Corporate Tax Reform: Taxing Profits In The 21st Century

Following renewed academic and policy interest in the destination-based principle for taxing profits—particularly through a destination-based cash flow tax (DBCFT)—this paper studies other forms of efficient destination-based taxes. Specifically, it analyzes the Destination-Based Allowance for Corporate Equity (DBACE) and Allowance for Corporate Capital (DBACC). It describes adjustments that are required to turn an origin into a destination-based versions of these taxes. These include adjustments to capital and equity, which are additional to the border adjustments needed under a DBCFT. The paper finds that the DBACC and DBACE reduce profit shifting and tax competition, but cannot fully eliminate them, with the DBACE more sensitve than the DBACC. Overall, given the potential major political cost of switching from an origin to a destination-based tax system, we conclude that advantages of the DBCFT are likely to outweigh the transitional advantages of the DBACE/DBACC.

A concise, tightly-edited casebook that focuses on core principles and policies so students can learn the major patterns and themes of corporate taxation. Features: Focuses student attention on core principles and policies to enable students to learn the major patterns and themes of corporate tax Encourages students to learn the law from the basic source material --the Code and regulations--as supplemented by concise explanations when needed Many problems, questions, and examples help lead students through the challenging material An organizational structure that bridges concepts learned in the introductory income tax course and those presented in advanced tax classes. The text begins with subchapter S--an area of growing, practical significance--which serves to link individual and separate entity taxation Presents the taxation of transactions using a and"and"building-blockand"and" approach from basic to complex transactions. This approach helps students to grasp that many complex transactions are merely combinations of simpler ones, and that a given transaction may be structured in different ways to achieve different tax consequences Cases and other source materials are edited concisely and note material is kept to a manageable length Completely up-to-date. The organizational structure and text are fully integrated to reflect current developments, including codification of the economic substance doctrine; impact of corporate tax shelters and application of substance-over-form doctrine; increased importance of passthrough tax principles; comparable treatment of dividends and long-term capital gain; recent changes affecting acquisitive and divisive reorganizations; and policy implications of current corporate tax reform options

This paper explores how corporate income tax reform can help Japan increase investment and boost potential growth. Using international and Japan-specific empirical estimates of corporate tax elasticities, investment is predicted to expand by around 0.4 percent for each point of rate reduction. International consensus estimates suggest further that between 10 and 30 percent of the static revenue loss could be recovered in the long run through dynamic scoring, although Japan ' s offset may be closer to the lower bound. Compensating fiscal measures are necessary in light of Japan ' s tight fiscal constraints. The scope for base broadening in the corporate income tax is found to be limited and some forms of base broadening will undo positive investment effects of a rate cut. Alternative revenue sources include higher consumption and property taxes. A gradual approach toward lowering tax rates mitigates windfall gains and reduces short-run revenue costs. An incremental allowance-for-corporate-equity system could boost investment with limited fiscal costs in the short run.

The international tax system is in dire need of reform. It allows multinational companies to shift profits to low tax jurisdictions and thus reduce their global effective tax rates. A major international project, launched in 2013, aimed to fix the system, but failed to seriously analyse the fundamental aims and rationales for the taxation of multinationals' profit, and in particular where profit should be taxed. As this project nears its completion, it is becoming increasingly clear that the fundamental structural weaknesses in the system will remain. This book, produced by a group of economists and lawyers, adopts a different approach and starts from first principles in order to generate an international tax system fit for the 21st century. This approach examines fundamental issues of principle and practice in the taxation of business profit and the allocation of taxing rights over such profit amongst countries, paying attention to the interests and circumstances of advanced and developing countries. Once this conceptual framework is developed, the book evaluates the existing system and potential reform options against it. A number of reform options are considered, ranging from those requiring marginal change to radically different systems. Some options have been discussed widely. Others, particularly Residual Profit Split systems and a Destination Based Cash-Flow Tax, are more innovative and have been developed at some length and in depth for the first time in this book. Their common feature is that they assign taxing rights partly/fully to the location of relatively immobile factors: shareholders or consumers. Stepping back from current political debates on combatting profit shifting and how taxing rights over the profits of the digitalized economy should be allocated, this book undertakes a fundamental review of the existing international system of taxing business profit. It argues that the existing system is fundamentally flawed, and that there is a need for radical reform.

Report of a CEPS Task Force
The Making of Tax Law
International Corporate Tax Rate Comparisons and Policy Implications
The Politics of Corporate Taxation in the European Union
Anglo-American Corporate Taxation
The Taxation of Corporations and Shareholders

This historical account of the evolution of the corporate income tax in America explains the origins of corporate income tax. Banks shows that political, economic, and social forces transformed it from a sword against evasion of the individual income tax to a shield against government and shareholder interference.

