Broken, Needs Repair:
The Corporate Tax System and Ireland's Role in its Reform

DDCI Seminar
Taxation and Global Justice:
Do Tax Laws Fuel Inequality?

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Research for new economic policies

Outline

1. Introduction
2. The International Corporate Taxation System
3. Broken: the evidence
4. Needs Repair: Ireland's Role

Drawing on a recent NERI research paper

on the website **www.NERInstitute.net**

NERI Research inBrief

December 2015 (no 30)

Broken, Needs Repair:

An Overview of the International Corporate Taxation System

Micheál L. Collins

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SUMMARY

Over recent years there has been increasing attention given to the structures multi-national firms use to manage their tax liabilities. This Research *inBrief* examines the international corporate taxation system and some of the recent evidence which points towards its failings and the need for its reform.

In reality there is no such thing as an international corporate taxation system; rather what exists is a set of rules which have evolved piecemeal, within and between countries, since around the 1920s.

In their current format the collective result of these structures has been to provide numerous legitimate routes for successful firms to shift profits and minimise taxation.

The document points towards some key reforms and highlights the implications they carry for Ireland.

KEY POINTS

To address the current broken system a number of reforms are needed. These include:

(i) An increase in the transparency of firm operations and ownership.

(ii) Greater alignment of corporate taxes to economic activity with an ultimate aim of aligning corporate taxes to the location where those profits are directly generated via sales.

(iii)Recognition that the current system is unsustainable and that while it is benefiting many firms and some countries, including Ireland, the costs to other countries and their citizen are immense and unsustainable.

For Ireland these reforms imply a need to take a more active role in European and international tax reform. Ireland, as a beneficiary of the current broken system, also needs to recognise that the necessary future reforms to the international corporate tax system carry an inevitable negative impact for corporate tax revenues.

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Research for new economic policies

1. Introduction

- ↑ attention on corporate tax systems over recent years
- Within firms:
  - o focus on new ways to reduce, even eliminate, tax liabilities
- Within society broadly:
  - o contrast between profitable firms reducing/avoiding making contributions while all others pay more
  - o “became problematic; and both unacceptable and unsustainable in a number of countries”
- Tax Justice!

2. The International Corp. Tax System

- Note, there is not really a system, rather a set of separate and competing rules across countries…
- Origins in the 1920s but now dated
- Numerous routes to both minimise and shift profits
- Including:

- ***Debt financing*** with deductions for interest costs
- ***Intellectual property*** ownership, licences and royalties
- ***Transfer pricing***
- ***Contract Manufacturing***
- ***Tax reliefs*** + ***special arrangements*** (knowledge box)

SEARCH

The New York Times

The Opinion Pages | EDITORIAL

Ireland, Still Addicted to Tax Breaks

By THE EDITORIAL BOARD OCT. 19, 2014

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The Irish government decided last week to get rid of a tax loophole that has helped big multinational companies like Apple and Google avoid paying billions in taxes to any government at all. But hold the champagne: Ireland could well replace one problematic tax policy with another, leaving aggressive tax avoidance pretty much intact.

On Oct. 14, Ireland's finance minister, Michael Noonan, said the country would get rid of the "double Irish" — a provision that allows companies doing business in the country to avoid taxes by making royalty payments to an affiliated firm that is registered in Ireland but has its tax home in another country, often a tax haven like Bermuda that has no corporate

All further fuelled by:

- ***Competition between governments*** for investment
  - o "driving rates down and reliefs up"
    (Michael Devereux, IIPF TCD 23/8/15)

- ***Competition between competing firms*** for share prices, growth and returns

3. Broken: the evidence

- Lots of studies and assessments
  - although good data is challenging…Ireland…
- Here, looking at recent US study
  - very informative
  - IRS data
  - Congressional Research Service Report
  - Mirrors work of US Citizen for Tax Justice

Table 1. Countries Listed on Various Tax Haven Lists

Caribbean/West Indies	Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados,[e,e] British Virgin Islands, Cayman Islands, Dominica, Grenada, Montserrat,[a] Netherlands Antilles, St. Kitts and Nevis, St. Lucia, St. Vincent and Grenadines, Turks and Caicos, U.S. Virgin Islands[a,e]
Central America	Belize, Costa Rica,[b,c] Panama
Coast of East Asia	Hong Kong,[b,e] Macau,[a,b,e] Singapore[b]
Europe/Mediterranean	Andorra,[a] Channel Islands (Guernsey and Jersey),[e] Cyprus,[e] Gibralter, Isle of Man,[e] Ireland,[a,b,e] Liechtenstein, Luxembourg,[a,b,e] Malta,[e] Monaco,[a] San Marino,[a,e] Switzerland[a,b]
Indian Ocean	Maldives,[a,d] Mauritius,[a,c,e] Seychelles[a,e]
Middle East	Bahrain, Jordan,[a,b] Lebanon[a,b]
North Atlantic	Bermuda[e]
Pacific, South Pacific	Cook Islands, Marshall Islands,[a] Samoa, Nauru,[c] Niue,[a,c] Tonga,[a,c,d] Vanuatu
West Africa	Liberia

