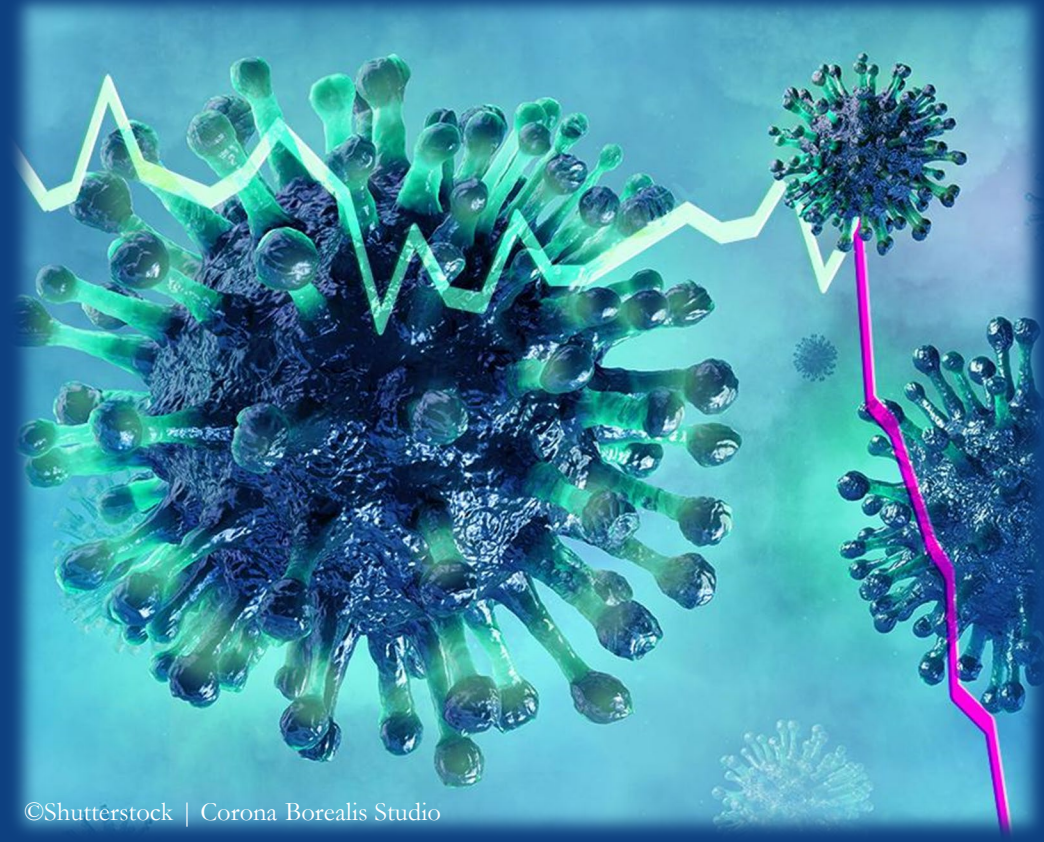

ETPF AND TAX FOUNDATION: THE STATE OF UNCERTAINTY: REFLECTIONS
ON BEPS AND THE OECD'S TWO-PILLAR APPROACH

National Tax Revenue Effects of a Redistribution of Taxation Rights in the Context of Cross-border Profit Allocation

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President, ifo Institute for Economic Research at the University of Munich

2 November 2020



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ifo STUDIE

Nationale Steueraufkommens- wirkungen einer Neuverteilung von Besteuerungsrechten im Rahmen der grenzüberschreitenden Gewinnabgrenzung

Studie im Auftrag des Bundesministeriums der Finanzen

vorgelegt von: *ifo Forschungsgruppe Steuer- und Finanzpolitik
Clemens Fuest, Felix Hugger, Florian Neumeier und
Daniel Stöhlker*

Related Paper building on this report

Corporate profit shifting and the role of tax havens: Evidence from German country-by-country reporting data

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^c ifo Institute, University of Munich, CESifo

This version: 15 October 2020

Contribution of the report

Question: How would the introduction of OECD Pillar I affect corporate income tax revenue in Germany?

Base Scenario: 10% of residual profits (profits exceeding 10% of revenue from third parties) of large companies (more than 750 million revenue) are allocated to market countries. These firms pay roughly 15%

Policy debate: Concerns among domestic decision makers that **Germany as a net exporter** may **lose** if taxing rights are shifted to market countries

Data: CBC reporting data for German multinational firms (400 largest firms), Orbis, AMNE (Activities of Multinational Enterprises), STAN (Structural Analysis)