Based on the findings of a commission chaired by James Mirrlees, this volume presents a coherent picture of tax reform whose aim is to identify the characteristics of a good tax system for any open developed economy, assess the extent to which the UK tax system conforms to these ideals, and recommend how it might be reformed in that direction.

There is no consensus on how strongly the Tax Cuts and Jobs Act (TCJA) has stimulated U.S. private fixed investment. Some argue that the business tax provisions spurred investment by cutting the cost of capital. Others see the TCJA primarily as a windfall for shareholders. We find that U.S. business investment since 2017 has grown strongly compared to pre-TCJA forecasts and that the overriding factor driving it has been the strength of expected aggregate demand. Investment has, so far, fallen short of predictions based on the postwar relation with tax cuts. Model simulations and firm-level data suggest that much of this weaker response reflects a lower sensitivity of investment to tax policy changes in the current environment of greater corporate market power. Economic policy uncertainty in 2018 played a relatively small role in dampening investment growth.

The UK and the USA have historically represented opposite ends of the spectrum in their approaches to taxing corporate income. Under the British approach, corporate and shareholder income taxes have been integrated under an imputation system, with tax paid at the corporate level imputed to shareholders through a full or partial credit against dividends received. Under the American approach, by contrast, corporate and shareholder income taxes have remained separate under what is called a 'classical' system in which shareholders receive little or no relief from a second layer of taxes on dividends. Steven A. Bank explores the evolution of the corporate income tax systems in each country during the nineteenth and twentieth centuries to understand the common legal, economic, political and cultural forces that produced such divergent approaches and explains why convergence may be likely in the future as each country grapples with corporate taxation in an era of globalization.

OECD Tax Policy Studies Fundamental Reform of Personal Income Tax
Concepts, Strategies, Structures
Corporate Income Taxes under Pressure
The Development of the Swedish Tax System
The Transformation of the Corporate Income Tax, 1861 to Present

Many economists and policy makers believe that the U.S. corporate tax system is in need of reform. There is, however, disagreement over why the corporate tax system needs to be reformed, and what specific policy measures should be included in a reform. To assist policy makers in designing and evaluating corporate tax proposals, this report (1) briefly reviews the current U.S. corporate tax system; (2) discusses economic factors that may be considered in the corporate tax reform debate; and (3) presents corporate tax reform policy options, including a brief discussion of current corporate tax reform proposals. The current U.S. corporate income tax system generally taxes corporate income at a rate of 35%. This tax is applied to income earned domestically and abroad, although taxes on certain income earned abroad can be deferred indefinitely if that income remains overseas. The U.S. corporate tax system also contains a number of deductions, exemptions, deferrals, and tax credits, often referred to as "tax expenditures." Collectively, these provisions reduce the effective tax rate paid by many U.S. corporations below the 35% statutory rate. In 2014, the sum of all corporate tax expenditures was $154.4 billion. The significance of the corporate tax as a federal revenue source has declined over time. At its post-WWII peak in 1952, the corporate tax generated 32.1% of all federal tax revenue. In 2013, the corporate tax accounted for 9.9% of federal tax revenue. The decline in corporate revenues is a combination of decreasing effective tax rates, an increasing fraction of business activity that is being carried out by pass-through entities (particularly partnerships and S corporations, which are not subject to the corporate tax), and a decline in corporate sector profitability. A particular aspect of the corporate tax system that receives substantial attention is the 35% statutory corporate tax rate. Although the United States has the world's highest statutory corporate tax rate, the U.S. effective corporate tax rate is similar to the Organization for Economic Co-operation and Development (OECD) average. Further, the United States collects less in corporate tax revenue relative to Gross Domestic Production (GDP) (2.3% in 2011) than the average of other OECD countries (3.0% in 2011). This report discusses a number of economic considerations that may be made while evaluating various corporate tax reform proposals. These might include analyses of the likely effect on households of certain reforms (also known as incidence analysis). Policy makers might also want to consider how certain corporate tax provisions contribute to the allocation of economic resources, choosing policies that promote an efficient use of resources. Other goals of corporate tax reform may include designing a system that is simple to comply with and administer, while also promoting competitiveness of U.S. corporations. Commonly discussed corporate tax reforms include policies that would broaden the tax base (i.e., eliminate tax expenditures) to finance reduced corporate tax rates. Concerns that the U.S. corporate tax system inefficiently imposes a "double tax" on corporate income have led some to consider an integration of the corporate and individual tax systems. The treatment of pass-through income-business income not earned by C corporations-has also received considerable attention in tax reform debates. How the United States taxes income earned abroad, and the possibility of moving to a territorial tax system, have emerged as important issues.

This paper examines the effects of tax law changes in the US and the potential for fundamental tax reform to alter the incentives facing businesses in their real and financial behaviour. The paper considers three different proposed reforms of the US tax system that would replace the income tax with a tax based on consumption. The proposals (a retail sales tax, the Hall-Rabushka flat tax, and the US personal expenditure tax), by exempting from taxation the marginal return to new investment, would make the US a very attractive location for multinational corporations relative to current law.

