

# What has been the tax competition experience of the last 20 years?

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# Introduction

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- Concerns that this leads to a “race to the bottom” and zero rates of tax

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- Globalisation, increasing capital mobility
- Concerns that this leads to a “race to the bottom” and zero rates of tax
- What has actually happened to corporate income tax rates?
- Do the patterns of tax reform suggest competition between countries?

# Measuring tax rates

- Statutory tax rates

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- Statutory tax rates
- The tax base
  - allowances
  - other factors: e.g. profitability, incorporation

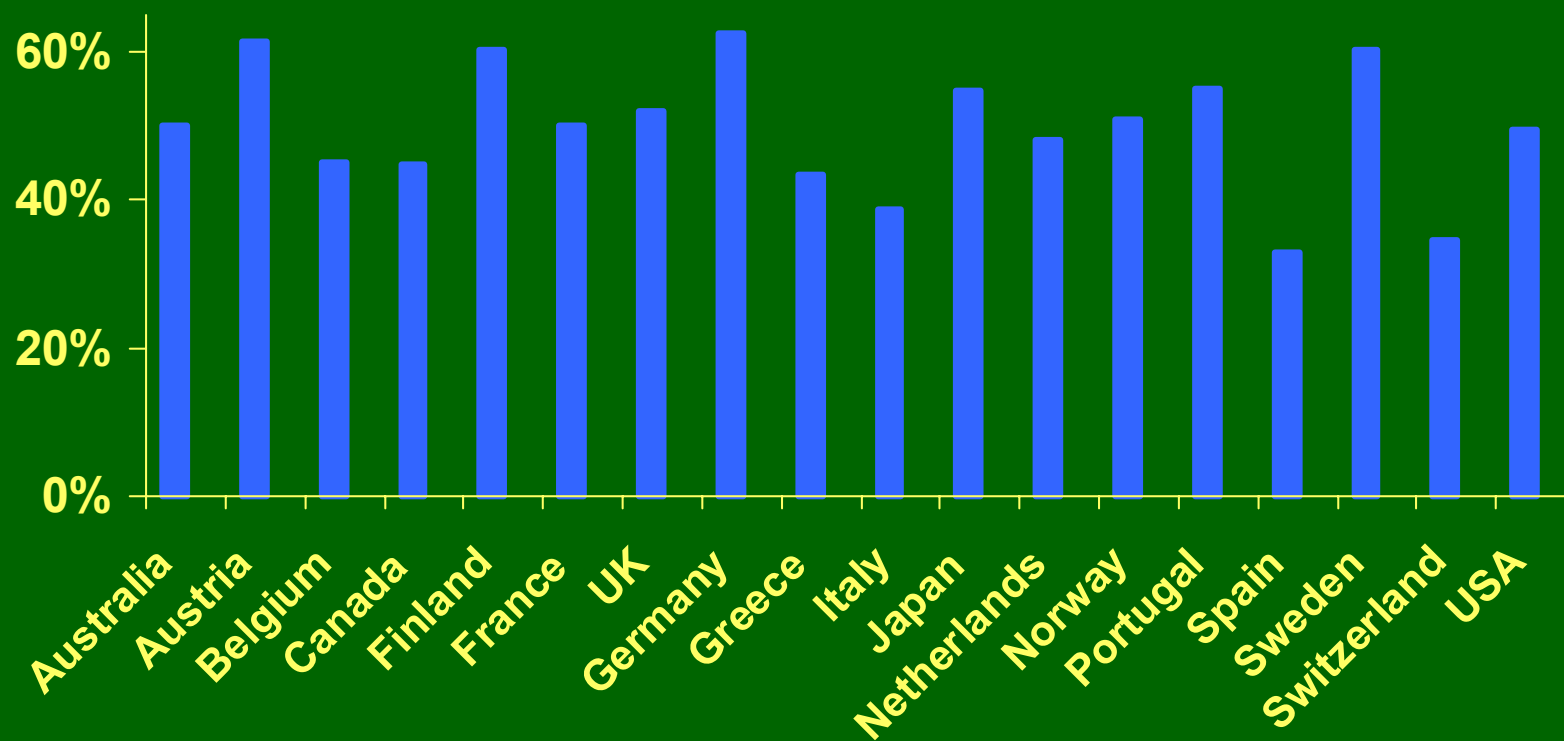
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  - other factors: e.g. profitability, incorporation
- Effective tax rates
  - put statutory tax rates together with tax base

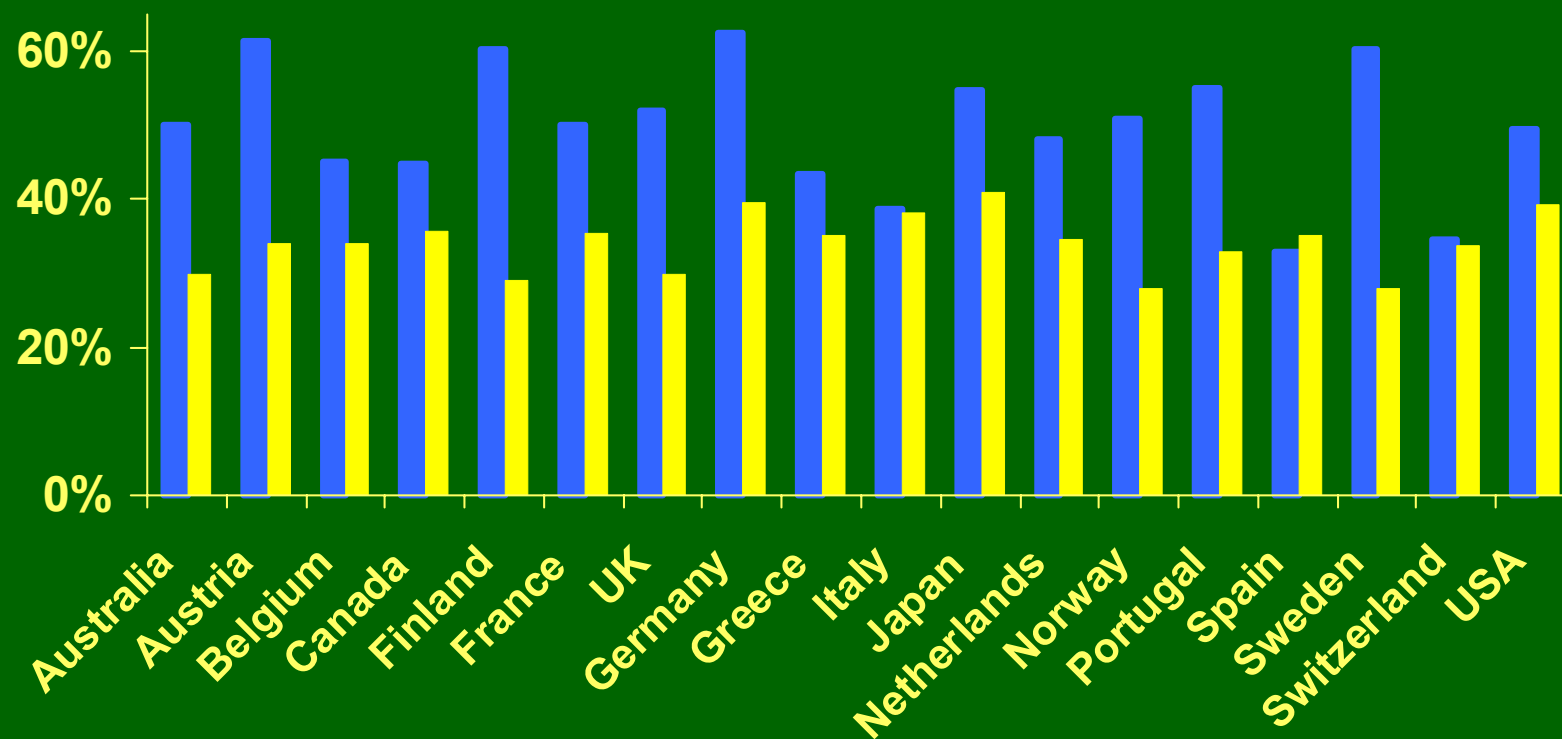
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- Tax revenue

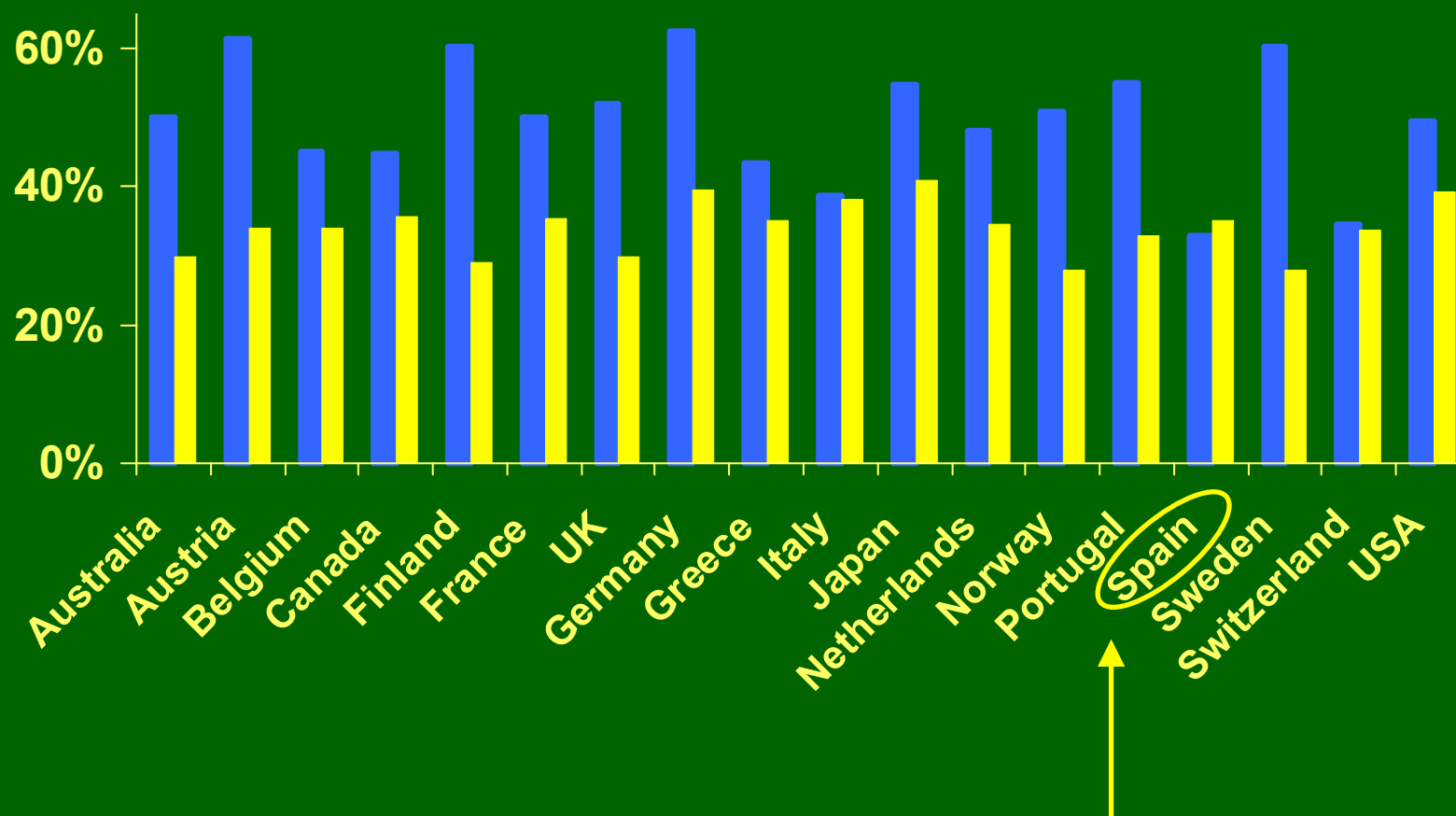
# Statutory tax rates on corporate income, 1982



