

CORPORATE TAX AVOIDANCE

PROFESSOR GUTTORM SCHJELDERUP

NORWEGIAN CENTER FOR TAXATION (NoCeT)

NORWEGIAN SCHOOL OF ECONOMICS

OUTLINE OF TALK

- WHY DO WE HAVE THE NORWEGIAN CENTER FOR TAXATION (NOCET)
- CORPORATE TAX AVOIDANCE
 - MULTINATIONALS
 - DOMESTIC FIRMS
 - THE DIGITAL ECONOMY
- NOCET AND COLLABORATION WITH THE NORWEGIAN TAX ADMINISTRATION

WHY A CENTER FOR TAXATION IN NORWAY?

- **MARKET FAILURE IN EDUCATION**
 - **MONEY FOLLOWS STUDENTS**
 - **STUDENTS DO NOT TAKE TAX DESIGN COURSES**
 - **TOP JOURNALS NOT VERY INTERESTED IN TAX POLICY**
 - **UNDERPROVISION OF RESEARCH AND RECRUITMENT IN TAX DESIGN AND PUBLIC ECONOMICS**
- **AN EFFICIENT TAX SYSTEM IS IMPORTANT FOR GROWTH IN A LARGE WELFARE STATE**
- **KNOWLEDGE AS COUNTERWEIGHT TO LOBBYISM**
- **THE PRIVATE SECTOR INVESTS MORE IN TAX PLANNING EXPERTISE THAN THE PUBLIC SECTOR**

CORPORATE TAX AVOIDANCE

- **MULTINATIONALS SHIFT PROFITS TO LOW-TAX JURISDICTIONS**
 - **TRANSFER PRICES, THIN CAPITALIZATION, AND ROYALTY RATES**
- **DOMESTIC FIRMS MISREPORT EXPENDITURES AND INCOME**
- **DIGITAL ECONOMY AND PLATFORM FIRMS:**
 - **BARTER, SPLITTING OF INCOME STREAMS TO SAVE TAX, LACK OF REPORTING, PATENTS MOVED TO LOW TAX JURISDICTIONS**
- **ONE KEY RESPONSE TO SOME OF THESE CHALLENGES IS TO REQUIRE FIRMS TO DECLARE TAXES ON-LINE**

MULTINATIONALS AND PROFIT SHIFTING

- LARGE LITERATURE DOCUMENTING PROFIT SHIFTING TO LOW TAX COUNTRIES
- 40% OF MULTINATIONAL PROFITS ARE SHIFTED TO TAX HAVENS GLOBALLY EACH YEAR
(TØRSLØV, WIER, AND ZUCMAN, 2018)
- TAX BASE EROSION DUE TO PROFIT SHIFTING BY MULTINATIONALS AMOUNTS TO:
 - 1% OF GDP IN DEVELOPED COUNTRIES
 - 1.5% OF GDP IN DEVELOPING COUNTRIES
(CRIVELLI, DE MOOIJ, AND KEEN, 2016)

MULTINATIONALS – A KEY QUESTION

- POLICYMAKERS SEEM TO THINK THAT ATTRACTING FOREIGN DIRECT INVESTMENTS IS A BOON (HIGHER WAGES AND PRODUCTION)!
- BUT IF MULTINATIONALS CAN SHIFT PROFITS, THEY MAY OUTCOMPETE DOMESTIC FIRMS AND THE TAX BASE MAY BECOME MORE TAX SENSITIVE?
- COULD THE POTENTIAL LOSS OF DOMESTIC FIRMS AND A MORE TAX SENSITIVE TAX BASE DOMINATE GAINS FROM HIGHER WAGES AND PRODUCTION?

