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
Summary

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
Intuition: C&FA with Mobile Capital

Tax base with SA in country $i$

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

Basic tax base with C&FA

$$B_i = q (1 - \lambda) + \alpha \lambda = \left[ q + (\alpha - q) \lambda \right] \frac{p}{r}$$

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?