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**Measuring corporation tax uncertainty:  
Evidence from three phases of a cross-country survey**

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## Tax uncertainty

- Anecdotal evidence on importance of tax uncertainty
- Some theoretical literature
- Very limited rigorous evidence on effects of tax uncertainty on investment and location decisions
- Very small, though growing, empirical evidence on:
  - Differences in tax uncertainty between countries
  - Sources of tax uncertainty (now including OECD/IMF Report, March 2017)

This research project addresses these two issues, based on a survey of tax professionals

## Three Surveys

- Available online
- **First survey** undertaken January – March 2016
- **Second survey** undertaken March – June 2018
- **Third survey** undertaken September – October 2020
- Information on survey distributed to senior tax professionals, primarily in business, through various business organisations

## Survey Questions

### General

1. Importance of tax uncertainty
2. Frequency of possible determinants of tax uncertainty
3. Importance of possible determinants of tax uncertainty
4. Identifying the role of macro factors (*new in 2020*)

### Country-specific

Tax uncertainty in up to 25 countries, including

- G20
- Largest 21 countries by GDP
- Largest 10 countries by population

## Number of respondents to survey by country

	All 3 surveys	2020	2018	2016
UK	26	6	10	10
US	26	4	5	17
Other EU	23	9	5	9
Other EU	13	5	0	8
No answer	111	43	40	28
<b>Total number of respondents</b>	<b>199</b>	<b>67</b>	<b>60</b>	<b>72</b>

## Respondents: by size and type of business

Turnover:	All 3 surveys	2020	2018	2016
Over €5 billion	82	26	19	37
Between €500 million and €5 billion	23	2	6	15
Between €50 million and €500 million	5	2	1	2
Less than €50 million	12	3	2	7
No answer	77	34	32	11
<b>Total number of respondents</b>	<b>199</b>	<b>67</b>	<b>60</b>	<b>72</b>

	All 3 surveys	2020	2018	2016
Tax department of a business	94	25	21	48
Professional adviser	35	11	8	16
Financial officer of a business, or other	10	3	2	5
No answer	60	28	29	3
<b>Total number of respondents</b>	<b>199</b>	<b>67</b>	<b>60</b>	<b>72</b>

## How important is tax uncertainty for investment and location decisions?

All years. Scale of 1 to 5, with 5 being extremely important

	Mean	% 4 and 5	Difference in mean if large
Political uncertainty	4.3	87.6	
Current and expected macroeconomic conditions in the country	4.3	87.2	
<i>Uncertainty about the effective tax rate on profit</i>	<i>3.9</i>	<i>72.0</i>	<i>- 0.4</i>
Proximity to consumers	3.8	68.0	
Cost of complying with regulations	3.8	64.3	
<i>The anticipated effective tax rate on profit</i>	<i>3.6</i>	<i>56.9</i>	<i>- 0.4</i>
Exchange rate risk	3.5	52.6	
Proximity to other parts of the business	3.3	43.8	
Observations		199	122

1. There were no significant differences in responses by year.
2. Only statistically significant differences are shown for large businesses

**Sources of tax uncertainty:**

**How frequently have you experienced each of the following factors?**

*All years. Scale of 1 to 5 where 5 = extremely common*

	<b>Mean Response</b>	<b>Difference 2020 - 2016</b>
Complexity in the tax code	4.3	+ 0.3
Frequent changes in the statutory tax system	3.9	
Unpredictable or inconsistent treatment by tax authority	3.8	
Inability to achieve clarity pro-actively through rulings	3.7	
Inability to achieve clarity retroactively in case of dispute including, but not limited to MAP	3.4	
Poor understanding of tax code by tax authority	3.3	
Non-adoption of the OECD guidelines on transfer pricing	3.0	
Unpredictable or inconsistent treatment by the courts	3.0	
Poor general relationship with tax authority	2.9	- 0.4
Retroactive changes to legislation	2.9	- 0.4
Corruption	2.1	- 0.5
Observations		199



**Sources of tax uncertainty:**

**How important has factor been in determining the overall uncertainty about taxation?**

*All years. Scale of 1 to 5 where 5 = extremely important*

	<b>Mean Response</b>	<b>Diff 20-16</b>	<b>Diff if large</b>
Frequent changes in the statutory tax system	4.1		
Unpredictable or inconsistent treatment by tax authority	4.1		
Retroactive changes to legislation	4.0		
Complexity in the tax code	3.9	+ 0.4	- 0.4
Inability to achieve clarity pro-actively through rulings	3.6		
Poor understanding of tax code by tax authority	3.6		
Inability to achieve clarity retroactively in case of dispute including, but not limited to MAP	3.6		+ 0.5
Non-adoption of the OECD guidelines on transfer pricing	3.2		
Unpredictable or inconsistent treatment by the courts	3.4		
Poor general relationship with tax authority	3.2	- 0.4	
Corruption	2.7		
Observations	199	199	122

