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Offentligt

€600 Billion and Counting

Why High Tax Countries Let Tax Havens Flourish

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What are we discussing:

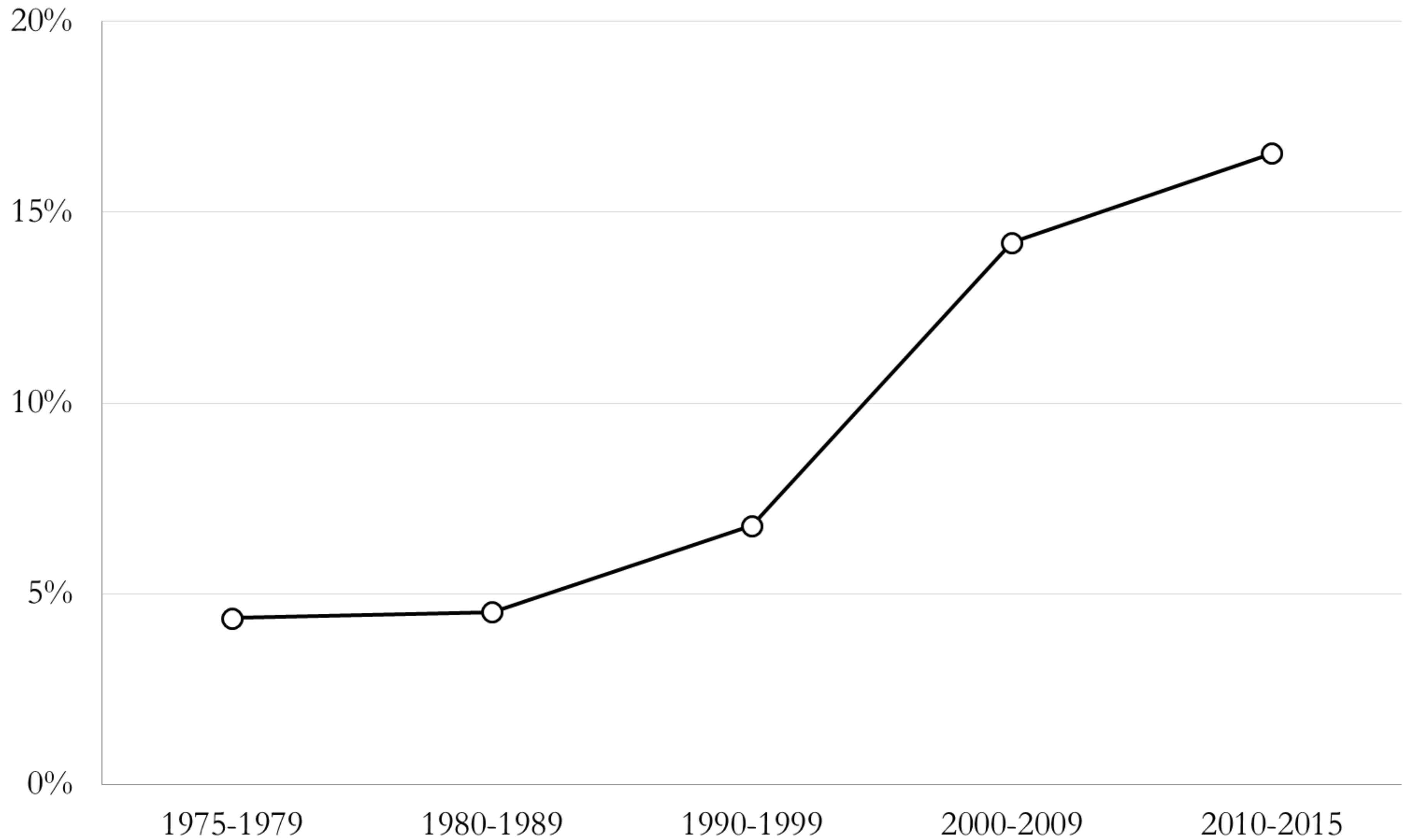
- Multinational companies moving profits to tax havens:
  - How much are we losing and to whom?
  - Why are we losing?
  - What can be done?

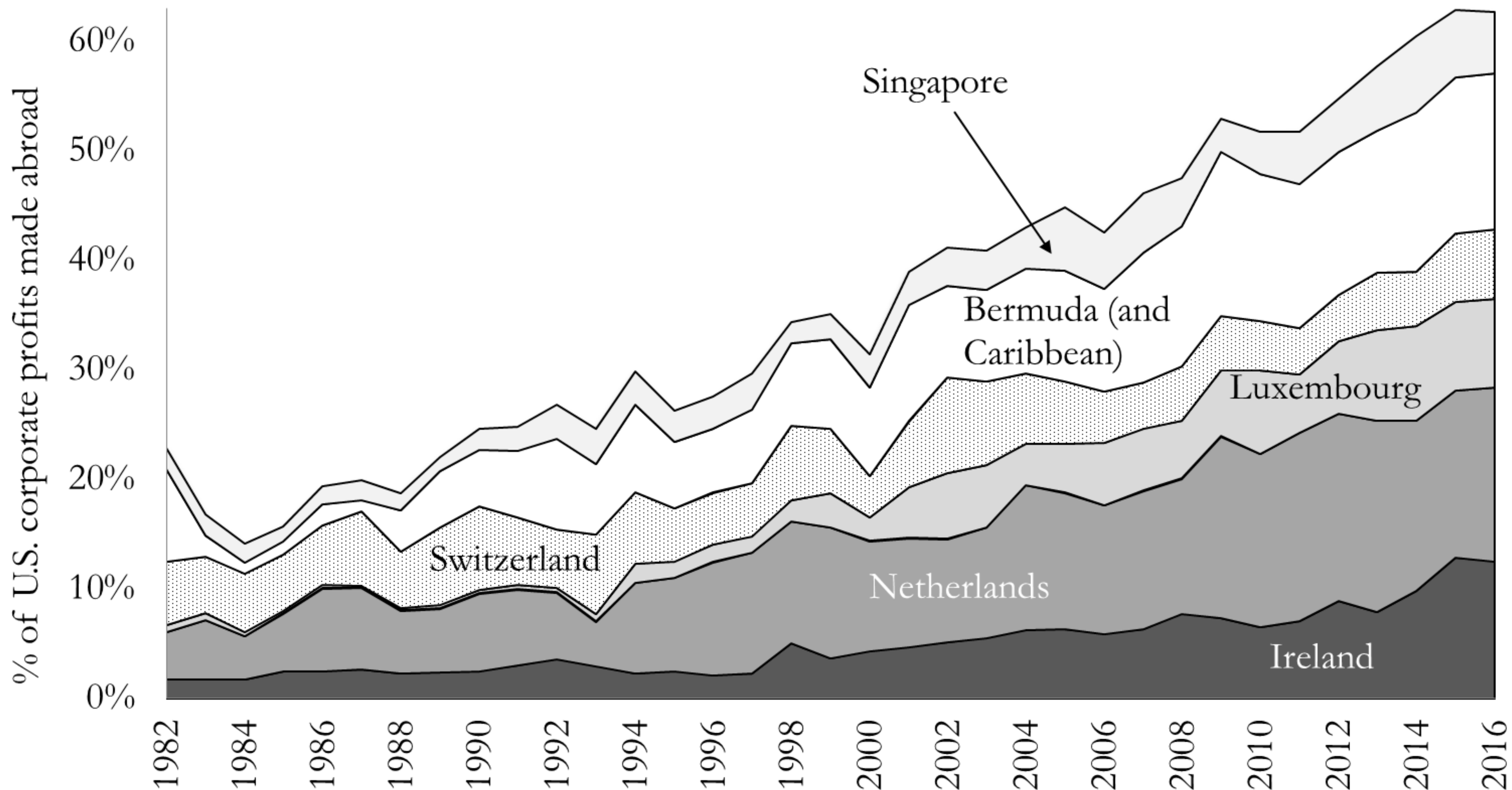
Multinationals and tax havens: a new problem being handled with old tools

