

**Comments on:**

**Marcel Gérard:**

**Reforming the Taxation of Multijurisdictional Enterprises in  
Europe, A Tentative Appraisal**

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- Summary
- Intuition
- Basic setup biased towards C&FA?
- Similarity between C&FA and revenue sharing

## Discussion of Consolidation and Formula Allocation (C&FA) in different environments

### I: multinational with

- mobile production

### II: multinational with

- mobile production
- profit-shifting

### III: multinational with

- mobile production
- transfer-pricing
- tax haven

## Illustration of profit and revenue effects

with and w/o C&FA

with and w/o tax haven

## Theoretical analysis of tax-competition with and w/o C&FA

Separate accounting

- Firm's response to taxes

- Non-cooperative tax policy

Consolidation and formula apportionment

- Firm's response to taxes under formula apportionment

- Non-cooperative tax policy under formula apportionment

- Co-operative decision on formula allocation

## Basic conclusions

- Welfare gains from formula allocation - even in the environment with tax haven
- Revenue gains and efficiency gains
- Qualification: intergovernmental transfers necessary

Tax base with SA in country  $i$

$$B_i = \underbrace{q \frac{p - p^w}{r}}_{\text{sales}} + \underbrace{\alpha \frac{p^w}{r}}_{\text{production}} = \left[ q + (\alpha - q) \frac{p^w}{p} \right] \frac{p}{r}$$

Basic tax base with C&FA

$$B_i = \underbrace{q (1 - \lambda)}_{\text{sales}} + \underbrace{\alpha \lambda}_{\text{production}} = [q + (\alpha - q) \lambda] \frac{p}{r}$$

With  $\lambda < \frac{p^w}{p}$  tax base gets less sensitive to production,  
 $\Rightarrow$  **MCPF declines with formula allocation.**

With fixed taxes gains from **shifting tax base to high tax country.**

Stronger gains from coordination with **profit shifting**

Setup biased towards C&FA?

Fixed distribution of sales  $q$  offers **perfect, non-distortive formula**.

**Implicit assumptions about information:**

While governments do not observe share of sales, with C&FA they are common knowledge.

**Specification may downplay tradeoff:**

Revenue gain under C&FA vs. stronger tax sensitivity of investment

**Model assumes a switch in the mode of intergovernmental relation:**

If governments cannot cooperate on tax policy  
why should they be able to cooperate on formula allocation?

Case study: each set of rules implies **redistribution between governments**.

Theoretical analysis: formula allocation necessitates **fiscal compensating transfers**.

**Important disincentives** of revenue-sharing for each countries' tax policy and administration.

This is of vital importance in the European context **w/o a federal corporation tax**:

- Who is going to be responsible for the determination and enforcement of the tax liability?
- Who is going to be responsible to assess the shares of whatever is in the formula?
- Which country's tax system is applied in order to define the tax base?

Alternative options?