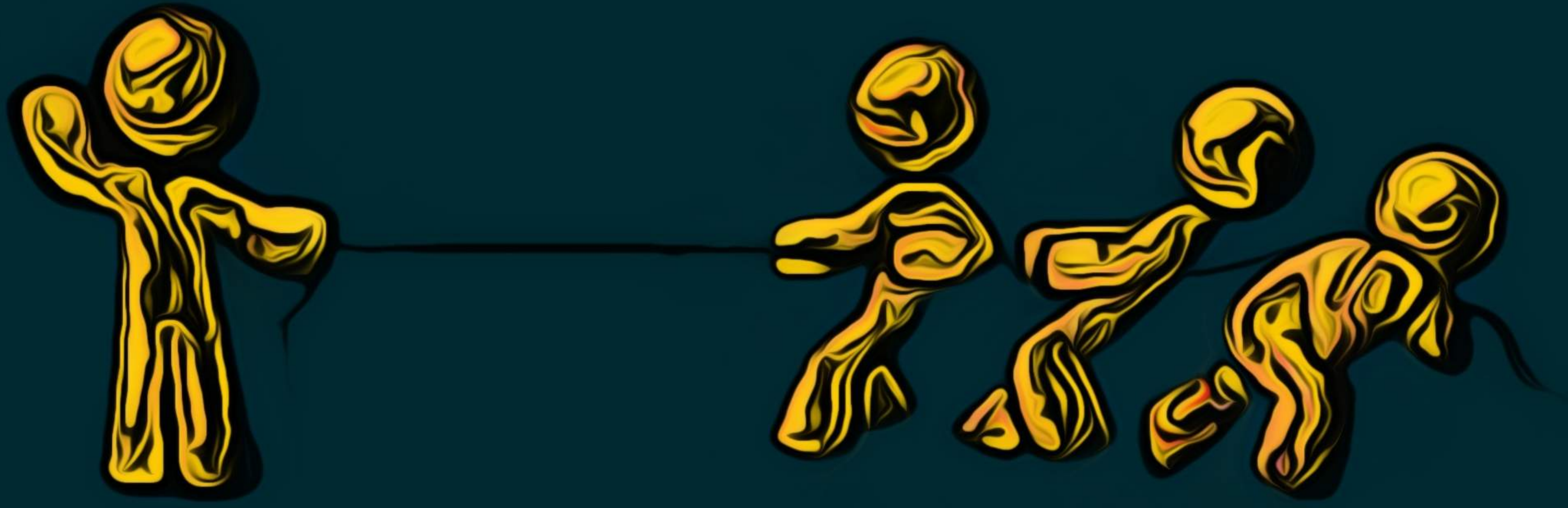
Who Should Tax Multinationals?



by Vincent Arel-Bundock and (the wonderful) André Blais

1921

100 years

2021

Mathias Cormann
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BREAKING NEWS:
136 out of 140 #OECD/#G20 Inclusive Framework members join the deal to reform our international tax system to make it fairer and work better in a digitalised, globalised world economy, including:
- All G20 countries ✅
- All EU countries ✅
- All OECD countries ✅

The Question of Representation

Inclusive Framework:

- Representatives ~140 countries. Wow!
- Many worry that some of those voices were louder than others.

Deeper(?) problem:

- International tax laws are designed in a small epistemic community. True in 1921 & 2021!
- Lawyers, accountants, economists, those who attend this symposium.

Should we care about the views of non-experts?

Public opinion on international taxation matters

Political:

- Left-wing response to Right-wing populism

Media & Tax Justice advocates

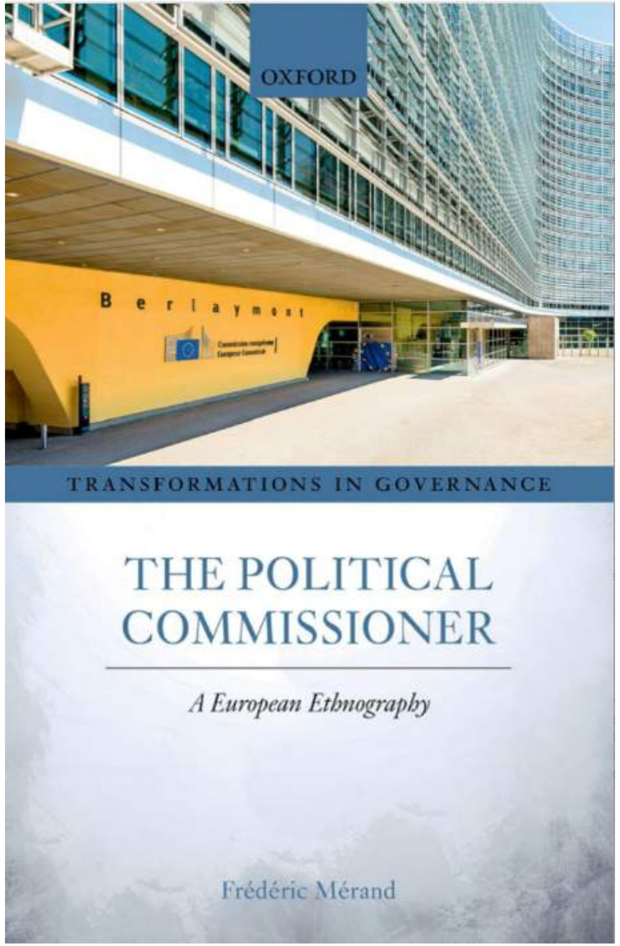
- Appeal to the public by focusing on allocation

