Do international policy standards help countries in the Global South fight international tax avoidance?

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GLOBTAXGOV
A NEW MODEL OF GLOBAL GOVERNANCE IN INTERNATIONAL TAX LAW MAKING

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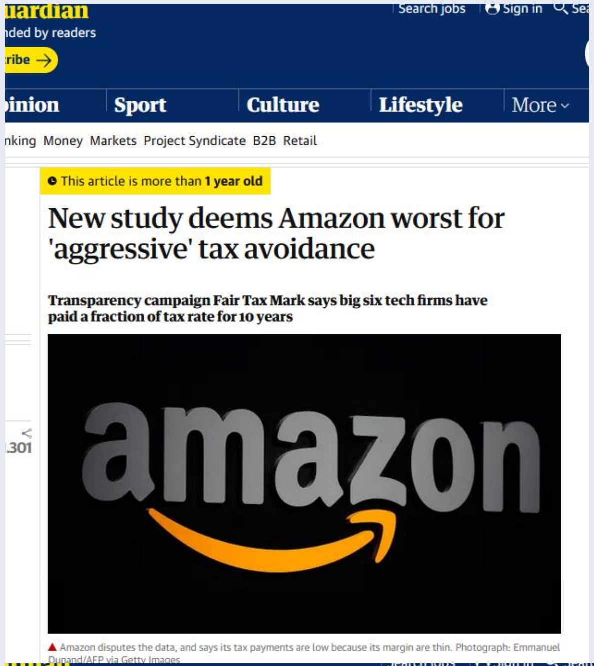
Motivation

- Breadth and depth of global governance in corporate taxation has increased driven by salience of issues of international tax avoidance (Christensen/Hearson 2019, Rixen/Unger 2021)
- Governance driven by the OECD and its member states
  - Base Erosion and Profit Shifting (BEPS) project as most far-reaching attempt at global governance so far
  - Developed by OECD + G20 states, but all states invited to implement outcome + participate in further governance activities
- Controversies about role of developing countries in global tax governance
  - Empirical evidence about higher revenue losses (Crivelli, De Mooij, and Keen 2015)
  - But: large body of research arguing that OECD policy standards disadvantage developing countries (e.g., Hearson 2021, Mosquera Valderrama 2018)

International tax avoidance – what is it?

- Tax avoidance ≠ tax evasion
- *International* =

  relating to cross-border investment
- (possibly unintended) advantage to cross-border transactions; Feasibility to levy tax on capital income; Progressivity of tax systems
- Different manifestations: e.g. thin capitalization, treaty shopping, mispricing of intragroup transactions, indirect transfers of capital



This article is more than 1 year old

New study deems Amazon worst for 'aggressive' tax avoidance

Transparency campaign Fair Tax Mark says big six tech firms have paid a fraction of tax rate for 10 years

Amazon disputes the data, and says its tax payments are low because its margin are thin. Photograph: Emmanuel Dunand/AFP via Getty Images

