

International Tax Competition and Developing Economies

IMF Conference

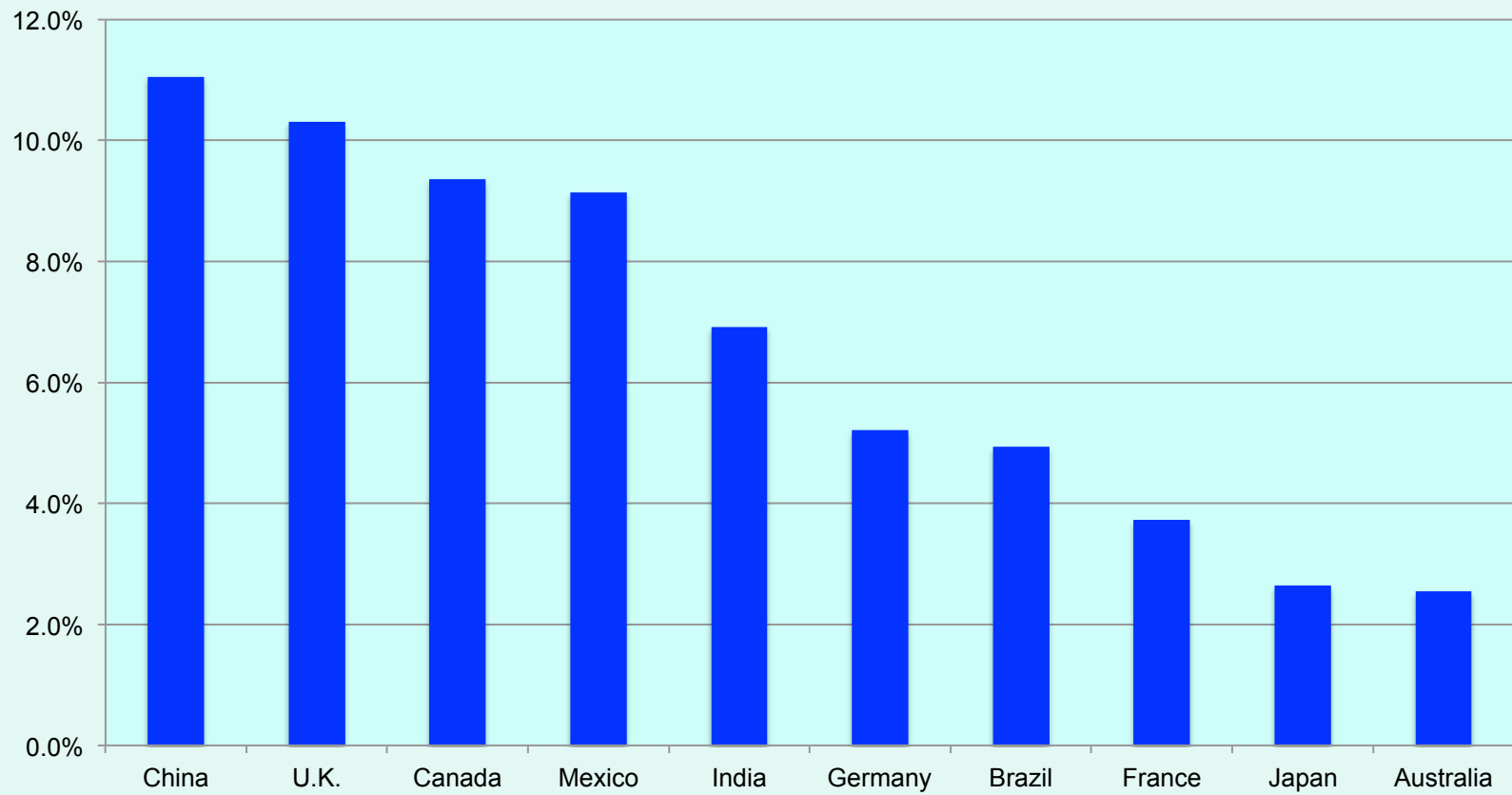
Kimberly Clausing

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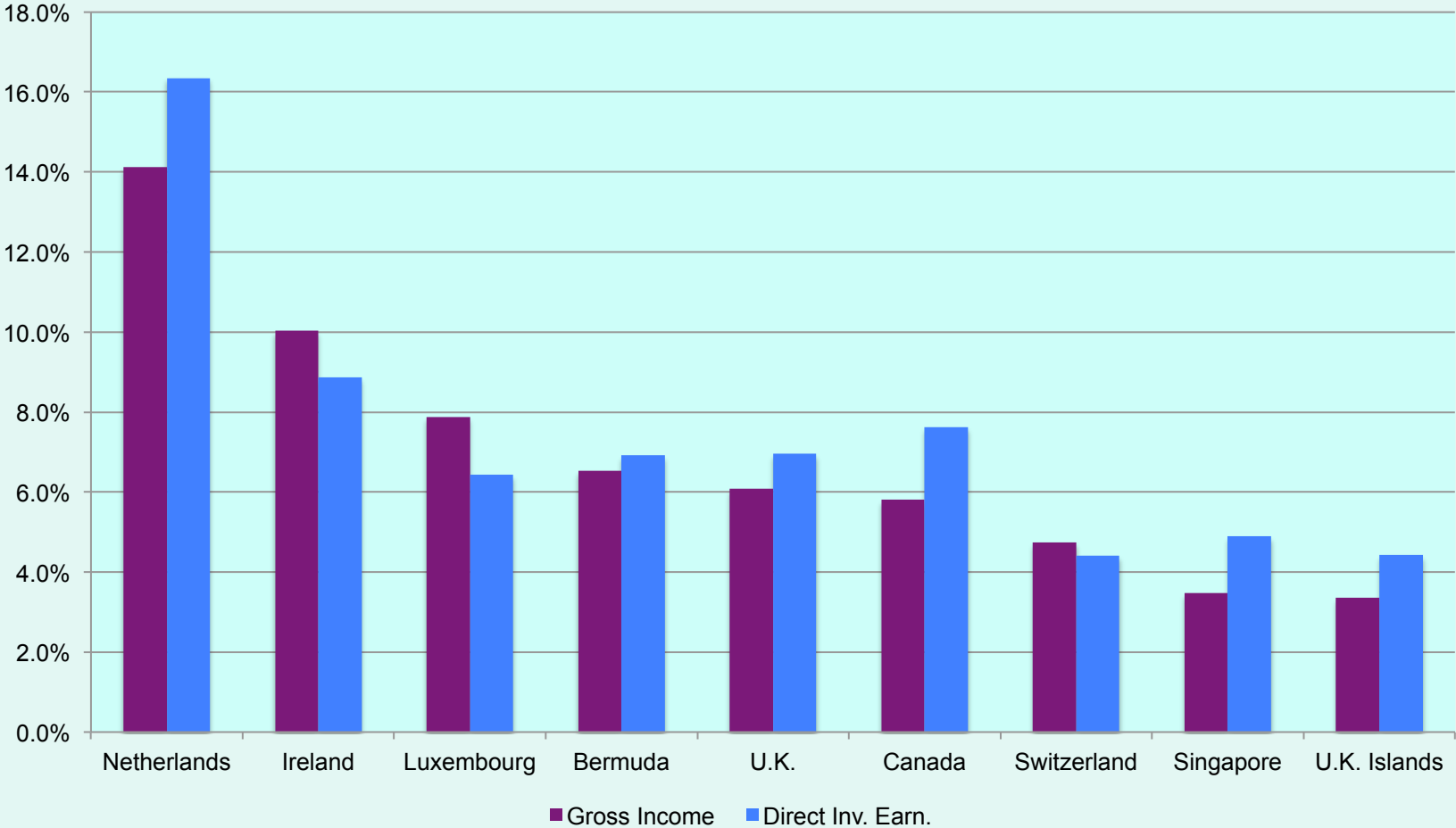
Questions

1. How do countries compete?
2. How do multinational firms respond?
3. What are the consequences of tax competition?
4. What are the lessons for tax policy design?
5. What are the spillover effects from tax reforms?