Acceptability:

- Who gets revenues -> Satisfaction

Normative:

- Tiny epistemic community vs. Democratic accountability.
- If elites want to push through counter-intuitive policies, they must bear the burden

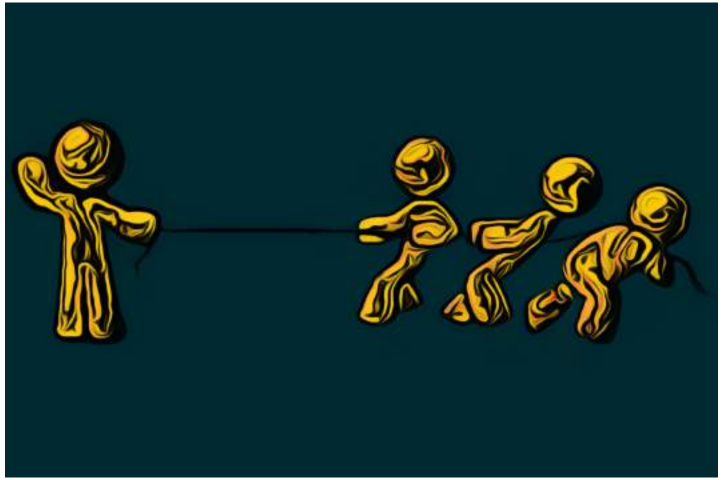


Two related but *distinct* distributional conflicts

How much tax?

Massive literature in political economy
Determinants of tax policy
Race to the bottom
Preferences over form and level of redistribution

Who collects it?



Critically understudied

Today: No new theory of taxation. We establish key facts about public opinion on tax base allocation.

Tax allocation is salient among elites

> Internet giants do not pay taxes *in our country* to an extent that would match their profits *in our country*.

Czech Finance Minister, 2020

> It's not possible, not sustainable, that we tax manufacturing industries while billions in profits earned by Google, Apple, Facebook, and Amazon *on European soil* evaporate.

French Finance Minister, 2020

In this paper, we look at public opinion.

TLDR

Two Empirical Questions:

1. Can "normal" people express consistent views or intuitions about a complex topic like this?
2. If so, what are those intuitions?

Methodology:

- Survey 6000 people in Brazil, France, and the US.
- Embed randomized experiments to probe respondents' "fiscal intuitions" about simplified tax base allocation schemes.

Results:

1. Market-based tax allocation
2. Digital services tax
3. Headquarter-based allocation
4. Home bias
5. Results are consistent across countries and studies.

Surveys

2000 respondents per country, in a sample of important and meaningfully different countries:

- Brazil
- France
- United States

3 studies:

- Experiment #1: Allocation factors
- Direct elicitation
- Experiment #2: Digital taxation