ATTRACTING FDI MAY BE A BANE OR A BOON

GRESIK, SCHINDLER AND SCHJELDERUP (2019)

- COUNTRIES STAND TO LOSE FROM FOREIGN DIRECT INVESTMENTS (FDI) IF
 - COUNTRIES PLACE A **HIGH WEIGHT** ON TAX REVENUE
 - COUNTRIES HAVE **POOR QUALITY** IN TAX REVENUE COLLECTION (MNCs SHIFT PROFIT EASILY)
 - COUNTRIES RELY LARGELY ON **TAXING LARGE ENTERPRISES** (WAGE INCOME HARD TO FIND)
- THESE CHARACTERISTICS ARE TYPICAL OF DEVELOPING COUNTRIES
 - **BENEFIT FROM HIGHER WAGES AND PRODUCTION OUTWEIGHED BY TAX BASE EROSION**
- SOME EMERGING ECONOMIES MAY ALSO LOSE
- DEVELOPED COUNTRIES **GAIN (ALWAYS)**

HOW TO CURB THIN CAPITALIZATION AND EXCESSIVE INTEREST DEDUCTIONS

RATIO RULES (SAFE HARBOR RULES): DEBT-TO-ASSET SHARE CANNOT EXCEED A CERTAIN RATIO

- INTEREST EXPENSES ON DEBT WITHIN RATIO ARE ALLOWED

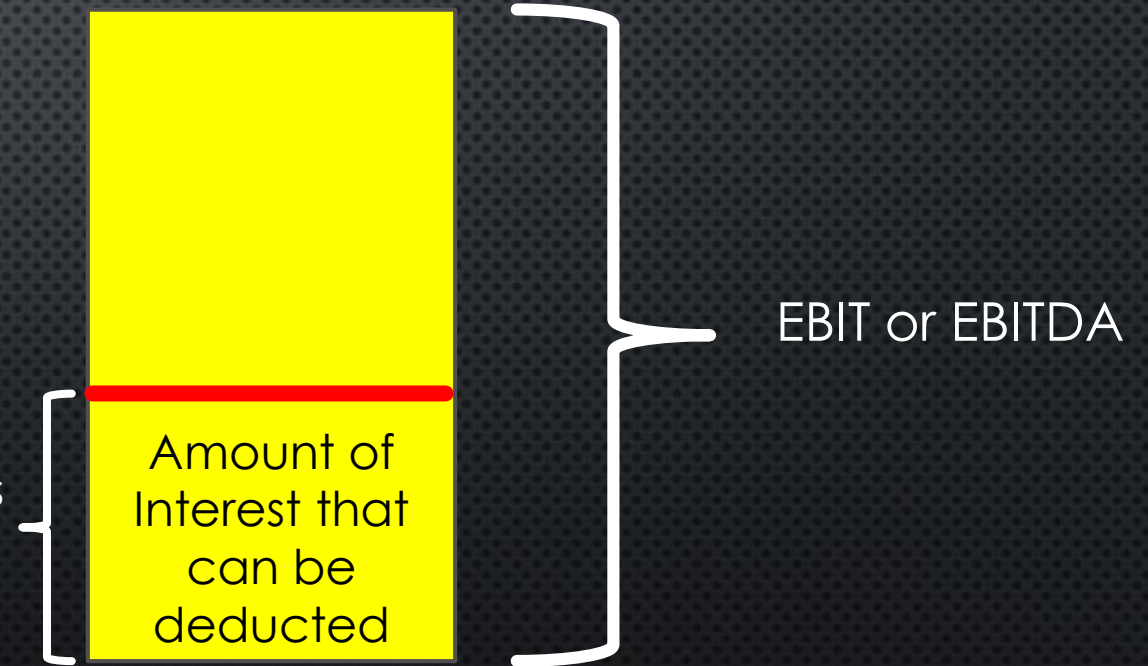


$\frac{1}{3}$ *say*

Interest expenses
up to say 25% of
EBIT or EBITDA
allowed

EARNING STRIPPING RULES: INTEREST DEDUCTIONS ARE LIMITED TO A PERCENTAGE SHARE OF A PROFIT MEASURE (TYPICALLY EBIT OR EBITDA)

- INTEREST EXPENSES ABOVE THE SHARE ARE DISALLOWED



Which rule is better?

