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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Nationale Steueraufkommenswirkungen 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 Stöhler
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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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

- German large MNEs: 16
- Foreign large MNEs: 12
- Other: 63
What is the share of large MNEs in *domestic* economic activity of all MNEs?

![Bar chart showing the share of large MNEs in domestic economic activity](chart.png)

**Inlandsaktivität multinationaler Unternehmen**
Beitrag großer MNU zur Wirtschaftsaktivität aller MNU in Deutschland

- **Umsatz**: 44%
- **Beschäftigte**: 32%

**Deutsche MNU (Cbc-Berichte)**: 16%, 11%
**Deutsche MNU (Orbis)**: 16%, 5%
**Ausländische MNU (Orbis)**: 44%, 32%

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

in Mrd. Euro

Status Quo Reformsszenario

119

80

156

108

2016 2017

Quelle: Eigene Berechnungen basierend auf Angaben aus den CbC-Berichten. © ifo Institut
Change in the German profit tax base, foreign large MNEs

Veränderung der Bemessungsgrundlage
Ausländische multinationale Unternehmen

150 in Mrd. Euro

Status Quo Reformsszenario

100

50

0


51 65 61 71

81 97 93 99

Quelle: Eigene Berechnungen basierend auf Orbis-Daten.

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

Veränderung der Steuereinnahmen
Deutsche und ausländische multinationale Unternehmen

in Mrd. Euro

Deutsche MNE Ausländische MNE Saldo


Quelle: Eigene Berechnungen basierend auf Orbis-Daten.

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

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