Contribution of the report

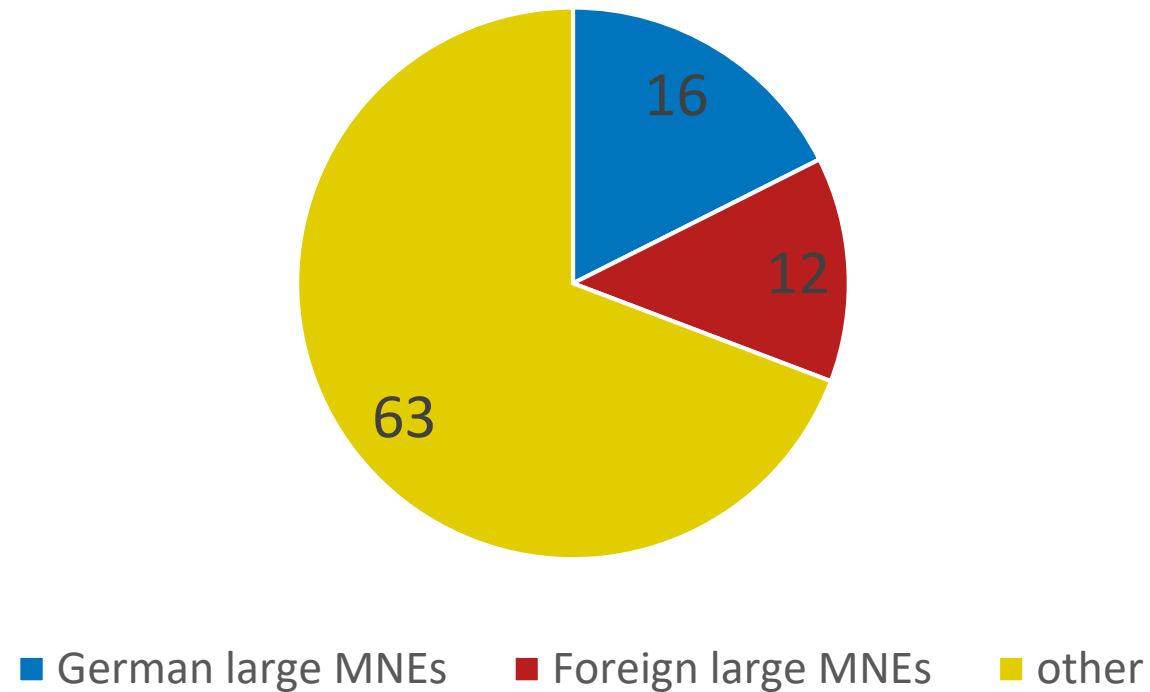
Key results

- Tax revenue change for Germany **close to zero**, even slightly positive (+100 million Euros per year)
- **Alternative scenario:** Apply reform not just to 10% of residual profits but 100% of all profits: **tax revenue loss for Germany 6 bn Euros** per year (22% of taxes collected from large German and foreign multinationals operating in Germany, 7% of overall corporate income tax revenue)

Explanation

How much tax revenue is at stake?

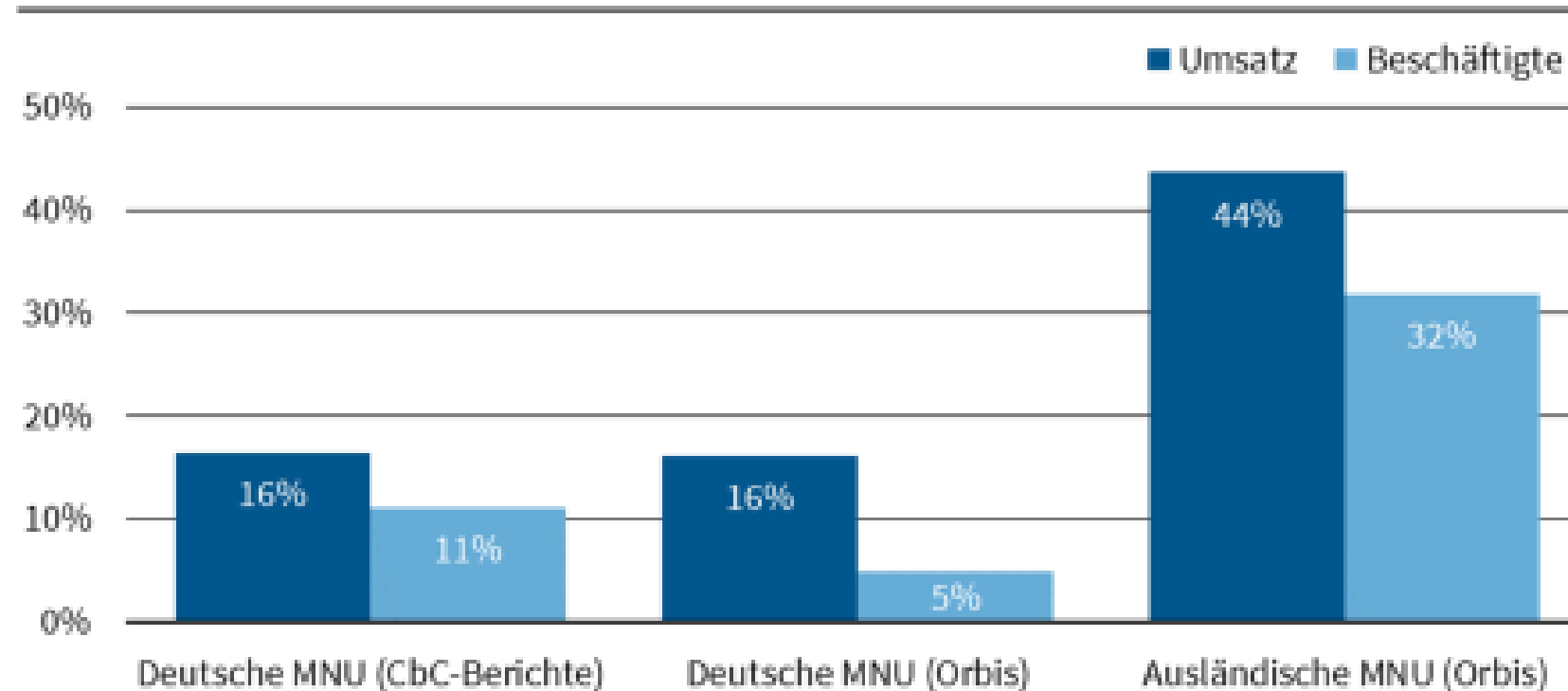
Contributions to corporate income tax revenue in Germany (2016),
bn Euros



What is the share of large MNEs in *domestic* economic activity of all MNEs?

