Panel I: The revenue impacts of redistributing taxing rights

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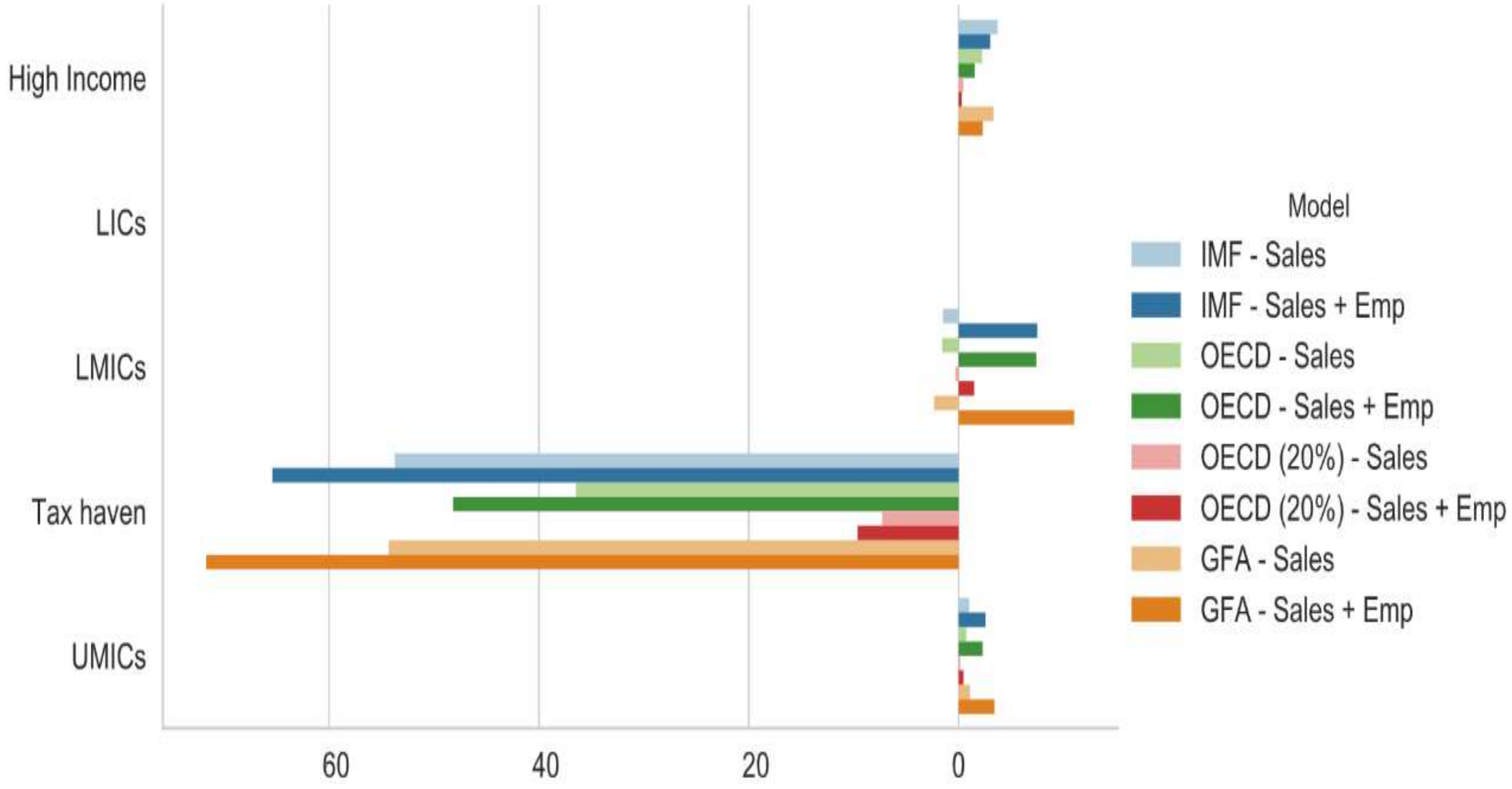
The issues in estimating tax base allocation

- The global nature of MNEs means not only that profits can be shifted across jurisdictions, but also the tax base *cannot* be attributed technically to any particular jurisdiction as 'true source of profit' – so a formula is inevitable.
- Negotiation inherently asymmetric: although there are clear global gains from tax coordination, the formulae have differential impact due to (i) if an investment importer or exporter; (ii) productive structure of resources, capital, labour, knowledge etc ; and (iii) levels and patterns of consumption.
- The latest OECD 'consensus' proposal appears to mean a reassignment of up to $50 bn in taxing rights worldwide, mainly from tax havens; some $40bn to high-income (developed) countries but only $10bn to developing.
- A significant step forward and a major new principle; but only $2 – 3 bn extra fiscal revenue for developing countries, well below expectations. Thus an urgent need for debate on wider (yet realistic) set of alternatives.

