EVALUATING BEPS AND LOOKING TO THE FUTURE

THE OECD PERSPECTIVE

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BETTER POLICIES FOR BETTER LIVES

Overview

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CORPORATE TAX STATISTICS

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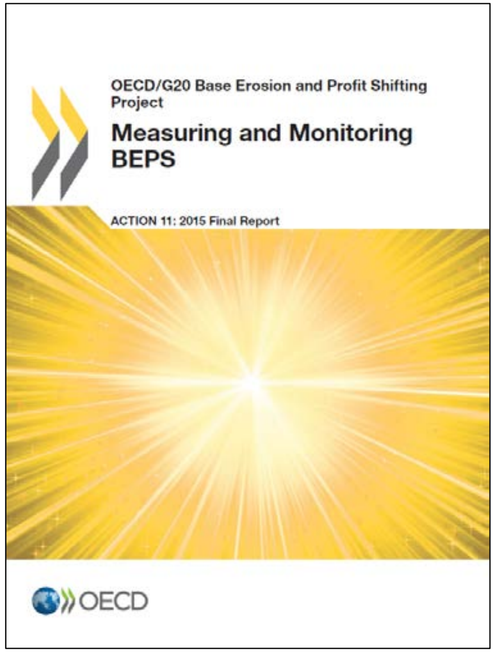
INTERNATIONAL TAX AGREEMENT

BEPS ACTION 11

BEPS Action 11: Economic analysis of BEPS (2015)

- Cited **more than 100 empirical studies** reporting evidence of BEPS
- OECD research found that **global net revenue loss** associated with BEPS of between **USD 100-240 billion** (i.e. 4-10% of global CIT) annually at 2014 levels
- BEPS creates many **economic distortions**
  - ETRs of large MNEs are 4-8½ percentage points lower than for similar domestic businesses
  - Favours intangible investments, companies locating debt in high-tax countries and distorts location of FDI
  - Creates negative tax spillovers across countries
- A **"dashboard" of indicators**, showed BEPS occurring and likely increasing



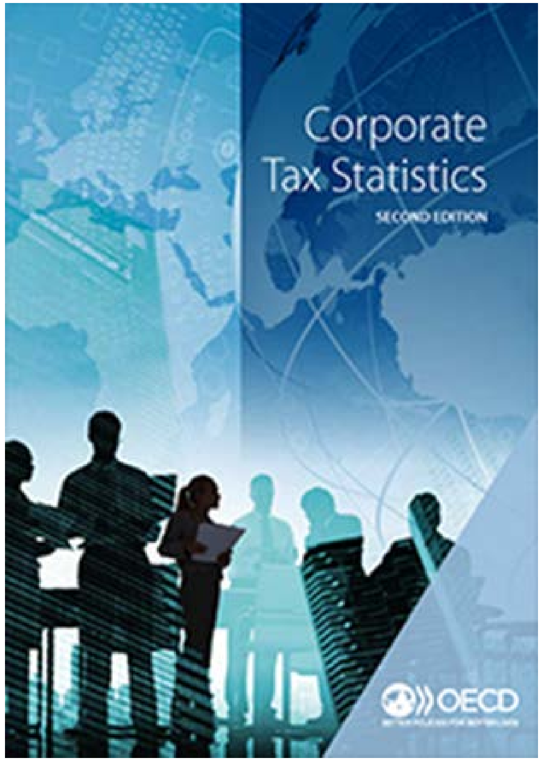
BEPS Action 11: Recommendations

- **Improved data is required**
- The OECD to work with governments to publish a new regular **Corporate Tax Statistics** dataset, which would:
  - Compile a range of relevant data in an internationally consistent format
- New **anonymised and aggregated Country-by-Country Report (CbCR) data**
- **More research on MNEs** is needed including by tax administrations in collaboration with academic researchers
- **Better data and refined analyses** will inform governments of BEPS and countermeasures in the future