Inlandsaktivität multinationaler Unternehmen

Beitrag großer MNU zur Wirtschaftsaktivität aller MNU in Deutschland



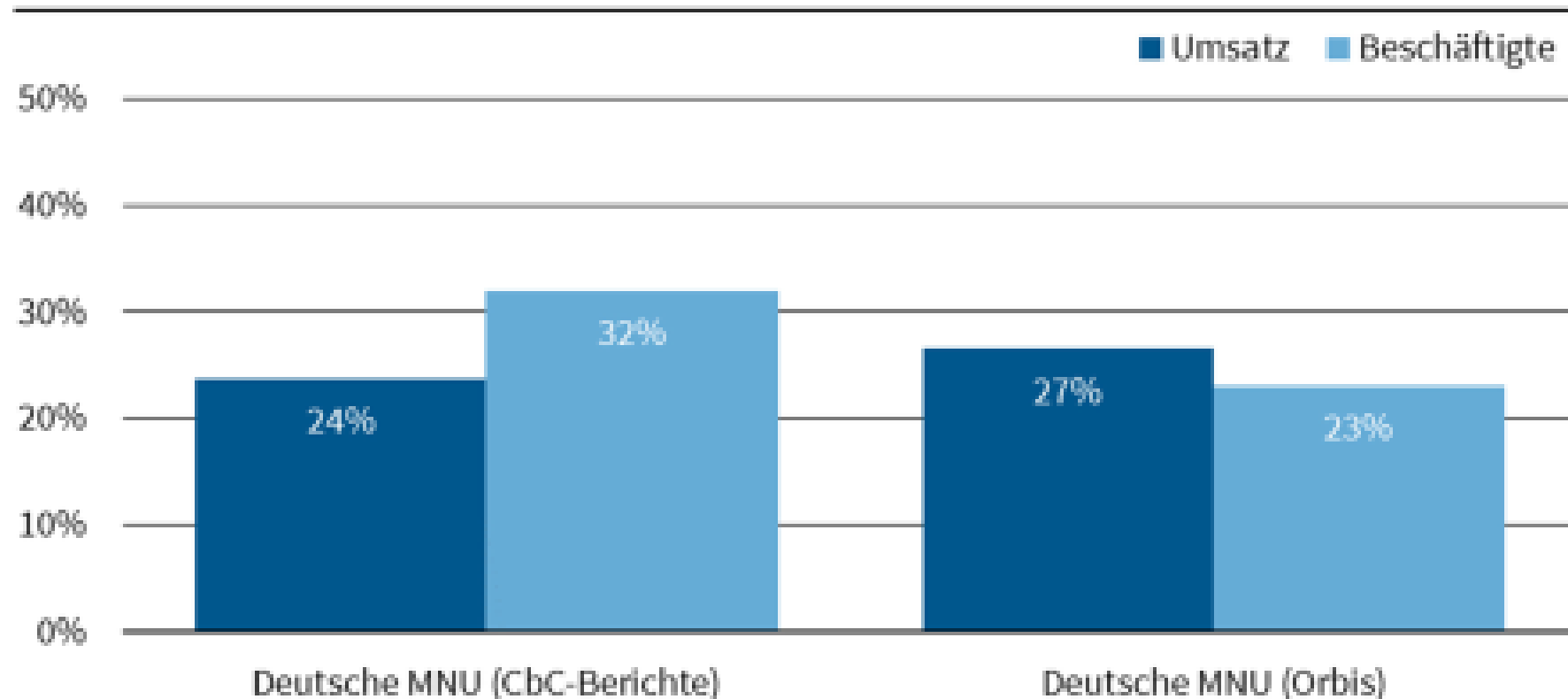
Quelle: Eigene Berechnungen basierend auf Angaben aus den CbC-Berichten, Orbis- und AMNE-Daten.

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What is the share of large German MNEs in economic activity *abroad* of all *German* MNEs?

Auslandsaktivität deutscher multinationaler Unternehmen

Beitrag großer deutscher MNU zur Wirtschaftsaktivität aller deutschen MNU im Ausland

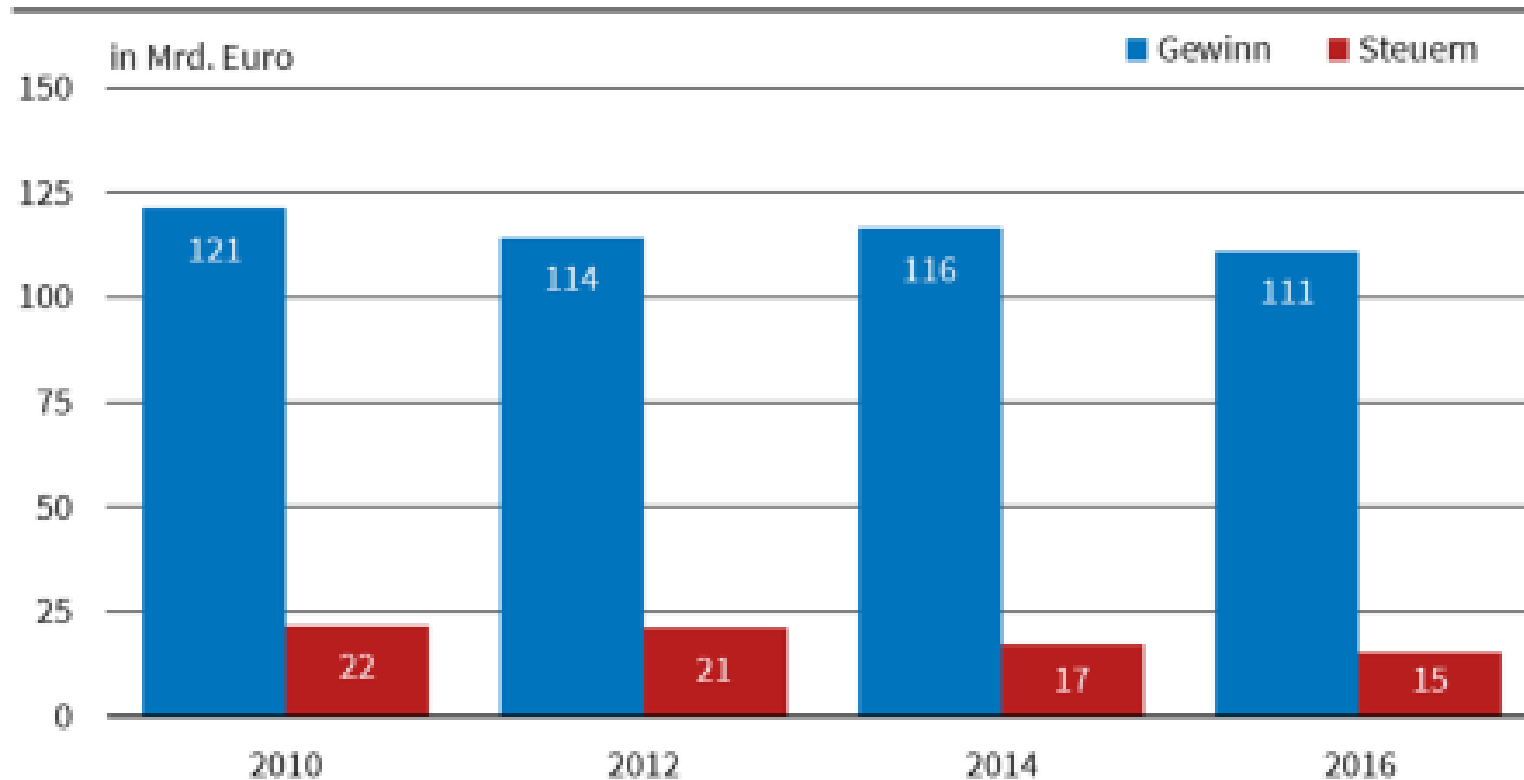


Quelle: Eigene Berechnungen basierend auf Angaben aus den CbC-Berichten, Orbis- und AMNE-Daten.