ICRICT modelling (Cobham, Faccio and FitzGerald, 2019 https://osf.io/preprints/socarxiv/j3p48/)

- Range of tax base allocation Models considered:
  - allocate entire global tax base (GFA); by sales alone (DBST) or sales + employment (ICRICT)
  - attribute 'local' tax base as a fixed return on tangible assets (IMF) or by existing BEPS method (OECD); and allocate residual as above
  - Finally apply to only a proportion of residual (20%), and/or restrict to B2P business only; both now proposed by OECD.
- We estimate impact with the only aggregate CbCR dataset available, that for the US in 2016; and statutory CIT rate applied.
- On the basis of FDI stock data, US MNE profits should be scaled up times 2 or 3 for estimate of global profits tax base (and thus potential revenue)

Figure 1: The formula matters: Projected revenue increases. % of current CIT revenue



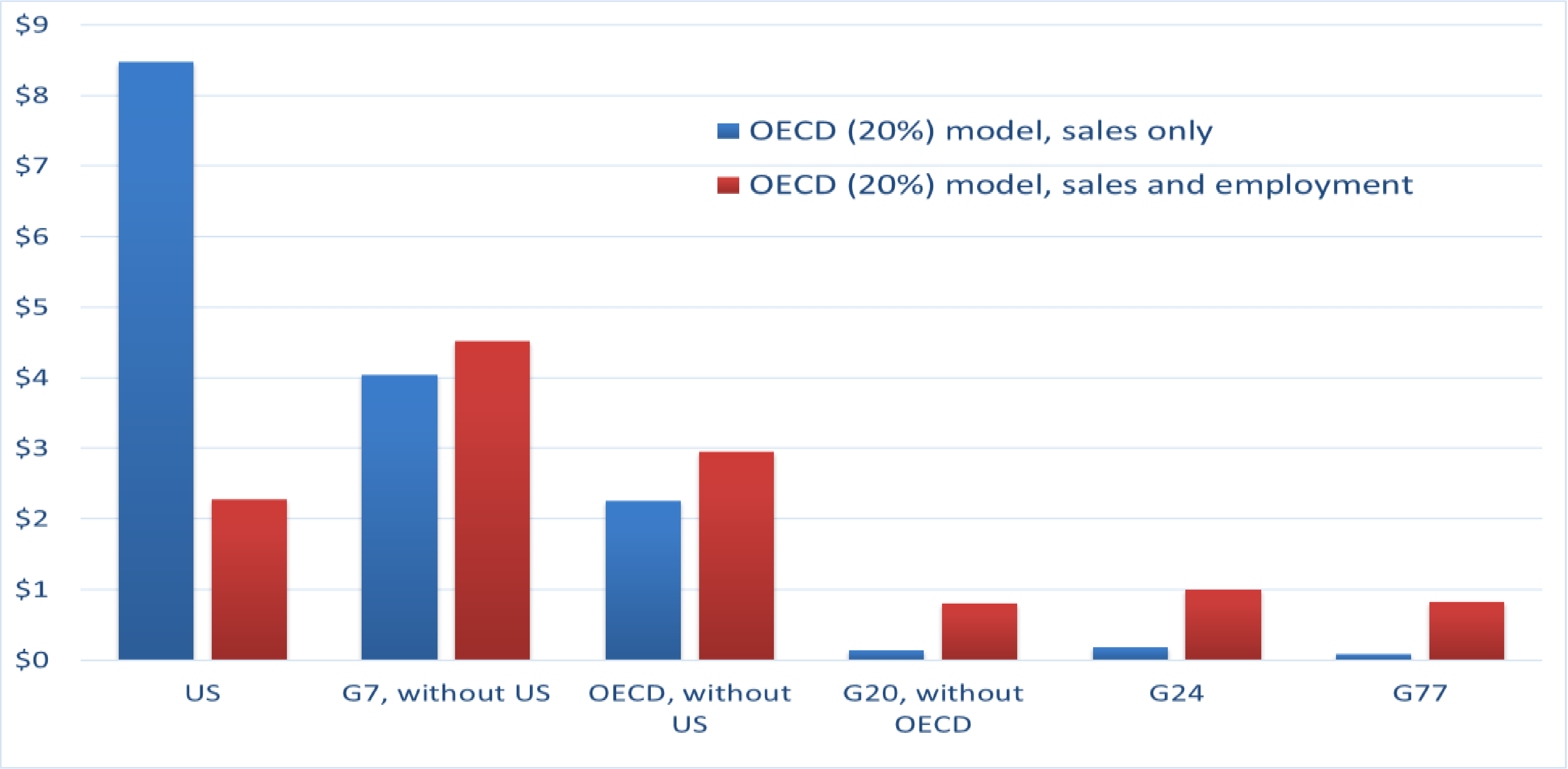
Six (initial) findings from our modelling

1. The absolute scale of benefits is potentially large.
2. Comparing the sales-only variants, the OECD model is the least beneficial for all groups, with the IMF model preferable and GFA best.
3. US aside, all groupings benefit more from apportionment based a combination of employment and sales, particularly developing countries.
4. The US appears to be an outlier – maybe as an HQ country; or as a major market; we await full CbCR data held by the OECD in 2020.
5. Upper-middle income developing countries gain, albeit less than developed; lower-middle income countries *lose* tax base with sales only.
6. The benefits from the latest ‘20%’ OECD proposal are small and regressively distributed to the advantage of developed countries.

Equity versus ease in global taxation

- Ever since *Wealth of Nations*, the canonical principles of taxation have been not only ‘ease’ (certainty, convenience and efficiency) but also ‘equity’ (fairness).
- As the taxable base is global, some principle of equity needs to be introduced, both ‘horizontal equity’ (between countries) as above, but also ‘vertical equity’ (between citizens).
- As a first step this implies looking at per capita gains as well – and then by extension allowing for the greater needs of the poor in public services provision.

Figure 2: Unequal dividend: projected citizen revenue increases, OECD (20%) model ($ per capita)



Thank you

- Critical comments welcome but please remember that this is a small-scale academic initiative.
- This is a significant step forward in global tax coordination – even if the impact is limited and skewed.
- Work on the fiscal and equity implications for developing countries of a wide range of options should properly be the responsibility of international institutions.
- Asymmetry in access to information only serves to exacerbate the existing structural asymmetry in global tax negotiations.

Addendum: Projected revenue increases, % of current CIT revenue by organisational country groupings