein lies a major challenge that has not yet been considered and that should be addressed with different answers than those that may have been effective in the past, as they will become increasingly less able to do so.

Today's concerns should focus on assessing the validity of taxes themselves taken as a whole, as a system. A major portion of mandatory levies were invented for a relatively closed State and for an economic model that consequently reflects this. Now is the time to reconsider the merit and relevance of taxation in an open world that is more competitive than ever in an effort to address the challenge of the digital shock and robotisation.

In this respect, and in light of the new methods of tax evasion, it has become urgent to invent taxation for the 21st century. There is an urgent need to question the future of the tax systems undermined by practices aimed at avoiding all or a portion of the tax burden but above all hit hard by a transformation of the economic and political models that seem to have evolved towards an organisation of interconnected horizontal networks anchored by an archipelago of international metropolises.

Ultimately, the matter of tax inspections can only be designed on the basis of a more general challenge, that of a profound mutation of our societies. In this context, the environment of taxation stops being abstract, unattainable and hard to understand. This has resulted in a blurring of concepts and ultimately answers that remain locked in the short term and in the usual frameworks and language that risk becoming ineffective.

It is a well-established fact that in the past 40 years we have been undergoing an immense transition, tipping our society into another world. Calling into question our ways of thinking. Calling into question our institutions. Calling into question our tax systems designed for a time that has now passed. It is a "silent revolution" that we are facing and it is a transition to a "new world" that taxpayers, States and their tax administrations are confronting.

Reflecting on the challenges, procedures and methods of tax inspections should certainly lead us to assess our adaptation to today's world but also to change our perspective and ask ourselves its purpose: taxation and the taxpayer of the 21st century. We are faced with the arrival of a new civilisation that we must take this into account. Therein lies the major question.

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