Japan is in the midst of reforming its national level individual and corporation income tax systems. Last year it abandoned its large system of tax free savings accounts and lowered individual marginal tax rates. A much more radical proposal is currently being advocated by the government and is well along the way towards passage in the Diet. The new proposal would significantly lower the statutory rate for the corporation income tax, lower individual rates further and increase the tax thresholds, tax capital gains on securities for the first time, and introduce a type of value added tax. As a package, this would be the most important change in the Japanese tax system since 1950. This paper presents a brief summary of the Japanese income tax system and the changes in it that have been enacted or proposed. It also discusses and evaluates the pressures for reform, both domestic and international. Finally, the paper looks at how the taxation of capital income in Japan has changed since 1980 and how it compares to the U.S. taxation of capital income after our 1986 tax reform. One major finding of the paper is that the effective marginal tax rate on corporate capital income in Japan has increased sharply since 1980 from roughly five percent to about 32 percent. This change, which still leaves the marginal taxation on corporate investments somewhat lower in Japan than in the U.S., is due to both changes in the Japanese tax code and the virtual elimination of inflation in Japan.

Presents the recent trends in the taxation of corporate income in OECD countries, discusses the main drivers of corporate income tax reform and evaluates the gains of fundamental corporate tax reform.

The Taxation of Multinational Corporations
Corporate Tax Reform: From Income to Cash Flow Taxes
Japan's Corporate Income Tax: Facts, Issues and Reform Options
Essays on the Effects of Corporate Taxation
Knowledge and International Policy Agendas
Tracing the Common Roots of Divergent Approaches

The six papers in this vohune represent state-of-the-art empirical and conceptual research on various aspects of the taxation of multinational corporations. They were commissioned for and presented at a conference organized by Price Waterhouse LLP on behalf of the International Tax Policy Forum, held in Washington, DC in March, 1994. The ftrst four papers were originally published in the May, 1995 issue of International Tax and Public Finance. The Slemrod paper appeared in the Policy Watch Section of the November, 1995 issue of that journal. The foregoing papers were subject to the normal refereeing procedures of the journal, and the summaries that follow are drawn from there. The Leamer paper has not been previously published. Altshuler and Mintz examine one aspect of the 1986 u. s. Tax Reform Act --the change in the rules for the allocation of interest expense between domestic-(U. S.) and foreign-source income. In the absence of rules, a parent with excess credits could reduce U. S. tax liability by allocating interest expense toward itself; thus reducing its taxable domestic income without any compensating increase in either the U. S. tax due on foreign-source income or the foreign tax due (which is independent of U. S. rules).

Corporate tax reform is in the air. Competitive pressures from globalization, as well as skyrocketing budget deficits, are forcing lawmakers to rethink how America's largest businesses are taxed. Some want to close "loopholes." Others want to end all U.S. tax on foreign profits. Some want to lower rates, while still others want to abolish the corporate tax altogether and replace it with an entirely new system. Unlike many other books on tax policy, Corporate Tax Reform: Taxing Profits in the 21st Century is not selling an idea or approaching the issue from a particular political slant. It boils down the complexity of corporate taxation into simple language so readers can make up their own minds about the future of this controversial tax. For too long, the issue of corporate tax reform has been the exclusive domain of lawyers and economists who devote their entire adult lives to studying the tax. Corporate Tax Reform: Taxing Profits in the 21st Century opens the door on these issues to all concerned citizens by providing a compact guide to the economics and politics of the current debate on corporate tax reform. Provides an overview of the corporate tax and the possibilities for reform Discusses the impact on businesspeople and individual taxpayers Boils down complex tax concepts boiled into simple language Spurs lively discussion of the political issues without political bias Includes a discussion of ideas for revamping taxes for individuals, since the corporate and individual tax codes are interrelated What you'll learn Why economists want to abolish the corporate tax Why politicians can't get rid of the corporate tax What the biggest and the slimiest loopholes are The ramifications of all possible outcomes for businesspeople How the U.S. tax code compares to foreign competitors The major options for reform, including the flat tax How politics and tight budgets will shape the debate before and after the 2012 election Why individual taxpayers have a stake in the outcome of this debate Who this book is for Corporate Tax Reform: Taxing Profits in the 21st Century is for citizens concerned about America's future who want to get beyond the economic jargon and political rhetoric that dominates most discussion of business tax policy. As the debate on the complex issue of corporate tax reform rages in Washington, Corporate Tax Reform: Taxing Profits in the 21st Century is a beginner's guide that is useful to business executives, market analysts, jour...