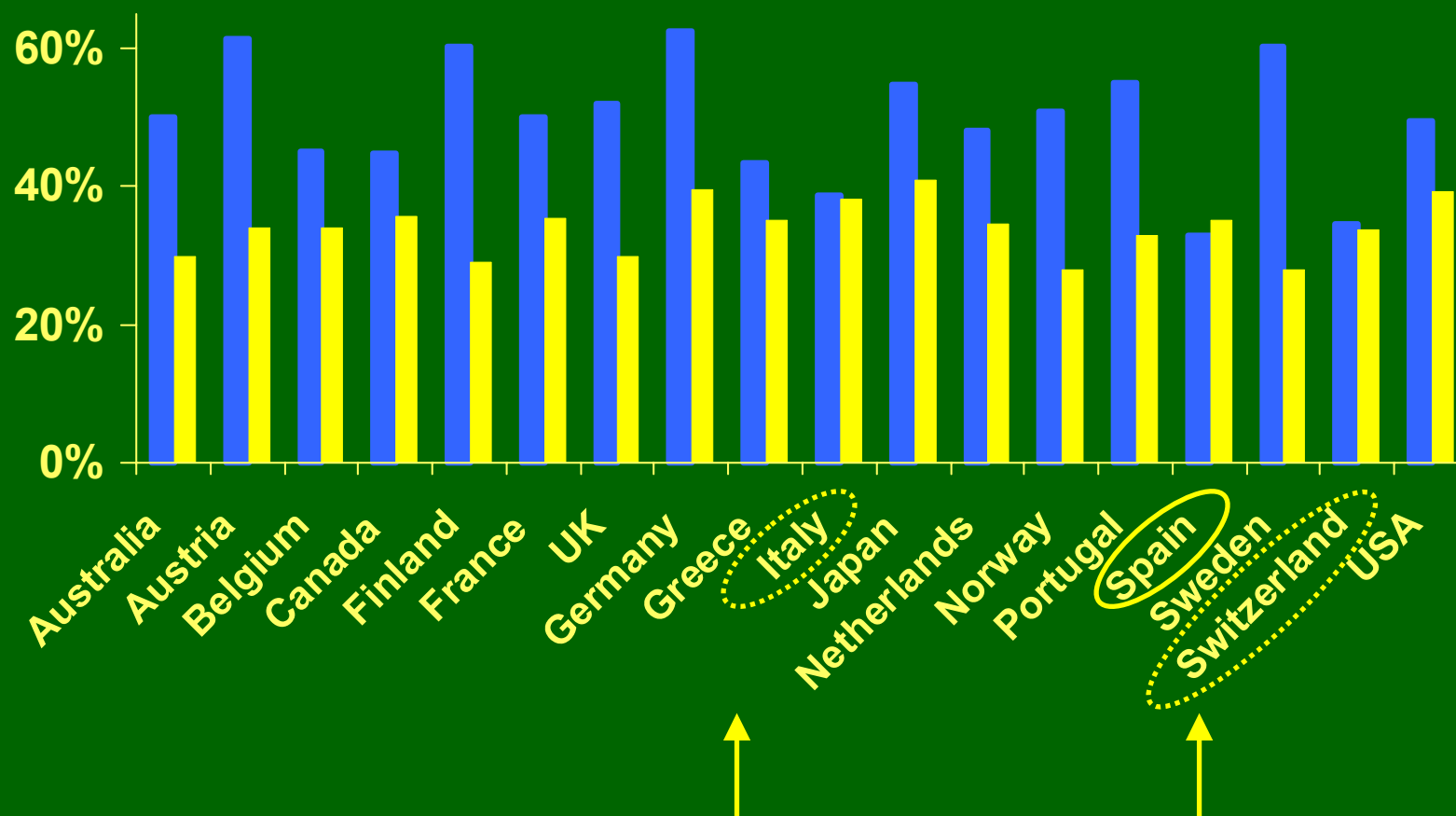
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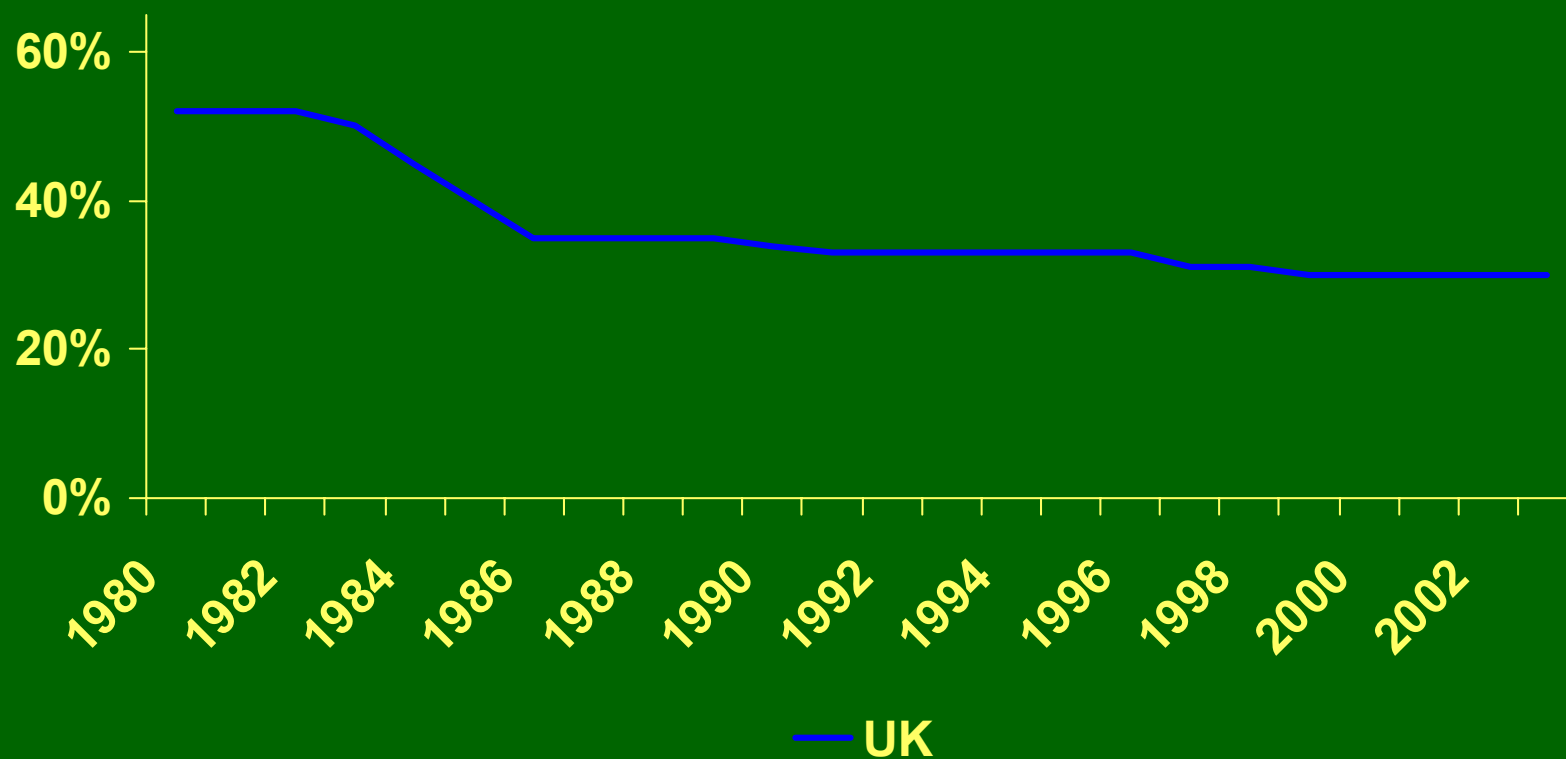
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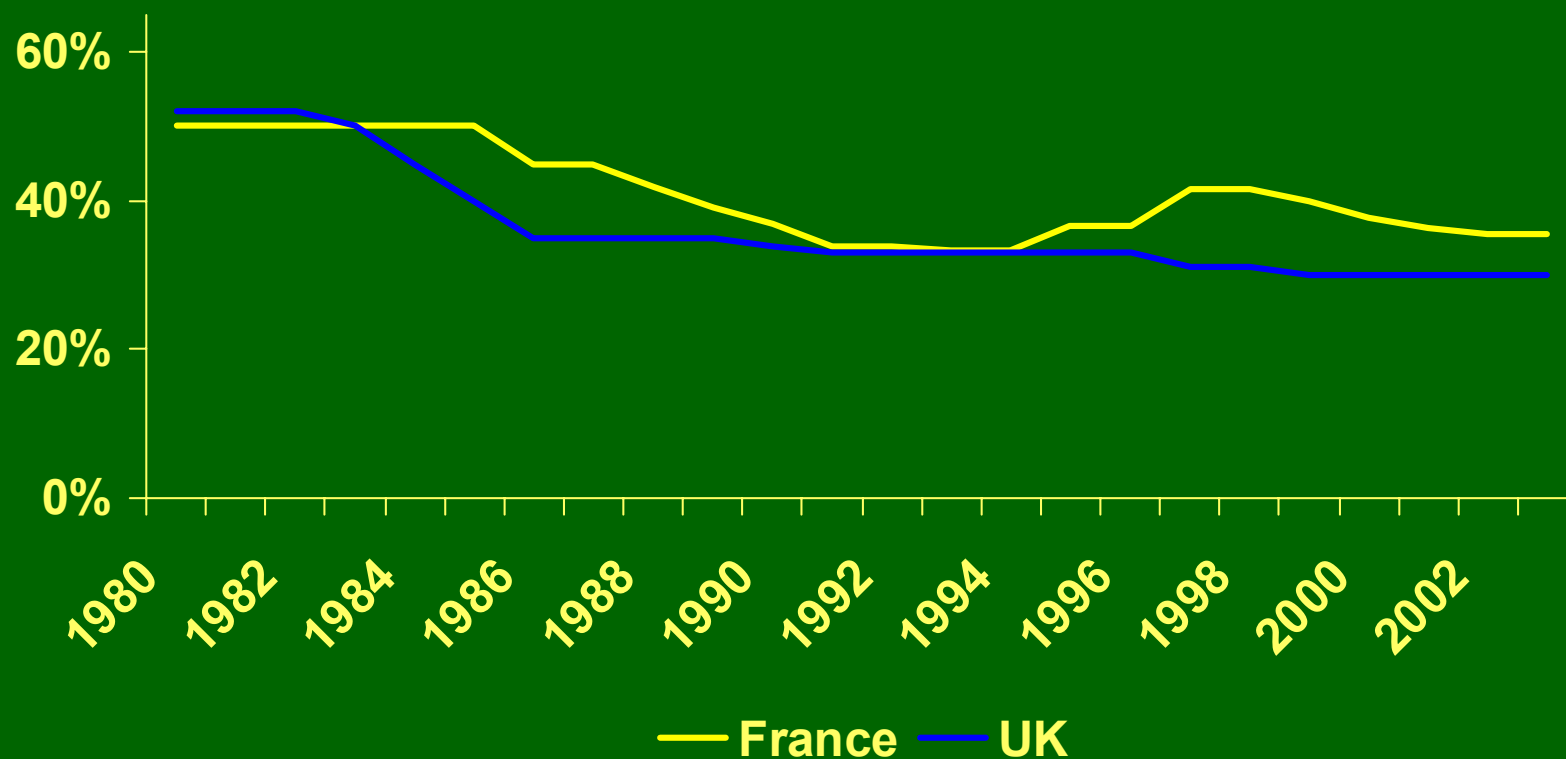
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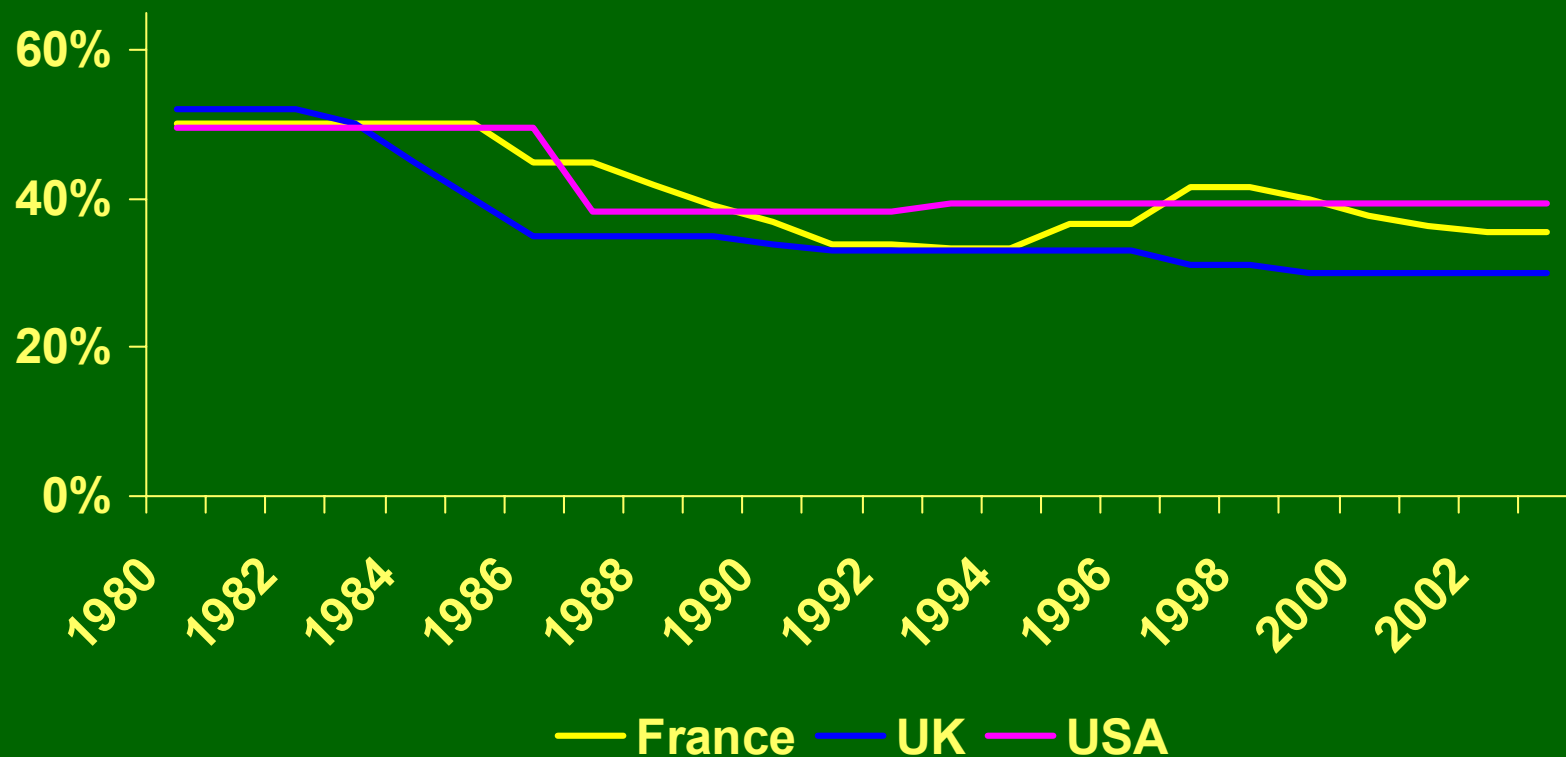
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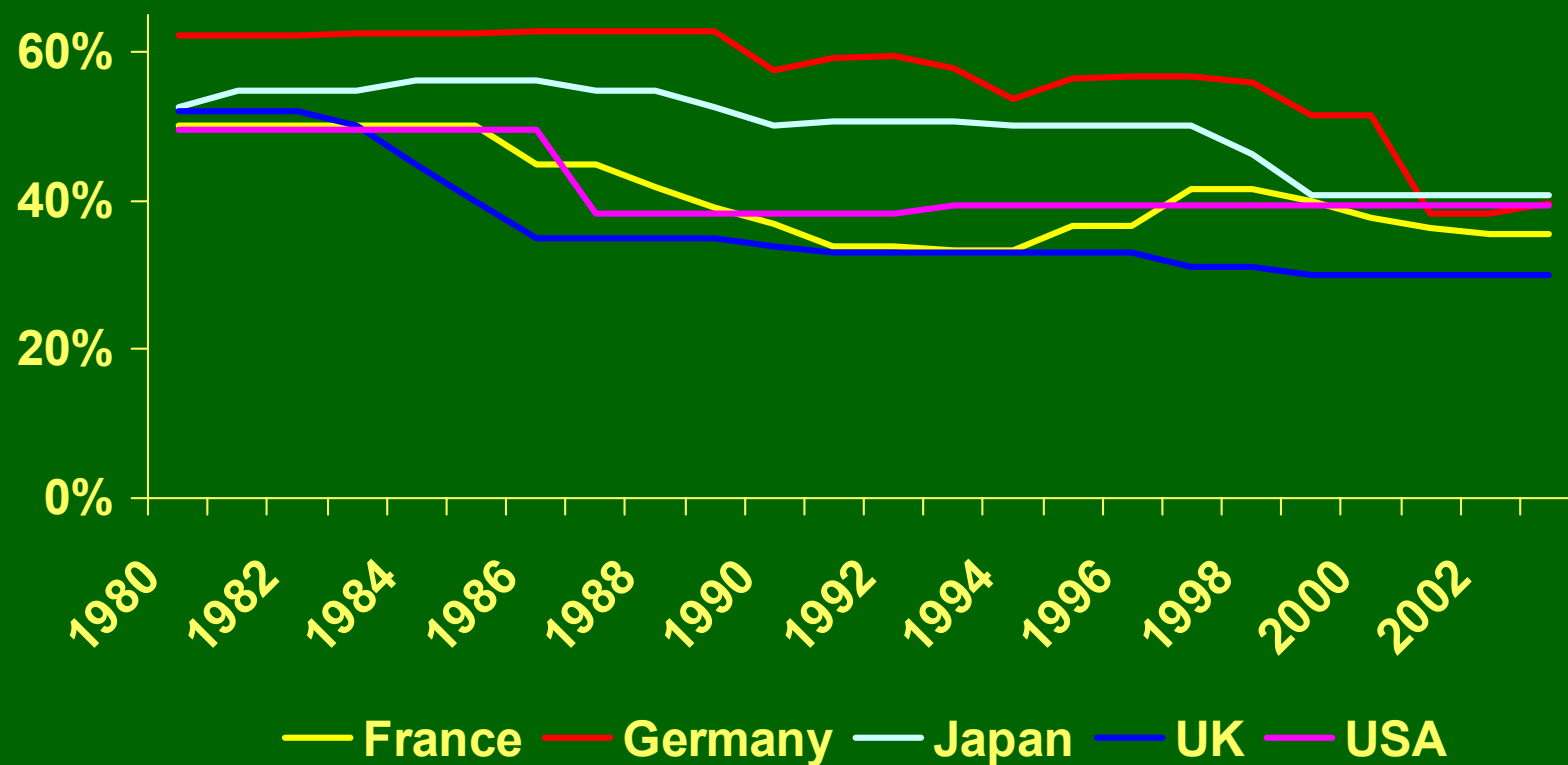
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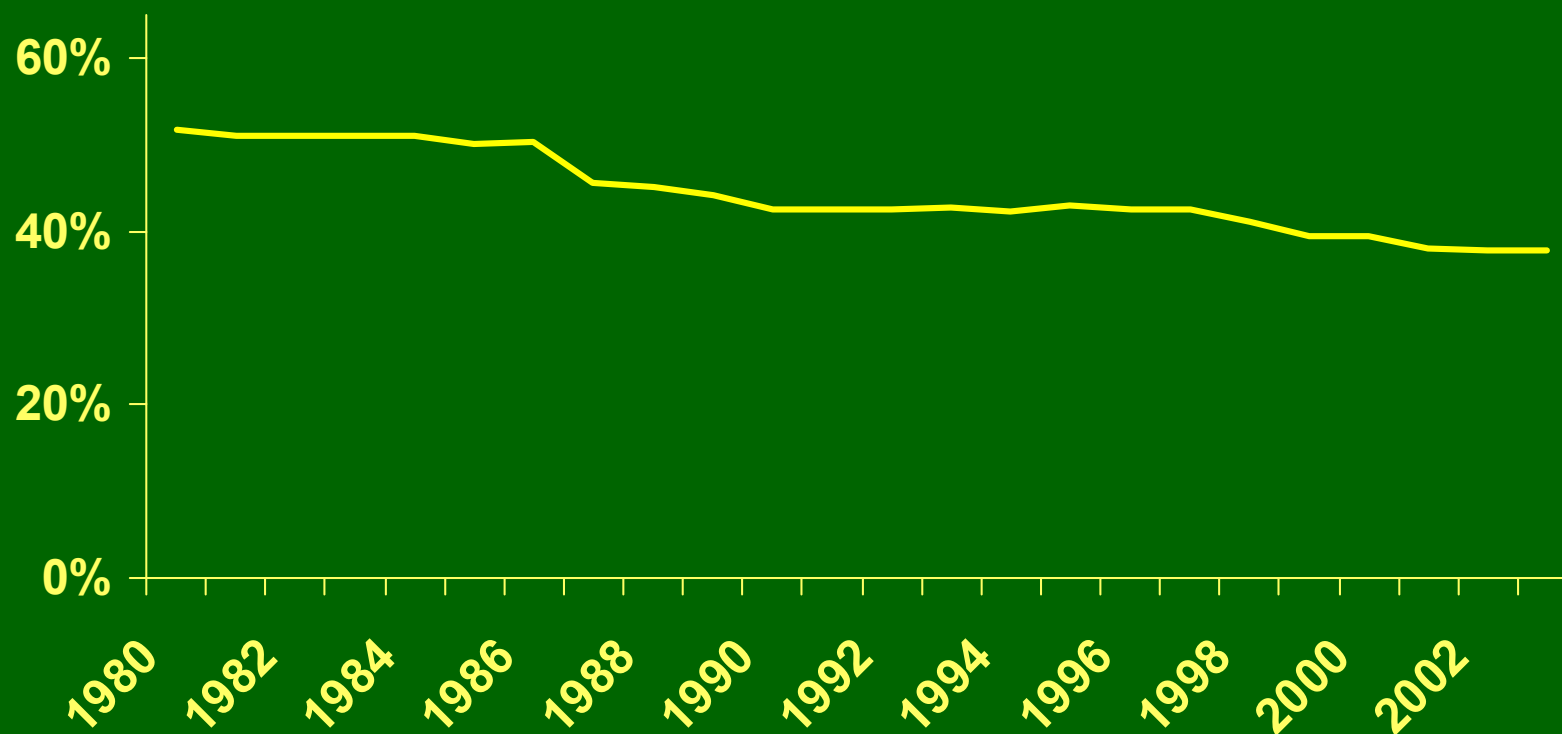
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# OECD average statutory tax rate (weighted by GDP)