WHAT CAN RESEARCH TEACH US

- EARNINGS STRIPPING RULES WELFARE DOMINATE RATIO RULES.

GRESIK, SCHINDLER AND SCHJELDERUP (2018 JPubE)

- EBITDA IS BETTER (NEUTRAL WRT CAPITAL INTENSITY) THAN EBIT TO STRIP INTEREST DEDUCTIONS AND ALL TYPES OF DEBT SHOULD BE INCLUDED.

NORWEGIAN TAX COMMITTEE 2013

- RATIO RULES ARE INFERIOR BECAUSE THEY ONLY LIMIT THE AMOUNT OF INTERNAL DEBT WITHOUT IMPOSING ANY RESTRICTIONS ON THE INTEREST RATE CHARGED ON DEBT OTHER THAN THE “WEAK” ARM’S LENGTH STANDARD

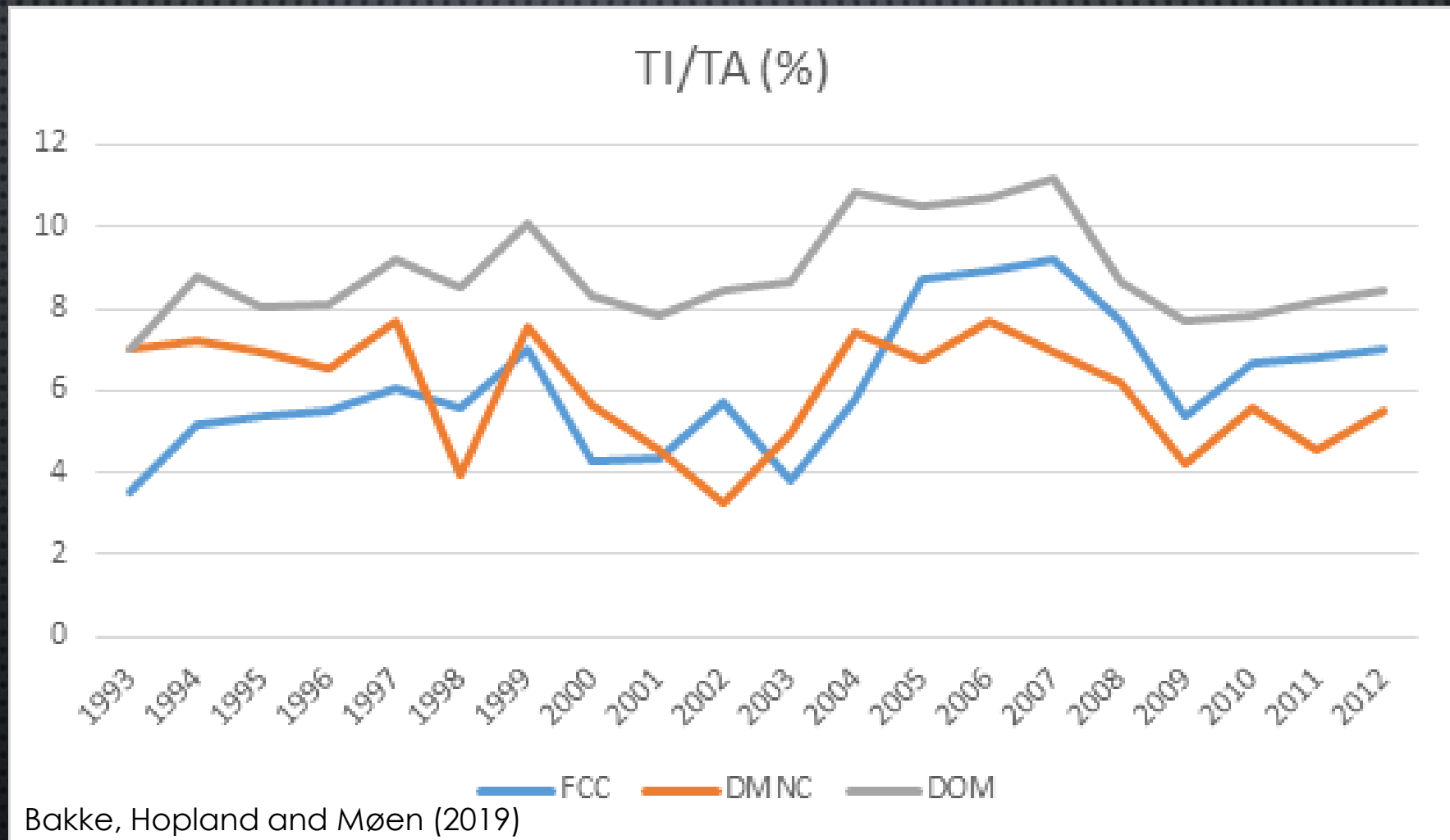
GRESIK, SCHINDLER AND SCHJELDERUP (2018 JPubE)