- In the 1920's four economists got together to design the taxation of multinational companies…
- … even though there were none …
- … the rise of multinationals only occurred the last 20 years

The principles of international tax law

- An attempt to geographically distribute the profit creation of multinational companies…
- … even when this is meaningless
- The bulk of value creation in modern companies exists through brands, algorithm and intangibles -> things with no physical presence
- Firms simply need to “reallocate” their intangibles to tax havens and will from there on avoid paying taxes
  - Leads to absurd outcomes: e.g. Ireland’s GDP rose by 26% in 2015 due to the “movement” of “brands”


Multinational profits as a share of global profits
20%
15%
10%
5%
0%
1975-1979
1980-1989
1990-1999
2000-2009
2010-2015



Notes: This figure charts the share of income on U.S. direct investment abroad made in the main tax havens. In 2016, total income on U.S. DI abroad was about $450bn. 16% came from the Netherlands, 8% from Luxembourg, etc. Source: Zucman (2014), updated.

Who loses and how much is lost?

- We find that about **45%** of multinational profits are moved to tax havens every year…
- … equivalent to **12%** of total corporate tax income

- EU is the main loser, losing **20%** of its corporate tax base every year **(Denmark loses 10% = 5 Bn. DKK)**
  - Of this loss, **75%** goes to tax havens in the EU

- The main winners are Luxembourg, Ireland and the Netherlands who impose very small tax rates on huge artificial tax bases

- NOTE: LUX, IE & NL not on "black-list"

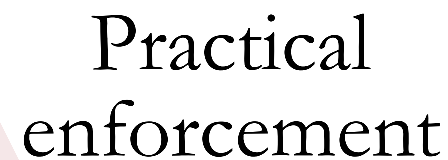
The corporate tax is dying

1. Multinational companies are avoiding taxes on 45% of their foreign profits
2. Multinational companies are becoming more intangible (easier to move profits)
3. Multinational companies share of the total corporate sector is increasing (more profits can be moved)
4. Countries are responding to the tax planning of multinationals by lowering corporate taxes

The corporate tax is dying

- Corporate tax rates plummeted as multinational activity exploded…
- … global corporate tax rates have been halved in the last 40 years
- … new borderline tax havens arise every year (Belgium, Hungary, Bulgaria…)
- **Business-as-usual = no corporate taxation**

There is a problem: How did we get here?



International coordintation

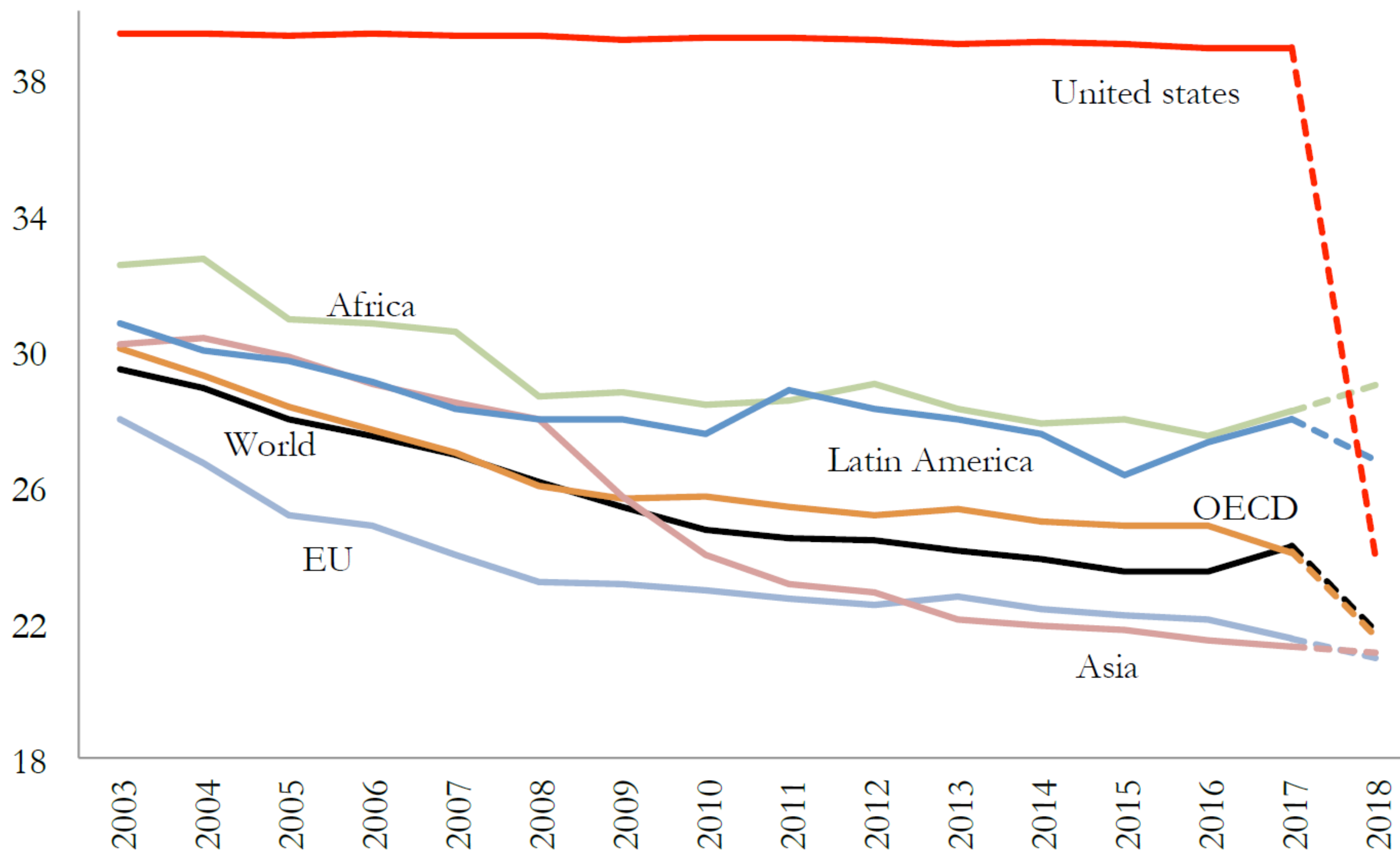
The fundamental tax law

The fundamental tax law

Let's simplify the issue

- Key question: Company earns 100 Bn. In global profits – **how do we allocate?**
- ***Find a meaningful objective allocation key***
- Our proposal: Allocate using sales to consumers
- Simple, meaningful and implementable
- Another meaningful propopsal: CCCTB

A race to the bottom?