CORPORATE TAX STATISTICS

Corporate Tax Statistics dataset

- The **2015 BEPS Action 11 report** highlighted that the lack of quality data on corporate taxation is a major limitation to the measurement and monitoring of the scale of BEPS



- In 2019 the **Corporate Tax Statistics** (CTS) dataset was released for the first time

- **Anonymised and aggregated CbCR data** was included in the 2nd edition of the CTS

- In July 2021, CbCR statistics were released, describing global tax and economic activities of nearly 6,000 MNE groups headquartered in 38 jurisdictions and operating across more than 200 jurisdictions worldwide

Corporate Tax Statistics: 3rd edition (July 2021)

CIT Revenues	• 2018 data covering 109 jurisdictions
CIT Statutory Rates	• 2021 rates covering more than 110 jurisdictions
Effective Tax Rates	• Extended to cover more than 70 jurisdictions, planning to cover additional jurisdictions in future editions
R&D Tax Incentives	• Coverage of 48 jurisdictions, adding a new data series on ETRs for R&D in the 3rd edition
IP Regimes	• 2020 update of current indicators in collaboration with the FHTP, covering around 40 jurisdictions
Anonymised and Aggregated CbCR Statistics	• Coverage of 38 jurisdictions for the 2017 vintage, an additional 11 jurisdictions over the 2016 vintage

EVIDENCE ON THE IMPACT OF BEPS

Interest limitation and CFC rules have been found to reduce BEPS

- **Anti-avoidance rules such as interest limitation rules or controlled foreign corporation (CFC) rules have been found to reduce BEPS**
  - Buettner et. al. (2018) find that the presence of thin capitalisation rules reduces intra-firm debt by between 12% and 24%, and induces firms to increase their third-party debt financing
  - Blouin et. al. (2014), find - using data on affiliates of U.S. firms - that interest limitation rules reduce the debt-to-asset ratio in an average company by 6.3%
  - Clifford (2018) finds that firms in scope of CFCs reduce profit in low-tax jurisdictions by 13%