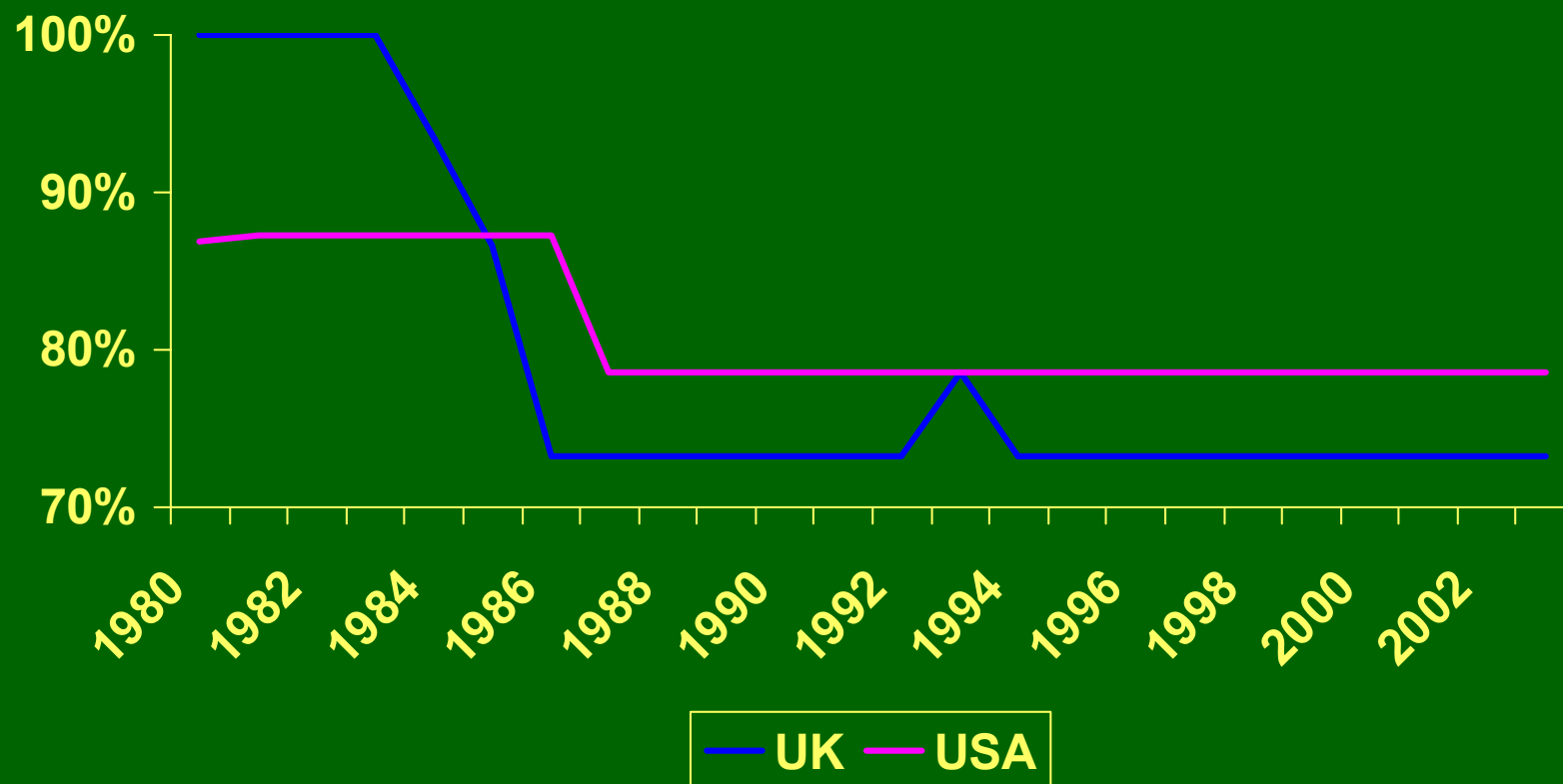
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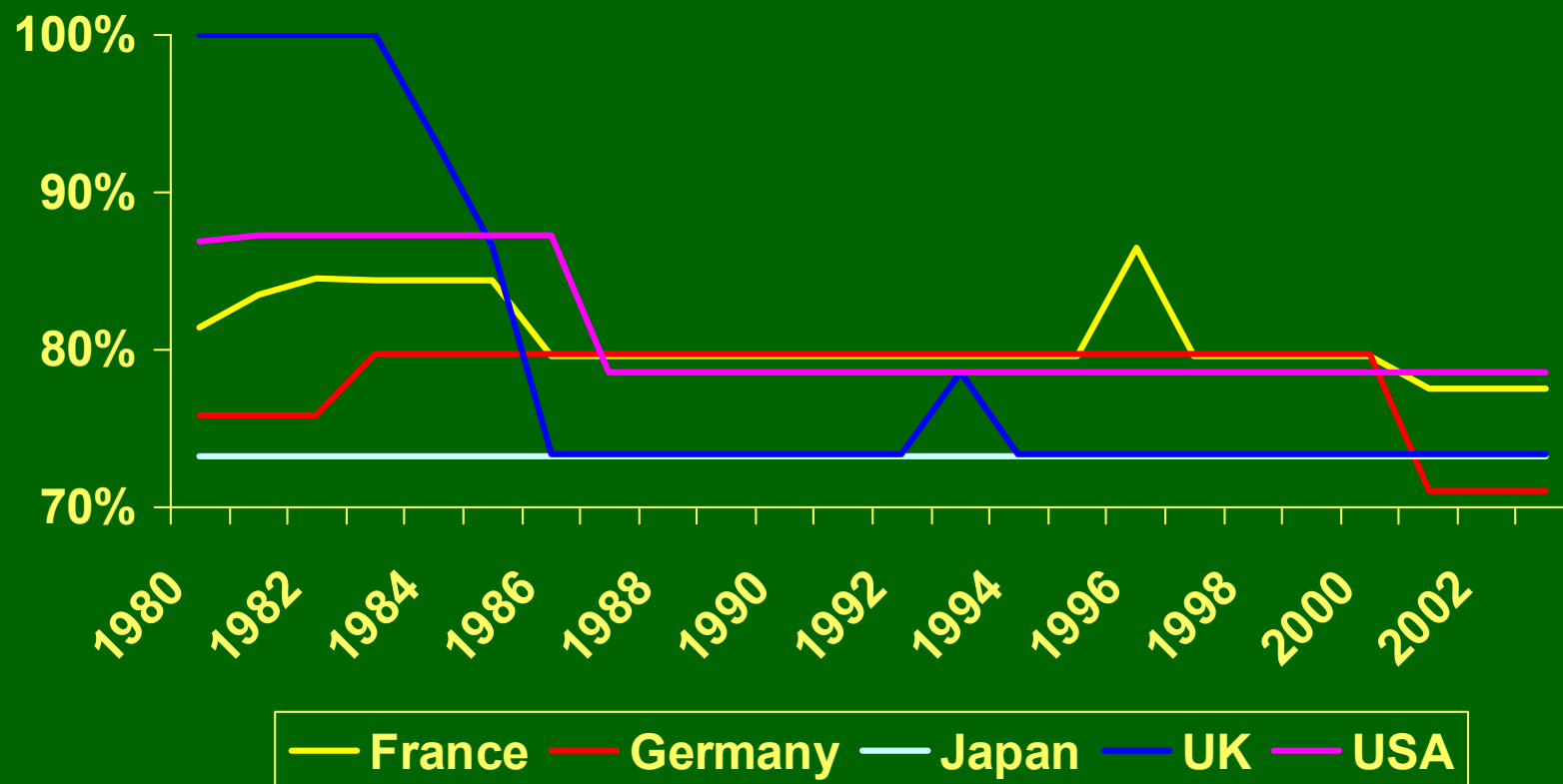
# Tax base

- As well as tax rate, the tax base affects the amount of taxes paid
- The tax base varies in many ways
  - definition of tax allowances in the tax system
  - financial structure
  - rate of profitability
  - size of incorporated sector

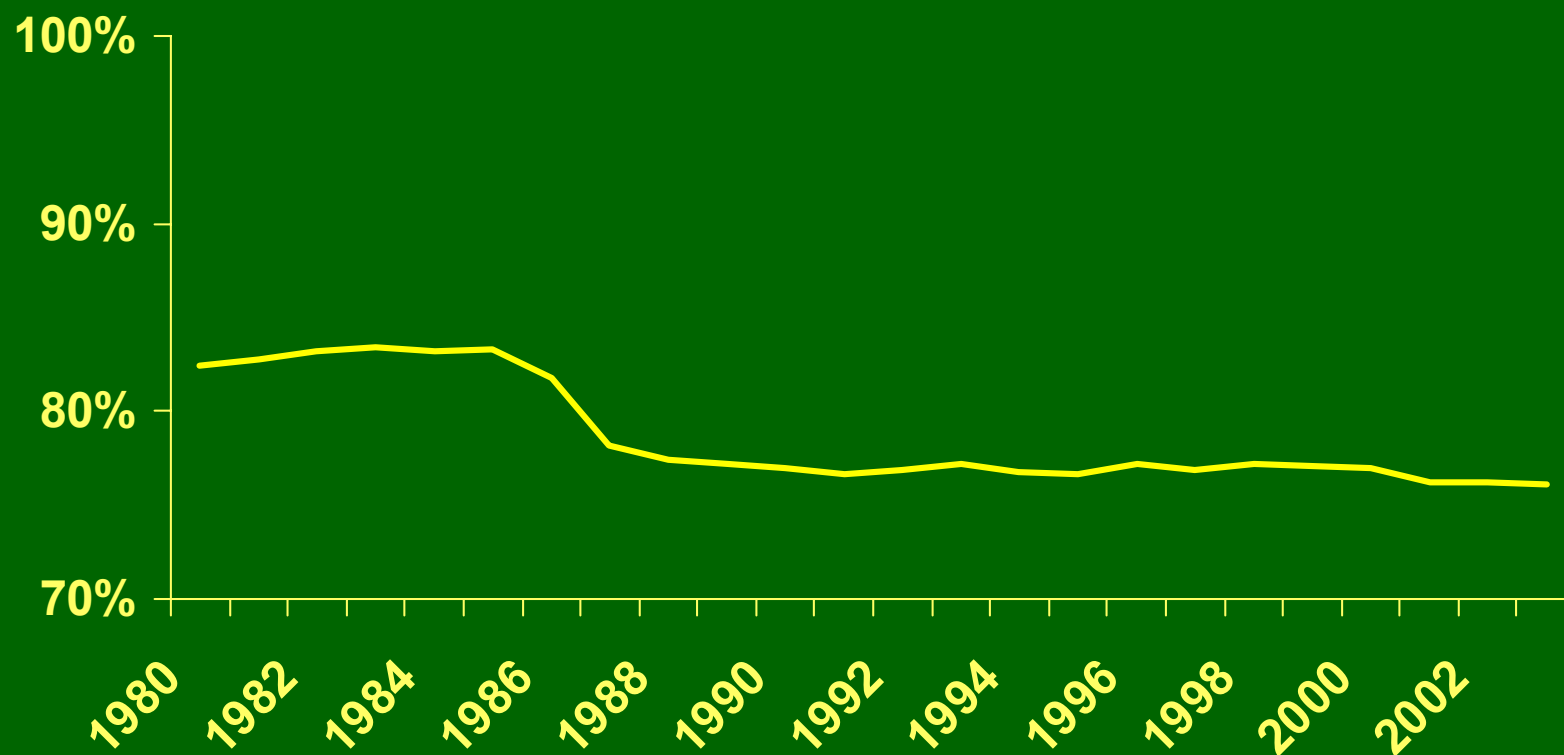
## Value of investment allowances



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## OECD average value of investment allowances (weighted by GDP)



