

UNCTAD
World Investment Report 2015

Krister Andersson
BUSINESSEUROPE
krister.andersson@swedishenterprise.se

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

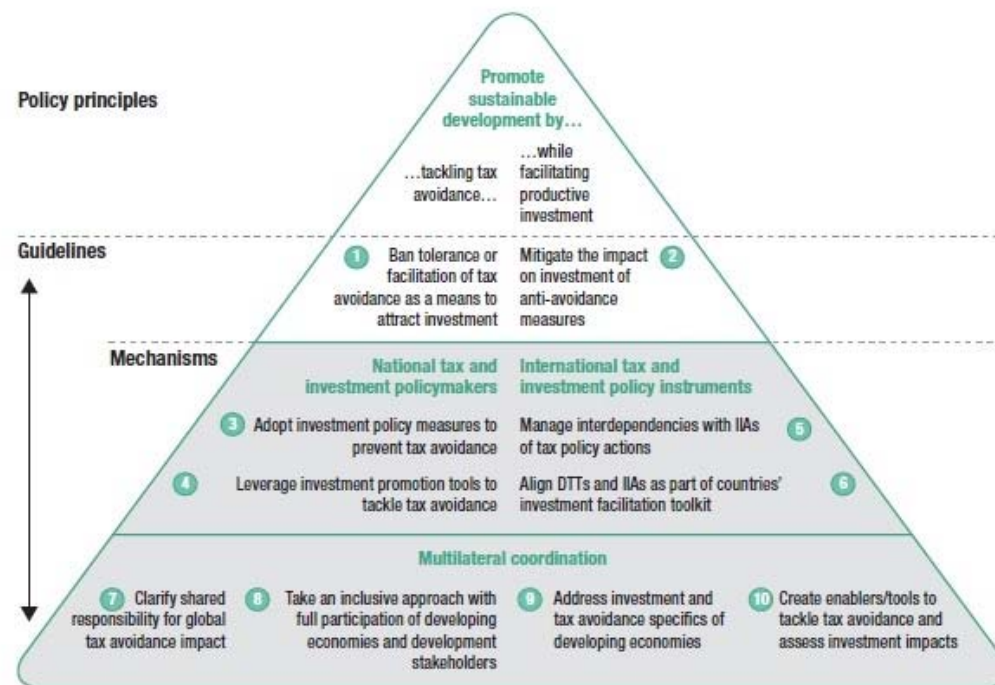


- The report mentions the potential positive impact it would have on developing countries' tax revenues if tax avoidance can be addressed
- The report does however also mention the effect it would have if offshore investment hubs' role in international investment is diminished:
 - Investment will take 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

Figure V.20.

Guidelines for Coherent International Tax and Investment Policies



Source: UNCTAD.

Summary

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- 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