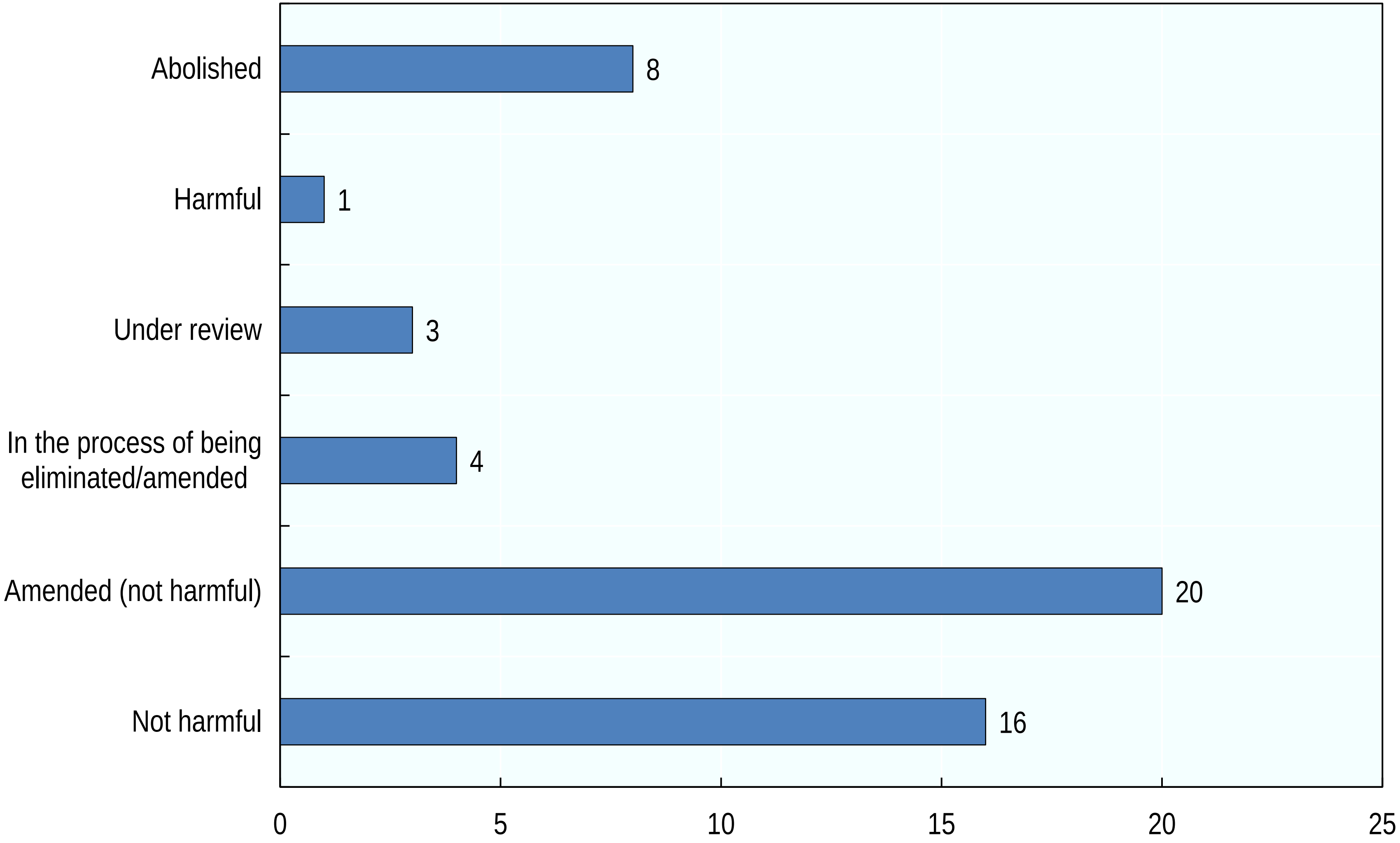
Strengthened Transfer Pricing Rules seem to reduce BEPS

- **Recent empirical evidence also finds that strengthening transfer pricing regulations discourages BEPS activity**
  - Beer and Loeprick (2015) find that estimated profit shifting among affected MNE subsidiaries is reduced by 52% within a two-year period following the introduction of mandatory transfer pricing documentation requirements
  - Riedel, Zinn and Hofmann (2015) find that more stringent transfer pricing regimes are associated with increases in effective tax rates of 4.5% for firms at the average effective tax rate
  - However, using South African data, Wier (2020) finds that the introduction of strengthened transfer pricing rules in South Africa reduced BEPS initially, but that this effect disappeared after several years
  - There may be variation in the impact of stricter transfer pricing regulations across countries or over time

Increased transparency has been shown to reduce BEPS

- **There is also evidence to suggest that increased transparency rules for MNEs reduces BEPS behaviours**
  - De Simone and Olbert (2019), using Orbis data on multinational groups operating in the EU, document a reduction in ownership of LTJ subsidiaries amongst firms above the EUR 750m CbCR threshold, after the introduction of CbCR
  - Using data on EU MNEs between 2010 and 2018, Joshi (2020) finds an increase in effective tax rates of multinational firms affected by CbCR disclosure requirements
  - Overesch and Wolff (2017) show that European multinational banks subject to public CbCR disclosure requirements also experienced increased ETRs