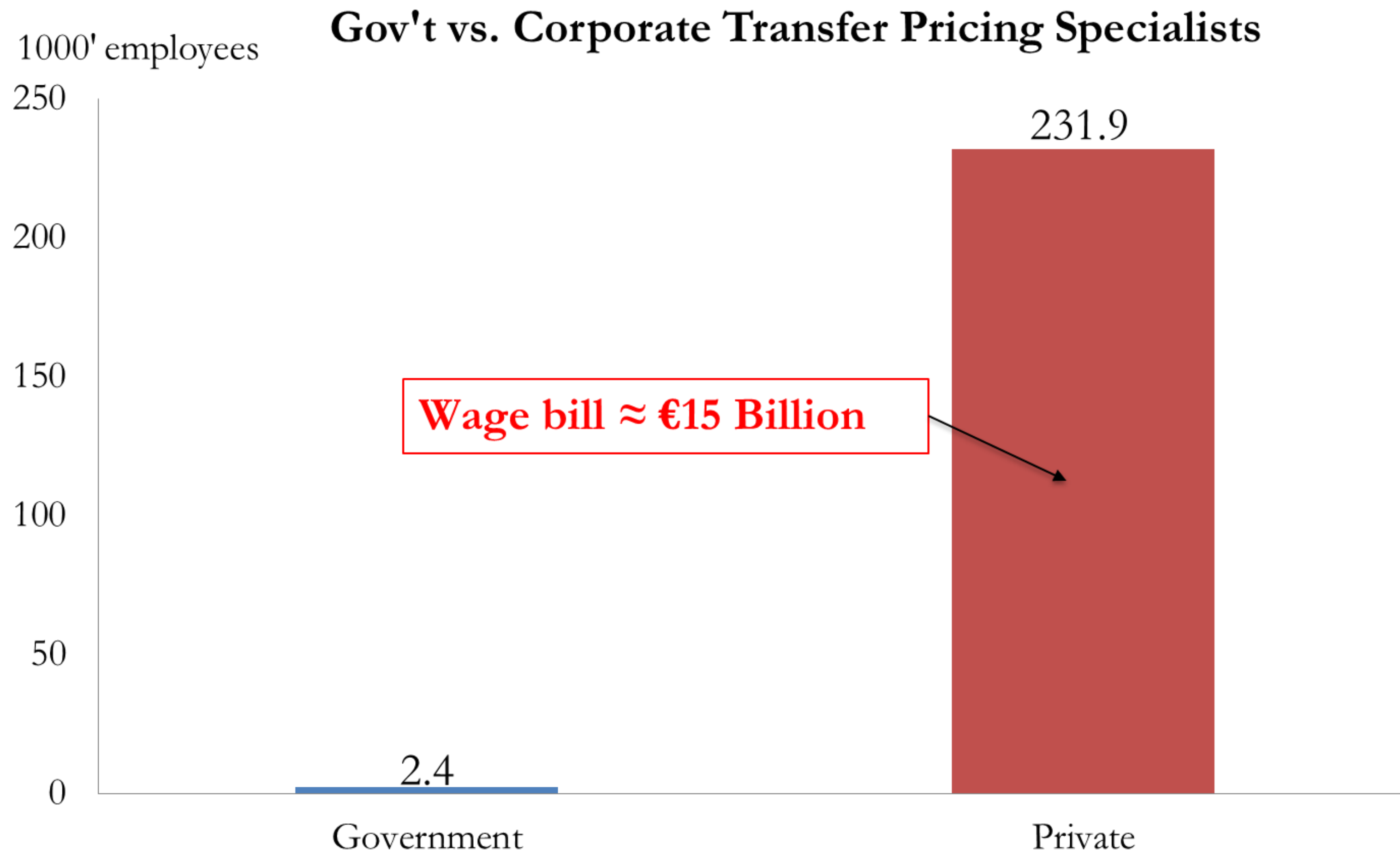
Practical enforcement (the tip of the ice berg…)

- Require firms to deliver more data
- Hire more people (right now 70 employees in DK collecting billions in corrections)
- Use existing data-sources better:
  - Big data methods such as machine learning

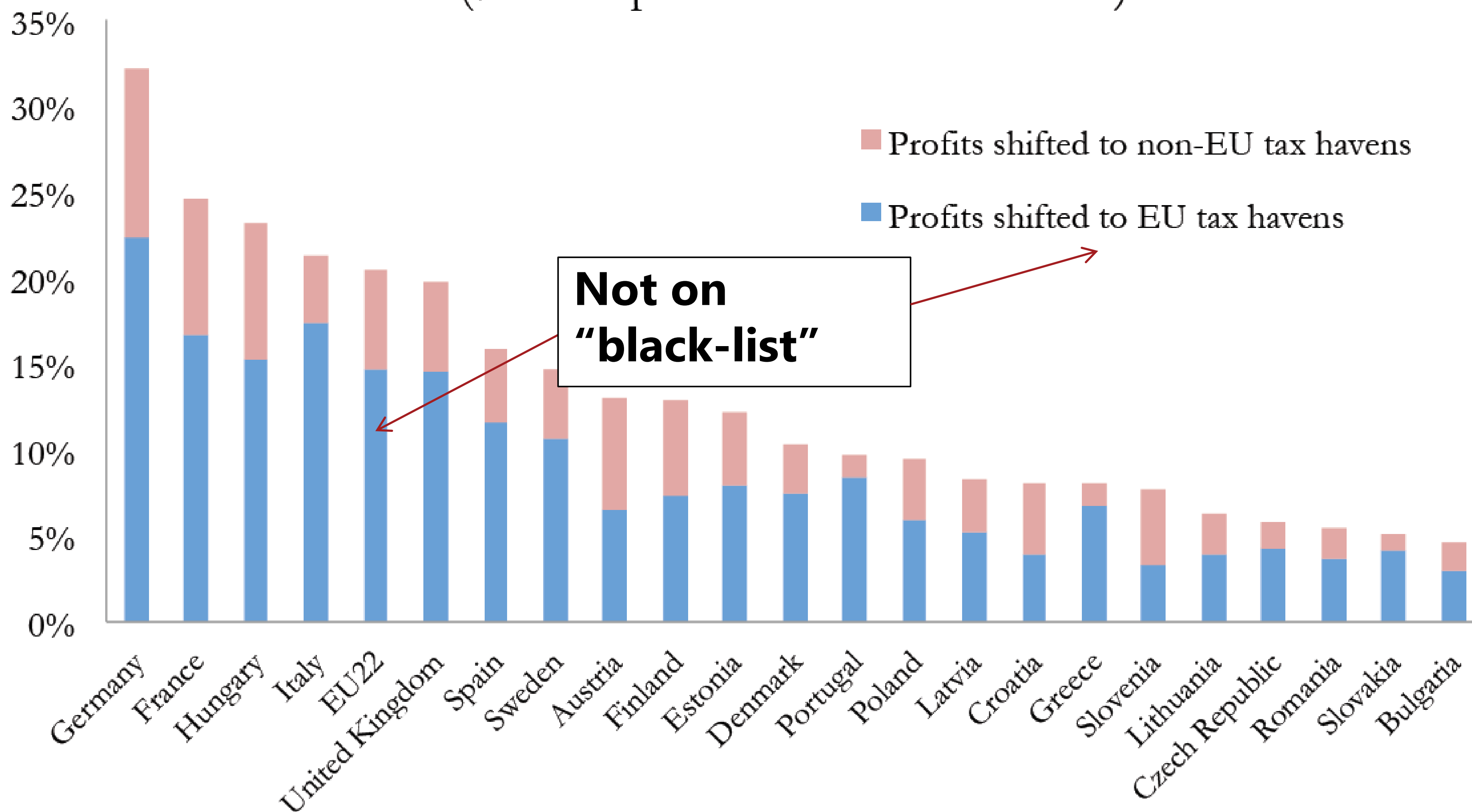
International coordination

- 70-90% of tax enforcement efforts in high-tax countries are spend fighting other high-tax countries
- Coordinate actions better amongst high-tax countries