AVERAGE PROFITABILITY IN THE ENTIRE POPULATION OF FIRMS IN NORWAY BY FIRM TYPE

FCC = Foreign controlled corporations

DM NC = Domestic Controlled affiliates of Norwegian MNCs

DOM = Domestic firms

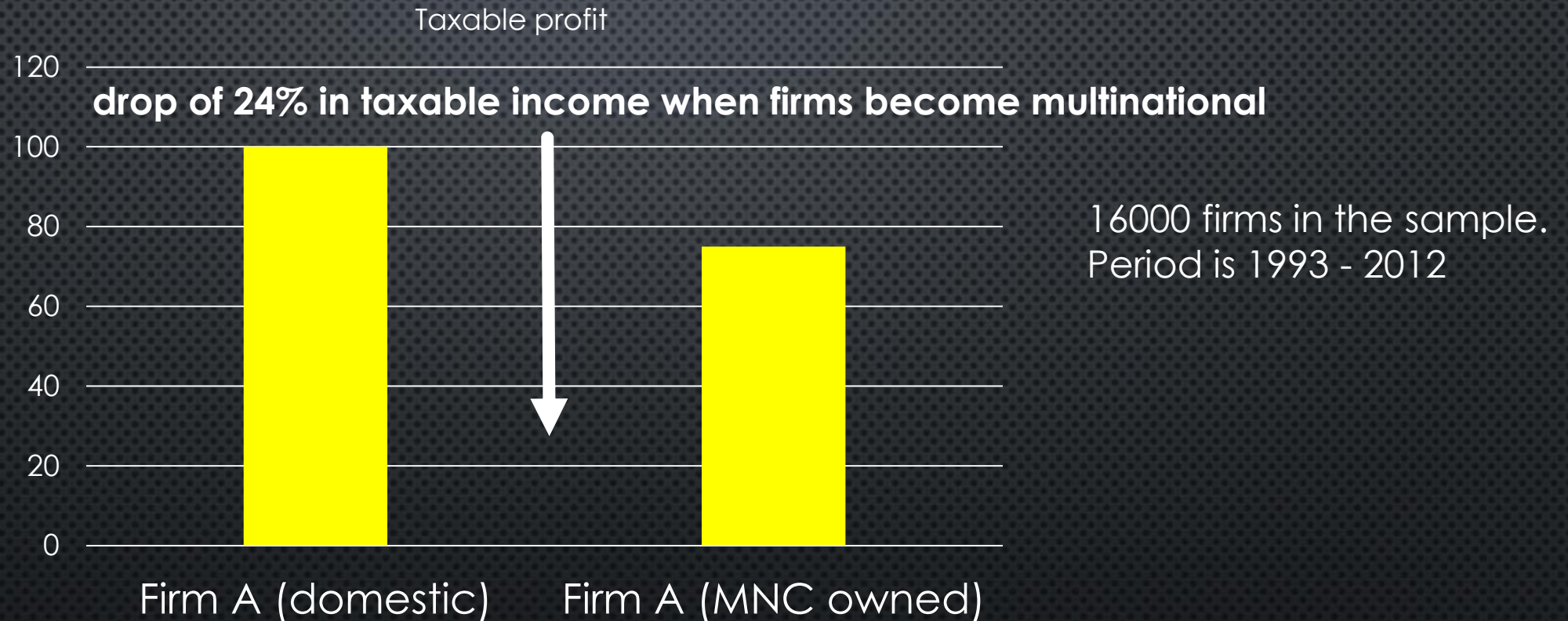


TI/TA = Taxable income / total assets