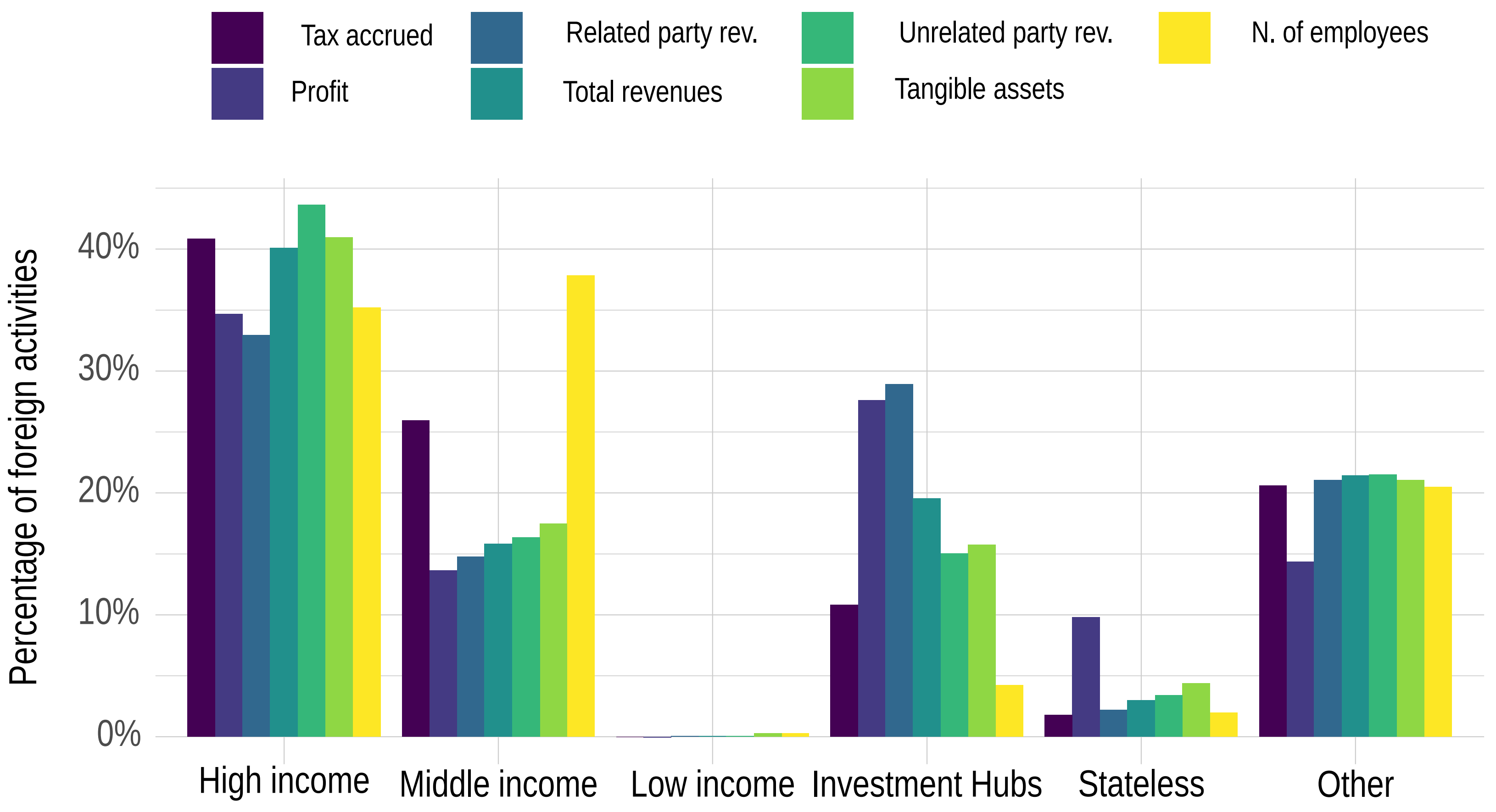
Evidence that work of the FHTP has also reduced harmful tax practices



- Eight regimes that were under review in 2019 were abolished in 2020
- Over 90% of all IP Regimes are either not harmful, have been abolished or are in the process of being amended/ abolished