Tax reform in Latin America during the 1980s emphasized broad-based, low-rate consumption taxes over steeply progressive income and property taxes, primarily to simplify the tax structure and facilitate tax administration. While tax reform need not necessarily raise tax-to-GDP ratios, countries that undertook tax reform experienced a higher revenue gain in terms of GDP relative to those that did not. Tax reform issues during the 1990s will include a minimum income tax, alternative corporate taxes (cash flow tax, assets tax), capturing difficult tax bases (financial intermediation, property), environment taxes, extending withholding as a taxing mechanism, and tax harmonization.

Corporate Tax ReformTaxing Profits in the 21st CenturyApress
Six Case Studies and Policy Implications
EU Corporate Tax Reform
U.S. Investment Since the Tax Cuts and Jobs Act of 2017
OECD Tax Policy Studies Tax Policy Reform and Economic Growth
Tax Reform Proposals
From Sword to Shield

The book deals with tax planning with holding companies located in Europe, Asia of the Caribbean. It analyses the problem of repatriating U.S. profits from Europe, going far beyond the routing of income via different companies. Instead, the approach includes an analysis of the interdependencies between international tax competition, holding company regimes, and tax planning concepts in order to establish a basis for tax planning measures regardless of the fast changing legal environment for holding companies in the different countries.

This study examines the general trends in the taxation of capital and wage income, the principal systems for taxing that income, and the most significant changes that have taken place in recent years.

Many economists and policymakers believe that the U.S. corporate tax system is in need of reform. There is, however, disagreement over why the corporate tax system needs to be reformed, and what specific policy measures should be included in a reform. To assist policymakers in designing and evaluating corporate tax proposals, this report (1) briefly reviews the current U.S. corporate tax system; (2) discusses economic factors that may be considered in the corporate tax reform debate; and (3) presents corporate tax reform policy options, including a brief discussion of current corporate tax reform proposals. The current U.S. corporate income tax system generally taxes corporate income at a rate of 35%. This tax is applied to income earned domestically and abroad, although taxes on certain income earned abroad can be deferred indefinitely if that income remains overseas. The U.S. corporate tax system also contains a number of deductions, exemptions, deferrals, and tax credits, often referred to as "tax expenditures." Collectively, these provisions reduce the effective tax rate paid by many U.S. corporations below the 35% statutory rate. In 2011, the sum of all corporate tax expenditures was $158.8 billion. The significance of the corporate tax as a federal revenue source has declined over time. At its post-WWII peak in 1952, the corporate tax generated 32.1% of all federal tax revenue. In 2010, the corporate tax accounted for 8.9% of federal tax revenue. The decline in corporate revenues is a combination of decreasing effective tax rates, an increasing fraction of business activity that is being carried out by pass-through entities (particularly partnerships and S corporations, which are not subject to the corporate tax), and a decline in corporate sector profitability. A particular aspect of the corporate tax system that receives substantial attention is the 35% statutory corporate tax rate. Although the U.S. has the world's highest statutory corporate tax rate, the U.S. effective corporate tax rate is similar to the Organization for Economic Co-operation and Development (OECD) average. Further, the U.S. collects less in corporate tax revenue relative to Gross Domestic Production (GDP) (1.9% in 2009) than the average of other OECD countries (2.8% in 2009). This report discusses a number of economic considerations that may be made while evaluating various corporate tax reform proposals. These might include analyses of the likely effect on households of certain reforms (also known as incidence analysis). Policymakers might also want to consider how certain corporate tax provisions contribute to the allocation of economic resources, choosing policies that promote an efficient use of resources. Other goals of corporate tax reform may include designing a system that is simple to comply with and administer, while also promoting competitiveness of U.S. corporations. Commonly discussed corporate tax reforms include policies that would broaden the tax base (i.e., eliminate tax expenditures) to finance reduced corporate tax rates. Concerns that the U.S. corporate tax system inefficiently imposes a "double tax" on corporate income has led some to consider an integration of the corporate and individual tax systems. The treatment of pass-through income—business income not earned by C corporations—has also received considerable attention in tax reform debates. How the U.S. taxes income earned abroad, and the possibility of moving to a territorial tax system, have emerged as important issues. Both the Obama Administration and the House Committee on Ways and Means Chairman David Camp have released tax reform proposals that would change the current tax treatment of U.S. multinationals.