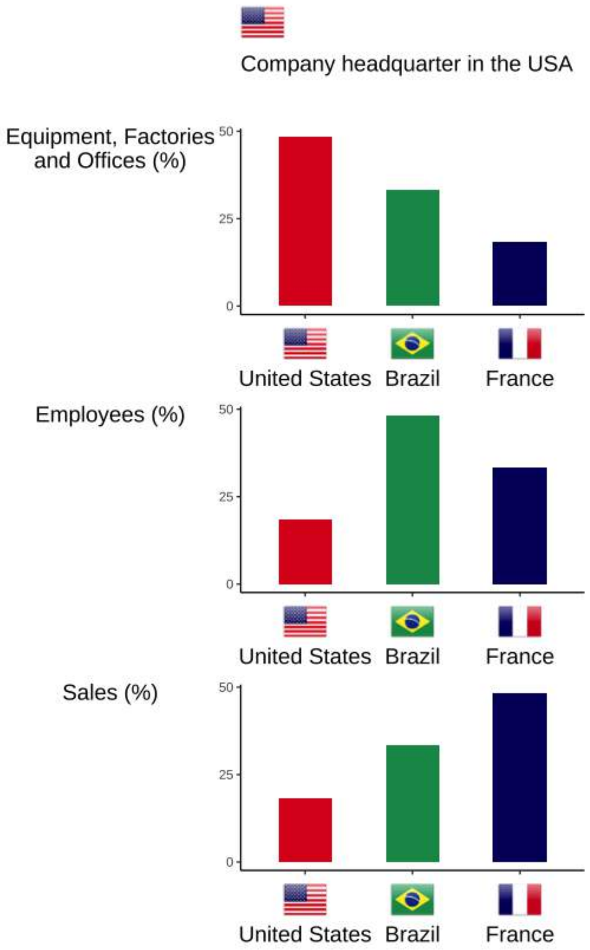
Study 1: Experiment

Company with random characteristics

- Location of headquarter
- Share of sales in country X
- Share of employees in country X
- Share of equipment in country X

Outcome: Allocation of a fixed amount of tax revenues

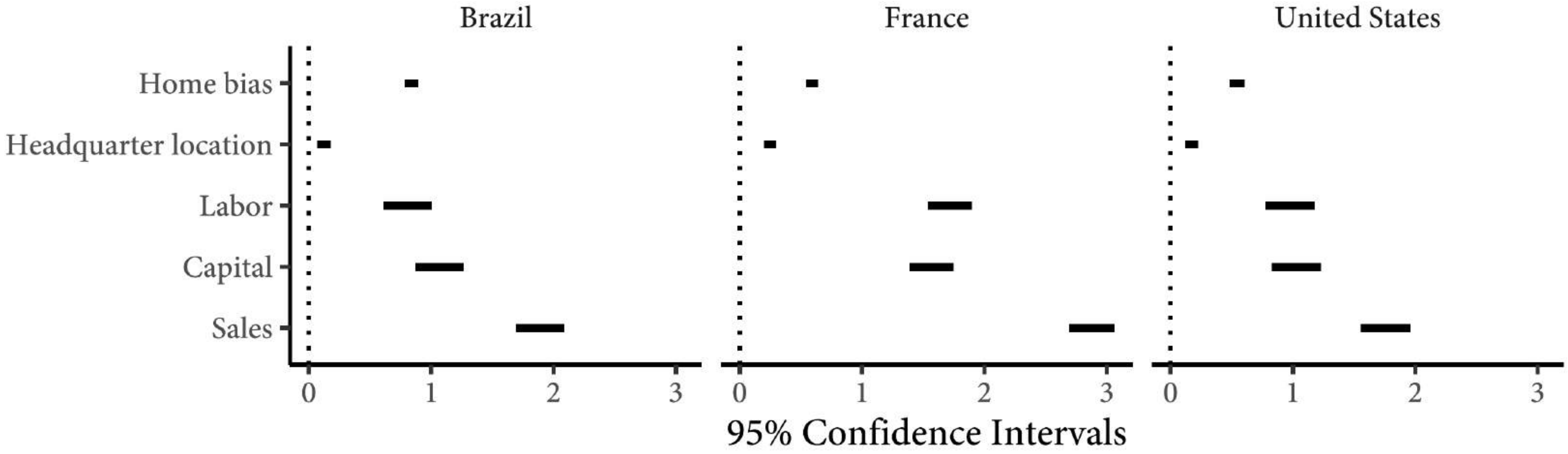
- If the company has to pay 10 million $ in worldwide tax. What share should go to Brazil, France, US?
- 3 tax numbers per company. Repeat the task 4 times.
- Unit: Respondent-Country-Task



Study 1: Tax Allocation Experiment

$$\text{Tax}_{rct} = \beta_0 + \beta_1 \text{Home}_{rct} + \beta_2 S_{rct} + \beta_3 L_{rct} + \beta_4 K_{rct} + \beta_5 H_{rct} + \varepsilon_{rct}$$

- Home bias: People allocate 1/10th more revenues to their own government
- Headquarter location does *not* matter
- Sales location matters most
- Near identical results across countries