INSIGHTS FROM
COUNTRY BY COUNTRY REPORTING

CbCR statistics: potential signs of BEPS

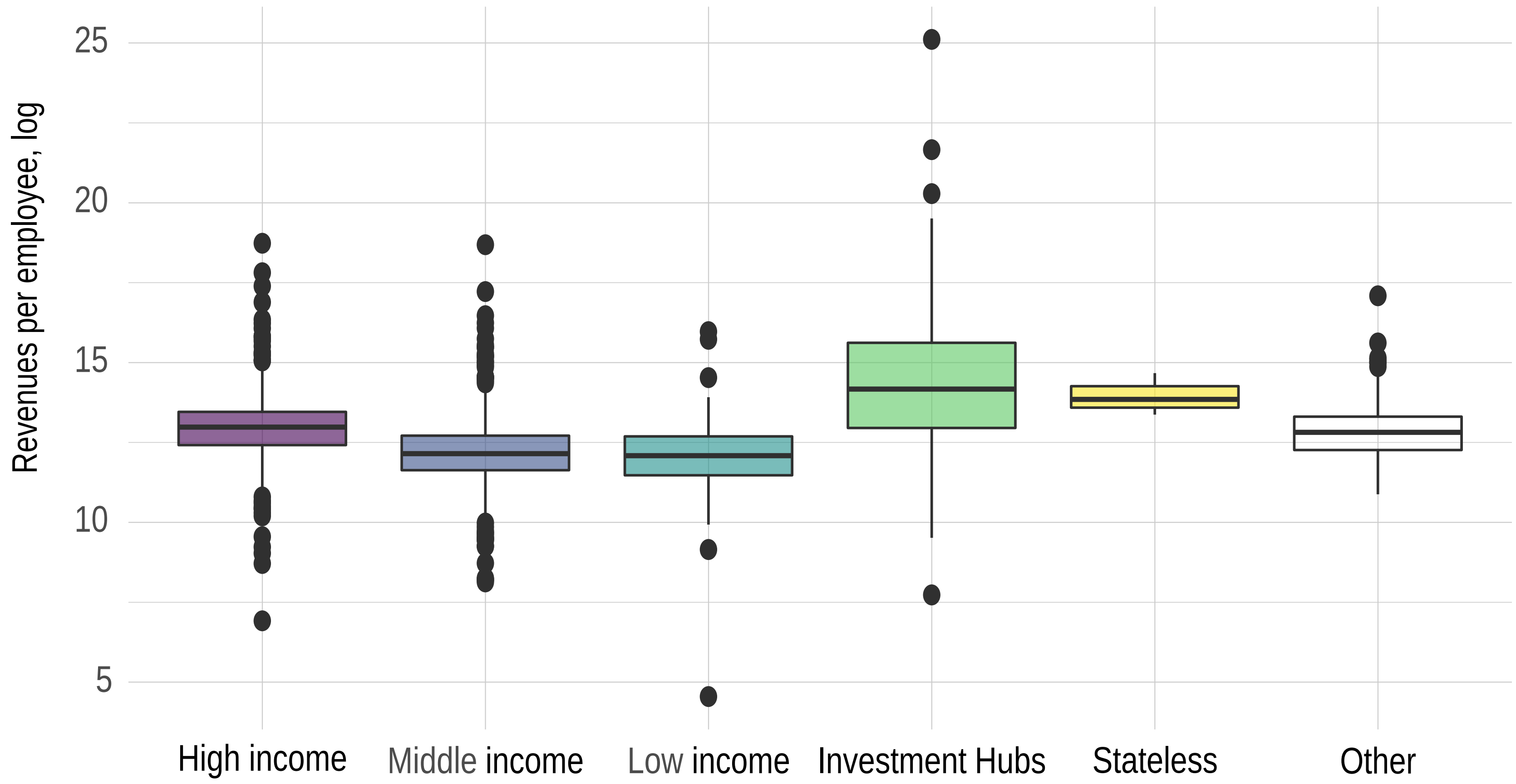


- The data are indicative of a misalignment between the location where profits are reported and the location where economic activities occur
- Investment hubs account for 28% of profits and 4% of employees and 16% of tangible assets

Note: The profit variable could include intracompany dividends in several instances, and therefore be upward biased. The bars represent jurisdiction groups' shares of different variables (e.g. profit in group x/total profits booked in foreign jurisdictions*100) across all jurisdictions included in the CbCR sample. The percentages are calculated using Table I (all sub-groups). "Other" reflects aggregate geographic groupings.