# Effective tax rates

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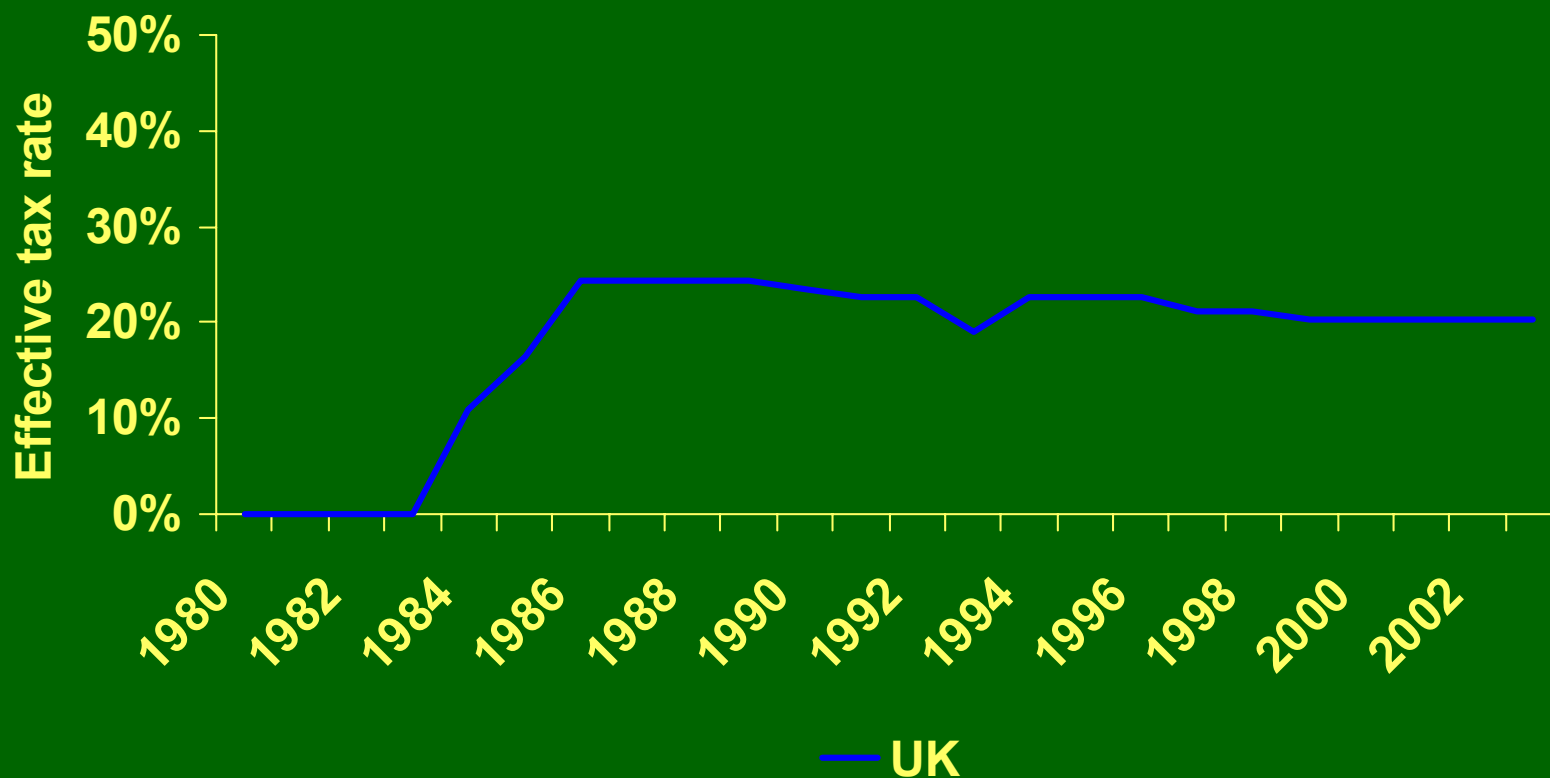
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- Give a measure of the impact of the tax system on return from investment
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- Therefore tells us about the impact of tax on firms' incentives to invest and where to locate

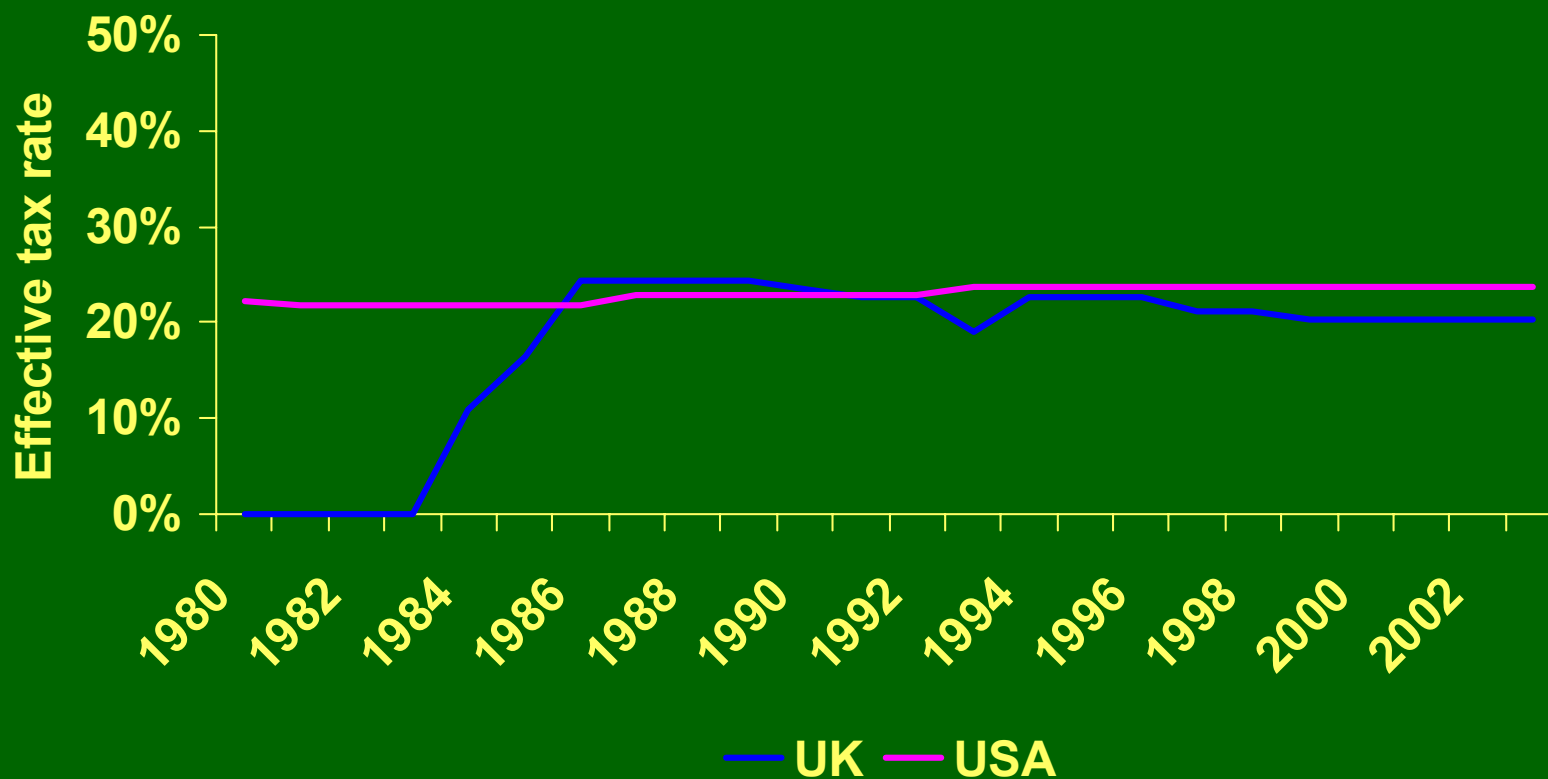
## Effective tax rates (1)

- Effective tax rate on a project that just breaks even, that is just earns the minimum required rate of return

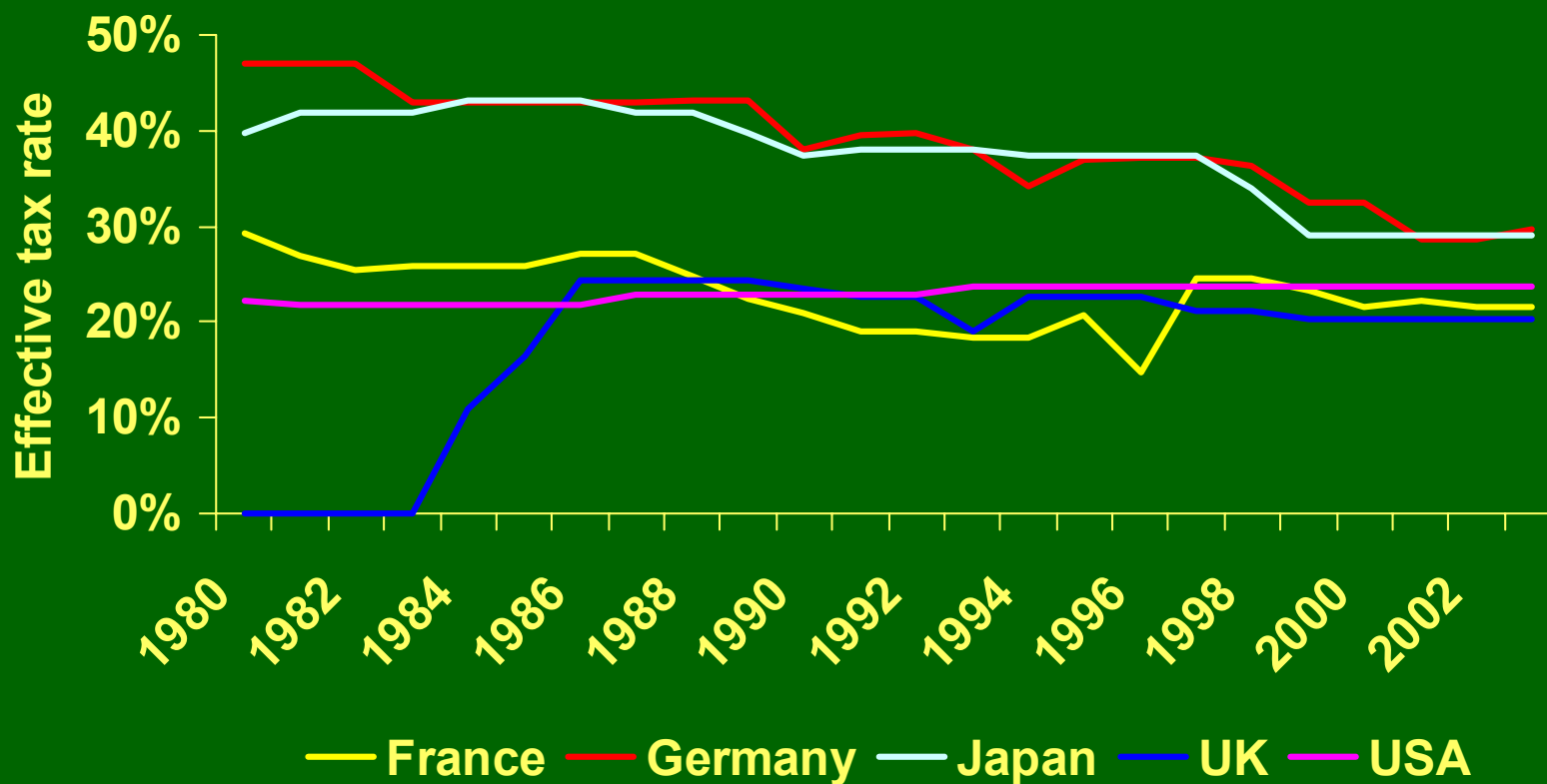
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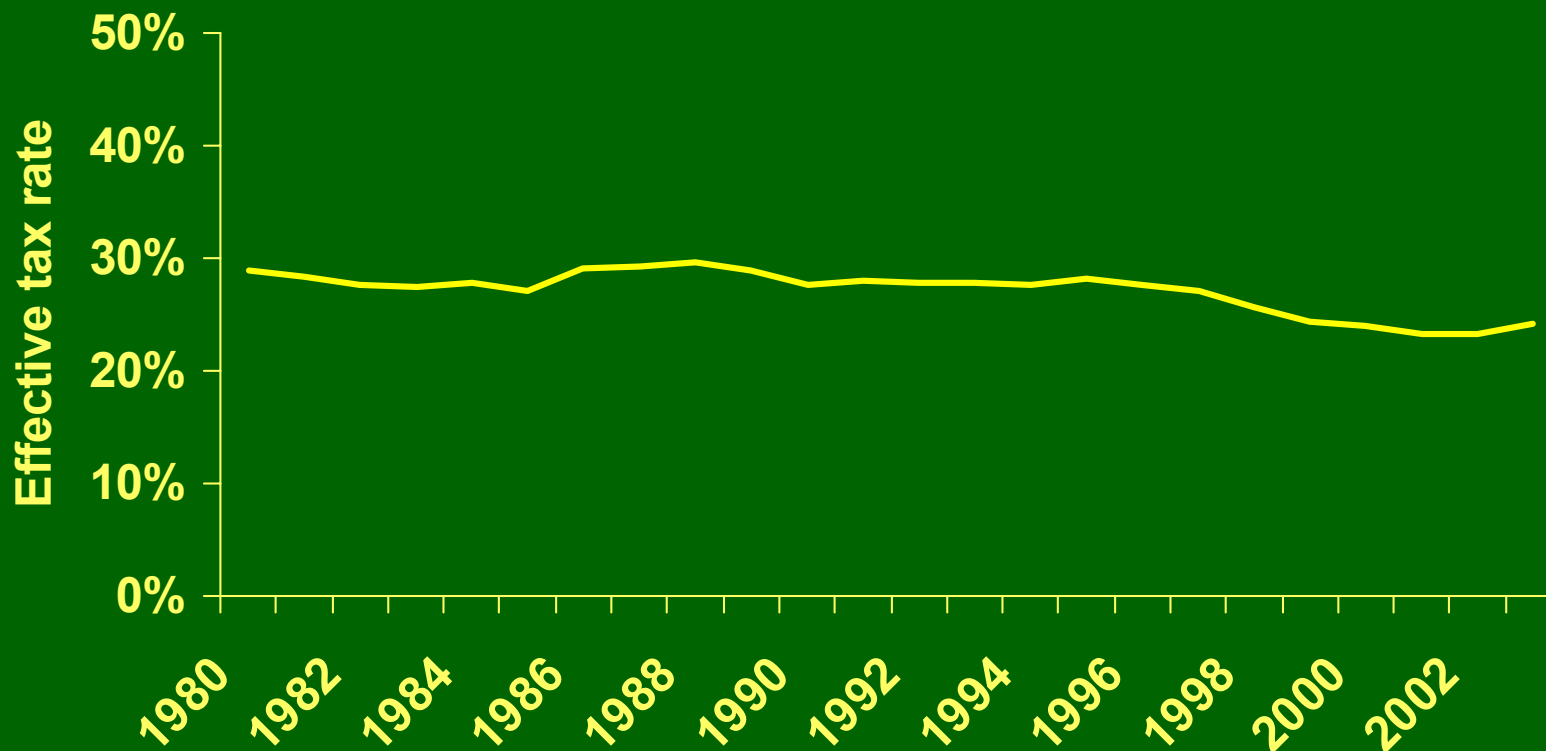


# Effective tax rate on a project that just breaks even



# Effective tax rate on a project that just breaks even

(weighted by GDP)