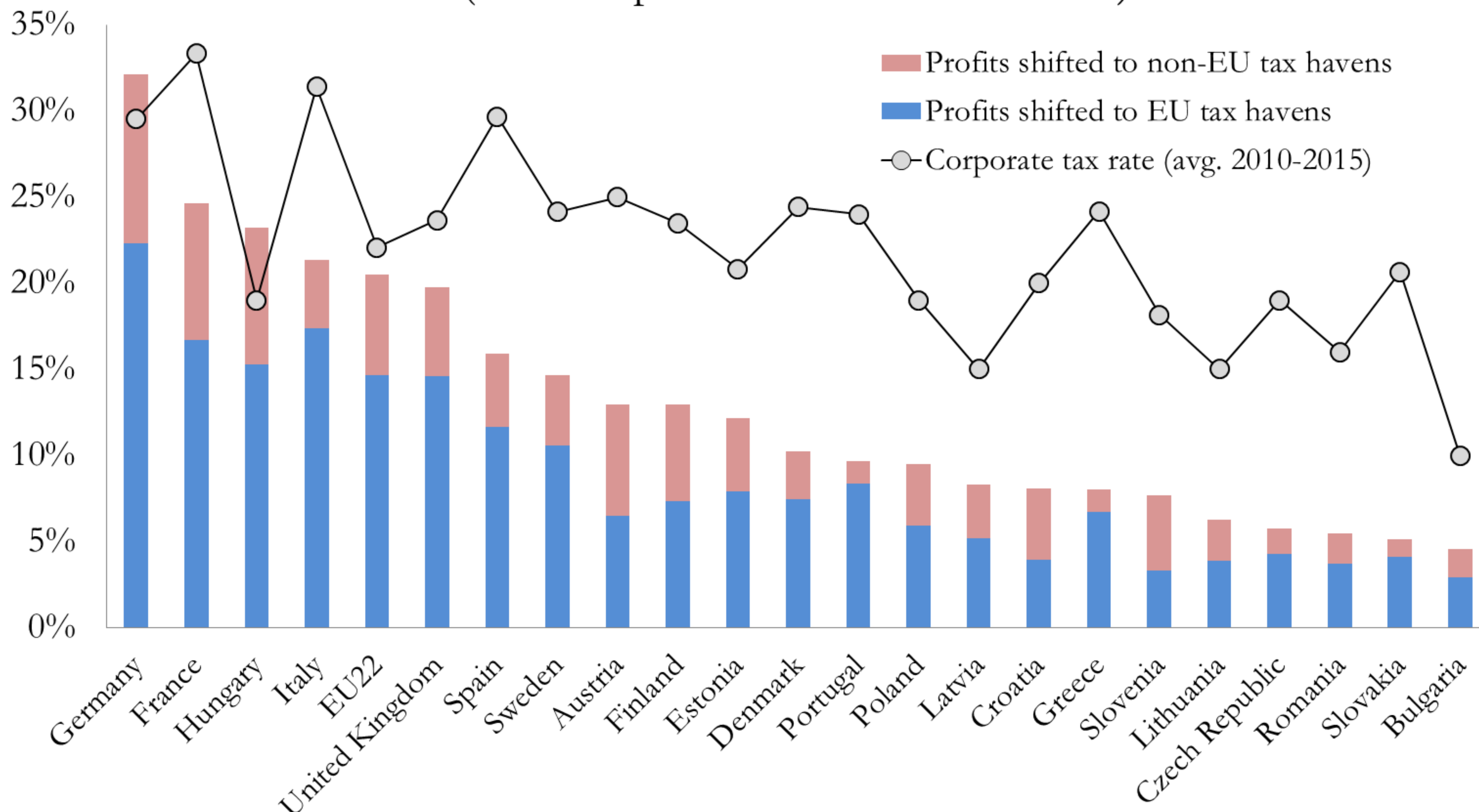
Resources spend fighting amongst high tax countries: Resources we cannot spare



Note: The graph shows the mismatch between ressources spend in the corporate sector versus goverment administration on transfer pricing (nternational tax enforcement). For each employee employeed in government as a transfer pricing specialist 96 are employeed in the private sector. The data source is LinkedIn, but the government count is corroborated by the EY Transfer Pricing Tax Authority Survey (2014). The wage bill is estimated by applying the average salary of an EY Transfer Pricing Specialist (Source: Glassdoor).



Note: This figure shows the amount of tax revenue lost because of the artificial shifting of multinationals' profits to tax havens, as a share of total corporate tax revenue collected in 2015.



Note: This figure shows the amount of tax revenue lost because of the artificial shifting of multinationals' profits to tax havens, as a share of total corporate tax revenue collected in 2015. The grey line shows the top statutory corporate tax rates.

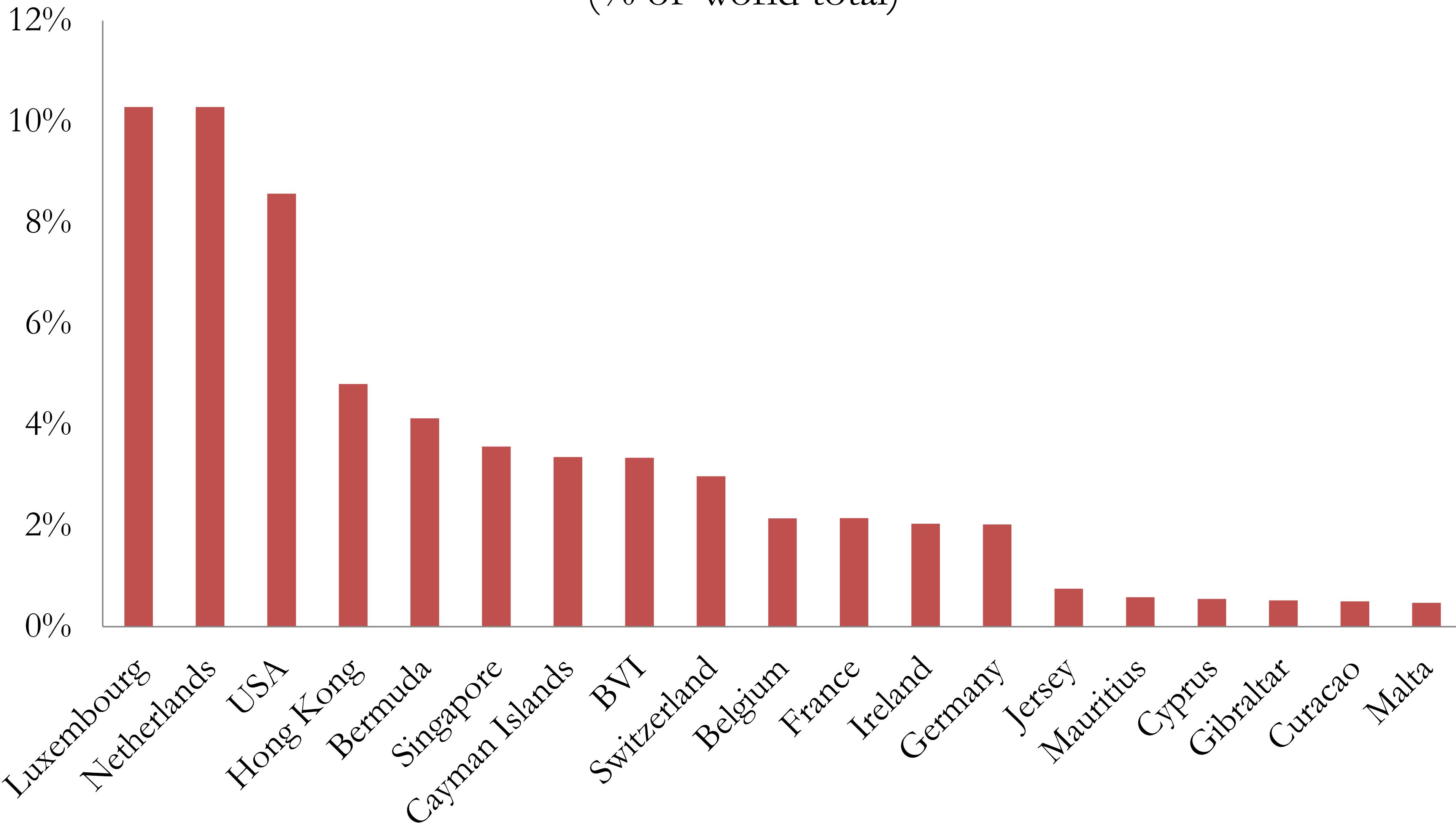
Tax revenue lost due to artificial profit-shifting

(% of current corporate tax revenue)

Note: In the benchmark scenario, offshore profts are allocated proportionally to the sum of high-risk services imported from and FDI interest paid tax havens.