Source: 2017 Anonymised and Aggregated CbCR statistics

Revenues per employee distribution across jurisdiction groups

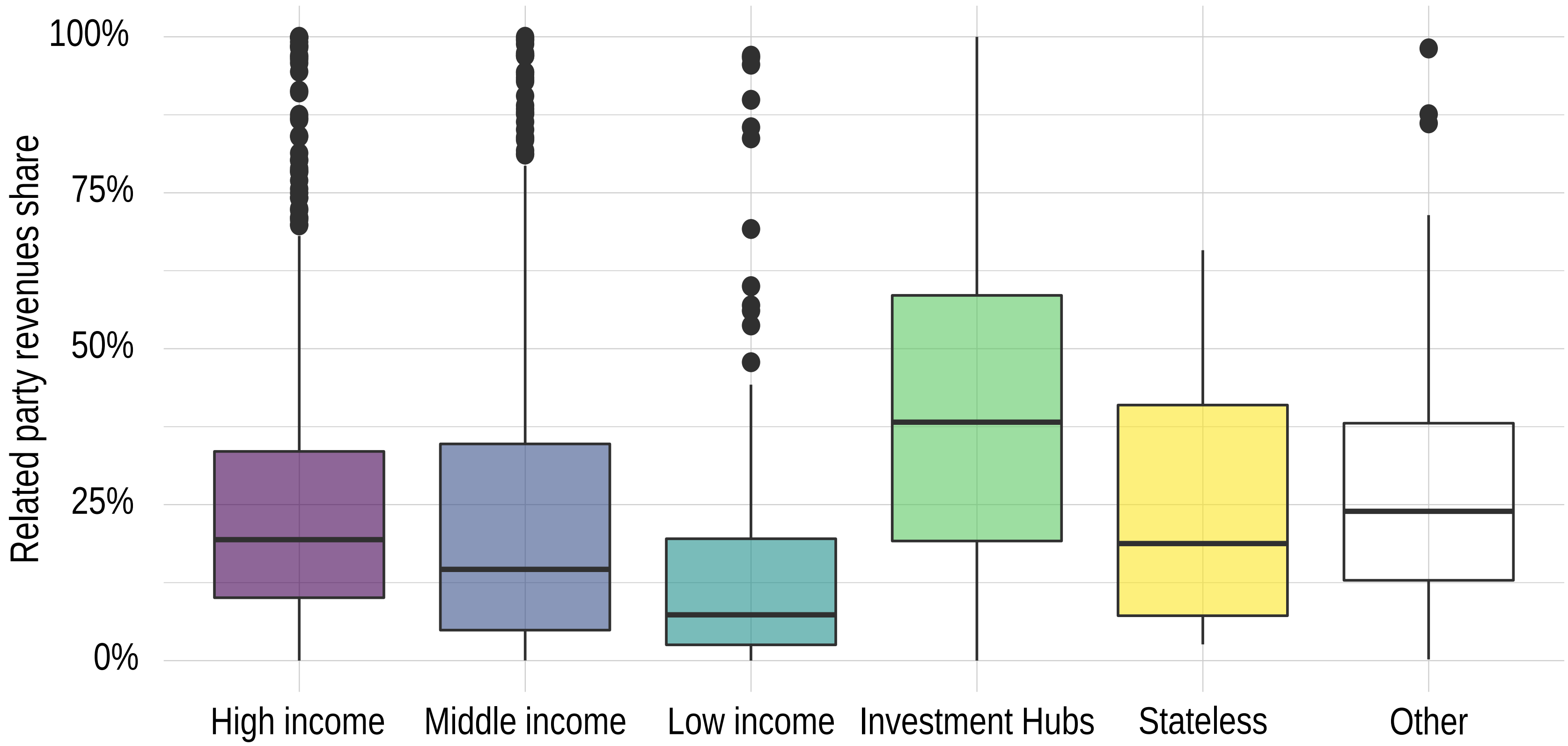


- Revenues per employee tend to be particularly high in investment hubs, with a median value over USD 1.7 million
- In other jurisdictions median revenues per employee are between USD 176 000 and USD 433 000