Top Employment, U.S. MNC Affiliates



Top Income Countries, U.S. MNC Affiliates

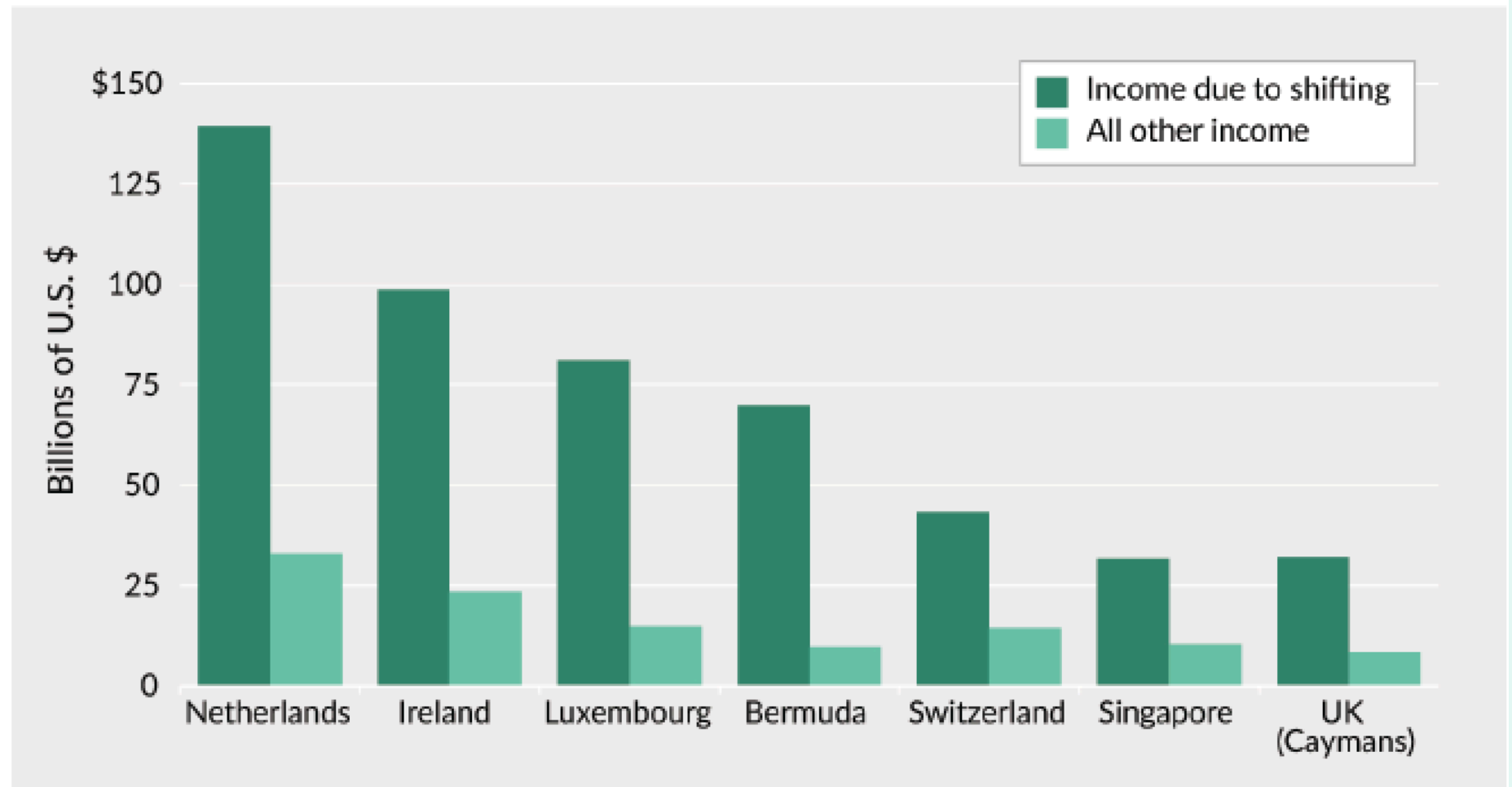


Tax Rates of Top Earnings Countries

Effective Tax Rate	
Netherlands	2.3%
Ireland	2.4%
Bermuda	0.0%
Luxembourg	1.1%
Singapore	4.2%
UK Islands Caribbean	3.0%
Switzerland	4.4%

Seven key profit-shifting locations by U.S. multinationals

Income reported by U.S. multinational corporations in low-tax countries, in billions of U.S. dollars



Source: Kimberly A. Clausing (2016) calculations based on Bureau of Economic Analysis data, described in text and available at BEA.gov.

Policy Options

1. BEPS Ideas (1931 pages of them!)
2. Rate Lowering, Base Protecting with a minimum tax.
3. More fundamental reforms such as DBCFT or Formulary Apportionment

Reforms have big effects on other countries.

Spillover Effects from “Conventional” U.S. Reform ($t=25\%$, min tax= 15%)

- Direct effect: Foreign countries lose tax base.
- Indirect effect: Most countries with tax rates over 15% gain from the minimum tax .
- Indirect effects dominates for most countries.
- Overall, US MNC tax base increases by 33% for foreign non-haven countries.

Tax Base Gains for Non-Minimum Tax Countries, 2010-2013

Year	Total Reported Income in Foreign Affiliates (billions)	Direct Estimated Change in Foreign Affiliate Income (billions)	Indirect Estimated Change in Foreign Affiliate Income (billions)	Total Estimated Change in Income (billions)	Percent Change in Income
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Average: 2010-13

All Non-Min Countries	275.3	-40.2	129.1	89.0	33.2%
Non-Min, Non-OECD	132.7	-19.4	61.2	41.8	31.6%
Non-Min, OECD	142.6	-20.4	66.6	46.2	34.4%

**Countries with Biggest US Foreign Affiliate Tax Base Changes
(Average, 2010-2013)**

As Share of US Affiliate
Tax Base, Ranked
(All greater than 45% Increase)

Greece
India
Italy
France
Germany
South Africa
Honduras
Philippines
Ecuador
Brazil

As Share of US Affiliate
Tax Base, Ranked
(All greater than 30% Decrease)

Bermuda
Luxembourg
Cayman Islands
Barbados
Ireland
Netherlands
Singapore
Switzerland
Austria
Hong Kong

What about the DBCFT? A better way?

- Unilateral adoption is not good for other countries.
- Tax base loss due to greater profit shifting.
- Incentive to move production to DBCFT countries.
- Disruption in the short run, a relevant time period.
- Harmful effects on the world trading system.

But promising if we can move toward multilateral adoption first.