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What is the effective tax burden (taxes paid/before tax profits)? German large MNEs, ORBIS Data

Vorsteuergewinne und Steuerzahlungen
Deutsche multinationale Unternehmen

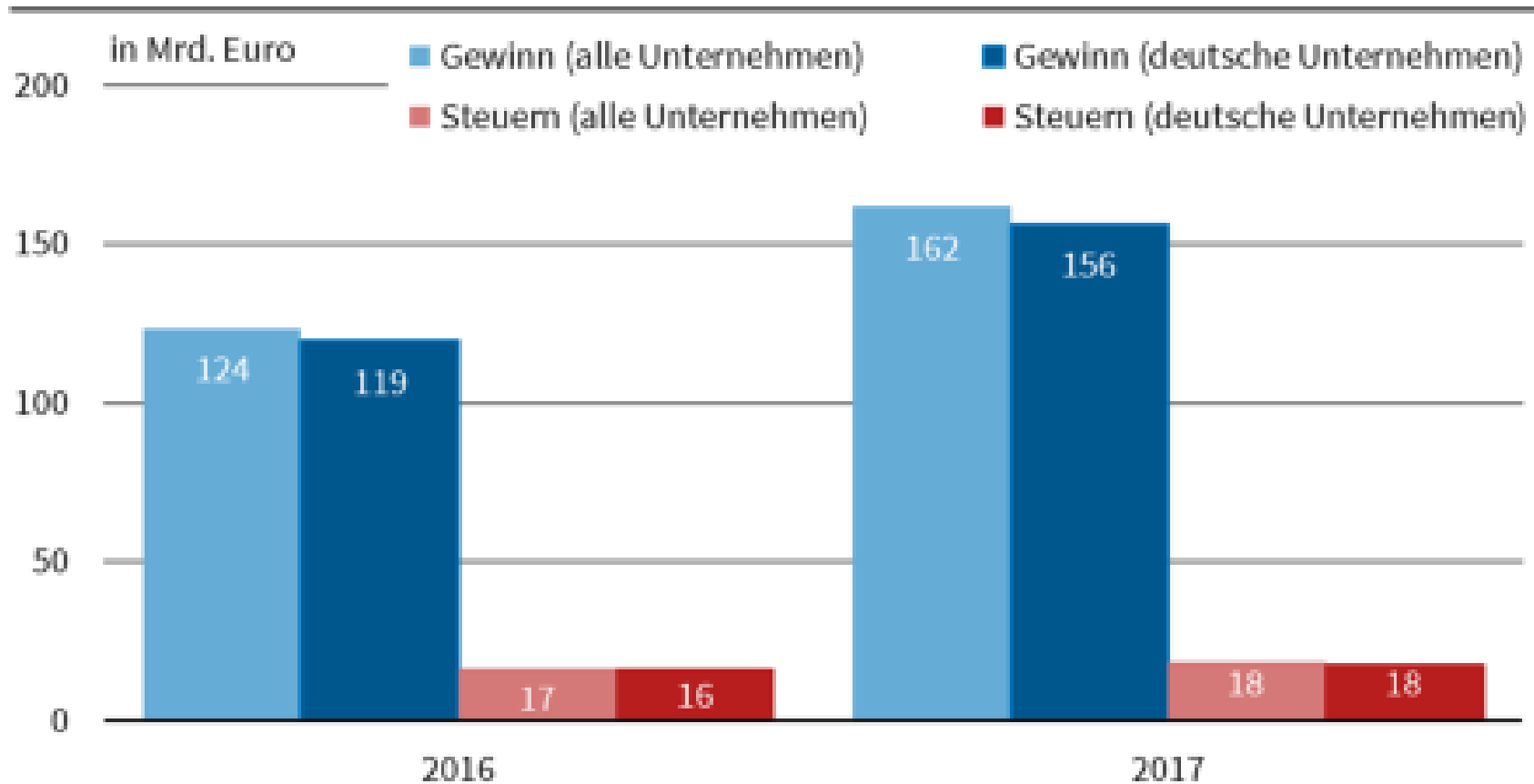


Quelle: Eigene Berechnungen basierend auf Orbis-Daten.

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What is the effective tax burden (taxes paid/before tax profits)? German large MNEs, ORBIS Data

Vorsteuergewinne und Steuerzahlungen Deutsche multinationale Unternehmen



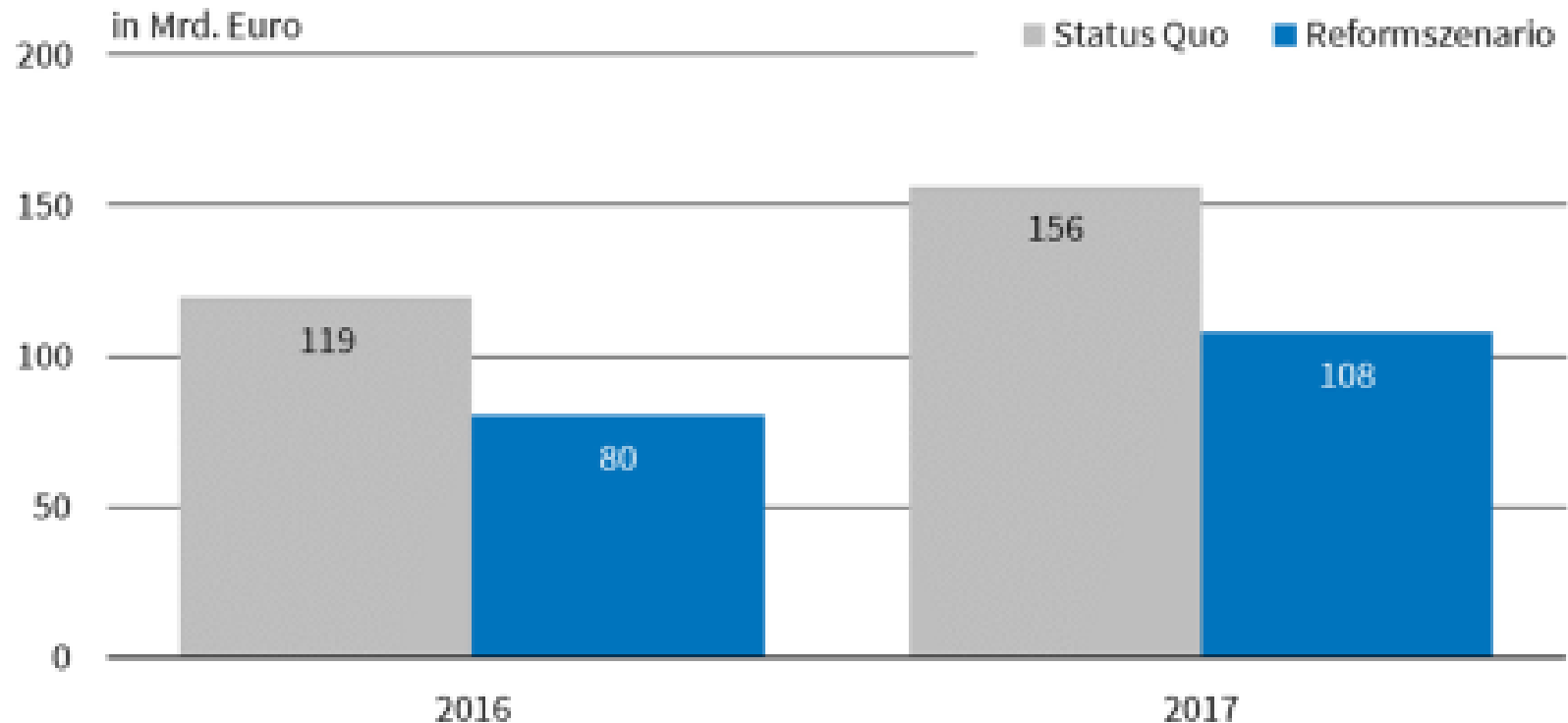
Quelle: Eigene Berechnungen basierend auf Angaben aus den CbC-Berichten.