This thesis is a collection of three papers in macroeconomics and public finance. It develops Dynamic Stochastic General Equilibrium Models with a special focus on financial frictions to analyze the effects of changes in corporate tax policy on firm level and macroeconomic aggregates. Chapter 1 develops a dynamic general equilibrium model with a representative firm to assess the short-run effects of changes in the timing of corporate profit taxes. First, it extends the Ricardian equivalence result to an environment with production and establishes that a temporary corporate profit tax cut financed by future tax-increase has no real effect when the tax is lump sum and capital markets are perfect. Second, I assess how strong the ricardian forces are in the presence of financing frictions. I find that when equity issuance is costly, and when the firm faces a lower bound on dividend payments, a temporary tax cut reduces temporary the marginal cost of investment and implies positive marginal propensity of investment. Third, I analyze how do the intertemporal substitution effects of tax cuts interact with the stimulative effects when tax is not lump-sum. The results show that when tax is proportional to corporate profit, the expectations of high future tax rates reduce the expected marginal return on investment and mitigate the stimulative effects of tax cuts. The net investment response depends on the relative strength of each effect. Chapter 2 is co-authored with Rui Castro. In this paper, we quantify how effective temporary corporate tax cuts are in stimulating investment and output via relaxation of financing frictions. In fact, policymakers often rely on temporary corporate tax cuts in order to provide incentives for business investment in recession times. A common motivation is that such policies help relax financing frictions, which might bind more during recessions. We assess whether this mechanism is effective. In an industry equilibrium model where some firms are financially constrained, marginal propensities to invest are high. We consider a transitory corporate tax cut, funded by public debt. By increasing current cash flows, corporate tax cuts are effective at stimulating current investment. On impact, aggregate investment increases by 26 cents per dollar of tax stimulus, and aggregate output by 3.5 cents. The stimulative output effects are long-lived, extending past the period the policy is reversed, leading to a cumulative effect multiplier on output of 7.2 cents. A major factor preventing larger effects is that this policy tends to significantly crowd out investment among the larger, unconstrained firms. Chapter 3 studies the effects of the 1992's U.S. Treasury Department proposal of a Comprehensive Business Income Tax (CBIT) reform. According to the U.S. tax code, dividend and capital gain are taxed at the firm level and further taxed when distributed to shareholders. This double taxation may reduce the overall return on investment and induce inefficient capital allocation. Therefore, tax reforms have been at the center of numerous debates among economists and policymakers. As part of this debate, the U.S. Department of Treasury proposed in 1992 to abolish dividend and capital gain taxes, and to use a Comprehensive Business Income Tax (CBIT) to levy tax on corporate income. In this paper, I use an industry equilibrium model where firms are subject to financing frictions, and idiosyncratic productivity and entry/exit shocks to assess the long run effects of the CBIT. I find that the elimination of the capital gain and dividend taxes is not self financing. More precisely, the corporate profit tax rate should be increased from 34\% to 42\% to keep the reform revenue-neutral. Overall, the results show that the CBIT reform reduces capital accumulation and output by 8\% and 1\%, respectively. However, it improves capital allocation by 20\%, resulting in an increase in aggregate productivity by 1.41\% and in a modest welfare gain.

Corporate Tax Reform
The Mirrlees Review
Taxing Profits in the 21st Century
Corporate Taxation and Accounting for Inflation
U.S. Corporate Income Tax Reform and its Spillovers
The Japanese Tax Reform and the Effective Rate of Tax on Japanese Corporate Investments

This monograph is principally the work of the late Martin Norr. He completed a draft of the entire monograph but had not yet revised it when he died in late 1972. At that time, the integration of corporate and shareholder taxation was just beginning to become of widespread interest in the United States. With the increasing interest thereafter, the International Tax Program began to revise his manuscript, making as few changes as possible in the original draft. We had the benefit of criticism and analysis from Professor Richard M. Bird of the University of Toronto, now Director of the Institute of Policy Analysis there. In addition, Mr. Mitsuo Sato of the Ministry of Finance in Japan gave freely of his time in carefully suggesting changes throughout the manuscript. The present version of Chapter 3 owes a great deal to his additions and suggestions. Thanks are also due to Professor Hugh J. Ault of Boston College Law School for the Appendix, containing his description of the German integration system that became effective in 1977, which was first published in Law & Policy in International Business. Mr. Norr's interest in the subject of corporate and shareholder taxation developed while he was writing the International Tax Program's World Tax Series volume Taxation in France, published in 1966. The integration of French taxes on corporations and shareholders took place just after that volume was finished, but had been under discussion in France for some time before then.

Taxes are a crucial policy issue, especially in developing countries. Just recently, proposals to raise middle-class taxes toppled the Bolivian government, and plans to extend or increase the value-added tax caused political unrest in Ecuador and Mexico. Despite the impact of tax policy on developing countries, a comprehensive study has yet to be written. Treating Argentina, Brazil, India, Kenya, Korea, and Russia as key case studies, this volume outlines the major aspects of current tax codes and explores their economic and political implications. Examples of both the poorest and wealthiest developing countries, Argentina, Brazil, India, Kenya, Korea, and Russia uniquely demonstrate the diverse fiscal problems of tax reform. Each economy relies heavily on indirect and corporate income taxes, though recently some have reduced their tariff rates and have switched from excise to value-added taxes. There is a large, informal economy in most of these countries, and tax evasion by firms is a significant concern. As a result, tax revenue remains low, even though rates are as high as those in developed economies. Also, unconventional methods to collect revenue have been implemented, including bank debit taxes, state ownership of firms, and implicit taxes on individuals in the informal sector. Exploring these and other concerns, as well as changes in tax law, administration, and fiscal pressures, this comprehensive anthology clarifies the current landscape of tax administration and the economic future of the world's poorer economies.