Et ressourcespild vi ikke har råd til

- I DK har vi 3000 transfer pricing specialister
  - Hvoraf 100 arbejder i staten
  - Det private bruger altså 1-2 milliarder i lønsum hvert år



Note: Data for non-EU havens except Hong Kong are based on reporting from their counterpart countries rather than from the havens themselves.

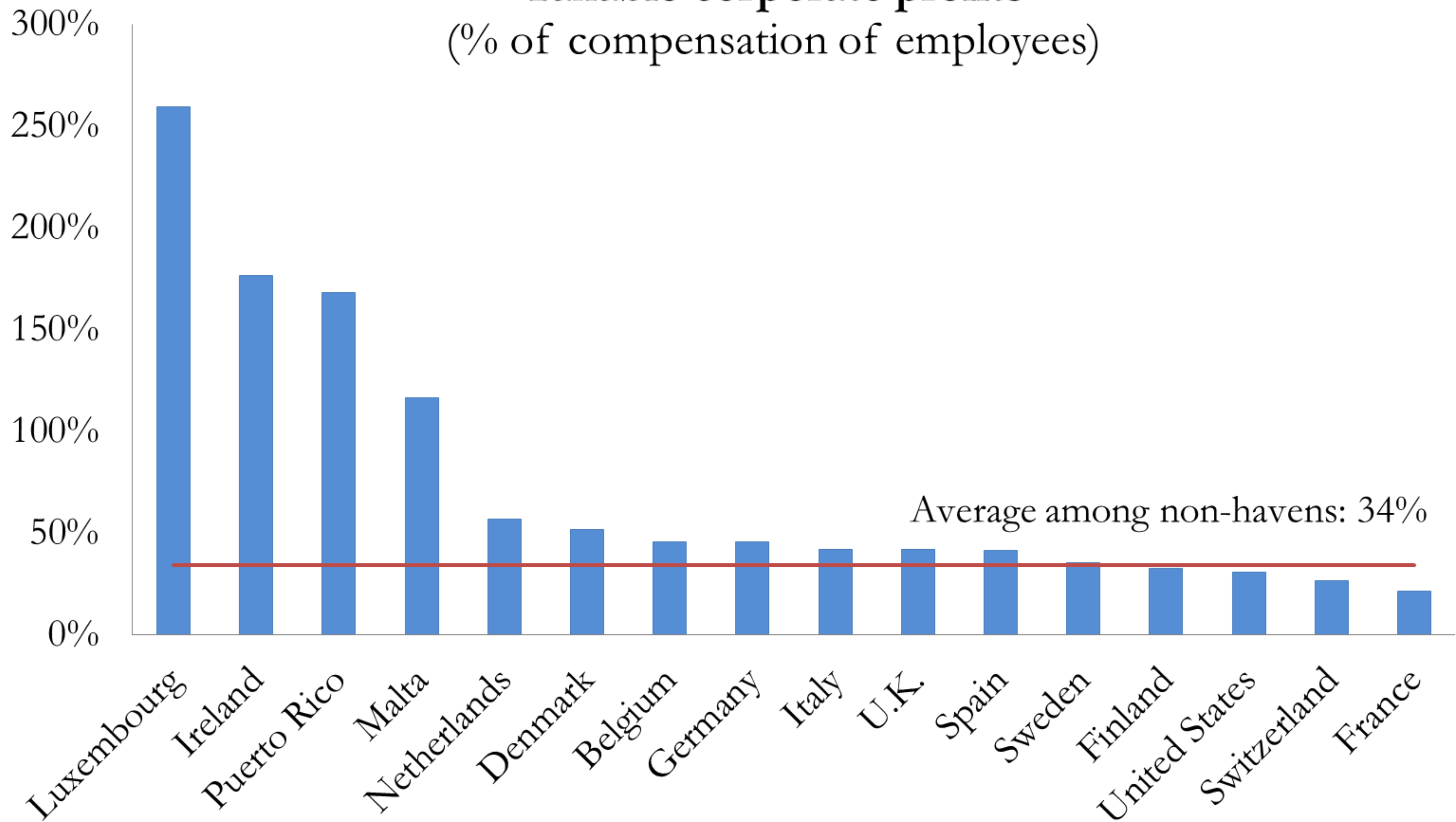
How do we measure the sum of profits shifted to tax havens? (1)

- How much “too much” profits are booked in havens? (*“The pile of gold method”*)
- What are the profits per euro in paid in wages?
  - Should be relatively constant in similar economies (Especially in the EU)

How do we measure the sum of profits shifted to tax havens?(2)

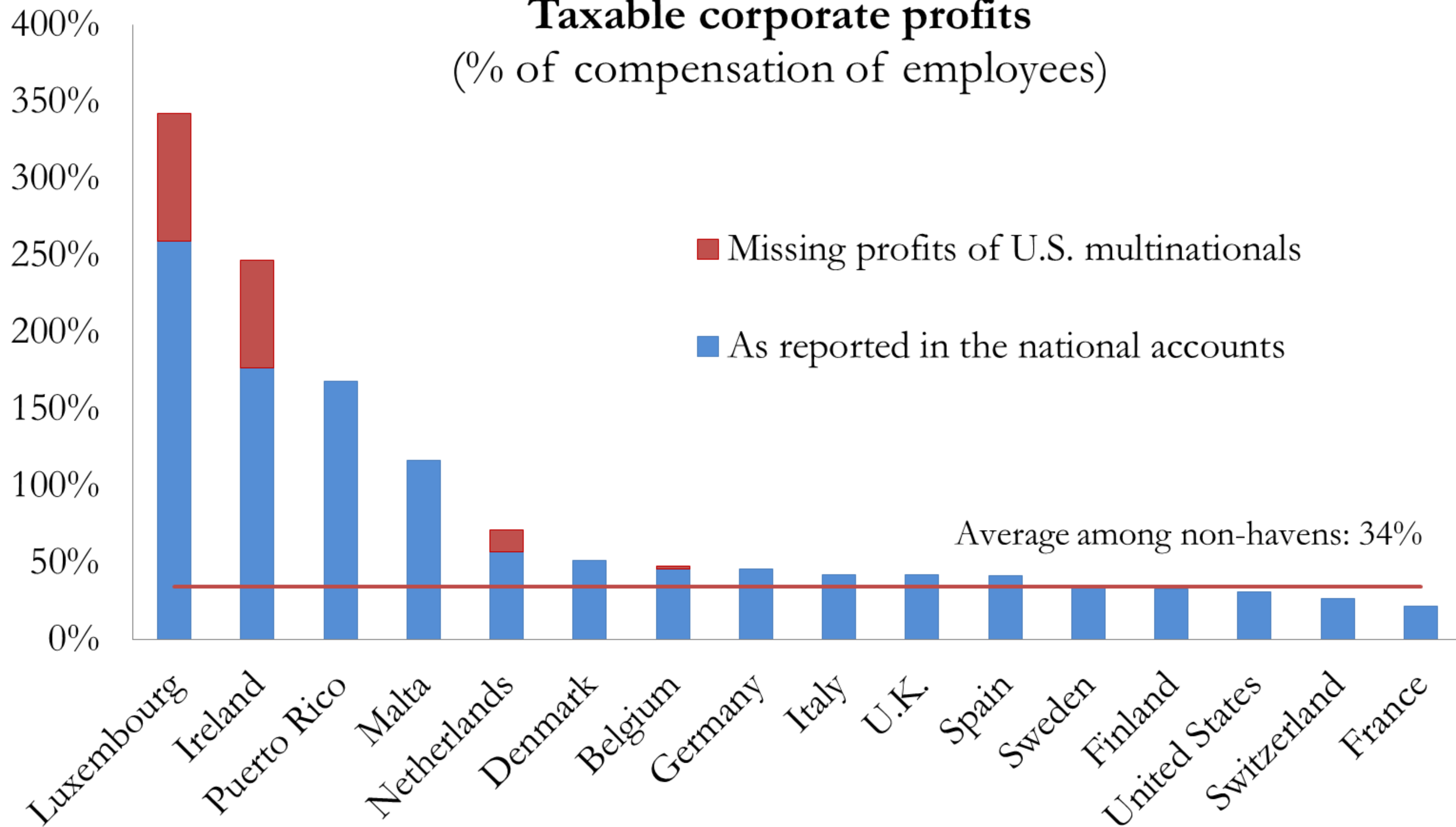
- How many "dodgy" transfers are paid to tax havens, and by whom? (the *"follow-the-money-method"*)