## Effective tax rates (2)

- But many of most mobile investment projects are highly profitable

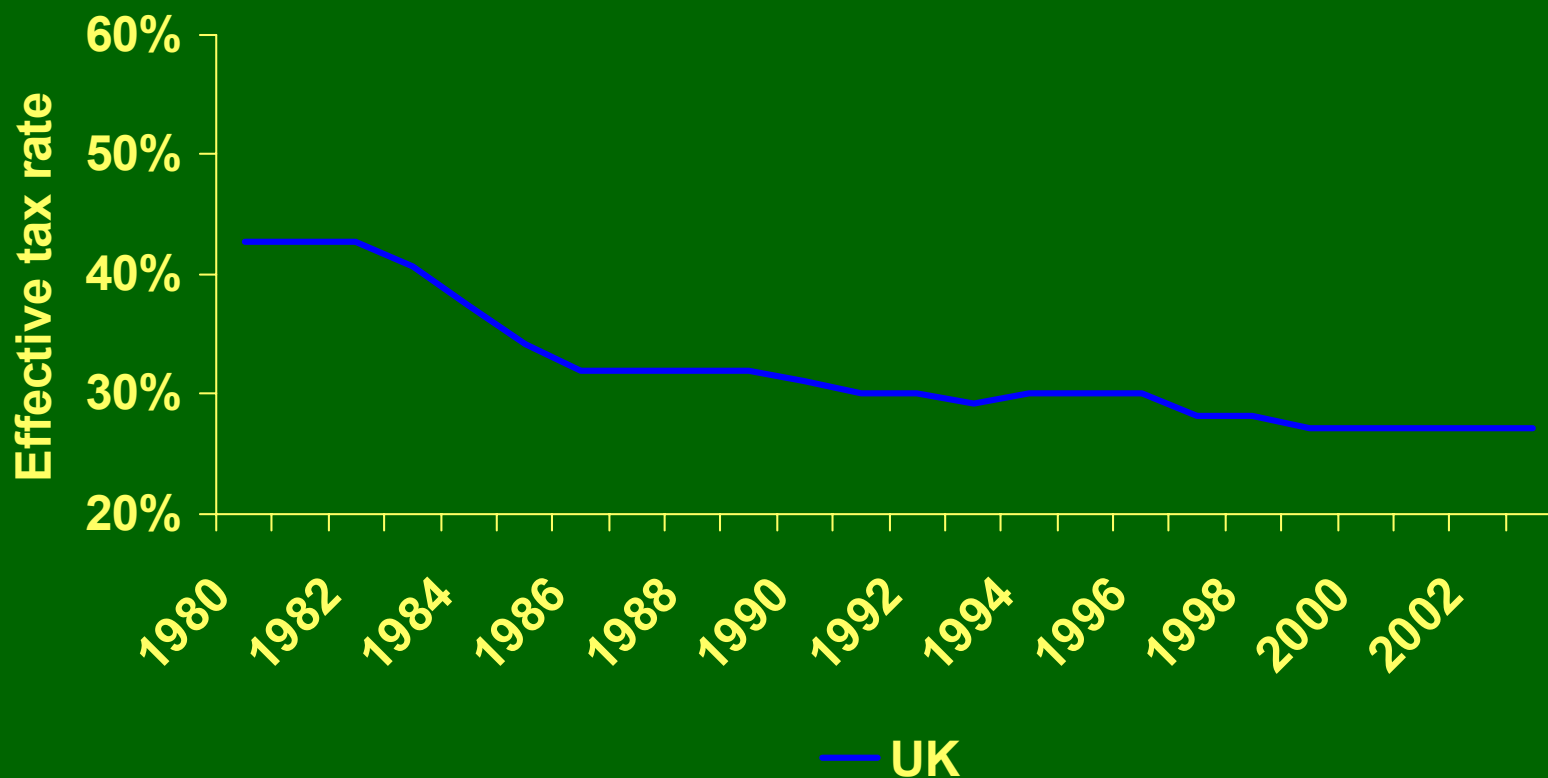
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- The impact of tax system on incentives to invest varies with the profitability of the investment project
- Now show the effective tax rate on a project earning a 20% excess return

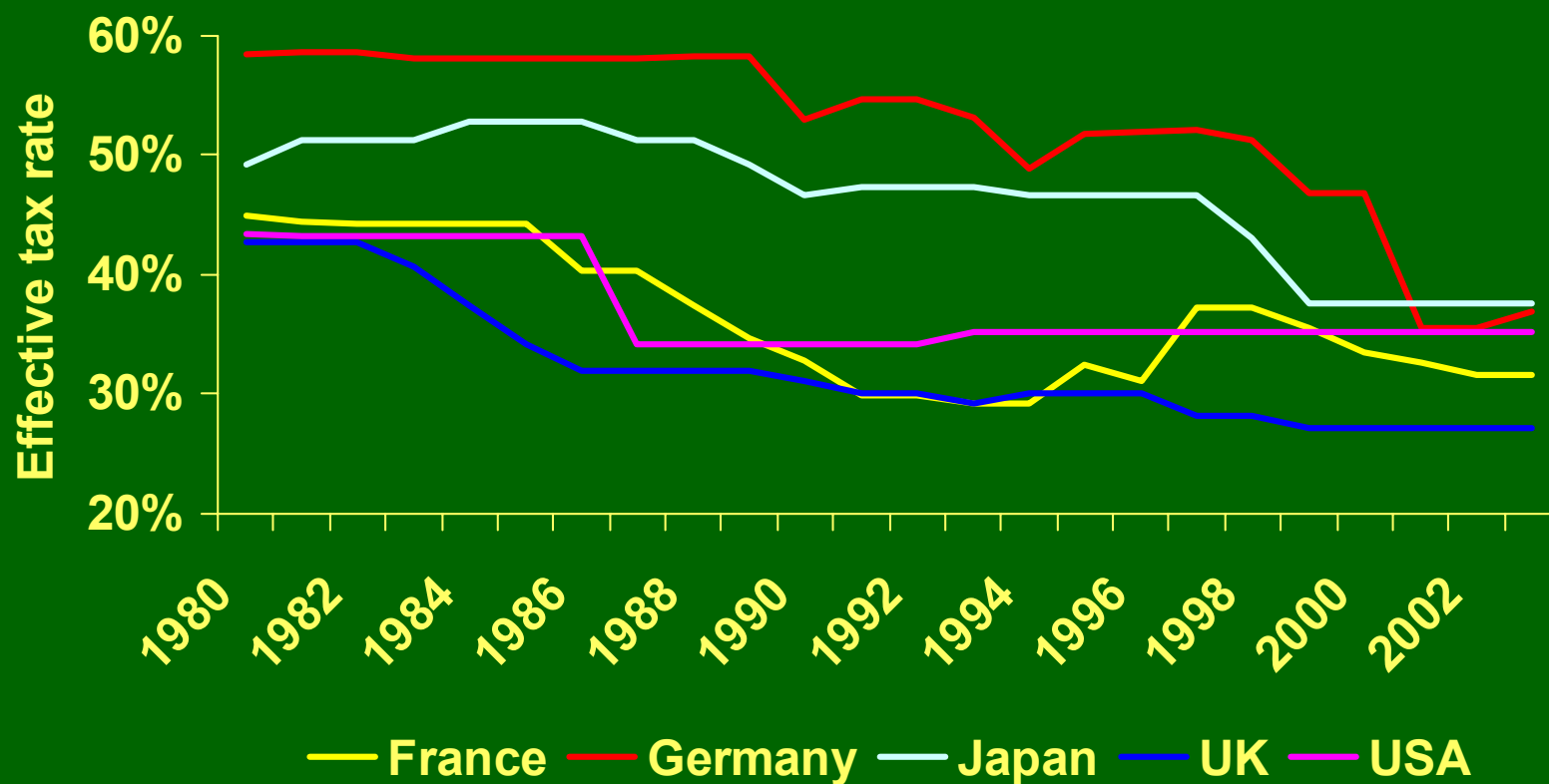
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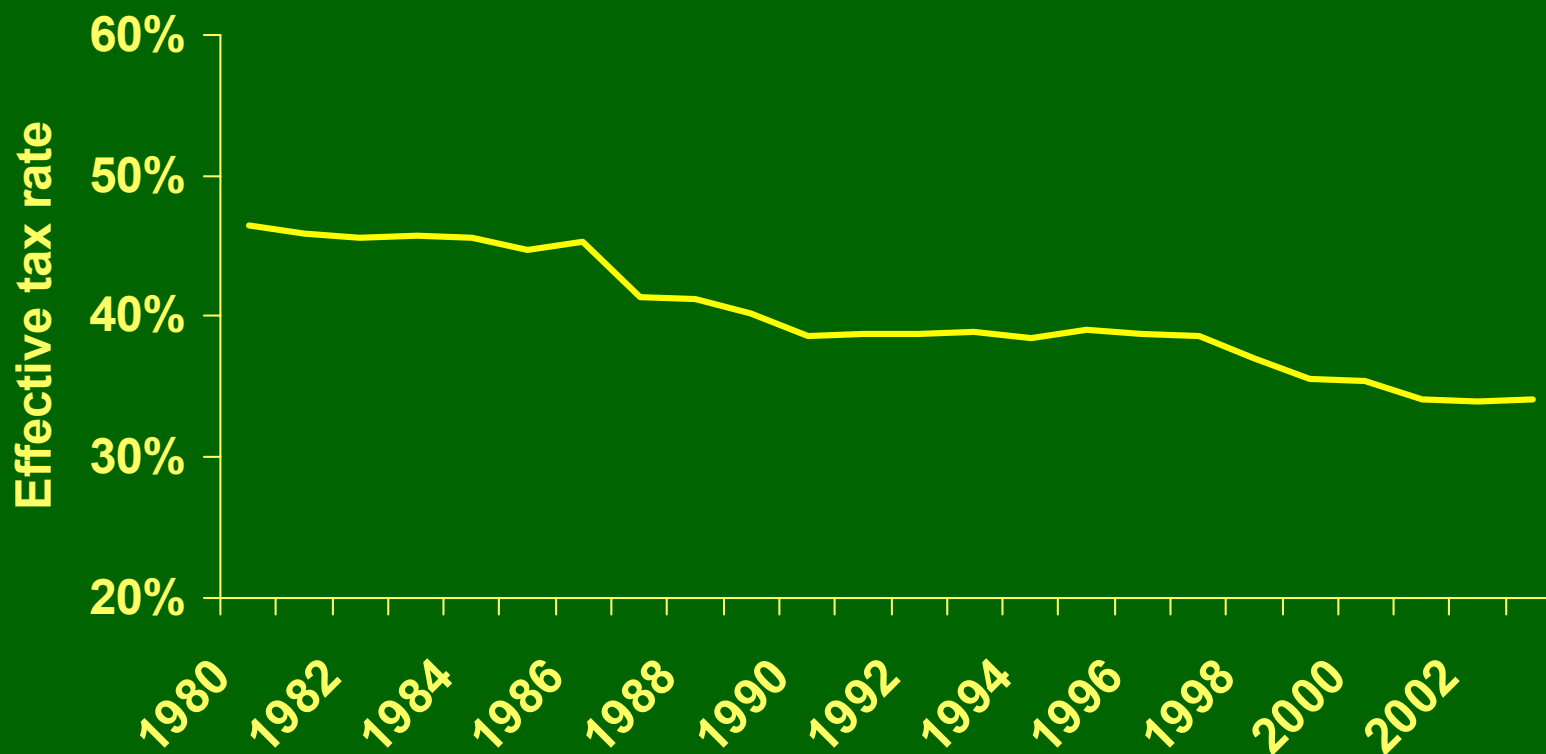


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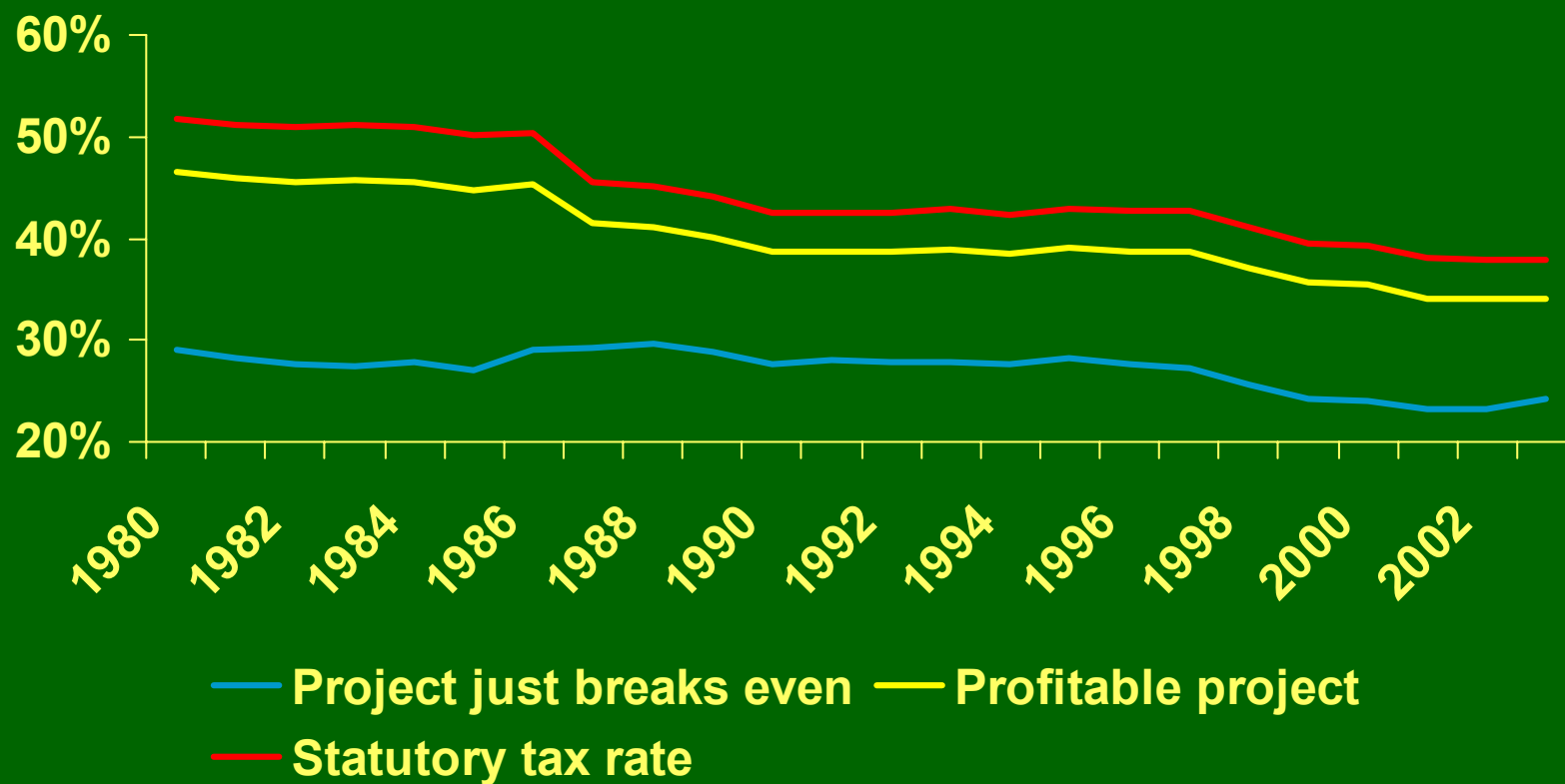


# Effective tax rate on a profitable project

(weighted by GDP)



