Responsible Tax

16 May 2019

THE CONFERENCE BOARD
SUSTAINABILITY WATCH

Housekeeping

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Panelists:

Ilaria Maselli
Senior Economist
The Conference Board
Ilaria Maselli has been the senior economist for Europe at The Conference Board since March 2016. Maselli monitors the monthly business cycle of the European economy and contributes analysis to *The Conference Board Global Economic Outlook*. She also contributes to in-dept...Full Bio

Dominic Mathon
Head of Group Taxation
RELX
Dominic Mathon is Head of Group Tax for RELX, a FTSE 20 information and analytics group. He is responsible for the global tax affairs of the group, leading a team of around 50 tax professionals.
Dominic has 25 years experience working for companies in the consumer goods, business se...Full Bio

Dr. Uwe G. Schulte (Moderator)
Leader of The Conference Board Global Sustainability Centre
The Conference Board
Uwe Schulte is the leader of The Conference Board Global Sustainability Centre. He is also program director for the China as well as the Europe Corporate Responsibility and Sustainability Council at The Conference Board.
Schulte was executive director of the INSEAD Social Innovation...Full Bio

About The Conference Board Sustainability Center

Our purpose

THE CONFERENCE BOARD

Sustainability Centre

Support member companies to **create long-term value** and **positive impact** through **sustainability integration**