Note: The boxplot compactly displays the distribution of the logarithmic transformation of revenues per employee ratio within each jurisdiction group. The boxes are delimited by the 25th and 75th percentiles, thus representing 50% of the sample within each jurisdiction group. The black line in the middle is the median (50th percentile). The two whiskers capture the largest values within a distance of 1.5 times the interquartile range (difference between the 25th and 75th percentile), and all outlying points are plotted individually.

Source: 2017 Anonymised and Aggregated CbCR statistics

Distribution of related party revenues share across country groups

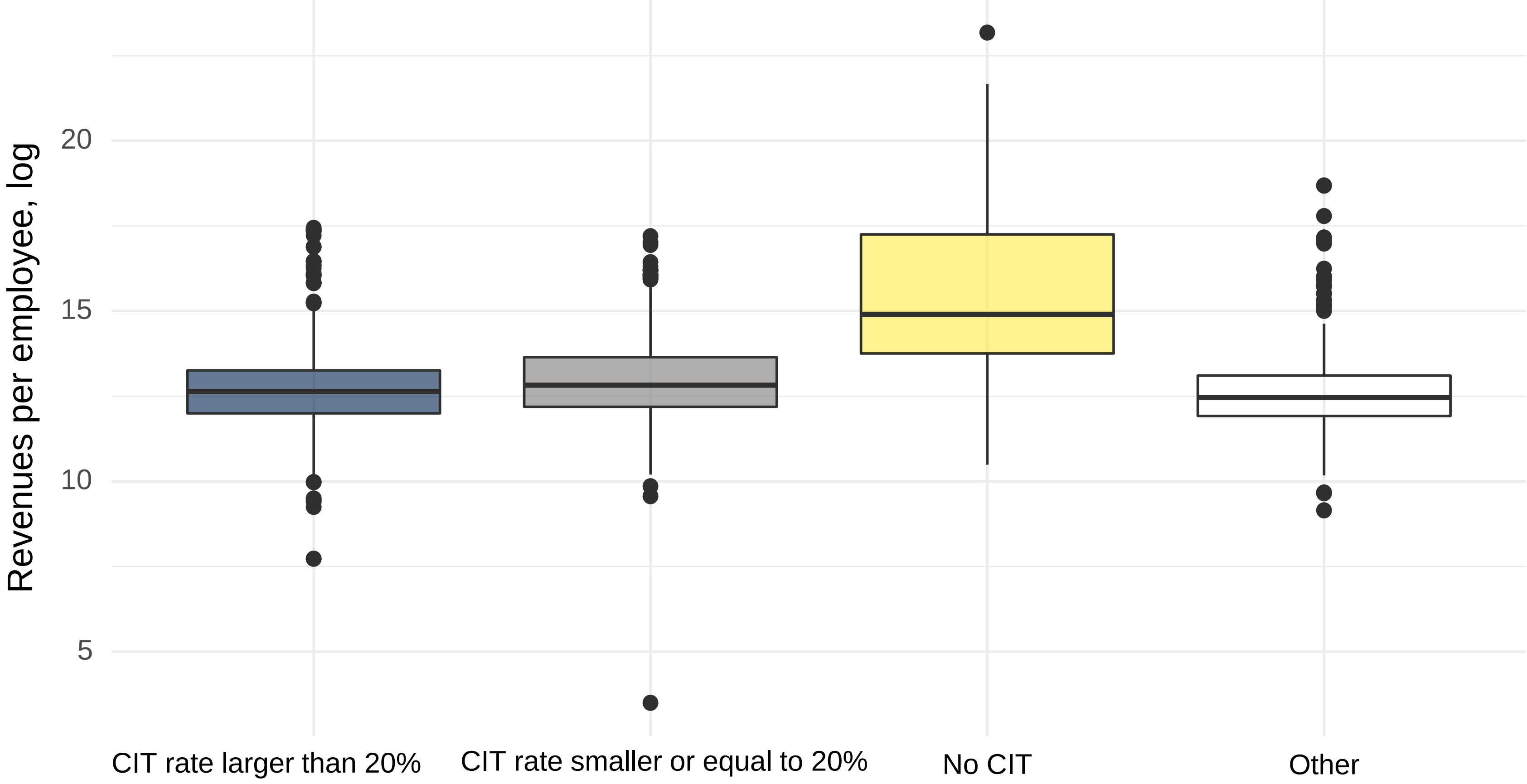


- On average, the share of related party revenues in total revenues is higher for MNEs in certain jurisdictions
- The median share of related party revenues in investment hubs is 37% and between 19% and 5% in other country groups

Note: The boxplot summarises the distribution of related party revenues as a share of total revenues within each jurisdiction group. The boxes are delimited by the 25th and 75th percentiles, thus representing 50% of the sample within each jurisdiction group. The black line in the middle is the median (50th percentile). The two whiskers capture the largest values within a distance of 1.5 times the interquartile range (difference between the 25th and 75th percentile), and all outlying points are plotted individually.

Source: 2017 Anonymised and Aggregated CbCR statistics

CIT rates: average revenues per employee distribution



- The median value of revenue per employee:
- Zero CIT rate jurisdictions is above **USD 2.9 million**
- Jurisdictions with CIT rates lower than 20% is **USD 305 000**
- Jurisdictions with CIT rates higher than 20% is **USD 366 000**

