UNIVERSITY OF OXFORD

Saïd Business School

Discussion

Revenue and Economic Impacts of OECD Pillars 1 and 2: What do we know?

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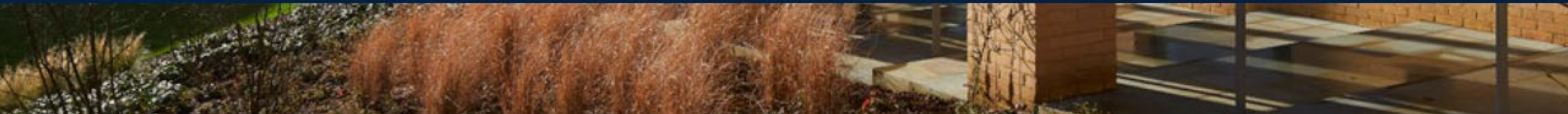
2 November 2020



Outline of discussion

- Data
- Challenges
- Magnitudes
- Final remarks

Data sources for analysis

- **CbCR data*:** anonymized and aggregated
- BvD/**ORBIS****
- Tax returns and business surveys at the country level
- IP data (from various sources: e.g. EPO, BvD, USPTO…)
- Other datasets (e.g. number of internet users, MNE sales, …)

Can we plausibly translate global consolidated income to 'global taxable income', then to individual jurisdictions? Is aggregate data giving us the full picture, given cross-firm heterogeneities?

Studies point out some disadvantages of data sources

Data coverage

	Number of MNEs included in analysis
OECD	27,000+ (mostly ORBIS), complemented with aggregate CbCR and other sources.
Singh et al.	1,101 US-based MNEs from CbCR, aggregated at sector level (Pillar 1)
ifo Germany	459 German-based MNEs from CbCR at firm level, complemented with ORBIS for foreign MNEs in Germany.

Practical question: can we expect a data sharing revolution, where *at the micro level*, <u>all</u> information is exchanged?

cf. Action 13 updates

Challenges - I

"…assessment relies on a number of simplifying assumptions on the proposals and the potential reactions of MNEs and governments…"

OECD assessment

"…an important assumption: total income of the MNE that will be subject to tax across all jurisdictions will remain the same under the current and new international tax regimes…"

Singh et al., 2020

Behavioural responses are likely to lower the revenue gains relative to *ex ante* estimates.

Challenges - II

- Identification of routine vs. residual return
- Cross-industry (*or business line*) or cross-regional variation
- Cross-MNE heterogeneity

Digital services are increasingly in 'monopolistically competitive' business lines.

1) How to calculate routine return, 'commensurate with risk'?

2) How can 'shifting across business lines' or 'regions' be prevented?

Challenges - III

- Definition of market jurisdiction/allocation key – consider a company with:
  - HQ and R&D in United States, IP around the world,
  - Operational expenses in Ireland,
  - Advertisement impressions around the world,
  - Users around the world,
  - ‘Bot’ users around the world, with ad impressions to bots, …
  - Currently, **studies use sales as allocation key.**

How is *market jurisdiction* different? Uncertainty about concrete allocation rules complicate evaluation.