Timely, thought-provoking and relevant research

Guided by **responsible standards & frameworks**

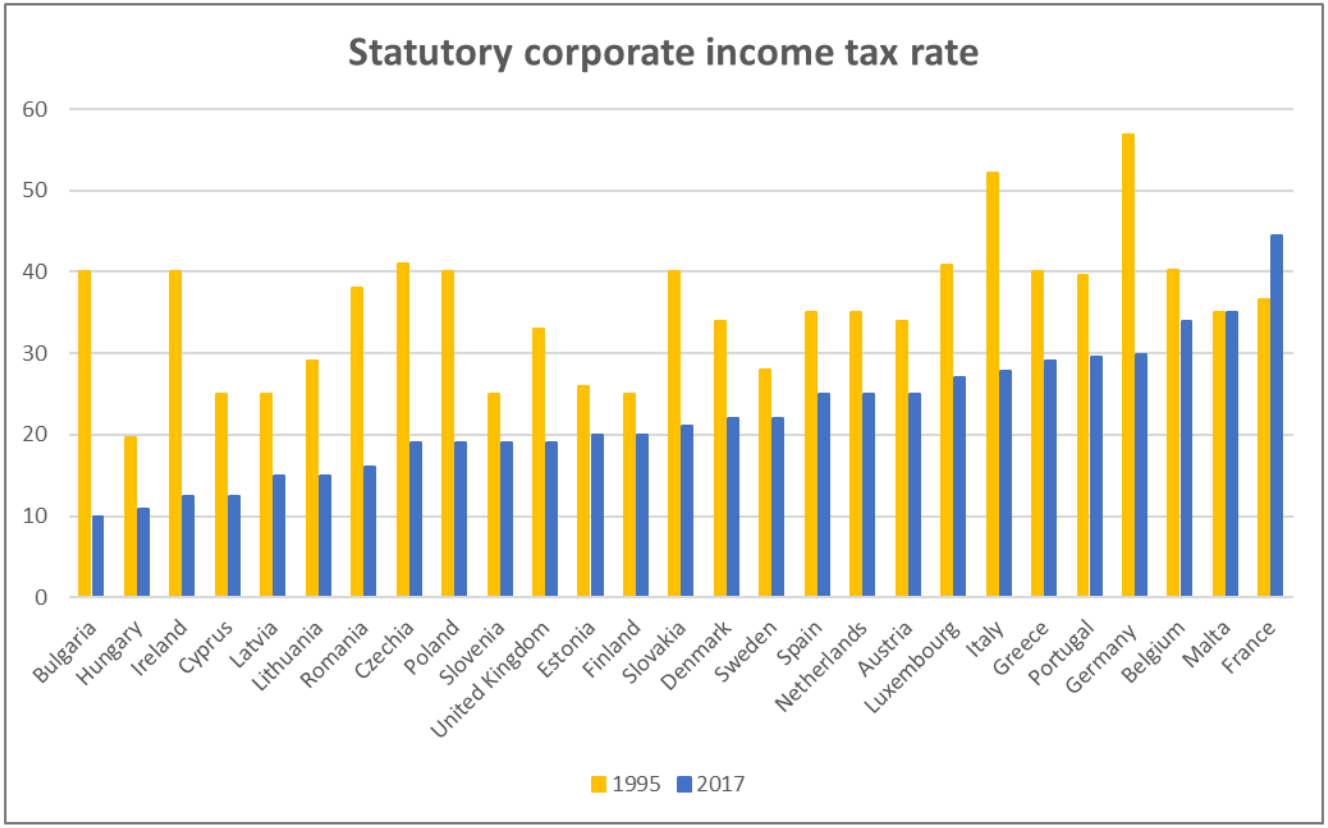
Fact-based

Independent

Tax Rate Development in Europe

Downward convergence dominates the trend in statutory tax rates in Europe

EU weighted average is 2017 = 28%



Source: Eurostat, OECD, The Conference Board

Statutory tax rates:

the tax rate imposed by law. It shows the headline tax rate faced by corporations

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Effective tax rates:

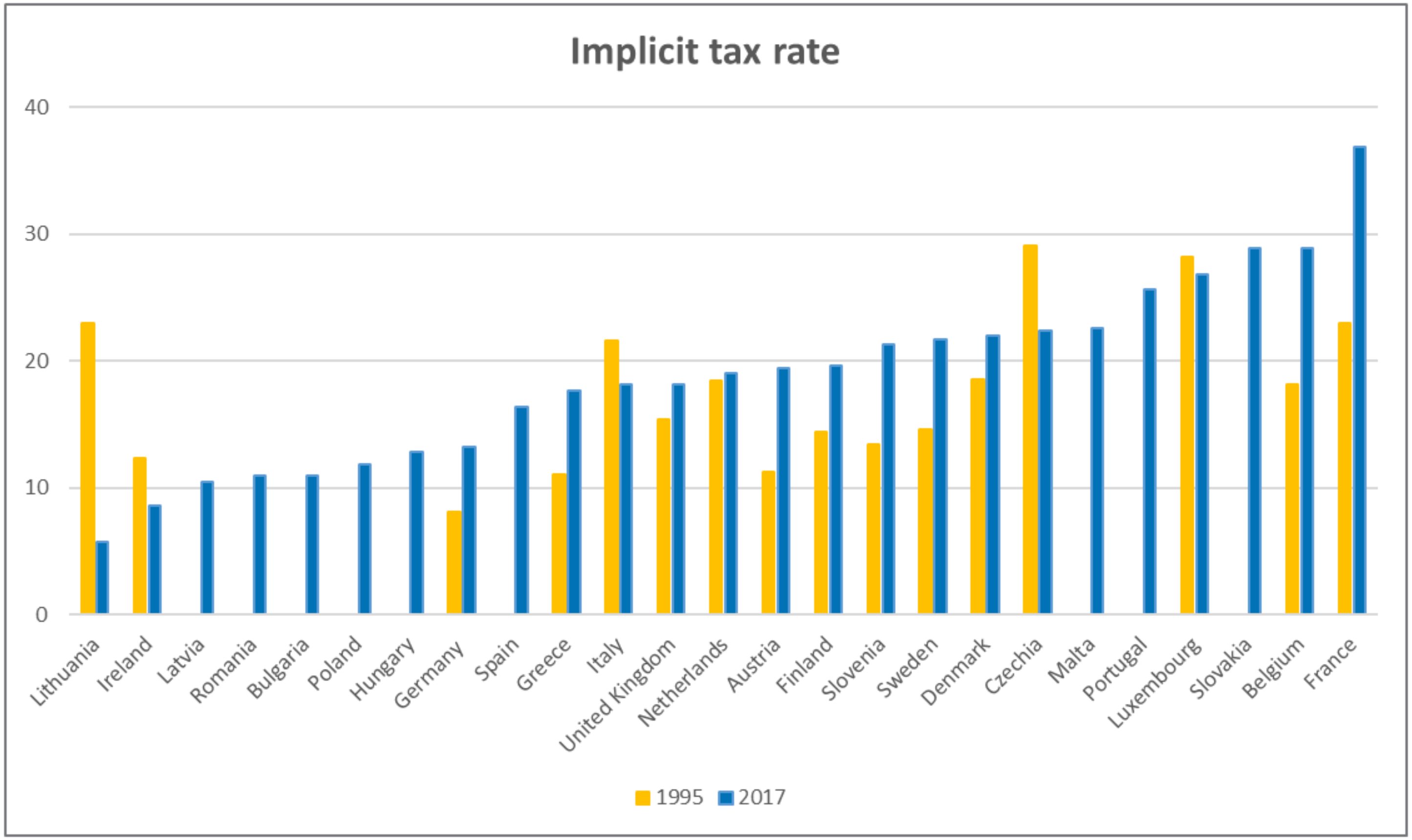
the tax rate effectively paid by an individual or a company after taking into account tax breaks such as deductions, exemptions and credits.