WHAT HAPPENS TO TAXABLE INCOME WHEN FIRMS BECOME MULTINATIONAL

(BAKKE, HOPLAND AND MØEN 2019: COMPARE SAME FIRMS BEFORE AND AFTER THEY SHIFT STATUS).

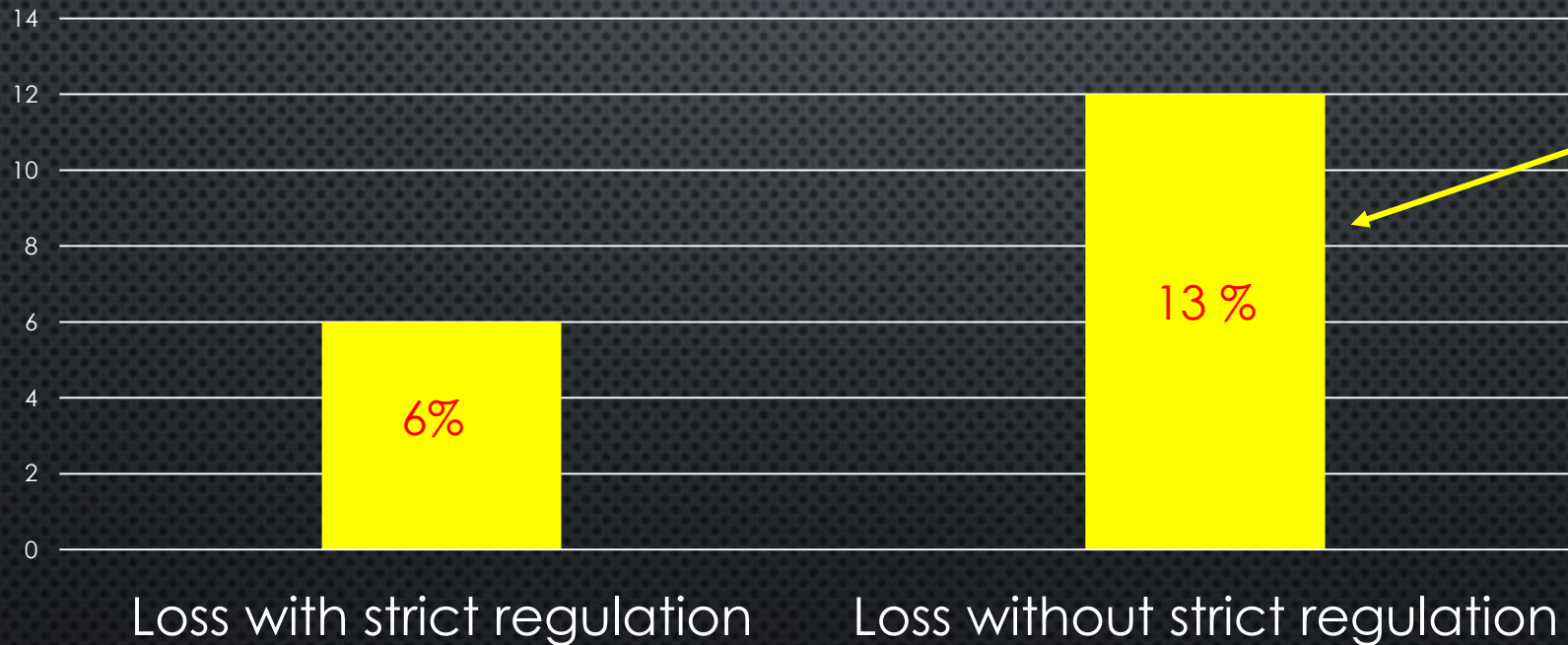
START OUT AS DOMESTIC, THEN BECOME PART OF MNC GROUP, AND THEN SOME BECOME DOMESTIC AGAIN