## OECD average (weighted by GDP)



# Tax revenue

- These have the advantage of reflecting all the complexity of the tax system

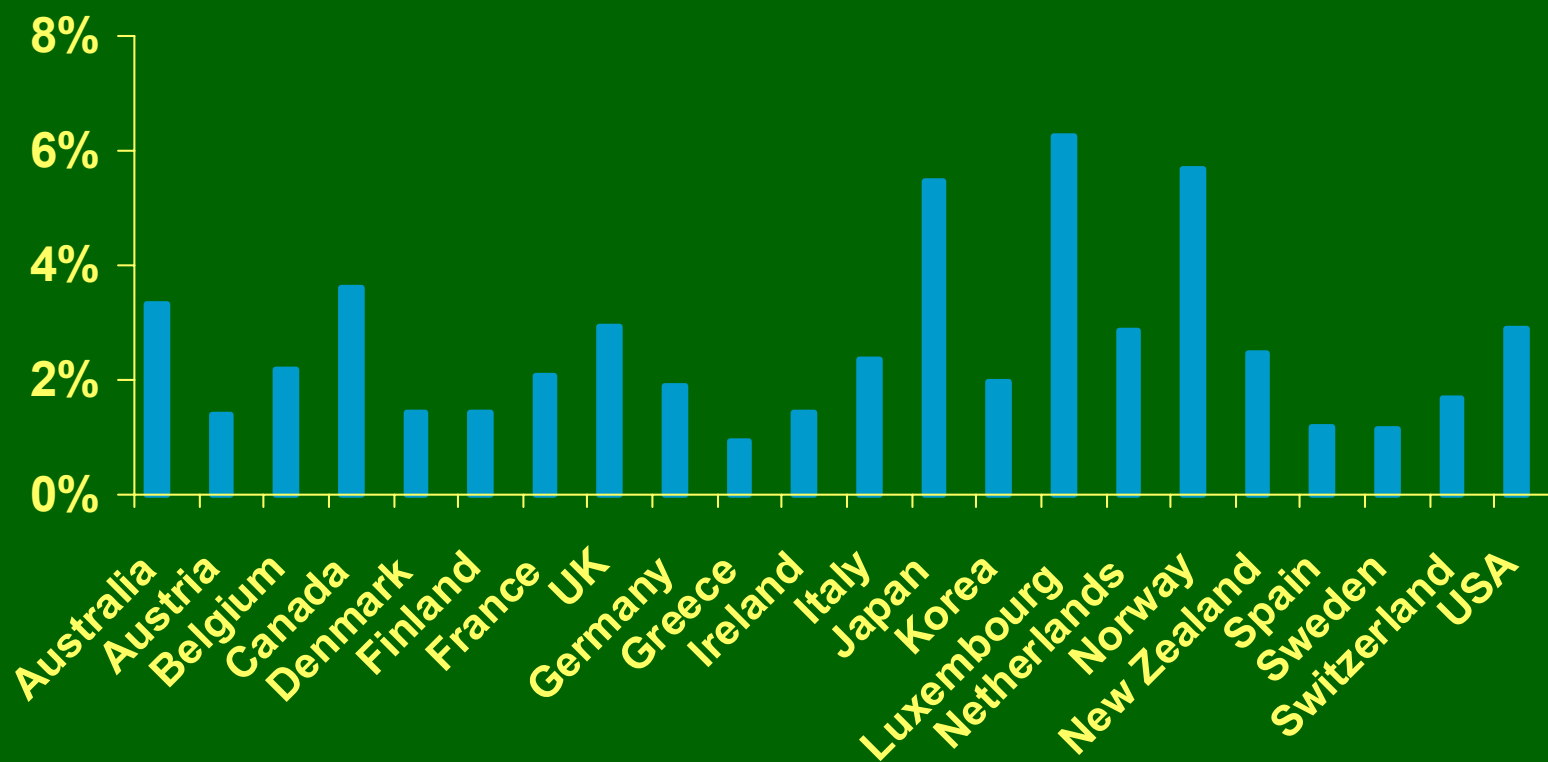
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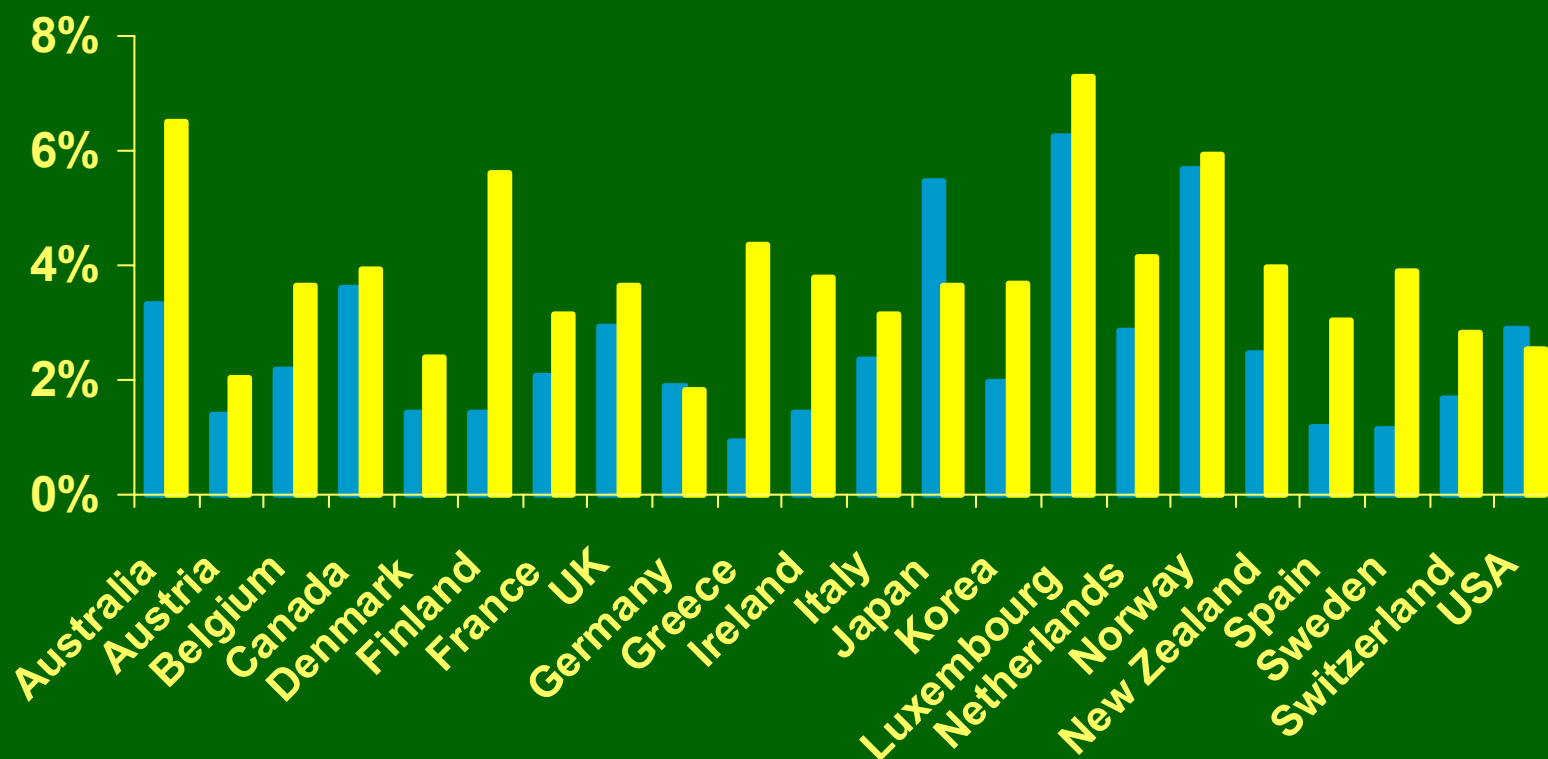
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- Also affected by profitability and size of incorporated sector

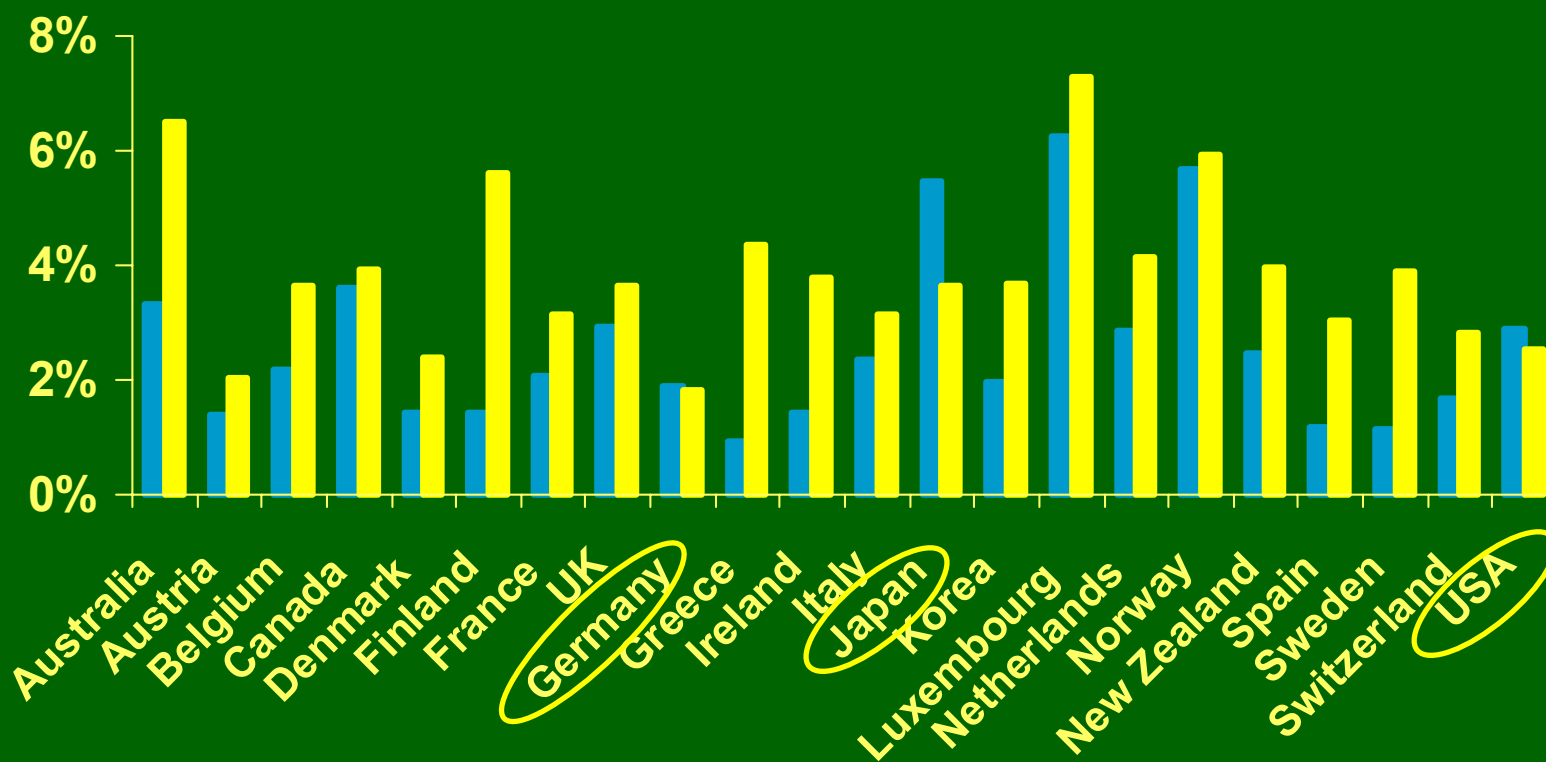
# Corporate income tax revenue as a share of GDP, 1980