This article is more than 5 years old

OECD hopes tax reforms will end era of aggressive avoidance

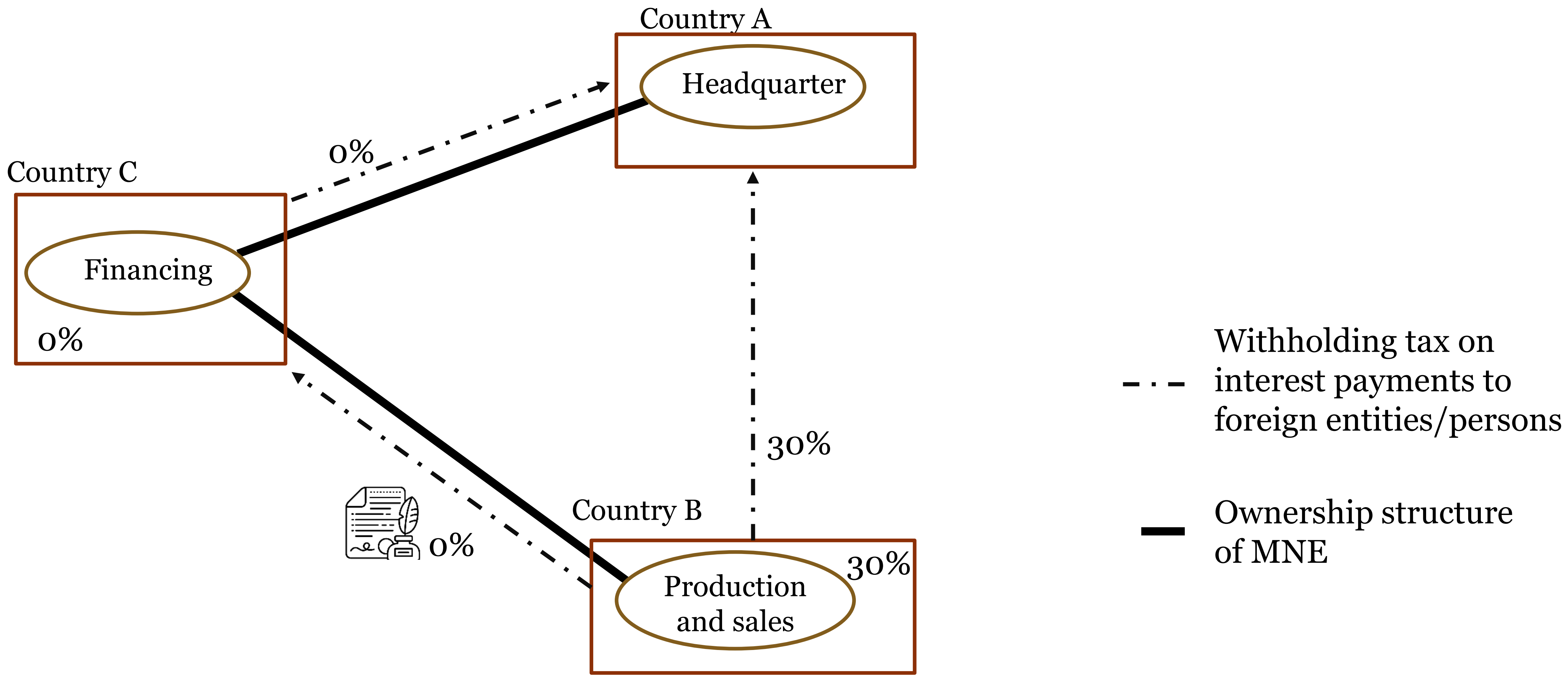
Changes aim to stop tax avoidance worth up to $240bn each year but critics say new rules are weak and still offer much scope for non-payment

G20 meeting in Brisbane, Australia. A G20-led programme of tax reform aims to tackle corporate tax avoidance. Photograph: Glenn Hunt/Getty Images

My research

- Developing a framework to analyze interaction of country level policies and international policy standards.
  - How to „measure“ impact?
- Conducting country case studies:
  - Interviews, legal analysis, documentary evidence
  - India, Colombia, (in the future: Nigeria, Senegal)
  - Inductive stage: from evidence to theory development
- This paper:
  - Framework to measure impact
  - Comparing content of international recommendations

Distinguishing country roles



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5 ideal-typical responses to international tax avoidance (1)

	Level of tax avoidance	Change in tax burden for avoiders	Change in tax burden for non-avoiders	Administrative resources required	Degree of international cooperation necessary	Illustration: Treaty shopping
Case-by-case solutions	Low	Increase	No change	High	Medium	General anti-avoidance rule (applied after detailed analysis)
Harmonization based solution	Low	Increase	No change	Low	High	Multilateral tax treaty with harmonized rates
Giving up	Low	No change (low)	Decrease	Low	Low	Signing more treaties, reducing source taxation in domestic law
Blunt	Low	Increase	Increase	Low	Low	Terminating treaties, inserting more source taxation
Tolerating avoidance	High	No change (low)	No change or increase	Low	Low	Not enforcing treaty shopping

Historical development of international tax avoidance and counterpolicies

- Evidence from India and Colombia
- Pre-BEPS era: qualitative and quantitative evidence that countries were affected by different international tax avoidance problems
  - In case of India: sometimes deliberately tolerated with the purpose of not obstructing international investment flows
- In recent years, increased actions to counter international tax avoidance
  - High level of engagement with international standards, but impact unclear
  - Pressing international tax avoidance concerns addressed through other ways
  - e.g. case of India-Mauritius treaty shopping issue, use of „blunter approach“

Observations and hypotheses for further research

- If developing countries follow BEPS project, impact on intl. tax avoidance is ambiguous
  - Systems pre-BEPS characterized by blunt solutions and tolerance of avoidance
  - Dismantling blunt approacjes could lead to more room for intl. tax avoidance
- Domestic political economy
  - International standards used by different actors in different ways
  - Generally large support for implementation of international standards by MNEs and MNE advisors in Colombia and India; used to argue for a less „blunt“ approach
- Comparative political economy
  - Standard followed more closely in Colombia than in India
  - Role of OECD accession process and power in the market for international investment

Limitations

- Time frame of impact, effect of some reforms could only materialize over the long term (10-15 years)
- Countries studied share characteristics with many other countries, but there is a lot of room for local specificities
- Interview evidence, possible biases

Thank you!

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