Main explanation for drop in profitability when firms become multinational is higher costs related to intermediate goods and overhead often bought from other firms in the group goods (transfer pricing)

STRICTER TRANSFER PRICING REGULATION COMBINED WITH MORE FREQUENT AUDITS INTRODUCED IN 2007/08 IN NORWAY. WHAT WAS THE EFFECT?

Overall tax revenue lost to income shifting by MNCs
in 2012 is 6% for Norway
(Bakke, Hopland, Møen 2019)



Potential Tax GAP:
Using the difference
between MNCs and
domestic firms just
prior to the new
regulation the gap is
13%

Overall lost tax revenue due to profit shifting is 6% (Tørsløv, Wiers and Zucman find 8% on Norwegian data). OECD 2015 (action 11) assess the global corporate income loss to be in the interval 4-10% of global revenues

JENSEN AND SCHJELDERUP 2019: STUDY **TRADE FLOWS** BETWEEN ALL NORWEGIAN PARENTS AND EACH OF THEIR WHOLLY OWNED AFFILIATES IN THE OECD (1999 – 2004), ALMOST 8000 FIRMS

- FINDS THAT THE **NET VALUE OF TRADE FLOWS CHANGE IN RESPONSE TO CHANGES IN TAX RATES** CONSISTENT WITH **INCOME SHIFTING**
- FOR THE FULL SAMPLE OF FIRMS THE STUDY FINDS THAT **A ONE PERCENTAGE POINT HIGHER TAX RATE ABROAD REDUCES THE NET VALUE OF INTRA-FIRM TRADE BETWEEN 8.6 AND 11.6 PERCENT.**

JENSEN AND SCHJELDERUP (2019) CONTINUED

- **ON AVERAGE LARGE** MULTINATIONALS **SHIFT MORE** INCOME THAN SMALL MULTINATIONALS AND FIRMS THAT USES THE **BIG FOUR** **SHIFTS THE MOST**
- *FOR FIRMS THAT USE THE **BIG FOUR** ACCOUNTING FIRMS A **ONE PERCENTAGE POINT HIGHER TAX RATE ABROAD** REDUCES THE **NET VALUE OF INTRA-FIRM TRADE** BY **18 PERCENT***
- *FOR **LARGE FIRMS** USING ONE OF THE **BIG FOUR** A **ONE PERCENTAGE POINT HIGHER TAX RATE ABROAD** REDUCES THE **NET VALUE OF INTRA-FIRM TRADE** BY **25 PERCENT**.*

THE DIGITAL ECONOMY: SOME CONCERNS (I)

- BUSINESS MODEL IN MANY DIGITAL FIRMS IS BASED ON **BARTER** (TAX EVASION)
 - EXAMPLE GOOGLE:
 - USERS GET ACCESS TO BROWSER FOR FREE; GOOGLE GETS DIGITAL FINGERPRINTS FOR FREE
 - ADVERTISERS PAY (BASED ON NUMBERS OF USERS AND DIGITAL FINGERPRINTS)
- POLICY RESPONSE 1: **REQUIRE POSITIVE PRICES** ON ALL TRANSACTIONS (DIFFICULT)
- POLICY RESPONSE 2: SEE **FINGERPRINTS AS A NATIONAL RESOURCE**. NATIONAL FEE TO COLLECT FINGERPRINTS DEPENDENT ON NUMBER OF USERS (MUCH LIKE FISH QUOTAS - DIFFICULT?)
- POLICY RESPONSE 3: **TRANSACTION COST ON SALES** (AD REVENUE) ABOVE A THRESHOLD (FRANCE, UK)
- POLICY RESPONSE 4: OECD PILLARS TO TAX DIGITAL FIRMS BASED ON VALUE CREATION (IN PROCESS)