This report investigates how tax structures can best be designed to support GDP per capita growth.

This study explores the formation of the European Union's tax policy and asks why member states did not raise objections to it. The author's analysis is enriched by two further levels of inquiry. Firstly, he examines the 'Europeanization' of domestic tax policy in Italy and the UK, asking how domestic policy has changed and what is meant by 'Europeanization'. Secondly, he puts the European Union tax policy in the wider context of tax globalization. Will the liberalization of capital movement, tax havens and the flexibility of multinationals in managing their taxable incomes wreck the European Union's fragile tax policies?

Tax Reform in Open Economies
A Latin American Perspective
The Corporate Income Tax System
Trends and Future Directions in Tax Policy Reform
International Implications of U.S. Business Tax Reform
Taxing Profit in a Global Economy

This book undertakes a fundamental review of the existing international system of taxing business profit. It steps back from the current political debates on how to combat profit shifting and how taxing rights over the profits of the digitalized economy should be allocated. Instead, it starts from first principles to ask how we should evaluate a tax on business profit—and whether there is any good rationale for such a tax in the first place. It then goes on to evaluate the existing system and a number of alternatives that have been proposed. It argues that the existing system is fundamentally flawed, and that there is a need for radical reform. The key conclusion from the analysis is that there would be significant gains from a reform that moved the system towards taxing profit in the country in which a business made its sales to third parties. That conclusion informs two proposals that are put forward in detail and evaluated: the Residual Profit Allocation by Income (RPAI) and the Destination-based Cash Flow Tax (DBCFT). The book is authored by group of economists and lawyers—the Oxford International Tax Group, chaired by Michael P. Devereux. It draws insights from both economics and law—including economic theory, empirical evidence on the impact of taxes, and an examination of practical issues of implementation—to assess the existing system and to consider fundamental reforms. This book will be useful to tax policy makers, tax professionals, academics, and anyone interested in tax policy.

This book was first published in 2007. Most countries levy taxes on corporations, but the impact - and therefore the wisdom - of such taxes is highly controversial among economists. Does the burden of these taxes fall on wealthy shareowners, or is it passed along to those who work for, or buy the products of, corporations? Can a country with high corporate taxes remain competitive in the global economy? This book features research by leading economists and accountants that sheds light on these and related questions, including how taxes affect corporate dividend policy, stock market value, avoidance, and evasion. The studies promise to inform both future tax policy and regulatory policy, especially in light of the Sarbanes-Oxley Act and other actions by the Securities and Exchange Commission that are having profound effects on the market for tax planning and auditing in the wake of the well-publicized accounting scandals in Enron and WorldCom.

The book describes the difficulties of the current international corporate income tax system. It starts by describing its origins and how changes, such as the development of multinational enterprises and digitalization have created fundamental problems, not foreseen at its inception. These include tax competition—as governments try to attract tax bases through low tax rates or incentives, and profit shifting, as companies avoid tax by reporting profits in jurisdictions with lower tax rates. The book then discusses solutions, including both evolutionary changes to the current system and fundamental reform options. It covers both reform efforts already under way, for example under the Inclusive Framework at the OECD, and potential radical reform ideas developed by academics.

This paper uses a multi-region, forward-looking, DSGE model to estimate the macroeconomic impact of a tax reform that replaces a corporate income tax (CIT) with a destination-based cash-flow tax (DBCFT). Two key channels are at play. The first channel is the shift from an income tax to a cash-flow tax. This channel induces the corporate sector to invest more, boosting long-run potential output, GDP and consumption, but crowding out consumption in the short run as households save to build up the capital stock. The second channel is the shift from a taxable base that comprises domestic and foreign revenues, to one where only domestic revenues enter. This leads to an appreciation of the currency to offset the competitiveness boost afforded by the tax and maintain domestic investment-saving equilibrium. The paper demonstrates that spillover effects from the tax reform are positive in the long run as other countries' exports benefit from additional investment in the country undertaking the reform and other countries' domestic demand benefits from improved terms of trade. The paper also shows that there are substantial benefits when all countries undertake the reform. Finally, the paper demonstrates that in the presence of financial frictions, corporate debt declines under the tax reform as firms are no longer able to deduct interest expenses from their profits. In this case, the tax shifting results in an increase in the corporate risk premia, a near-term decline in output, and a smaller long-run increase in GDP.