The implicit tax rate

- A way to assess effective taxation of corporate income is to compute – ex post - implicit tax rates (ITR)
- Implicit tax rates are based on paid corporate income tax and on a proxy of the corporate income tax base that is taken from the national accounts.
- We define ITR as the ratio of corporate tax receipts as recorded by the national accounts to the sum of net operating surplus (NOS) of financial and non-financial corporations which is the principal measure of “profit” in the national accounts.

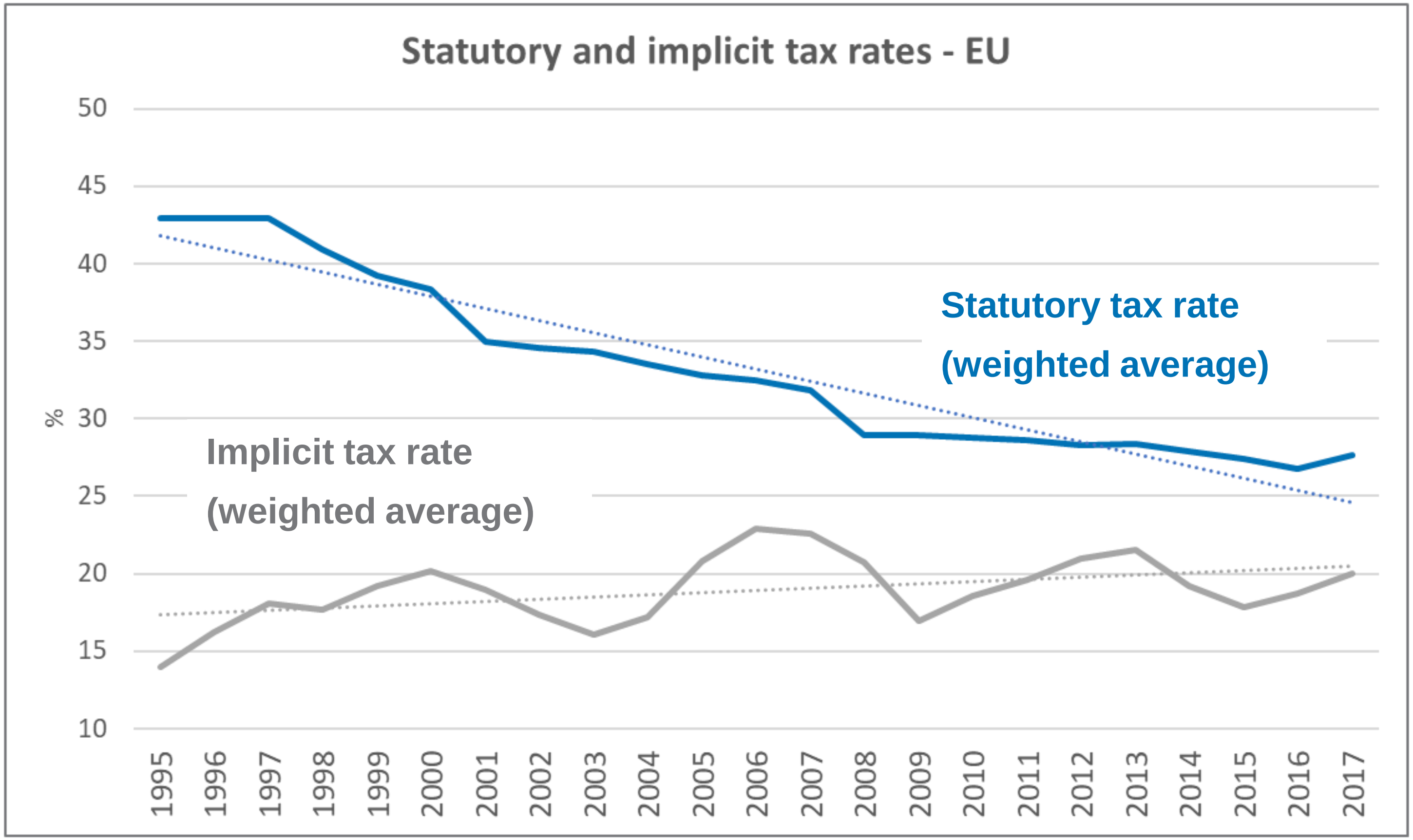
$$\boldsymbol{ITR_{c,t}} = \frac{\text{Corporate tax receipt}_{c,t}}{\text{NOS}_{\text{all}\ c,t}} * 100$$