Note: Jurisdictions are grouped with respect to their combined CIT rate. The CIT rates in the category "CIT rates larger than 20%" range from 21% to 47.9%; CIT rates range between 9% and 20% in the category "CIT rates smaller or equal to 20%". The boxplot compactly displays the distribution of the logarithmic transformation of revenues (USD) per employee ratio within each CIT group. The boxes are delimited by the 25th and 75th percentiles, thus representing 50% of the sample within each CIT group. The black line in the middle is the median (50th percentile). The two whiskers capture the largest values within a distance of 1.5 times the interquartile range (difference between the 25th and 75th percentile), and all outlying points are plotted individually.

Source: 2017 Anonymised and Aggregated CbCR statistics, *Corporate Tax Statistics*

INTERNATIONAL TAX AGREEMENT

Background

- **Digitalisation and globalisation** have challenged the existing international corporate tax rules, which are largely based on notions of physical presence
- **The BEPS project made significant progress, but some tax planning challenges remain**
- **These issues have led to increased dissatisfaction and unilateral actions** being taken or being considered by a growing number of countries
  - Proliferation of **Digital Services Taxes** (DSTs) and **trade retaliation**
  - With the potential to **reduce global GDP more than 1%** in the worst case scenario

Recent International Tax Agreement

- **Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy:** 137 member jurisdictions of the G20/OECD Inclusive Framework on BEPS (IF) agreed
  - Including all **OECD and G20 countries** and representing **more than 94% of global GDP**
- **Pillar One** seeks to reallocate taxing rights to give market jurisdictions the right to tax a share of the profits of large and profitable MNEs, regardless of physical presence
  - Taxing rights on **more than USD 125 billion of profits** will be reallocated
- **Pillar Two** seeks to put a floor on tax competition, through the introduction of a **global effective minimum corporate tax rate of 15%**
  - Around **USD 150 billion** in additional tax revenues globally per year

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