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Table 1: US Company Foreign Profits relative to GDP, 2010

Country	Profits as % GDP
Italy	0.3
Germany	0.4
Japan	0.4
France	0.6
UK	2.1
Canada	3.3
G7 **(weighted)**	**0.7**

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G7 (weighted)	**0.7**

Country	Profits as % GDP
Panama	0.1
Hong Kong	2.6
Singapore	4.7
Switzerland	12.3
Cyprus	13.6
Netherlands	17.1
Ireland	**41.9**
Luxembourg	127.0

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Country	Profits as % GDP
Barbados	5.7
Bahamas	70.8
Bermuda	1,614.0
British Virgin Islands	1,803.7
Cayman Islands	2,065.5

"these numbers clearly indicate that the profits in these countries do not appear to derive from economic motives related to productive inputs or markets but rather reflect income easily transferred to low-tax jurisdictions" (Gravelle, 2015: 18).

Table 2: US Company Foreign Profits relative to GDP, 2004 & 2010 (selected countries)

Country	Profits as % GDP 2004	Profits as % GDP 2010
G7 (weighted)	**0.6**	**0.7**
Switzerland	3.5	12.3
Netherlands	4.6	17.1
Ireland	**7.6**	**41.9**
Luxembourg	18.2	127.0
Barbados	13.2	5.7
Bahamas	43.3	70.8
Bermuda	645.7	1,614.0
British Virgin Islands	354.7	1,803.7
Cayman Islands	546.7	2,065.5

Source: As Table 1

Table 2: US Company Foreign Profits relative to GDP, 2004 & 2010 (selected countries)

Country	Profits as % GDP 2004	Profits as % GDP 2010
G7 **(weighted)**	**0.6**	**0.7**
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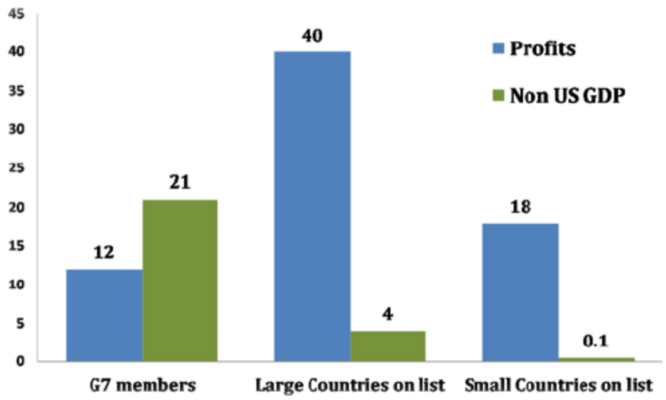
Bahamas	43.3	70.8
Bermuda	645.7	1,614.0
British Virgin Islands	354.7	1,803.7
Cayman Islands	546.7	2,065.5

Source: As Table 1

Chart 1: Comparison of US Company Foreign Profits relative to non-US GDP, 2010



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Results:

- Cash-piles parked ‘indefinitely’ off shore


UK world politics sport football opinion culture business lifestyle fashion environment tech travel

home › world › US americas asia australia africa middle east cities development europe

US taxation

Barack Obama sets out plan to tax US companies on $2tn profits held abroad

Apple, Microsoft and General Electric would face bills of $10bn or more under president's budget proposal for one-off levy plus 19% tax on offshore cash

Rupert Neate in New York

Monday 2 February 2015 22.14 GMT

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Barack Obama's plan to force US multinationals to pay tax on the more than $2tn

Top 10 US overseas cash piles

COMPANY	CASH PILE
General Electric	$110bn
Microsoft	$76.4bn
Pfizer	$69bn
Merck	$57.1bn
Apple	$54.4bn
IBM	$52.3bn
Johnson & Johnson	$50.9bn
Cisco	$48bn
Exxon Mobil	$47bn
Citigroup	$43.8bn

NOTE: Figures are from 2013, the latest available. Overseas cash has changed significantly for some.
SOURCE: Capital Economics

NERI

- ***Ugland House, George Town, Cayman Islands***
  - 5 floors
  - Home of a law firm
  - Registered office of more than 18,800 entities
  - Census 2010: 54,878
  - 0% corporate tax rate

+

amazon

• • •

3. Needs Repair: Ireland's Role

- Broad realisation that change is needed:
  - tax losses from the recession
  - public annoyance at low tax levels
  - NGOs and impacts on developing countries

- Some observations:

(i) An increase in the transparency of firm operations and ownership.

(ii) Greater alignment of corporate taxes to economic activity with an ultimate aim of aligning corporate taxes to the location where those profits are directly generated via sales.

(iii) Recognition that the current system is unsustainable and that while it is benefiting many firms and some countries, including Ireland, the costs to other countries and their citizen are immense and unsustainable.

So:

- Ireland needs to take a more active role in EU and international tax reform (passive to date)
- BEPS + support the CCCTB agenda
- Recognise that the necessary future reforms to the international corporate tax system carry an inevitable negative impact for corporate tax revenues.
- Although those reductions are some years away, it would be prudent to prepare for them.

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