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Benchmark reform scenario: *All* profits are allocated to the market countries

Change in the German profit tax base, German large MNEs

Veränderung der Bemessungsgrundlage Deutsche multinationale Unternehmen

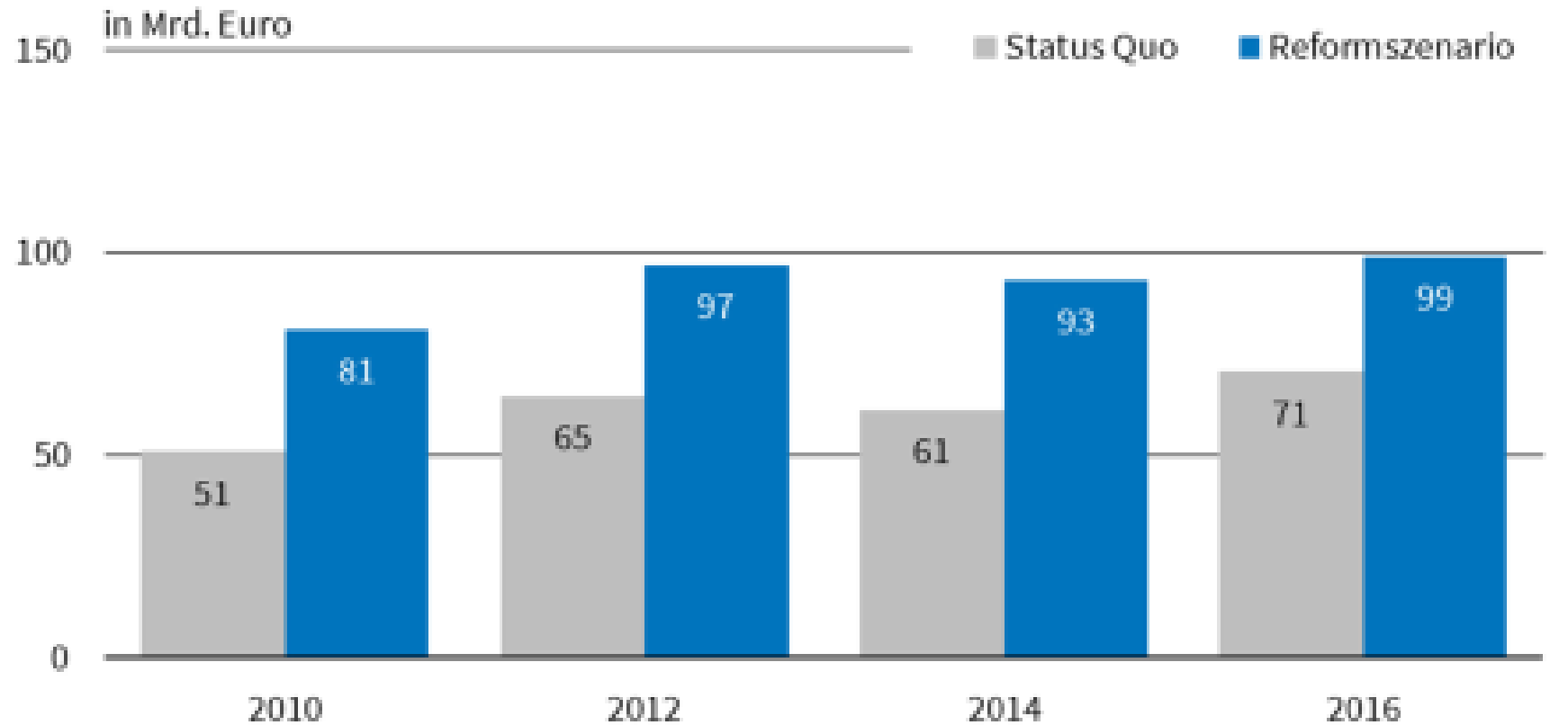


Quelle: Eigene Berechnungen basierend auf Angaben aus den CbC-Berichten.

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Change in the German profit tax base, foreign large MNEs