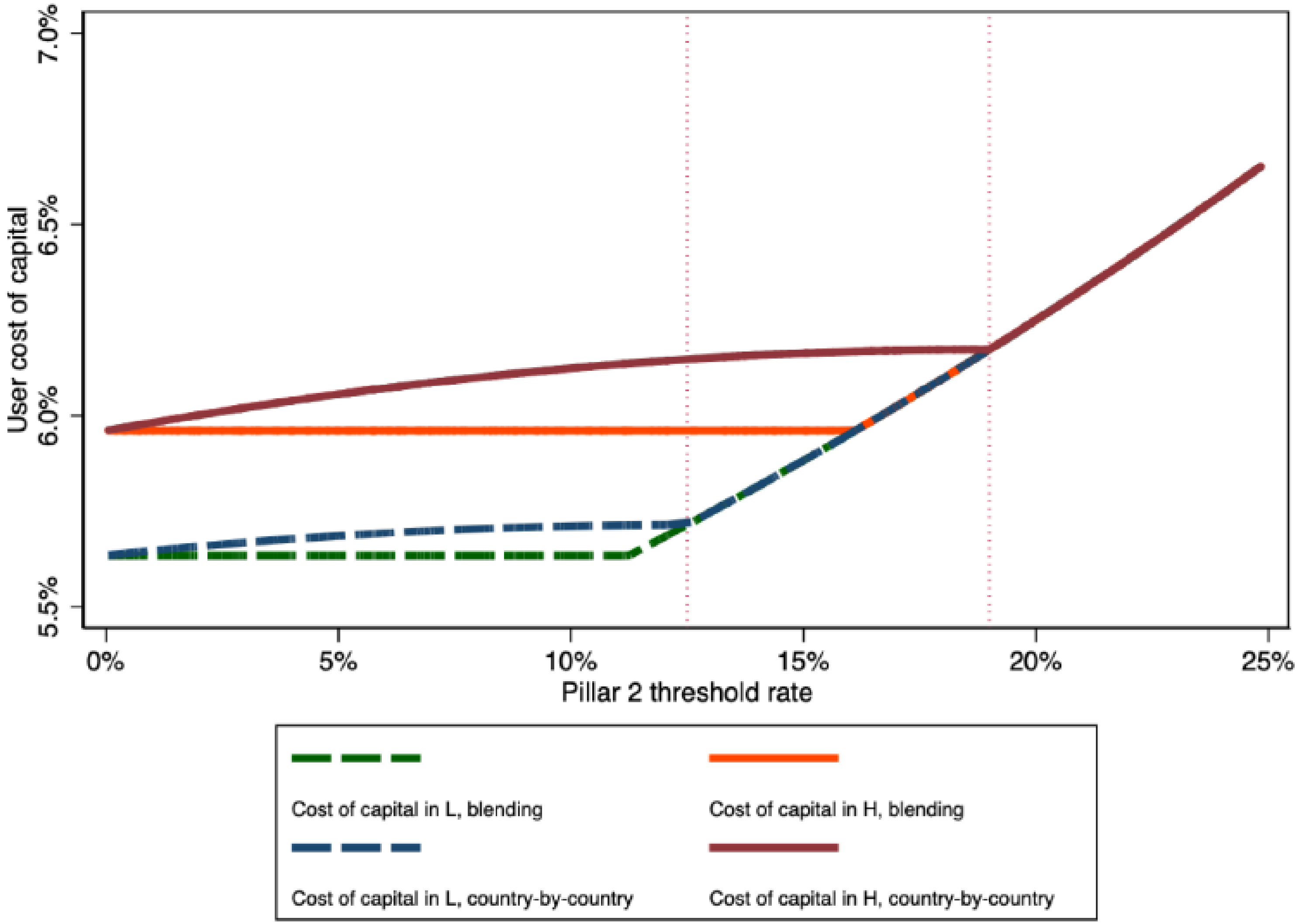
Magnitudes (revenue)

- Some of the predicted global revenue quantities:
  - OECD: USD 50-80 billion p.a. (mostly arising from Pillar 2)
  - Oxford CBT for Pillar 2: USD 32 billion (country-by-country upper limit estimate; larger countries absorbing most of the benefit)
  - UK gov't expects to raise £500 million per year from DST (compared with, e.g. USD 1.1 billion gain from Pillar 2; either around 1-2% of CT collected).

Are these differences sufficiently large?

What do magnitudes say about political economy considerations?

Incentives to invest, Pillar 2



Source: Oxford CBT study of the impact of Pillar 2 (Devereux et al., 2020)

Final remarks

- All three studies are very thorough, useful, clear and transparent.
- There are difficulties of producing estimates; such as data availability, behavioural assumptions, complexity.
- Magnitudes in revenue appear relatively small, and the impact on incentives depends on the finer details.
- BUT counterfactual scenario: counterfactual will not be *status quo*, but a world with DSTs and trade wars; general equilibrium considerations will be important.

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THANK YOU!

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