The OECD BEPS Project and Developing Countries

Comments on paper by Nadine Riedel and Richard Collier

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European Tax Policy Forum
“It is hence of key importance to understand how “governments [can] go from raising around 10% of GDP in taxes to raising around 40%”
Developing country tax challenges

**BARRIERS**

- **Political factors** - weak institutions and fragmented polities
- **Social contract** - weak sense of national identity and norm for compliance
- **Economic factors** - Informal sector predominates

Low overall GDP per capita!
“Anecdotal and academic evidence suggest that profit shifting from developing countries is a non-negligible phenomenon.” (but estimates vary)

South Africa developed new transfer pricing rules in 2012 → 35 transfer pricing cases up to 2016 raised $650 million (c $2.95 per person)
Recent estimates by Zucman et al: big picture

World (2015) GDP breakdown

Value added by corporate sector (% of GDP)

- All firms: 54%
  - Local firms: 26%
  - Foreign firms: 54%

- Employee compensation
  - Local firms: 19%
  - Foreign firms: 7%

- Value added
  - Includes dividends, retained profits, interest, depreciation
    - Local firms: 7%
    - Foreign firms: 4%

- Gross surplus
  - Foreign firms: 3%

Based on Torslov, Wier and Zucman (2018)
Patterns in developed & developing countries

Based on Torslov, Wier and Zucman (2018)
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France

- GDP: 37K USD per capita
- Value added by all firms: $20K
- Employee compensation: $13,202
- Local firms: $879 CIT
- Foreign firms: $131 CIT

Mexico

- USD per capita: 9K
- Value added by all firms: $1,212
- Employee compensation: $261 CIT
- Local firms: $4.6K
- Foreign firms: $58 CIT

India

- USD per capita: 1.6K
- Value added by all firms: $243
- Employee compensation: $15 CIT
- Local firms: $0.7K
- Foreign firms: $1 CIT
Taxing multinationals: Dilemma for developing countries

• **BEPS Difficult to administer** – burden on staffing. Other priorities?
• **Increased compliance costs**, increased tax payer uncertainty and potentially corruption.
• **Increase companies’ effective tax burden** → reduce incentives for real investment

“Given that developing economies are observed to compete fiercely for mobile investment, the incentives to such countries to implement strict anti-shifting policies may, in fact, be limited. “
## Recommendations

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<th>BEPS</th>
<th>AND BEYOND</th>
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<td>• Limiting interest deductibility (Action 4)</td>
<td>• Radically simpler DTAs for LICs</td>
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<td>• Preventing treaty abuse (Action 6)</td>
<td>• Withholding taxes</td>
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<td>• Artificial avoidance of PE status (Action 7)</td>
<td>• Simplified transfer pricing: fixed margins and safe harbours</td>
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<td>• Transfer pricing (Actions 8-10)</td>
<td>• Bespoke support – don’t just focus on BEPS</td>
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<td>• Country-by-country reporting (Action 13)</td>
<td>• Public country by country reporting?</td>
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Public country by country reporting?

“a simple yet profound way to tackle a huge problem of avoidance.”

the lack of tax transparency is “one of the major stumbling blocks to their self-sufficiency.”

“if developing countries got their fair share of tax, it would vastly outstrip what is currently available through aid”

CAROLINE FLINT IN PARLIAMENTARY DEBATE
Danger of politisation ➔ making the BEPS dilemmas worse

Acacia Mining hit with $190bn tax bill by Tanzania

Zambia concludes mine tax audits after slapping huge bill on First Quantum

LUSAKA, May 7 (Reuters) - Zambia concluded audits of mining companies that prompted the nation to slap Canadian miner First Quantum Minerals with a tax bill of over 76.5 billion Zambian kwacha ($8 billion), its revenue authority said on Monday.