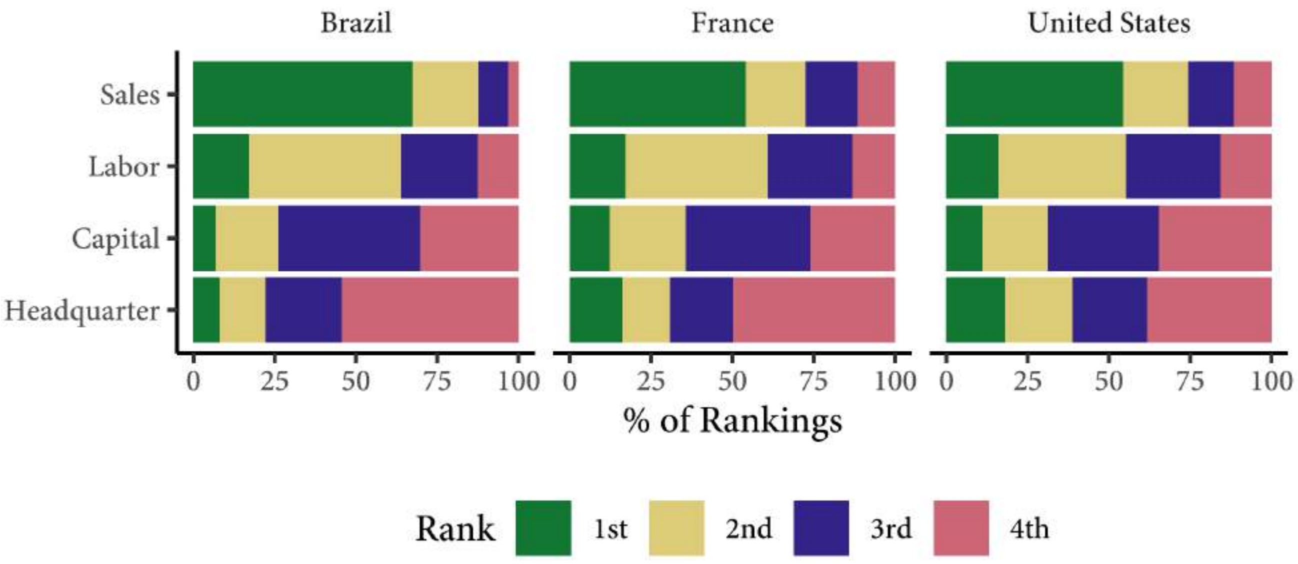
Study 2: Direct Elicitation

Are people answering randomly? Ranking question:

> "The amount of taxes that a multinational company pays in the different countries where she does business should depend first and foremost on..."

Sales > Labor > Capital > Headquarters

Remarkably consistent. People can express consistent "fiscal intuitions" about a complex topic.



Study 3: Digital Services Tax experiment

Vignette:

- Intro to "Digital Services Taxes": without physical presence a digital firm with many users in a country could end up paying little CIT there.

Control Group:

- Nothing else. Measure the baseline level of support for the idea.

Randomized treatments: Two important criticisms of DSTs.

Industry discrimination:

> “Opponents of the digital tax argue that it is unfair, because this tax targets big digital companies, but not other kinds of companies.”

Location discrimination:

> “Opponents of the digital tax argue that it is unfair, because this tax mostly targets big digital companies from the United States, but not companies from other countries.”

Study 3: Vignette experiment

Results:

- Respondents in all 3 countries love the DST.
- Our interpretation: location of market / users is (again) an intuitive criterion.
- The counter-arguments we presented did not affect support, even in the US.

Summary

1. Results are consistent across countries and studies.
2. Market-based tax allocation
3. Digital services tax
4. Headquarter-based allocation
5. Home bias

...so what?

So what? Market-based allocation

Score one for allocation mechanisms based on market/customer/user location.

- Destination-Based Cash Flow Tax
- Sales-Based Formulary Apportionment
- Digital Services Tax

These are very different taxes, and our simplified scenarios did not match any of them exactly, but the general idea is intuitive to people.

So what? Headquarter-based allocation

Starbucks 'paid just £8.6m UK tax in 14 years'

16 October 2012

> According to the Reuters investigation, Starbucks generated £398m in UK sales last year but paid no corporation tax.
>
> It found Starbucks had made over £3bn in UK sales since 1998 but had paid less than 1% in corporation tax.

Will Pillar 2 (headquarter-based) stop journalists and advocacy groups from pushing these narratives?

Will "normal" people stop getting angry when they hear stories like this?

So what? International cooperation

The Good:

- Citizens of 3 very different countries agree:
  - Market location = Good criterion
  - Headquarter = Bad criterion

The Bad:

- Home Bias: We want our own government to extract more than others

The Ugly:

- Are Pillars 1 and 2 even going to be implemented?

Merci!

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