Like statutory rates, implicit tax rates also show large variation across EU countries



Source: Eurostat, OECD, The Conference Board

While the statutory rate shows a clear downward trend, the ITR remains rather constant. This is a puzzle



Source: Eurostat, OECD, The Conference Board

Corporate Tax – the different Perspectives

Top three issues in the public debate: (1) Globalization

Since the 1990s, while the demand for public expenditures is increasing, tax burden is shifting from capital to labor which results in increased burden on middle class and intensifies tax competition between national governments.

The view of the State

Globalization increases the demand for social protection and therefore for public expenditure on social programs.

The view of the firms

With lower transaction costs, it is easier for firms to move assets. Taxation and related incentives enter the list of elements considered to choose location based on tax arbitrage. Competition on a global scale creates a stronger incentive for this.

The view of NGOs/Academia

The reduction of contribution from mobile resoures has been compesated by an increase in the taxation of middle-income workers. The group has been put twice under pressure: by the jobs losses, an by the increase in taxation.

Top three issues in the public debate: (2) Tax competition between EU countries

As barriers on the mobility of production factors decrease, competition for foreign direct investments increases between countries, pushing them to change the tax setting behavior to create more favorable tax environments.

The view of the State

Countries change the tax settings to create more favorable tax environments to attract investments.

The view of the firms

The ease to move production factors across EU borders allows companies to chose where to locate their businesses taking tax rates into account.

The view of NGOs/Academia

The lack of harmonization within the EU creates a race-to-the-bottom on corporate taxation.

Top three issues in the public debate: (3) Digital companies

Some tech companies can do business without a physical presence and the challenge about defining where value is created in digital models.

The view of the State

Digital companies benefit from infrastructures and facilities to do business in a country, but do not contribute to that.

The view of the firms

The profits should be taxed where the value is created – which is where the is designed e.g. Silicon Valley – rather than just where sales are made. Moreover, new legislation can result in double taxation.

The view of NGOs/Academia

NGOs argue that tech companies should pay their fair share of taxes, like other companies.

Most of the academic discussion is focused on the new set of challenges opened by the business model of tech companies.

Questions and discussion

Upcoming webcast

Responsible Digital: What is it and how can you make a start?

Thursday, 20th June, 2019

03:00 PM CET [15:00] (Brussels)
09:00 AM ET [09:00] (New York)

Innovation for Sustainability

Thursday, 18th July, 2019

03:00 PM CET [15:00] (Brussels)
09:00 AM ET [09:00] (New York)

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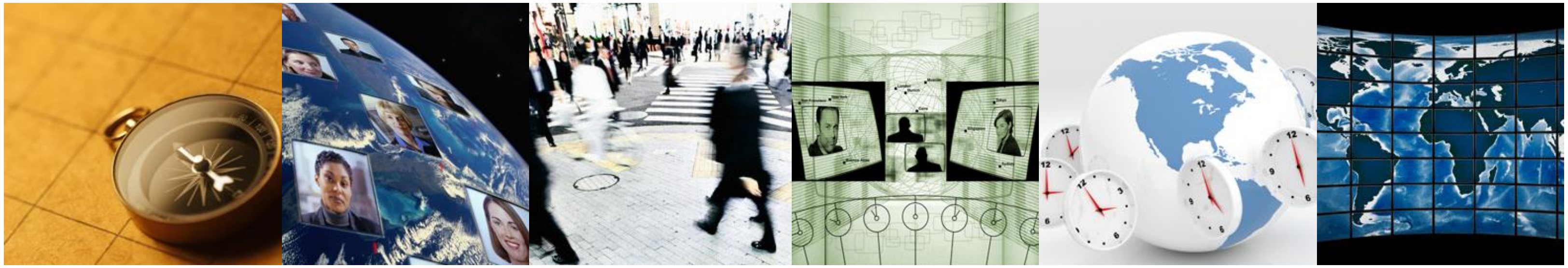

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