Platform for Tax Good Governance 2015-09-24

UNCTAD
World Investment Report 2015

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Chapter V
International Tax and Investment Coherence

- The report analyses the relationship between:
  - The need to stop MNEs tax avoidance in developing countries, and
  - The need to increase private sector investment in developing countries
- This essentially boils down to the key question:
  - ”how can policymakers **take action against tax avoidance** to ensure that MNEs pay ”the right amount of tax, at the right time, and in the right place” **without** resorting to measures that might have a **negative impact on investment?**”

Government Revenues in Developing Countries

- Foreign affiliates total contribution to government revenues:
  - $730 billion

- 10 per cent of governments total revenues in developing countries come from Corporate Income Tax; twice as much as in developed countries
- In Africa, Corporate Income Tax brings in as much as 14 per cent of total revenues

Government revenues in developing countries

- The largest component of developing countries' total tax revenues is taxes on goods and services (e.g. VAT)
- Around 6 per cent of total tax revenues are contributed by MNEs
- MNEs not only play a key role in developing countries' tax revenues as tax payers, but also as tax collectors
- One explanation for the high dependency on corporate taxation in developing countries is the collapse in taxation on individuals; only 2 per cent of GDP is collected in taxes from individuals (8 per cent in developed countries)

An Investment Perspective on International Taxation

- In 2012, 30 per cent of international corporate investment was channelled through offshore hubs
- Offshore hubs generally have a number of advantages including:
  - Strong legal and regulatory framework
  - Good infrastructure and banking environments
  - Access to skilled labour
  - Stable from an economic and political perspective

Tax Avoidance in Developing Countries

- Exposure to investment from offshore hubs is broadly similar for developing and developed countries
- However, developing countries are often less equipped to deal with complex tax avoidance practices because of resource constraints and lack of technical expertise
- Tax revenue losses due to MNEs direct offshore investment in developing countries (tax avoidance) are estimated to $100 billion, but...
- …even more important is revenue foregone due to tax incentives: $138 billion

Tax and Investment Policymaking: A Proposal for Greater Coherence

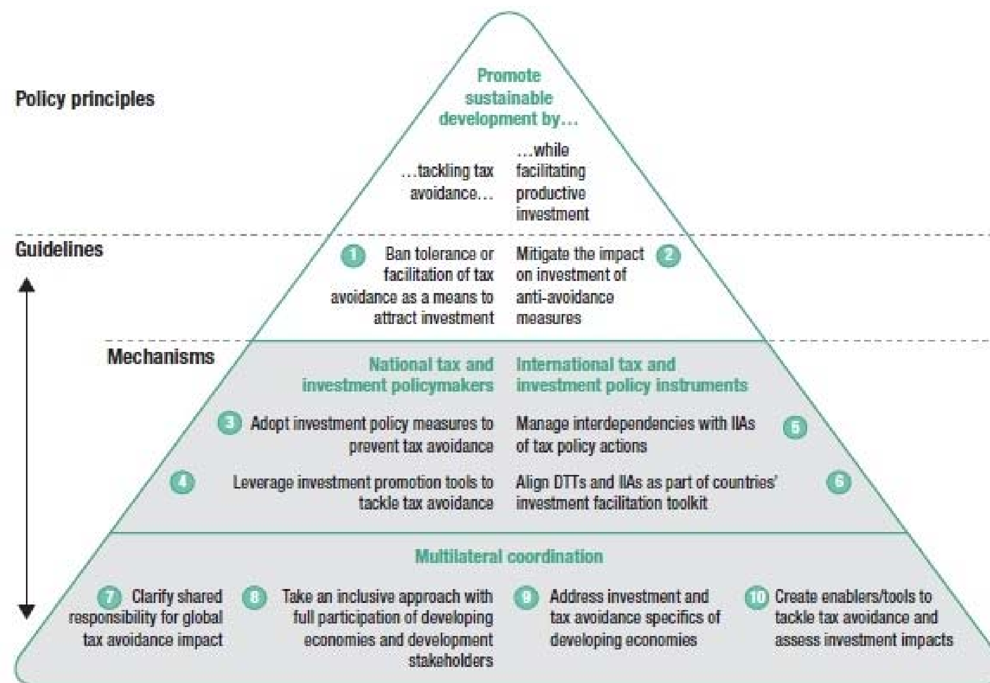
- The need to strike a balance between measures against tax avoidance and negative impact on investment is emphasized:
  - ”policymakers engaged in international discussions on **BEPS** would do well to assess **not only the impact on the level and distribution of fiscal revenues** of any proposed intervention, but also the **impact on investment**.”

Tax and Investment Policymaking: A Proposal for Greater Coherence

- The report mentions the potential positive impact it would have on developing countries' tax revenues if tax avoidance can be addressed
- The report does however also mention the effect it would have if offshore investment hubs' role in international investment is diminished:
  - Investment will take a different route
  - Overall international investment levels may be reduced
- The report presents 10 possible guidelines for Coherent International Tax and Investment Policies

Guidelines for Coherent International Tax and Investment Policies

SVENSKT NÄRINGSLIV



Source: UNCTAD.

Summary

- MNEs play an important role in developing countries
- Tax incentives lead to higher foregone revenue than tax avoidance
- Investment in developing countries may be reduced if wrong measures are taken
- A coherent approach to investment climate is needed

Consequences for the EU

Measuring BEPS:

- As concluded in the OECD report on Action 11 of the BEPS-project, assessing the size of BEPS is difficult
- Even determining how BEPS should be defined is associated with problems
- Difficult to distinguish real economic effects from tax effects and from BEPS-related behavior
- Adjusting to national tax regimes does not constitute a BEPS-activity
- Estimating the effects of BEPS requires a need to establish a counterfactual; i.e. what the outcome would have been without BEPS
- Therefore, all attempts to measure BEPS should be done with caution
- For the EU: A proper impact assessment is required of all BEPS action points