Overview and Options for Reform
Tax Planning with Holding Companies - Repatriation of US Profits from Europe
Corporate Taxation
Why Reform Is Needed and How It Could Be Designed
Taxation in Developing Countries
Issues for Congress

Interest in corporate tax reform that lowers the rate and broadens the base has developed in the past several years. Some discussions by economists in opinion pieces have suggested there is an urgent need to lower the corporate tax rate, but not necessarily to broaden the tax base, an approach that presents some difficulties given current budget pressures. Others see the corporate tax as a potential source of revenue. Arguments for lowering the corporate tax rate include the traditional concerns about economic distortions arising from the corporate tax and newer concerns arising from the increasingly global nature of the economy. Some claims have been made that lowering the corporate tax rate would raise revenue because of the behavioral responses, an effect that is linked to an open economy. Although the corporate tax has generally been viewed as contributing to a more progressive tax system because the burden falls on capital income and thus on higher-income individuals, claims have also been made that the burden falls not on owners of capital, but on labor income. The analysis in this report suggests that many of the concerns expressed about the corporate tax are not supported by empirical evidence. Claims that behavioral responses could cause revenues to rise if rates were cut do not hold up on either a theoretical or an empirical basis. Studies that purport to show a revenue-maximizing corporate tax rate of 30% (a rate lower than the current statutory tax rate) contain econometric errors that lead to biased and inconsistent results; when those problems are corrected the results disappear. Cross-country studies to provide direct evidence showing that the burden of the corporate tax actually falls on labor yield unreasonable results and prove to suffer from econometric flaws that also lead to a disappearance of the results when corrected, in those cases where data were obtained and the results replicated. Many studies that have been cited are not relevant to the United States because they reflect wage bargaining approaches and unions have virtually disappeared from the private sector in the United States. Overall, the evidence suggests that the tax is largely borne by capital. Similarly, claims that high U.S. tax rates will create problems for the United States in a global economy suffer from a misrepresentation of the U.S. tax rate compared with other countries and are less important when capital is imperfectly mobile, as it appears to be. Although these new arguments appear to rely on questionable methods, the traditional concerns about the corporate tax appear valid. While an argument may be made that the tax is still needed as a backstop to individual tax collections, it does result in some economic distortions. These economic distortions, however, have declined substantially over time as corporate rates and shares of output have fallen. Moreover, it is difficult to lower the corporate tax without creating a way of sheltering individual income given the low tax rates on dividends and capital gains. A number of revenue-neutral changes are available that could reduce these distortions, allow for a lower corporate statutory tax rate, and lead to a more efficient corporate tax system. These changes include base broadening, reducing the benefits of debt finance through inflation indexing, taxing large pass-through firms as corporations, and reducing the tax at the firm level offset by an increase at the individual level. Nevertheless, the scope for reducing the tax rate in a revenue-neutral way may be limited.

Advocates of cutting corporate tax rates frequently make their argument based on the higher statutory rate in the United States as compared with the rest of the world; they argue that cutting corporate taxes would induce large investment flows into the United States, which would create jobs or expand the taxable income base enough to raise revenue. President Barack Obama has supported a rate cut if the revenue loss can be offset with corporate base broadening. Others have urged on one hand, a revenue raising reform, and, on the other, setting deficit concerns aside. Is the U.S. tax rate higher than the rest of the world, and what does that difference imply for tax policy? The answer depends, in part, on which tax rates are being compared. Although the U.S. statutory tax rate is higher, the average effective rate is about the same, and the marginal rate on new investment is only slightly higher. The statutory rate differential is relevant for international profit shifting; effective rates are more relevant for firms' investment levels. The 13.7 percentage point differential in statutory rates (a 39.2% rate for the United States compared with 25.5% in other countries), narrows to about 9 percentage points when tax rates in the rest of the world are weighted to reflect the size of countries' economies. (The OECD rates fell by slightly over1/2 of a percentage point between 2010 and 2012) Regardless of tax differentials, could a U.S. rate cut lead to significant economic gains and revenue feedbacks? Because of the factors that constrain capital flows, estimates for a rate cut from 35% to 25% suggest a modest positive effect on wages and output: an eventual one-time increase of less than two-tenths of 1% of output. Most of this output gain is not an increase in national income because returns to capital imported from abroad belong to foreigners and the returns to U.S. investment abroad that comes back to the United States are already owned by U.S. firms. The revenue cost of such a rate cut is estimated at between $1.2 trillion and $1.5 trillion over the next 10 years. Revenue feedback effects from increased investment inflows are estimated to reduce those revenue costs by 5%-6%. Reductions in profit shifting could have larger effects, but even if profit shifting disappeared entirely, it would not likely offset revenue losses. It seems unlikely that a rate cut to 25% would significantly reduce profit shifting given these transactions are relatively costless and largely constrained by laws, enforcement, and court decisions. Both output gains and revenue offsets would be reduced if other countries responded to a U.S. rate cut by reducing their own taxes. Evidence suggests that the U.S. rate cut in the Tax Reform Act of 1986 triggered rate cuts in other countries. It is difficult, although not impossible, to design a reform to lower the corporate tax rate by 10 percentage points that is revenue neutral in the long run. Standard tax expenditures do not appear adequate for this purpose. Eliminating one of the largest provisions, accelerated depreciation, gains much more revenue in the short run than in the long run, and a long-run revenue-neutral change would increase the cost of capital. Other revisions, such as restricting foreign tax credits and interest deductibility or increasing shareholder level taxes, may be required. This publication focuses on the global issues relating to tax rate differentials between the United States and other countries. It provides tax rate comparisons; discusses policy implications, including the effect of a corporate rate cut on revenue, output, and national welfare; and discusses the outlook for and consequences of a revenue neutral corporate tax reform.