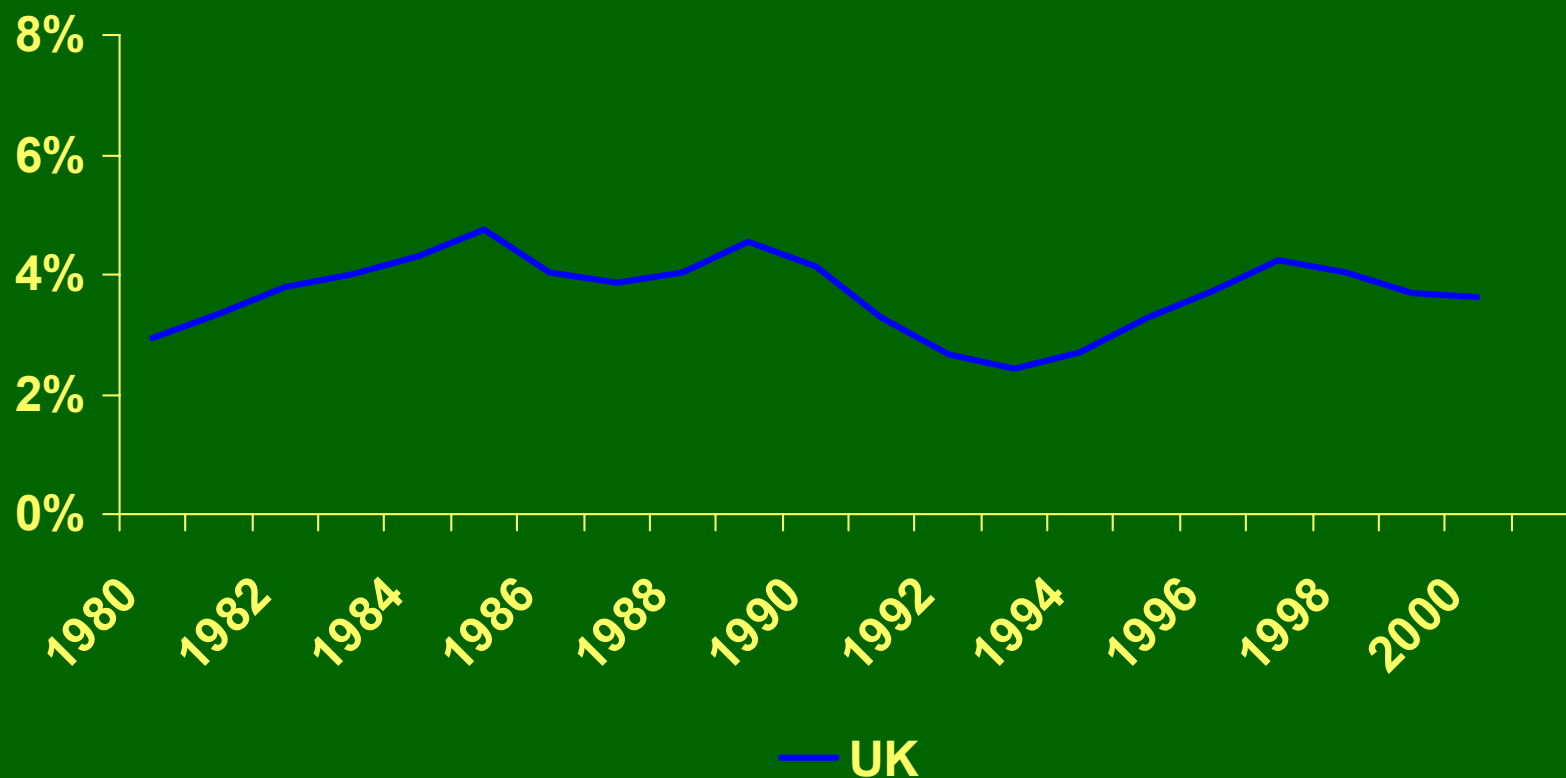
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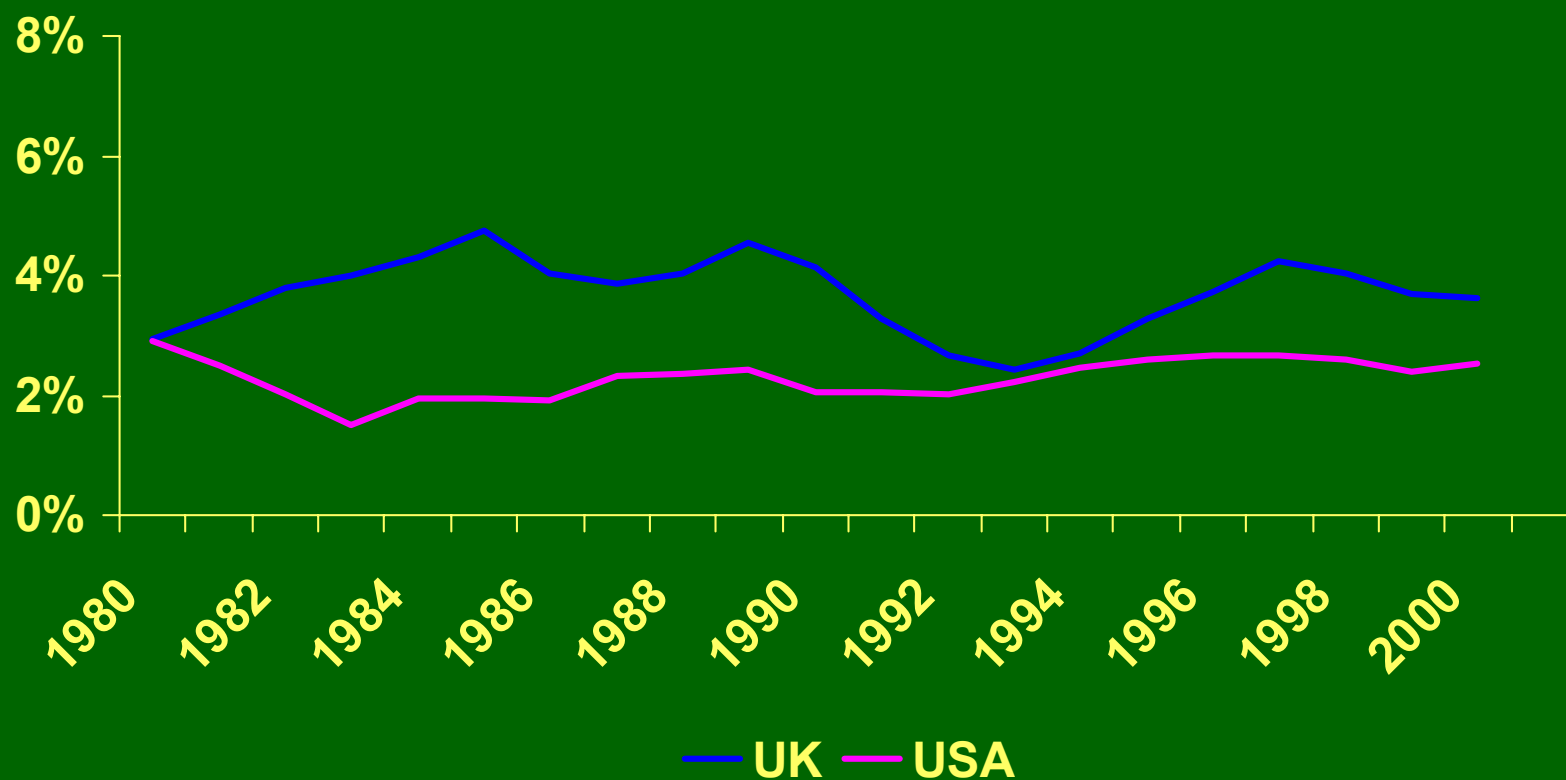
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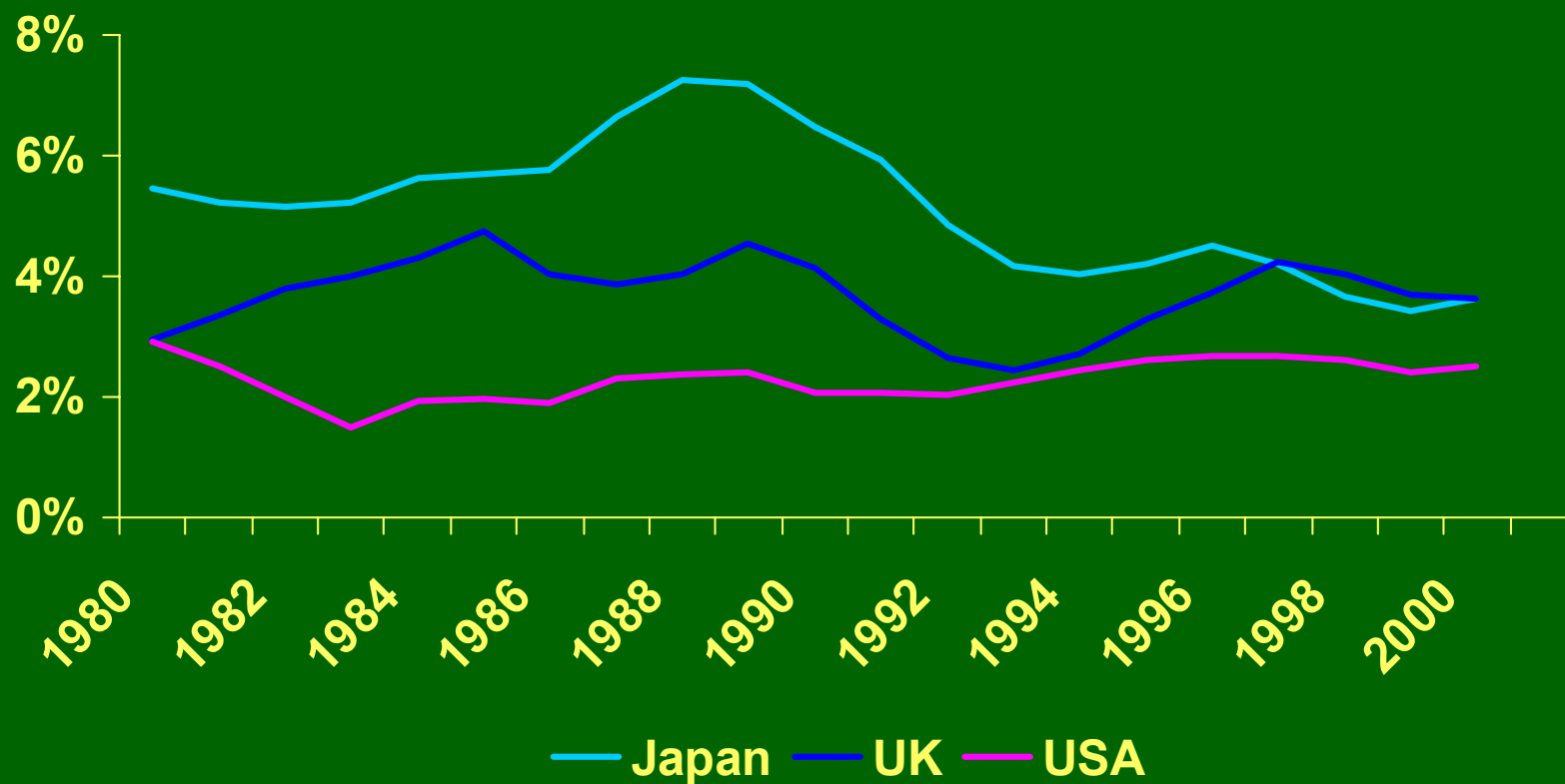
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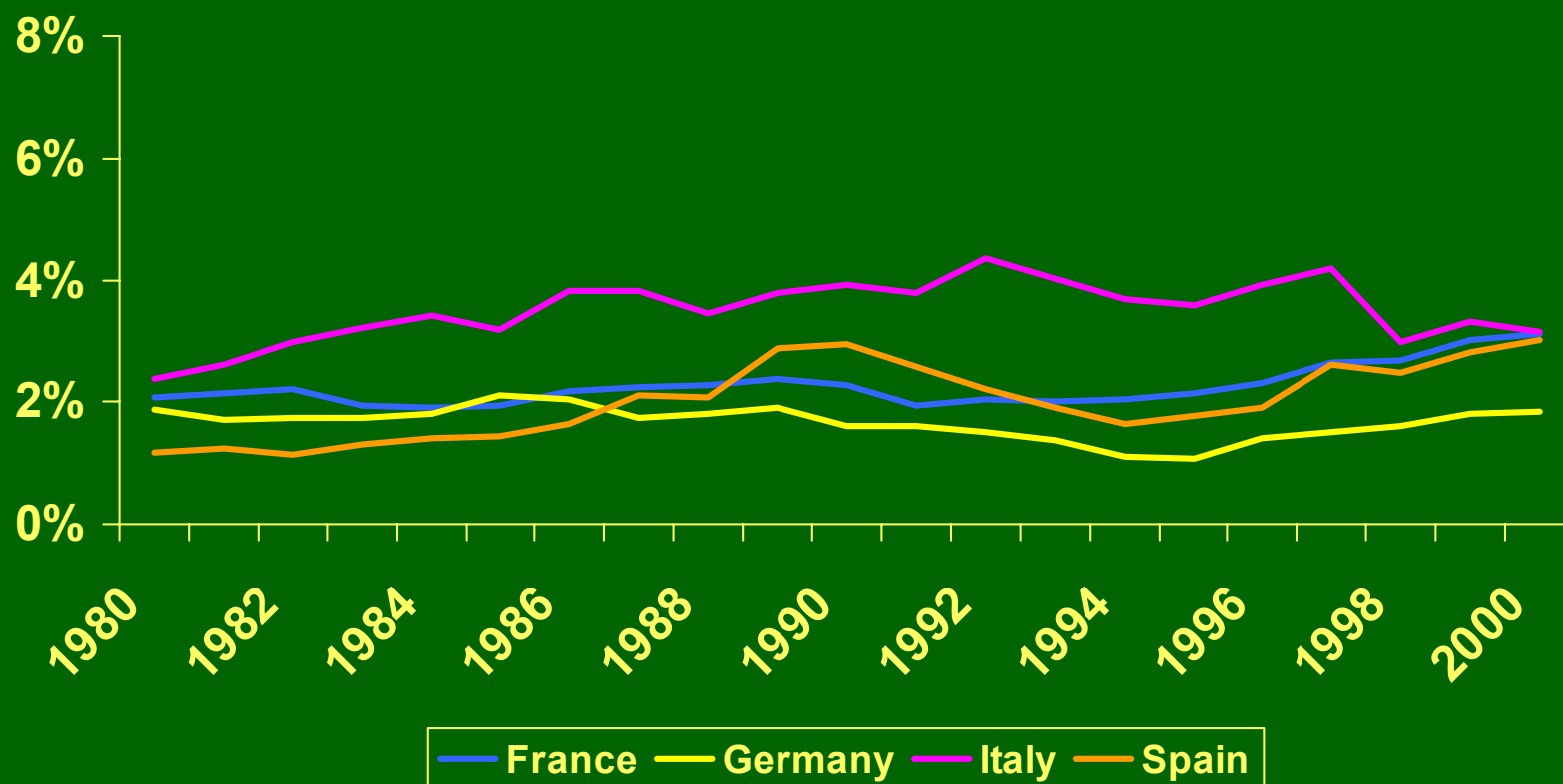
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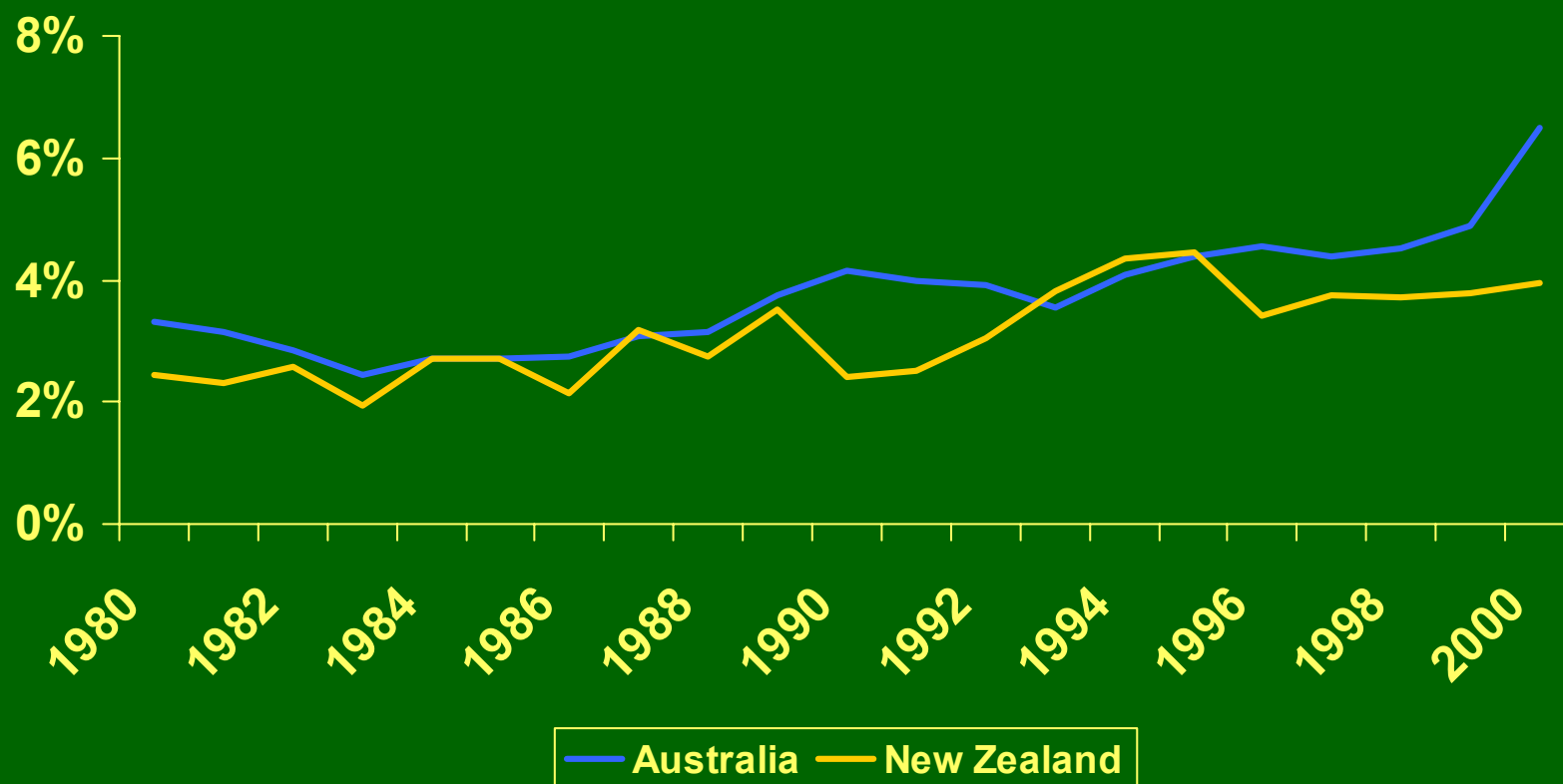
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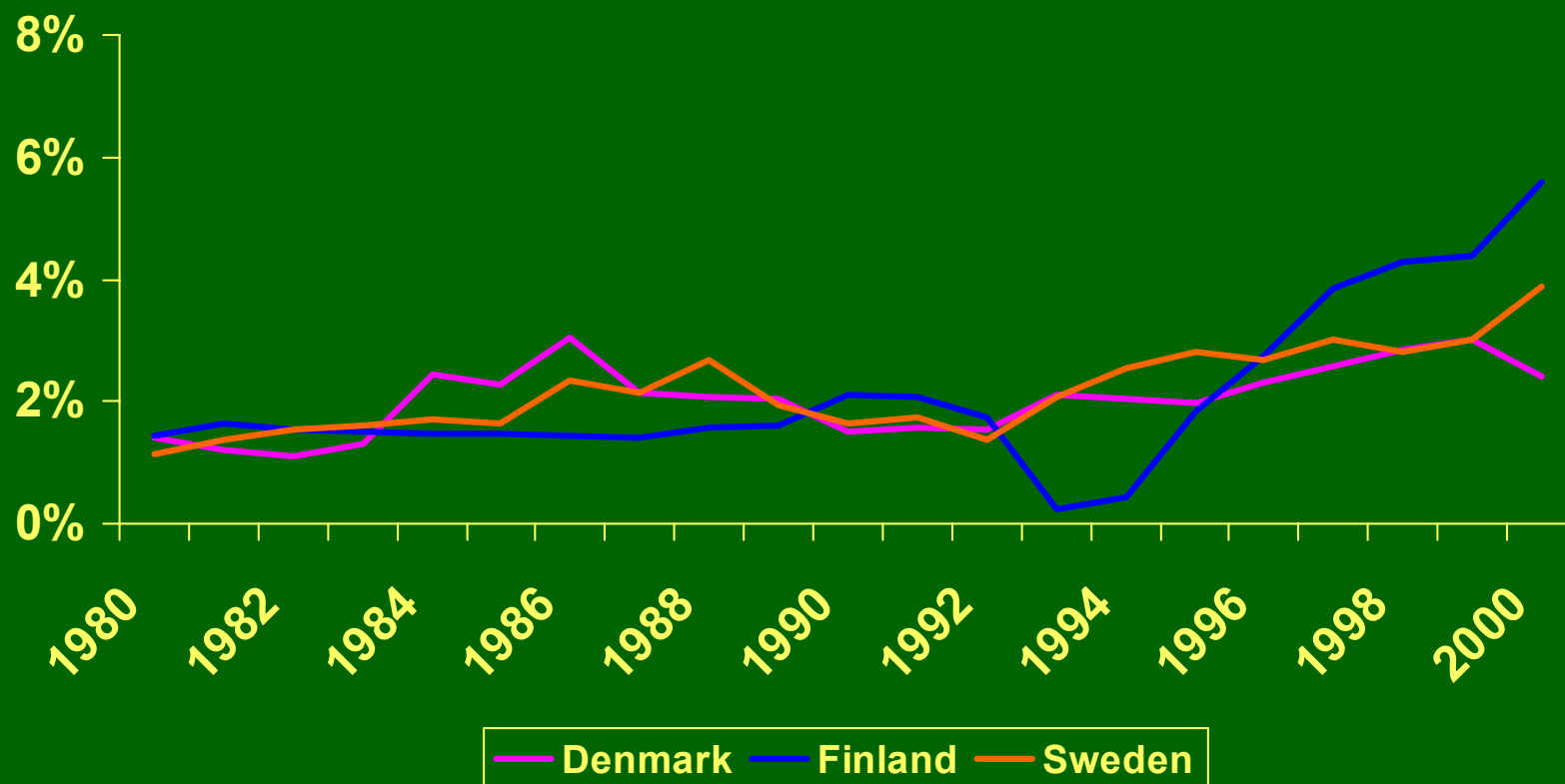
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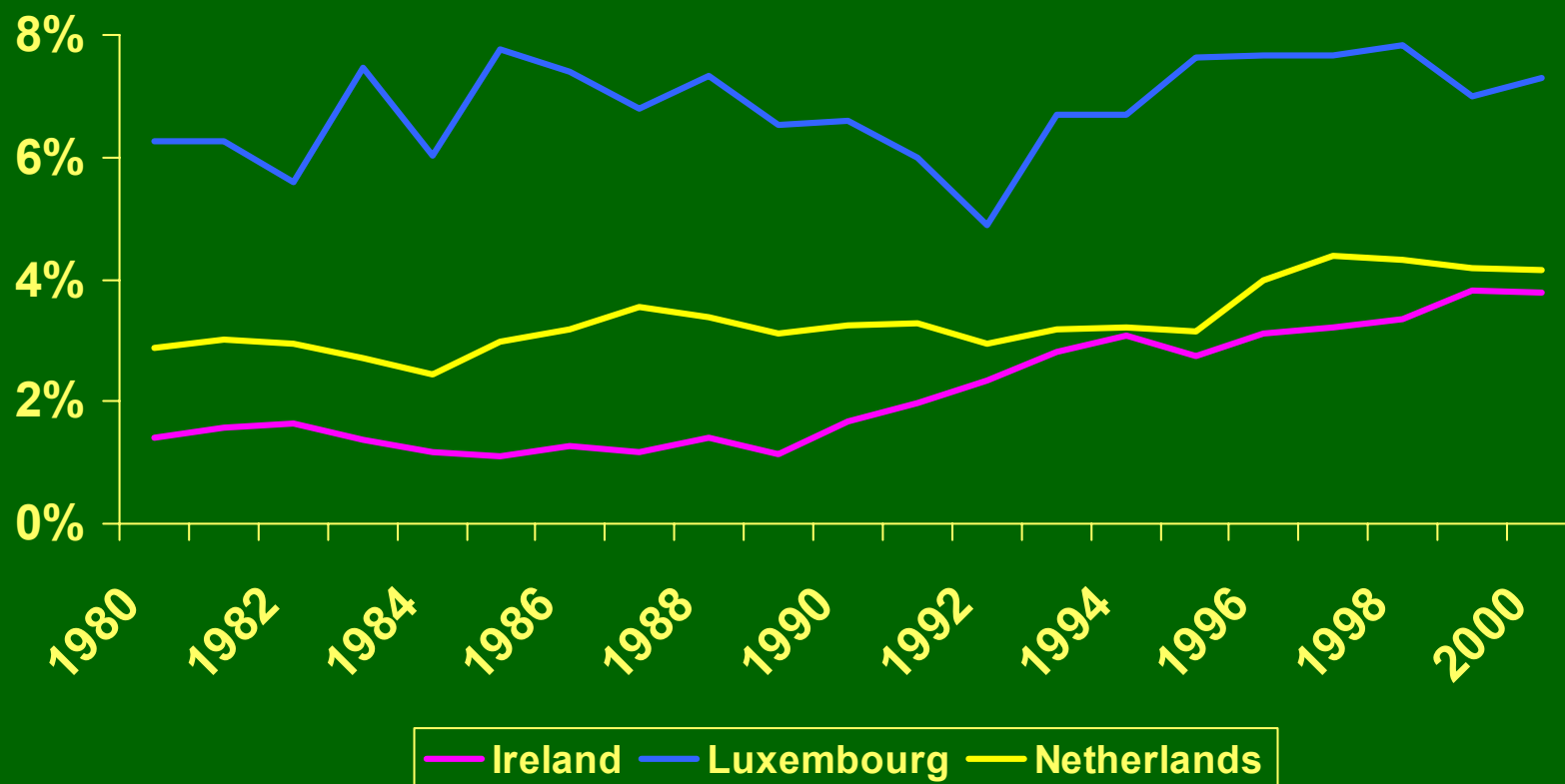
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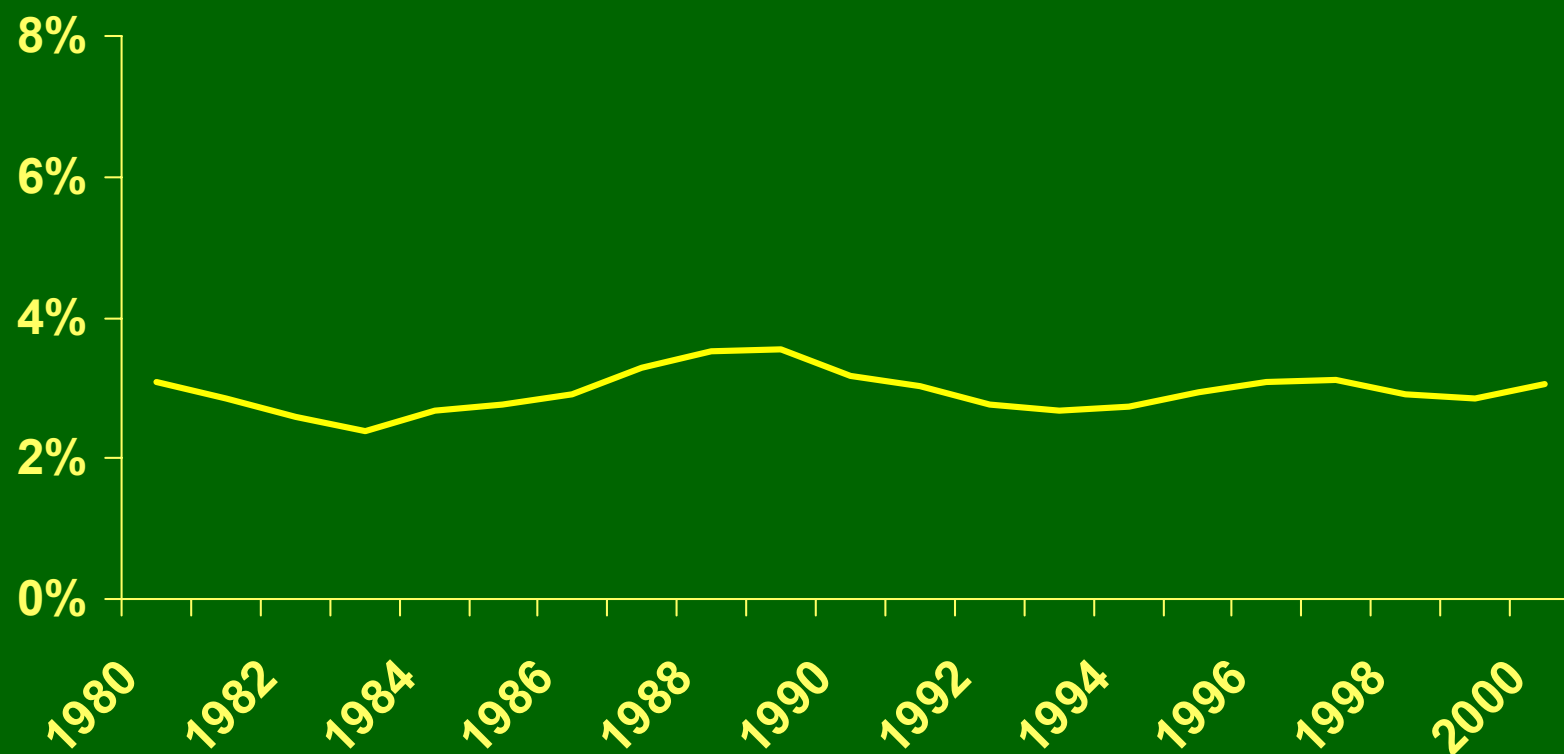
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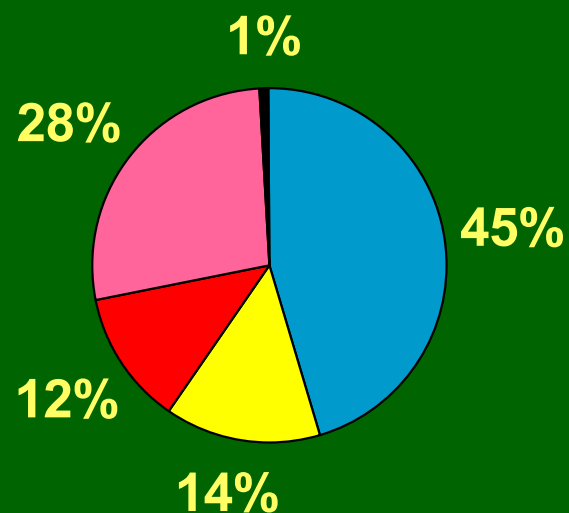
# Corporate income tax revenue as a share of GDP (weighted by GDP)