Veränderung der Bemessungsgrundlage
Ausländische multinationale Unternehmen



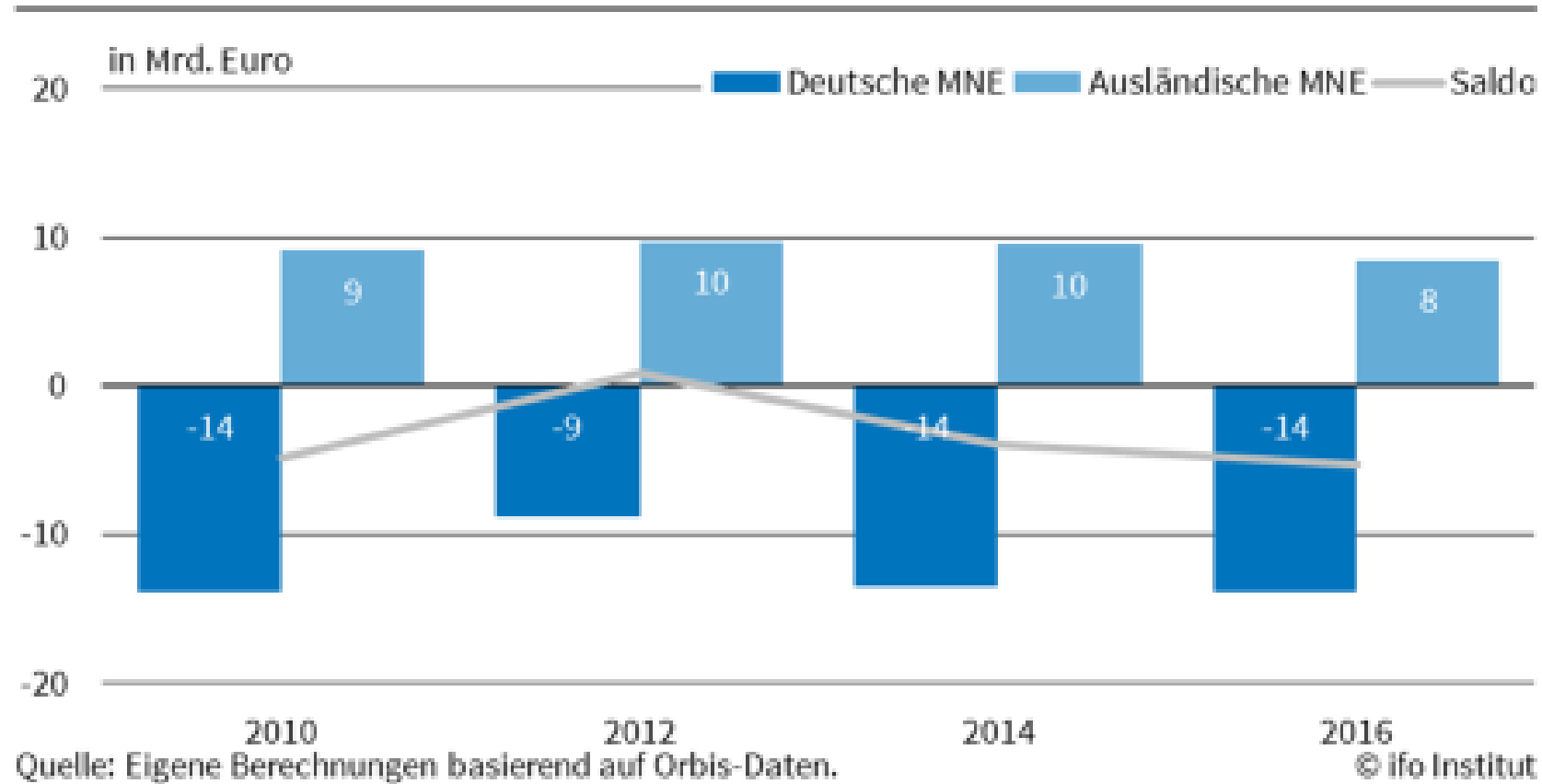
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Change in the German tax revenue collected from large MNEs – at profits

Veränderung der Steuereinnahmen

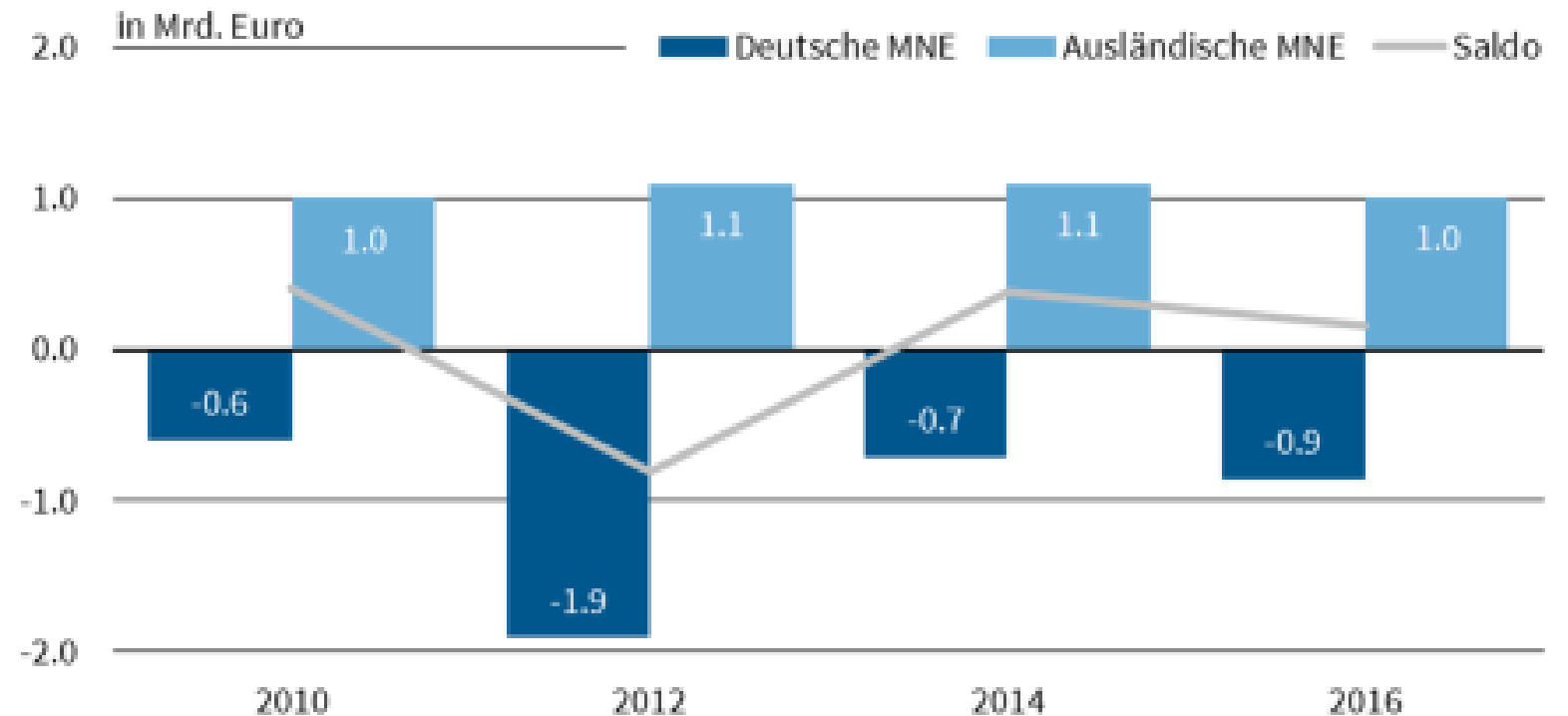
Deutsche und ausländische multinationale Unternehmen