The pile of gold:



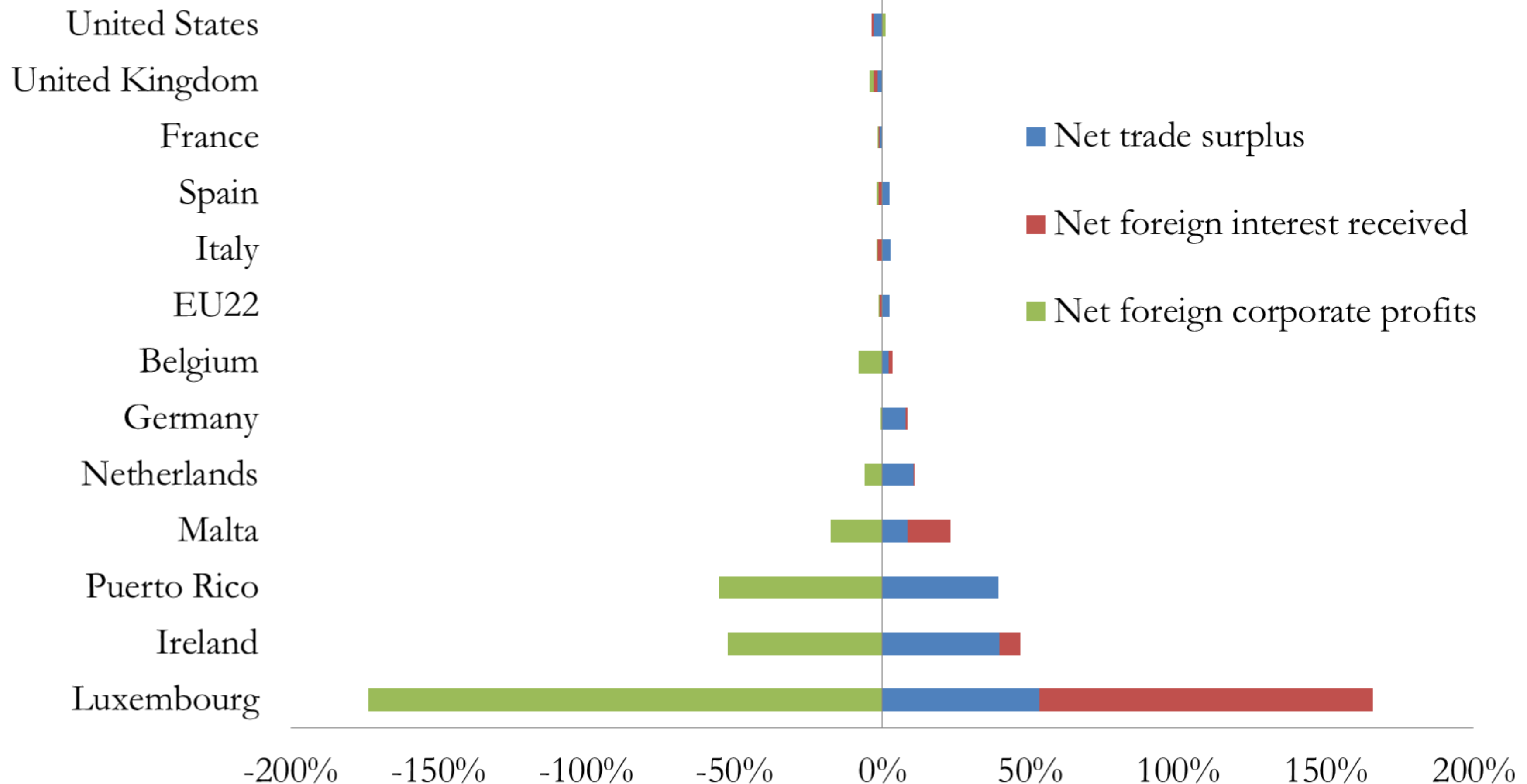
Note: This figure shows the ratio of corporate profits (net of interest paid and depreciation) to compensation of employees, as recorded in the national accounts, in 2015.

The pile of gold:

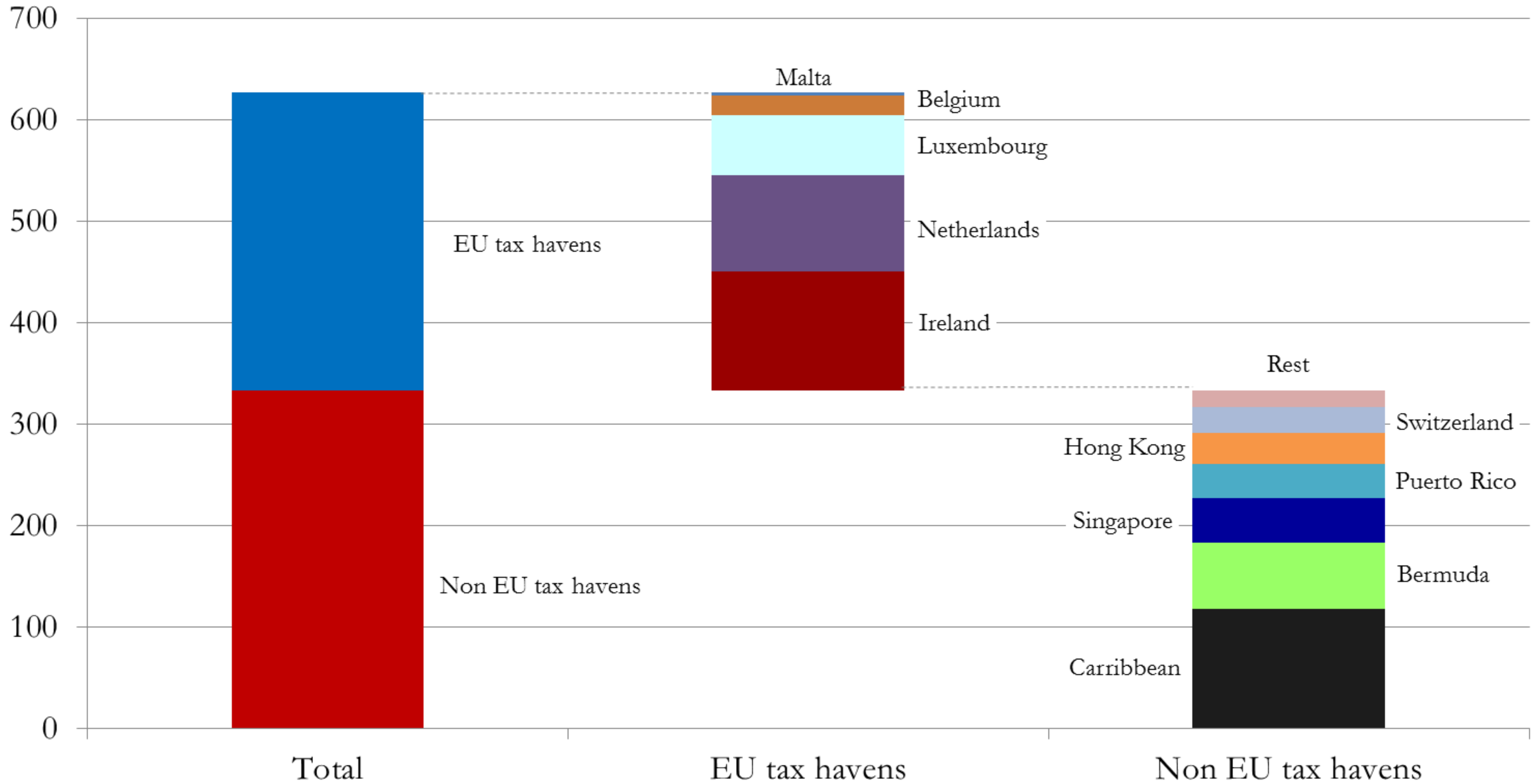


Note: The blue bar shows the ratio of corporate profits (net of interest and depreciation) to compensation of employees, as recorded in the national accounts, in 2015. The red bar adds corporate profits missing in the national accounts, computed as the discrepancy between FDI income credits reported by the U.S. and total FDI income debits.

Who owns this pile of gold?

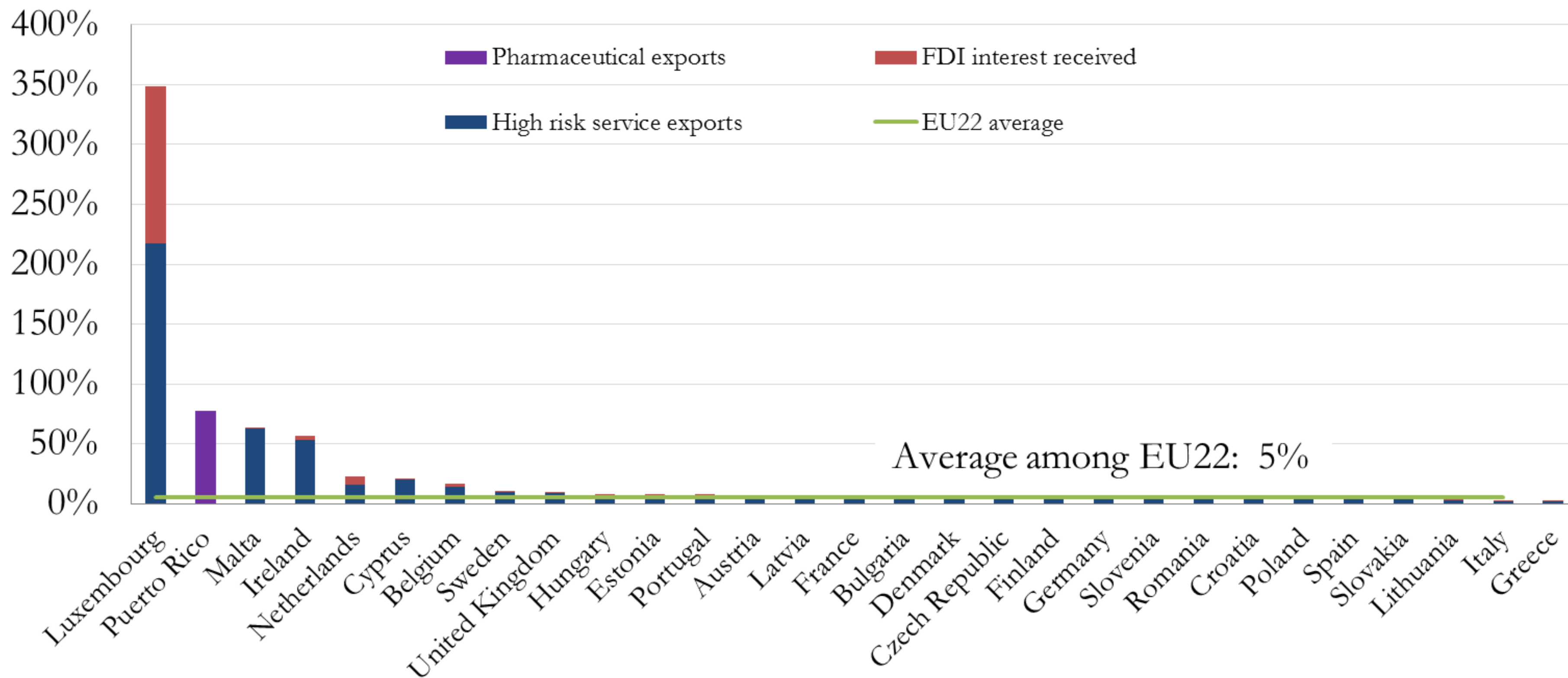


Note: This figure shows the current account balance of a selection of countries, as a share of their Gross National Income in 2015. EU22 is the Euoropean Union minus the 6 EU tax havens (Belgium, Cyprus, Ireland, Luxembourg, Malta and Netherlands).


Breakdown of artificially shifted profits by destination.
Bn. €
700
600
500
400
300
200
100
0
EU tax havens
Non EU tax havens
Malta
Belgium
Luxembourg
Netherlands
Ireland
Rest
Switzerland
Hong Kong
Puerto Rico
Singapore
Bermuda
Carribbean
Total
EU tax havens
Non EU tax havens