This book brings together research from some of the world s leading tax economists to discuss appropriate directions for tax reform in small open economies. The eminent contributors (including Altshuler, Creedy, Freebairn, Gravelle, Heady, Kalb, Sørensen and Zodrow) investigate the beneficial directions for medium-term tax reform in the light of global developments and lessons from the latest taxation research. In addressing this issue, they review recent advances in both the theoretical and empirical tax literature and reform evidence from individual countries. Topics covered include the impact of taxes on economic performance; international and corporate taxation; personal tax and welfare systems; environmental taxation; and country-specific tax reform experiences. Bringing together leading international experts to explore specific policy reforms, this book will prove essential reading for academics and researchers of public economics, fiscal policy and tax reform. It will also be warmly welcomed both by undergraduate and graduate students of public economics or the economics of taxation, as well as policymakers and government officials working in the area of tax policy.

This action plan, created in response to a request by the G20, identifies a set of domestic and international actions to address the problems of base erosion and profit sharing.

A Destination-Based Allowance for Corporate Equity
International and Country Perspectives
Pragmatism Or Purity, Help Or Hindrance?
OECD Tax Policy Studies Fundamental Reform of Corporate Income Tax
A Volume in Memory of Richard Musgrave
Profit Taxation and Bank Risk Taking

This paper examines the main distortions of the U.S. corporate income tax (CIT), focusing on its international aspects, and proposes a set of reforms to alleviate them. A bold reform to replace the CIT with a corporate-level rent tax could induce efficiency-enhancing reform of the international tax system. Since fundamental reform is politically difficult, this paper also proposes an incremental reform that would reduce tax expenditures, reduce the CIT rate to 25-28 percent, and impose a minimum rent tax on foreign earnings. Finally, this paper analyzes empirically the likely impact of the incremental on corporate revenues outside the U.S.: Though a U.S. rate cut would likely lower revenues elsewhere, implementation of a strong minimum tax could more than offset that effect for most countries with effective tax rates above 15 percent.

No government can be sustained without the ability to tax its citizens. The question then arises how can a nation do so in a way that's fair and equitable to taxpayers while simultaneously promoting economic growth and providing the state with the funds it needs to adequately address the needs of its citizens? This insightful work, featuring contributions from a stellar array of international tax experts and economists, addresses the crucial, relevant issues which developed countries will confront in the early decades of the 21st century: The pursuit of tax reform. Personal tax base: income or consumption? Tax rate scale: equity and efficiency aspects. Business tax reform: structural and design issues. Interjurisdictional issues. Controlling tax avoidance.

Corporate tax reform is in the air. Competitive pressures from globalization, as well as skyrocketing budget deficits, are forcing lawmakers to rethink how America's largest businesses are taxed. Some want to close "loopholes." Others want to end all U.S. tax on foreign profits. Some want to lower rates, while still others want to abolish the corporate tax altogether and replace it with an entirely new system. Unlike many other books on tax policy, Corporate Tax Reform: Taxing Profits in the 21st Century is not selling an idea or approaching the issue from a particular political slant. It boils down the complexity of corporate taxation into simple language so readers can make up their own minds about the future of this controversial tax. For too long, the issue of corporate tax reform has been the exclusive domain of lawyers and economists who devote their entire adult lives to studying the tax. Corporate Tax Reform: Taxing Profits in the 21st Century opens the door on these issues to all concerned citizens by providing a compact guide to the economics and politics of the current debate on corporate tax reform. Provides an overview of the corporate tax and the possibilities for reform Discusses the impact on businesspeople and individual taxpayers Boils down complex tax concepts boiled into simple language Spurs lively discussion of the political issues without political bias Includes a discussion of ideas for revamping taxes for individuals, since the corporate and individual tax codes are interrelated

Action Plan on Base Erosion and Profit Shifting
Tax By Design
Tax Reform in the 21st Century
Taxing Corporate Income in the 21st Century