# Corporate income taxes as a share of total taxes

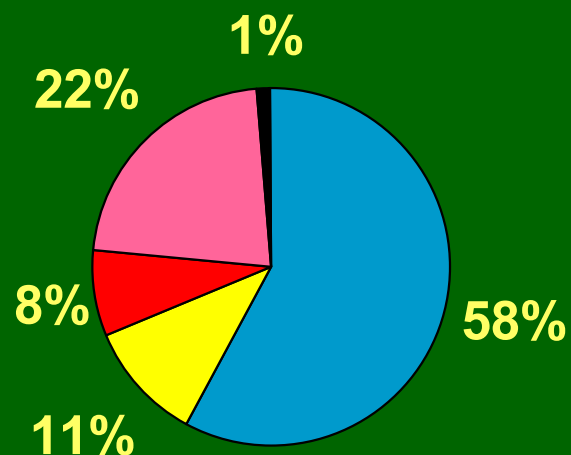
- Total taxes as a share of GDP have risen
- Have corporate income taxes simply gone up in line with general taxes?
- What happened to corporate income taxes as a share of total taxes?

# Share of total taxes, 1965



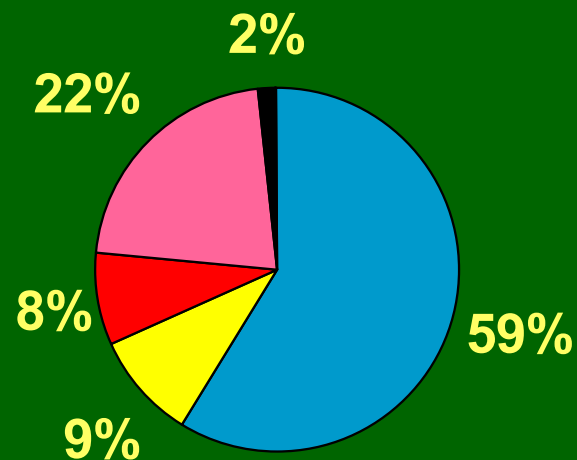
- Personal income taxes
- Corporate income taxes
- Property taxes
- Goods and service taxes
- Other

# Share of total taxes, 1980



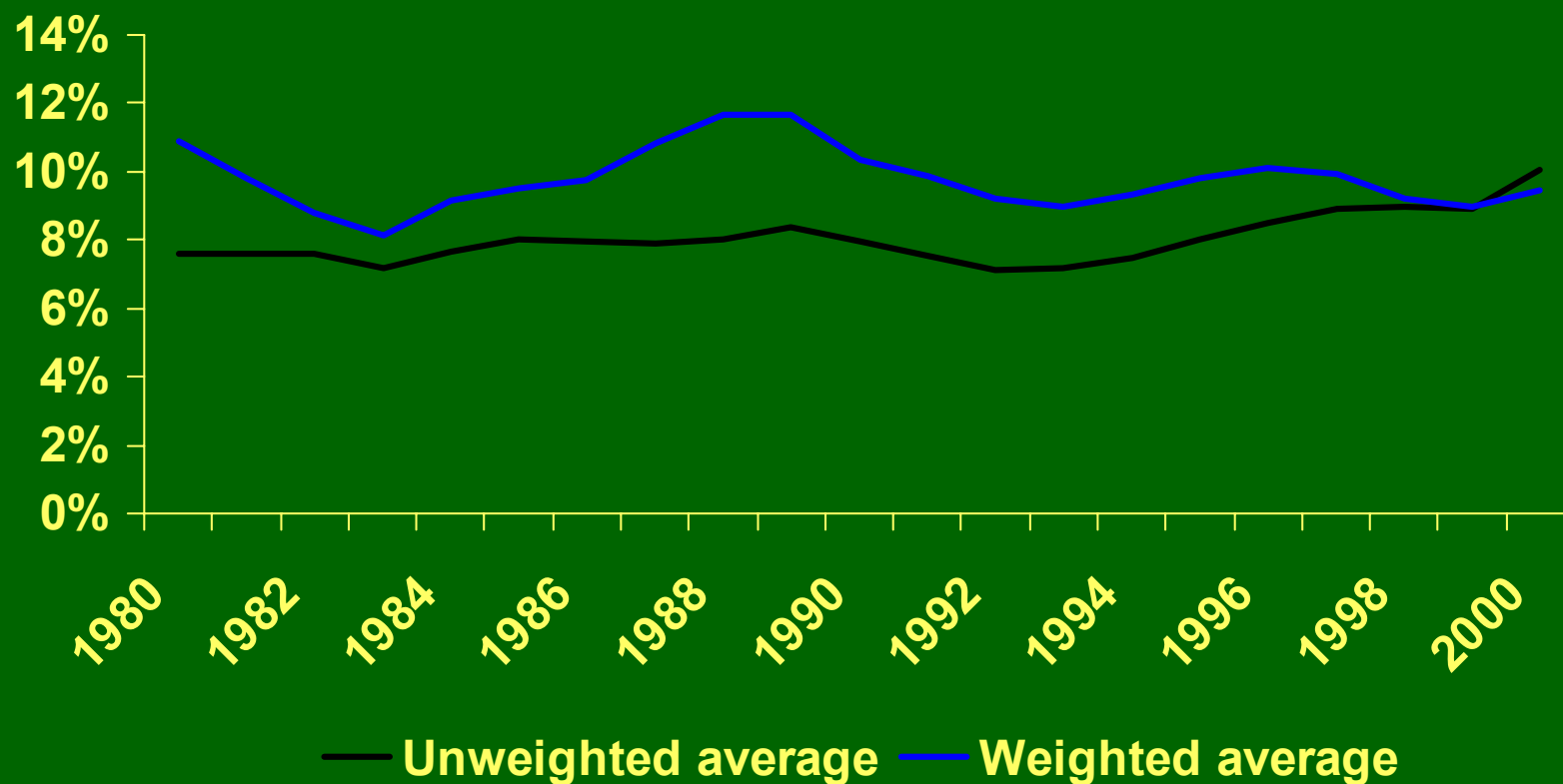
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# Share of total taxes, 2000



- Personal income taxes
- Corporate income taxes
- Property taxes
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# Corporate income tax revenue as a share of total tax



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1. Statutory tax rates fell
2. Tax bases were broadened
3. Effective tax rates remained stable for projects that just break even
4. Effective tax rates fell for profitable projects
5. Tax revenues from corporate income have remained stable
  - as a proportion of GDP
  - as a proportion of total tax revenue

# Multilateral initiatives

- OECD
  - against “harmful” tax competition
  - aimed at preventing revenue erosion

# Multilateral initiatives

- OECD
- EU
  - long history
  - “harmful” tax competition
  - harmonisation/formula apportionment

# Multilateral initiatives

- OECD
- EU
- European Court of Justice (ECJ)
  - EU treaties do not allow countries to discriminate in favour of domestic business
  - will recent actions at ECJ lead to higher taxes?

# Interpretation

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- But largely offset by other changes, e.g.
  - reduction of capital allowances
  - increase in incorporation (?), e.g. privatisation
  - changes in profitability (?)

# Interpretation

- No evidence of “race to bottom”
- Some downward movement in tax rates
- But largely offset by other changes
- Does this suggest
  - tax competition between countries?
  - international cooperation?
  - common intellectual trends in tax setting?