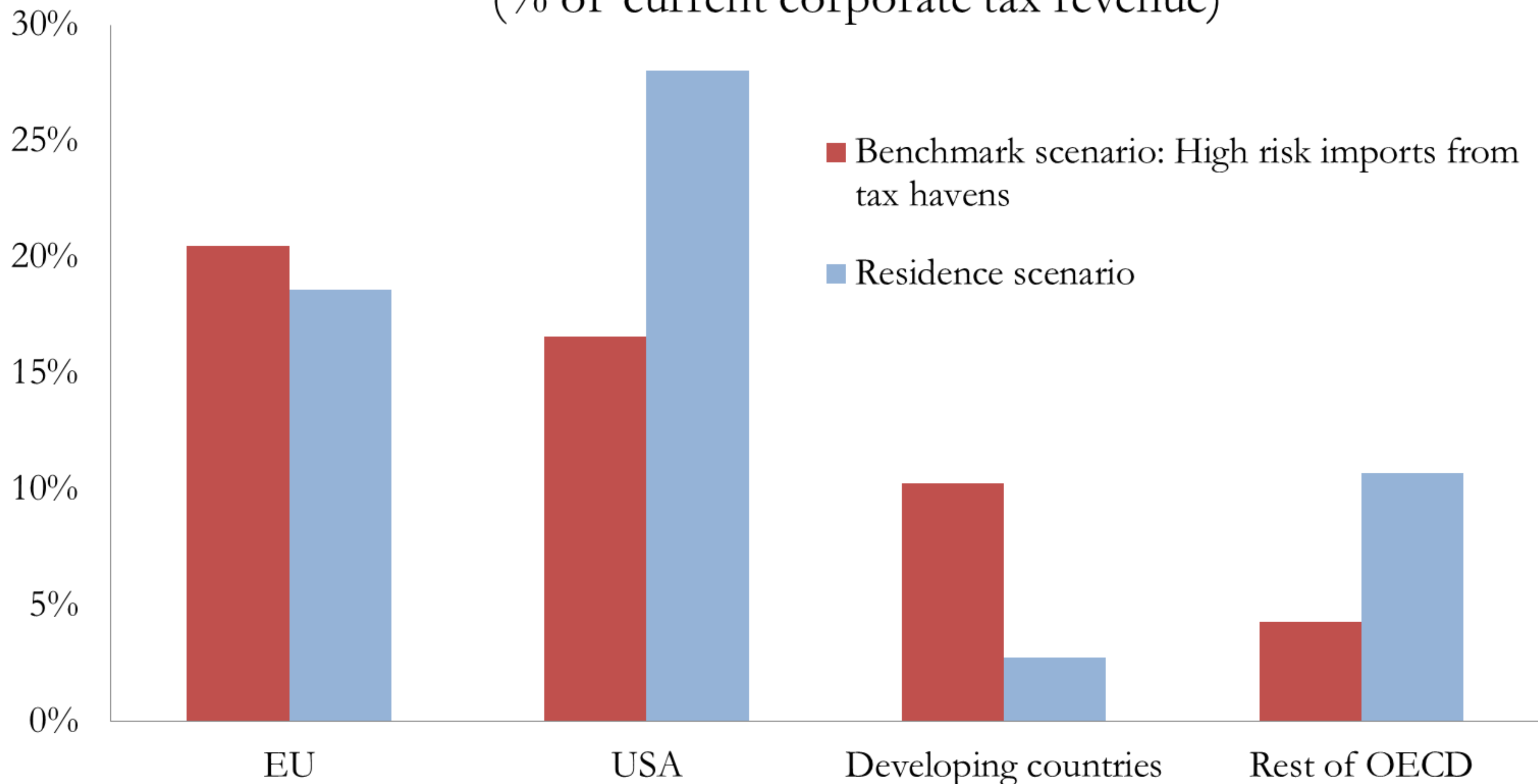
Where does the money come from?: *"follow-the-money"*

- We define a category of high-risk transfers:
  - Royalties, Management fees, ICT, insurance and Financial services etc.
  - Internal interest payments
- The excess profits in EU havens match the excess high-risk transaction to them
- We distribute the pile of gold according to these transactions

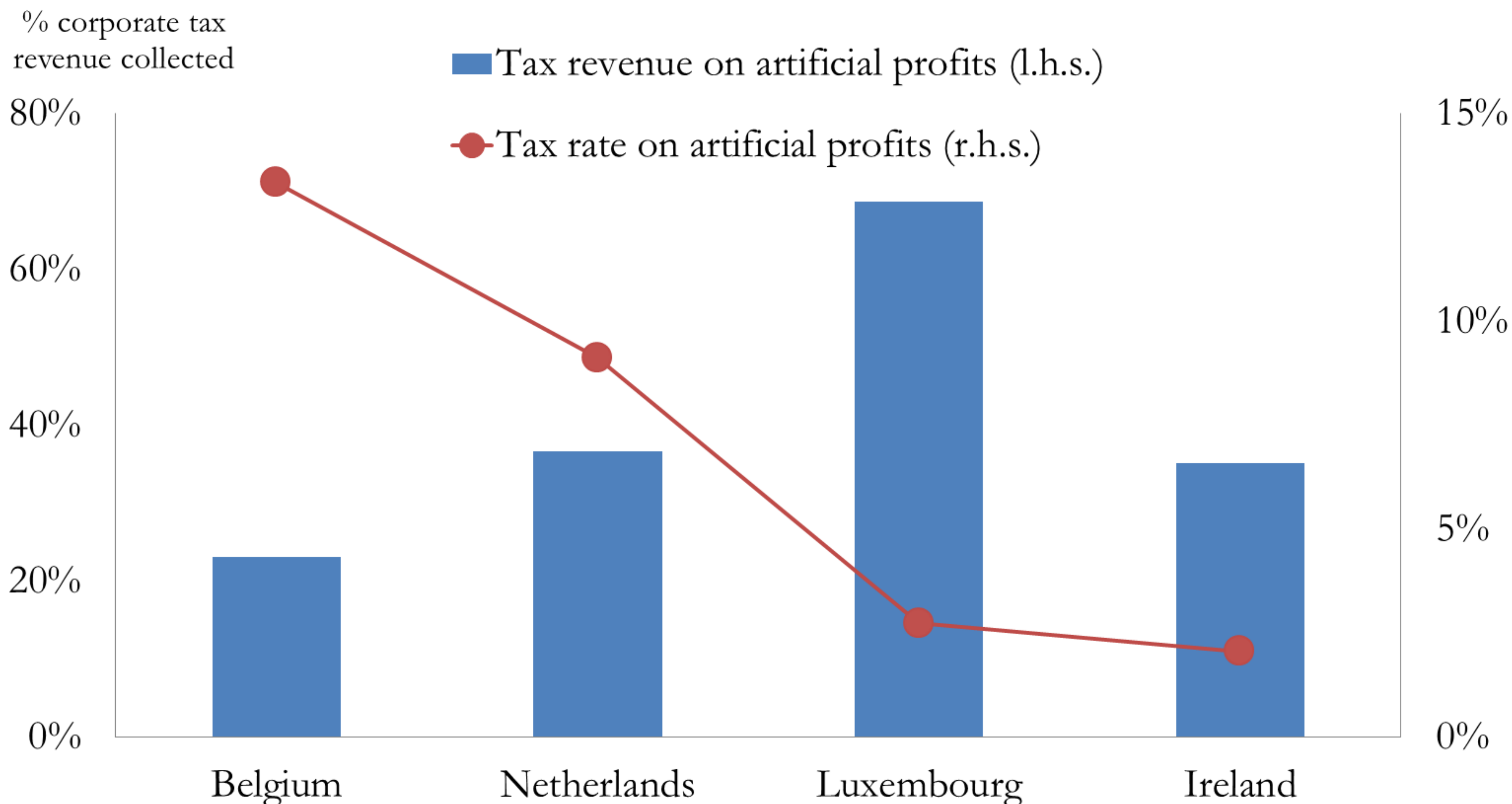


Note: This figure illustrates the income generated from high-risk service exports and FDI-interest as share of Gross National Income in the EU in 2015. High-risk services are defined as services within the five categories: "Intellectual property", "Telecommunications, computer and information services", "Financial services", "Other business services" and "Insurance and pension services". The bars show the split between income from exports of high-risk services and interest income. The green line shows the GNI-weighted average sum of the two incomes combined for all non-haven countries in the EU. The difference between EU28 and EU22 is the exclusion of the havens: Belgium, Cyprus, Ireland, Luxembourg, Malta and Netherlands.

Alternative apportionment



Note: In the benchmark scenario, offshore profts are allocated proportionally to the sum of high-risk services imported from and FDI interest paid tax havens. In the "residence" scenario, offshore profits are allocated based each country's share of global FDI income credits.



Note: This figure shows the amount of tax revenue collected on artificially shifted profits and the implied rate at which these profits are taxed. The revenue collected on artificially shifted profits are calculated as the amount of revenue collected above the average corporate income tax revenue in all non-haven EU countries (scaled by GNI).