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INTERNATIONAL TAX REFORM

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Questions and reform proposals

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- Is there a problem of taxing the digitalised economy?

The popular view ….

"Google shifted $23bn to tax haven Bermuda in 2017"

"Facebook paid just £28m tax after record £1.6bn revenues in UK"

"Amazon paid £220m tax on £10.9bn UK revenues. *Founder Jeff Bezos is the richest person in the world."*

Questions and reform proposals

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- Is there a problem of taxing the digitalised economy?
- Or is there a need for more fundamental reform?
- *Where* should profit be taxed?
- Recent OECD proposals and the “Residual Profit Allocation by Income” proposal

Why tax digital giants in the place of the "user"?

- Because the user "creates value"?
- Because we can (possibly)
  - Is there a pure revenue grab: a "Sutton Tax"?

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UK HM Treasury position

"1.1 The international tax framework is underpinned by the principle that the profit of a multinational group should be taxed in the countries in which it creates value ...

1.3 The UK continues to support that position."

H.M. Treasury, Digital Services Tax: Consultation November 2018

Taxing where “value is created”

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- Is NOT the basis of the current system
- Has no intellectual coherence
- Would be (arguably) the worst possible way to allocate taxing rights
- Has been disavowed by Pascal Saint-Amans

5 criteria for evaluating international tax

For a given revenue target, compare options by:

- Economic efficiency
- Fairness
- Robustness to avoidance
- Ease of administration
- Incentive compatibility

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Where do we tax now?

RESIDENCE OF SHAREHOLDERS	HEADQUARTERS / PARENT COMPANY	AFFILIATES	SALES
Worldwide	One location	Many locations	Worldwide
	US: GILTI	Mostly tax here	

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How well does the existing system shape up?

- Economic efficiency – very poor
- Robustness to avoidance – very poor
- Ease of administration – very poor
- Incentive compatibility – very poor

Fairness difficult to call

Principle of immobility

Gains on at least four criteria if tax base is less mobile

- *Economic efficiency*
- *Robustness to avoidance*
- *Ease of administration*
- *Incentive compatibility*

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Fundamental reform options

RESIDENCE OF SHAREHOLDERS	HEADQUARTERS / PARENT COMPANY	AFFILIATES	SALES
Worldwide	**One location**	**Many locations**	**Worldwide**
			DBCFT
		RPAI	RPAI
	Pillar 2	Pillar 1 & 2	Pillar 1

Pillar 1

- Allocates some profit to market country
- But only part of residual profit
- And where is this taken from?

A more coherent approach: RPAI

- Allocate rights to tax <u>routine</u> profit to where functions and activities take place
- Allocate rights to tax <u>residual</u> profit to where sales are made
- Bottom up approach can identify both routine and residual profit

Concluding thoughts

- Like customers, users of digital businesses are immobile
- Moving towards taxing profit in the market country (or country of user) makes sense for *all* business profit
- Moving towards country of the parent makes little sense