Change in the German tax revenue collected from large MNEs - 10% of residual profits only

Veränderung der Steuereinnahmen

Deutsche und ausländische multinationale Unternehmen



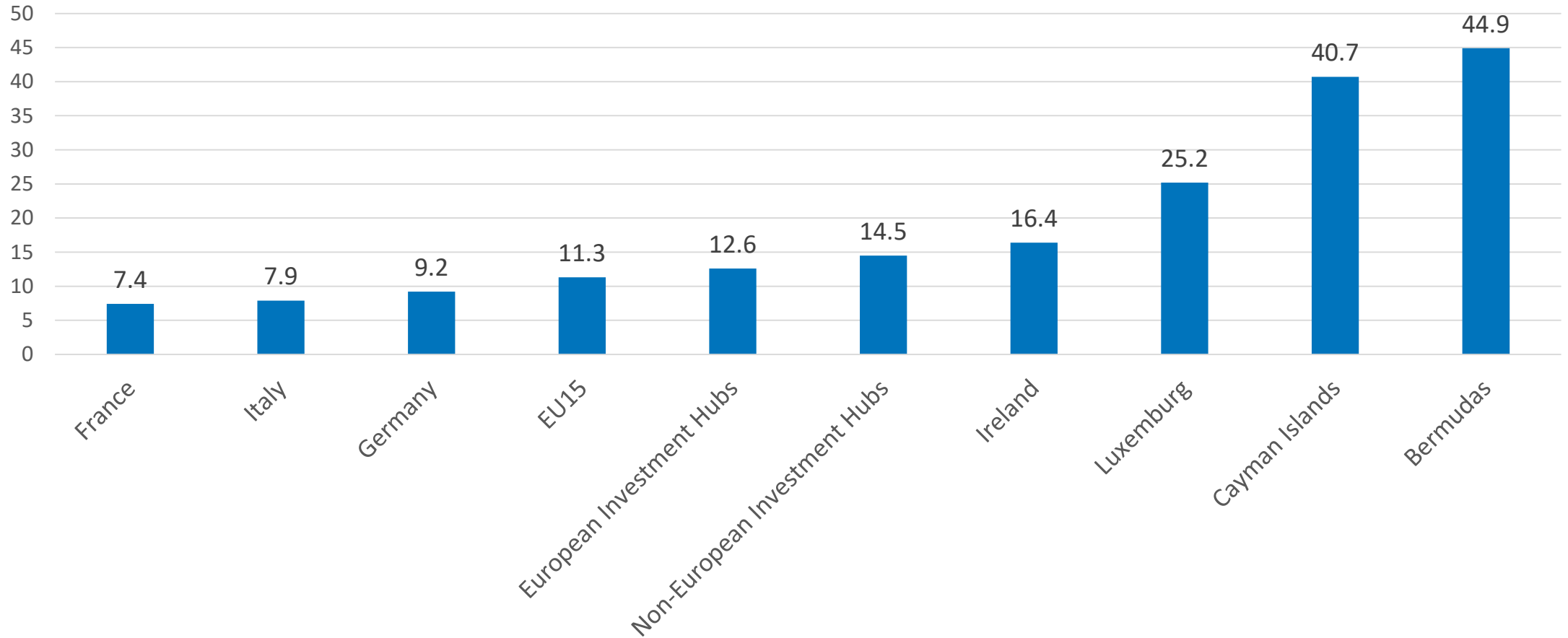
Quelle: Eigene Berechnungen basierend auf Orbis-Daten.

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Why?

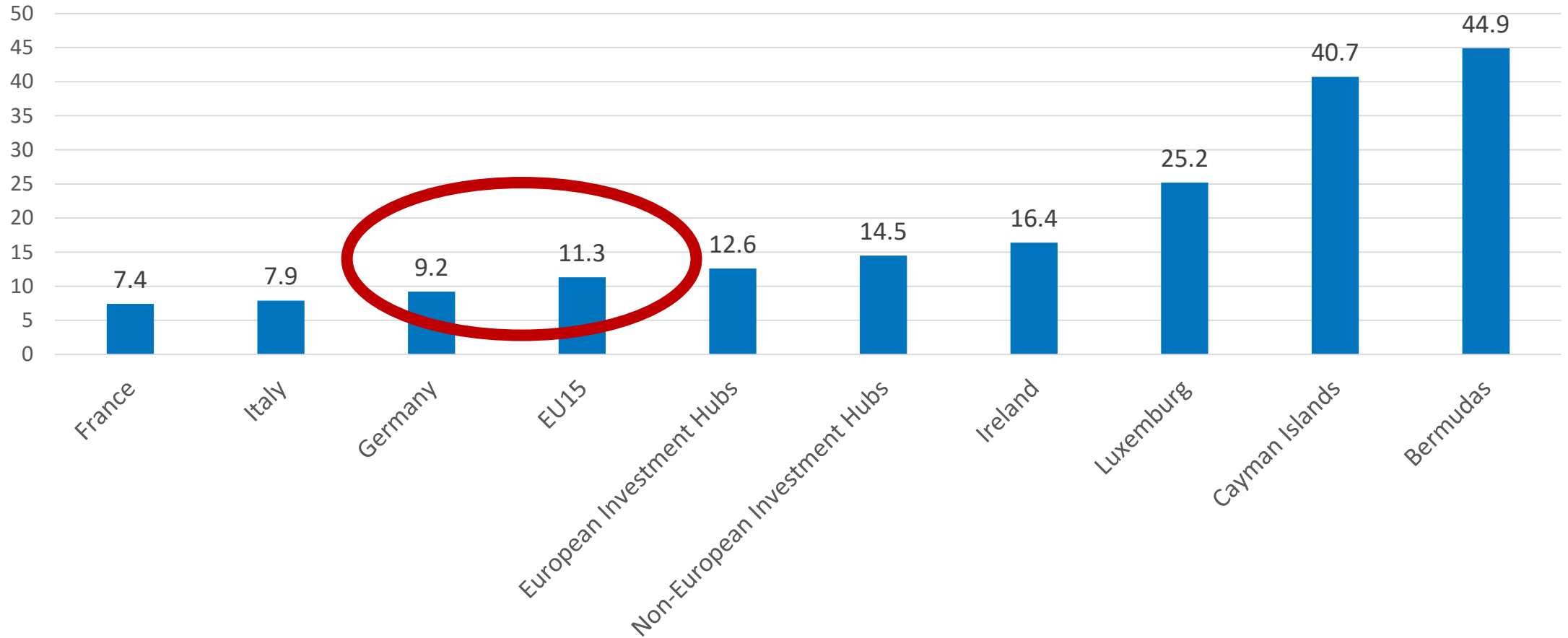
Profits per unit of revenue reported by large German MNEs