**How important have the following factors been in affecting uncertainty about corporation tax? (2020 only)**

*Scale of 1 to 5, with 5 being extremely important*

	<b>Mean</b>	<b>Tax department</b>
OECD/G20 BEPS project	3.7	+ 1.31
OECD work on taxation of the digitalised economy	3.6	+ 1.51
Other changes in national tax regimes	3.6	+ 0.96
The introduction of digital services taxes and other similar unilateral measures	3.3	
Governments' fiscal responses to the covid-19 pandemic	2.9	
Observations		58

## How uncertain is corporation tax in ... ?

*All years. On a scale of 5=very uncertain to 1=very certain*

		<i>mean</i>	<i>obs</i>			<i>mean</i>	<i>obs</i>
1	India	4.51	55	12	South Africa	3.19	26
2	Brazil	4.35	48	13	France	3.11	54
3	China	4.06	51	14	South Korea	3.05	21
4	Indonesia	4.00	24	15	Spain	3.00	36
5	Nigeria	4.00	15	16	United Kingdom	2.98	88
6	Russia	3.97	30	17	Australia	2.83	69
7	Argentina	3.72	32	18	Germany	2.64	55
8	Italy	3.62	56	19	Canada	2.57	40
9	Mexico	3.62	26	20	Japan	2.23	26
10	Turkey	3.53	19	21	Switzerland	2.21	39
11	United States	3.46	74	22	Netherlands	2.18	60

*Note: Bangladesh, Pakistan and Saudi Arabia dropped due to small number of responses*

## How has uncertainty in taxing corporate profit changed over the last 4 years in ...

*2020 response less 2016 response*

	<b>2020 - 2016</b>	<b>Significance:</b>
	<b>Diff in means</b>	<b>P stat</b>
United Kingdom	0.71	0.01
China	0.58	0.098
France	0.54	0.063
Spain	0.51	
Germany	0.36	
United States	0.26	
Italy	0.22	
Netherlands	0.13	
Australia	0.10	
Switzerland	0.08	
Brazil	0.08	
India	0.02	
Argentina	-0.10	
Russia	-0.23	

*Note: only include countries with minimum of 5 observations in every year*

**How frequently has uncertainty about corporation tax had a serious impact on business decisions in ...**

*All year. 5=very frequently to 1=never*

Rank	Country	mean	obs	Rank	Country	mean	obs
1	Brazil	3.84	49	12	South Africa	2.73	26
2	India	3.82	55	13	United Kingdom	2.72	87
3	China	3.51	51	14	South Korea	2.48	21
4	Russia	3.38	29	15	Australia	2.41	68
5	Argentina	3.28	32	16	Germany	2.35	55
6	Indonesia	3.21	24	17	Canada	2.23	44
7	Italy	3.11	56	18	Spain	2.22	36
8	United States	3.03	74	19	Japan	2.07	29
9	Mexico	2.93	30	20	Netherlands	1.9	59
10	Turkey	2.84	19	21	Switzerland	1.84	38
11	France	2.79	52				

**How important are the following factors in determining the uncertainty in the taxation of corporate profit in BRIC countries v UK&US:**

	<b>BRIC</b>	<b>UK/USA</b>	<b><i>Difference</i></b>
Non-adoption of the OECD guidelines on transfer pricing	3.82	1.99	1.83
Unpredictable or inconsistent treatment by tax authority	4.43	2.89	1.54
Unpredictable or inconsistent treatment by the courts	3.63	2.40	1.23
Corruption	2.47	1.27	1.20
Inability to achieve clarity retroactively in case of dispute including, but not limited to, MAP	4.02	2.85	1.18
Poor understanding of tax code by tax authority	3.82	2.76	1.05
Poor general relationship with tax authority	3.41	2.52	0.89
Retroactive changes to legislation	3.60	2.76	0.84
Inability to achieve clarity pro-actively through rulings	4.04	3.29	0.75
Frequent changes in the statutory tax system	3.83	3.66	0.18
Complexity in the tax code	4.07	4.11	-0.04

## Summary of key results

1. Tax uncertainty is still with us, still important, and arguably getting worse
2. Mean effect on investment and location decisions largely unchanged since 2016
  - a. But less important for very large businesses
3. Some causes of uncertainty more frequently observed
  - a. complexity in the tax code; but
  - b. retroactive changes to legislation and corruption have improved
4. The UK has become significantly more “tax uncertain” since 2016
5. BRIC countries continue to perform badly
6. "Unpredictable or inconsistent treatment by tax authority" again tops the list of problems in BRIC countries
  - a. Complexity is next, and important the UK/US as well as BRIC countries