THE DIGITAL ECONOMY: SOME CONCERNS (II)

- DIGITAL ECONOMY IS BASED ON INTELLECTUAL PROPERTY
 - PATENTS MOVED TO TAX HAVENS (KARINSKY AND RIEDEL 2012)
 - INCOME SHIFTED BY ROYALTY
- POLICY RESPONSE: **SOURCE TAX ON ROYALTY EQUAL TO THE CORPORATE RATE**
- SOME DIGITAL BUSINESS MODEL BASED ON TAX EVASION (AVOID THIRD PARTY REPORTING)
 - AIRBNB HOSTS SELF-REPORT
 - UBER DRIVERS SELF-REPORT
 - WE KNOW FROM RESEARCH THAT SELF-REPORTING INCREASES TAX EVASION
- POLICY RESPONSE: **FORCE THE DIGITAL FIRMS (JUST LIKE DOMESTIC FIRMS) TO REPORT INCOME**
 - AIRBNB: REPORT INCOME ACCRUED TO THOSE WHO RENT OUT THEIR HOUSES
 - UBER: REPORT DRIVER PAYMENTS

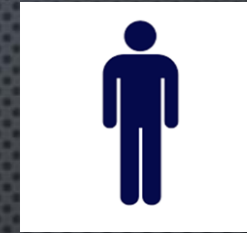
FOOD FOR THOUGHT

BEFORE THE DIGITAL AGE



One single transaction: Passenger pays driver \$ 10

UBER



Passenger
pay \$ 10
through
the app to
Raiser NL

Raiser pay
\$8 to driver

Driver pay
Raiser
\$2 for app
use

Uber (Rasier Ltd)
Netherlands



UBER has effectively divided what was a single transaction into three transactions
(1) Payment by passenger; (2) fee for use of the app; (3) payment to driver.
Is this an artificial construct to save tax?

THE NORWEGIAN CENTER FOR TAXATION (NOCET)

- **FINANCED BY**
 - **MINISTRY OF FINANCE THROUGH THE RESEARCH COUNCIL OF NORWAY**
 - **3.5 MILL. NOK PER YEAR, TEACHING AND RESEARCH**
 - **NORWEGIAN TAX ADMINISTRATION**
 - **3.5 MILL. NOK PER YEAR, PRIMARILY RESEARCH**
 - **NORWEGIAN SCHOOL OF ECONOMICS**
 - **5 MILL. NOK PER YEAR – PROFESSORS/POST.DOCS/PHDs)**

NORWEGIAN CENTER FOR TAXATION COOPERATION WITH THE TAX ADMINISTRATION

- DATA ACCESS AND WE CAN SIT INSIDE THE FIREWALL (UNIQUE DATA)
- MEET SEVERAL TIMES A YEAR WITH THE TAX ADMINISTRATION
- JOINT SEMINARS AND CONFERENCES
- MASTER THESES GRANT

MASTER THESIS GRANT PROGRAM

- SUPERVISED CLOSE TO 150 MASTER THESES SINCE 2012
- GRANT OF NOK 10.000 PER STUDENT (APPROX. 1000 EURO)
- TOPICS ARE SUGGESTED BY TAX ADMINISTRATION, NOCET AND THE STUDENTS
- LUNCH SEMINAR WITH THE TAX ADMINISTRATION EACH TERM PRESENTING THESES AND FINDINGS
- MORE THAN 20 THESES HAVE RECEIVED SUBSTANTIAL MEDIA ATTENTION



Jan Tore Sanner, nestleder Høyre og Erna Solberg, høyreleder.

Politikk og samfunn Samfunn

Formuesskatt betyr lite for investeringsevne

NTB

Publisert: 17.12.2012 – 05:08 Oppdatert: 28.03.2014 – 10:35



Formuesskatten har minimal betydning for bedriftenes evne til å finansiere investeringer, ifølge en forsk analyse fra Statistisk sentralbyrå og Handelshøyskolen.