Large German MNEs: Reported profit per unit of revenue (in %)



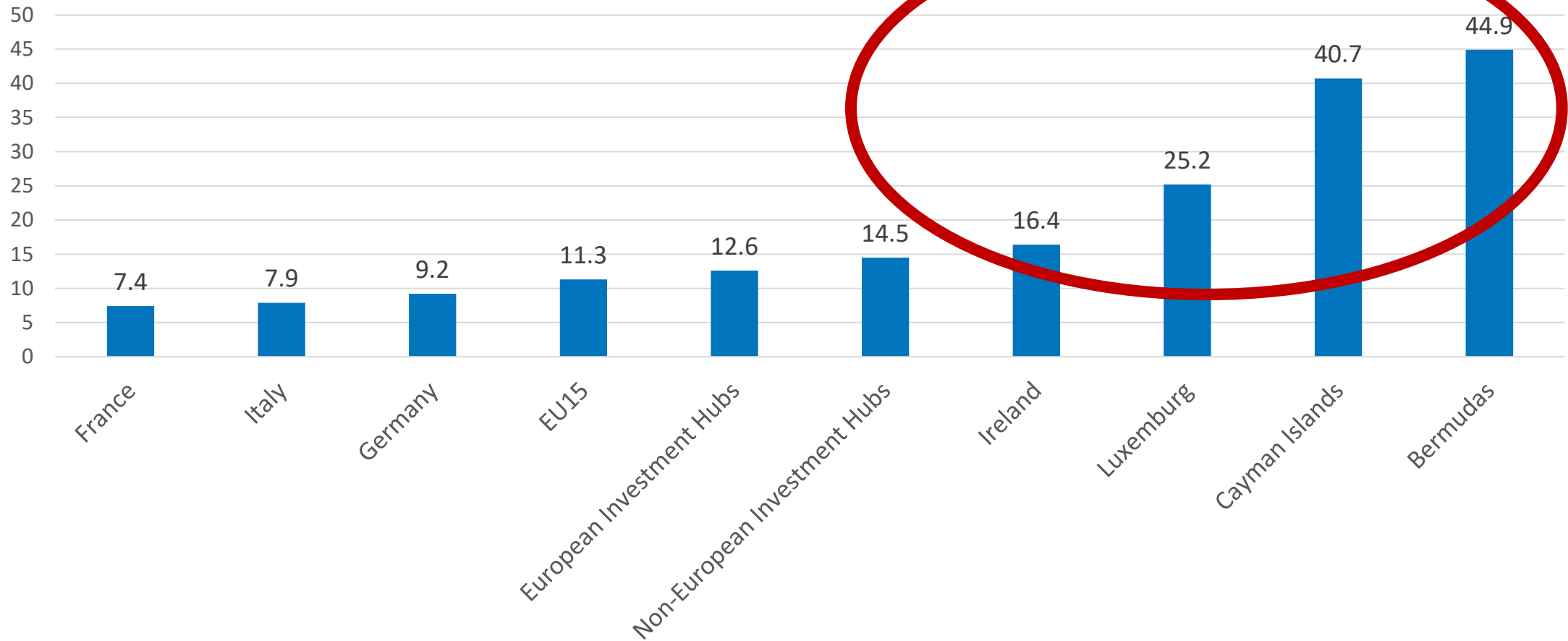
Higher profitability outside Germany, not just in 'tax havens'

Large German MNEs: Reported profit per unit of revenue (in %)



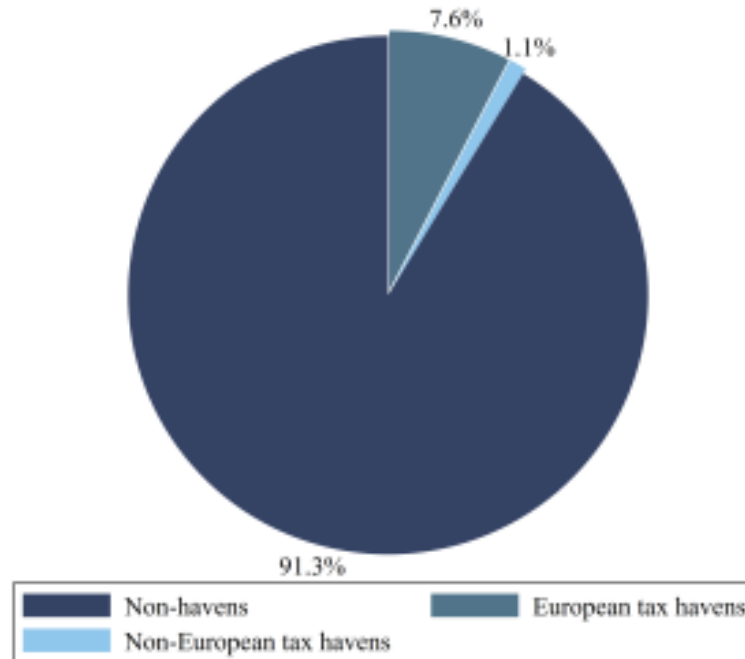
Big profit shifters to 'tax havens'?

Large German MNEs: Reported profit per unit of revenue (in %)



German MNEs and tax havens:

Figure 5: Global distribution of German MNEs' profits



Notes: This figure shows the average distribution of large German MNE's pre-tax profits, assets, and employees across country groups for the years 2016 and 2017.

Source: Fuest, Hugger and Neumeier (2020)

Conclusions

- General shifting of taxing rights to market countries would reduce German corporate income tax revenue significantly
- If shifting only applies to residual profits (and only to large MNEs) revenue effects for Germany are close to zero because
- **Explanation: Large German MNEs report higher profits outside Germany, medium sized companies below 750 million revenue threshold are important for export performance**
- MNE's are profitable in tax havens but overall share of profits in tax havens are small

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