Valg 2013 Valgresultat Valgomat #hjertesak Partilederne Leo tar valget

Se hele intervjuet Erna avbrøt

Mandag ettermiddag valgte Erna Solberg å avslutte et intervju med NRK Dagsrevyen om formuesskatten. I ettertid hevder Høyre-lederen på Twitter at hun ble råklippet og at svar er fjernet. NRK publiserer nå intervjuet i sin helhet.



Erna Solberg avbryter Dagsrevyens intervju om formuesskatt, som ble gjort per telefon til Arendal. Nå kan du se intervjuet i sin helhet.

DN
Dagens
Næringsliv

Tirsdag 17. mars 2015
UNE 12 188,64 - Aug. 126
Lecolig Nr. 35
234.000 leserer hver dag

Alle tjener bedre enn LO-sjefen
Side 6-7

Foreslår avgiftssjokk på hybrider
Volvo XC90 plug-in hybrid.
Kan bli 250.000 billigere
Side 18

Øl-gasellen
Ny rekord for Norge Ø.
Side 14

Kanadisk-eide Statoil-stasjoner

Lånefinte ga skattelette på 530 mill.

Statoil Fuel & Retail
Couche-Tard, og
Nokkeltall 7
Dette 8,28



Ikea flat-pakker skatten

Sparer skatt: De siste fem årene har Ikea i Norge redusert skattepliktig overskudd med én milliard kroner ved hjelp av intern gjeld. Det har spart selskapet for 280 millioner kroner i skatt.



Når vi studerer Ikea i Norge, virker det som selskapet virkelig gjør en innsats for å redusere skatten
Måske Olsen, leder av skattekontrollen 2012

I 2014 lånte selskapet ut 1,4 milliarder kroner mer enn året før. Det ble gjort i forbindelse med en utvidelse i Norge. I 2013 lånte selskapet ut 1,3 milliarder kroner.



TEMA
Regnskap og skatt



SIGRUN AKER NORDENG
Sigrun Aker Nordeng er siviløkonom fra Norges Handelshøyskole (NHH) i 2013. Hun er nå ansatt som konsulent i Deloitte. E-post: sigrun.nordeng@gmail.com

ANNE RAGNHILD SANDERUD
Anne Ragnhild Sanderud er siviløkonom fra Norges Handelshøyskole (NHH) i 2013. Hun er nå ansatt som konsulent i Deloitte. E-post: arsanderud@gmail.com

Overskuddsflytting ved internprismanipulasjon i norske flernasjonale foretak

Ved å manipulere prisene på salg og kjøp mellom selskaper innenfor samme konsern kan flernasjonale selskaper flytte overskudd fra høyskattland til lavskattland og derved redusere den samlede skattebyrden. Denne praksisen har fått økt oppmerksomhet den siste tiden som følge av avsløringene om at store flernasjonale selskaper, som Starbucks og Google, betaler minimalt med skatt internasjonalt. Våre funn er konsistente med at norskeide foretak flytter overskudd både inn og ut av Norge, og at profitt i lavskattland kan være en vestlig skatteparadis.



CORE SCIENTIFIC STAFF

10 professors

Guttorm Schjelderup
Head of Center



Jarle Møen
Deputy Head of Center



Dirk Schindler



Jonas Andersson



Tina Søreide



Floris T. Zoutman



Evelina G. Zoutman



Arnt O. Hopland



Steffen Juranek



Fred Schroyen
Juranek



Mohammed Mardan



Maximillian Todenhaupt



Ingrid Sjursen



Traini Simone



4 assistant professors

Andreas Olden



Aija Polokova



Henrik Svensli



Øivind Andre Aase (HVL)



Thomas Lange (NTA)



5 PhD students

+ several
affiliated
NHH staff
members,
emeriti
and
adjunct
professors