



НИФИ

НАУЧНО-ИССЛЕДОВАТЕЛЬСКИЙ  
ФИНАНСОВЫЙ ИНСТИТУТ

# INTERNATIONAL TAX COMPETITION: TOOLS & OUTCOMES

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# Research question

- *Does international tax rules of the country have influence on the foreign direct investments to and from this country?*
- *If yes, how does it matter?*

# Research approach – Work plan

Aim – analyze interdependence between international tax policy tools employed by the country and its economic characteristics, primarily, (1) country's position in the global capital flows, (2) level of economic development, (3) size of the economy

***Hypothesis – small developed countries (financial centers) are key triggers of global tax competition, employing their tax sovereignty to ensure state's competitiveness in global capital markets***

Research approach - empirical economic & legal comparative analysis of selected countries (developed, developing, small developed countries)

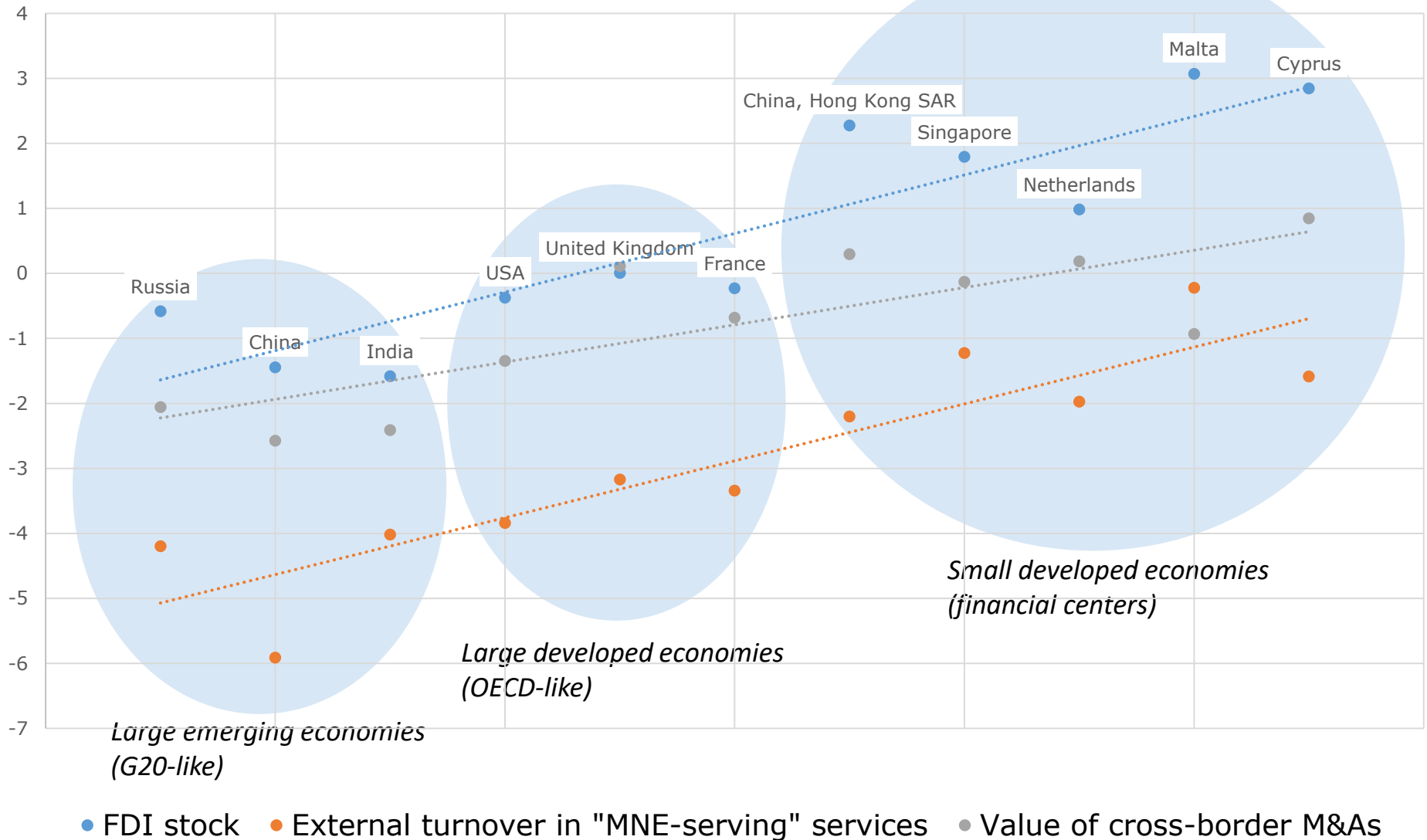
## ***Steps:***

- 1) outline countries' role in global capital flows;
- 2) describe international corporate tax competition "tools";
- 3) compare "tools" & strategies used by different types of countries;
- 4) assess impact of tax competition "tools" (international tax rules) on FDI structuring

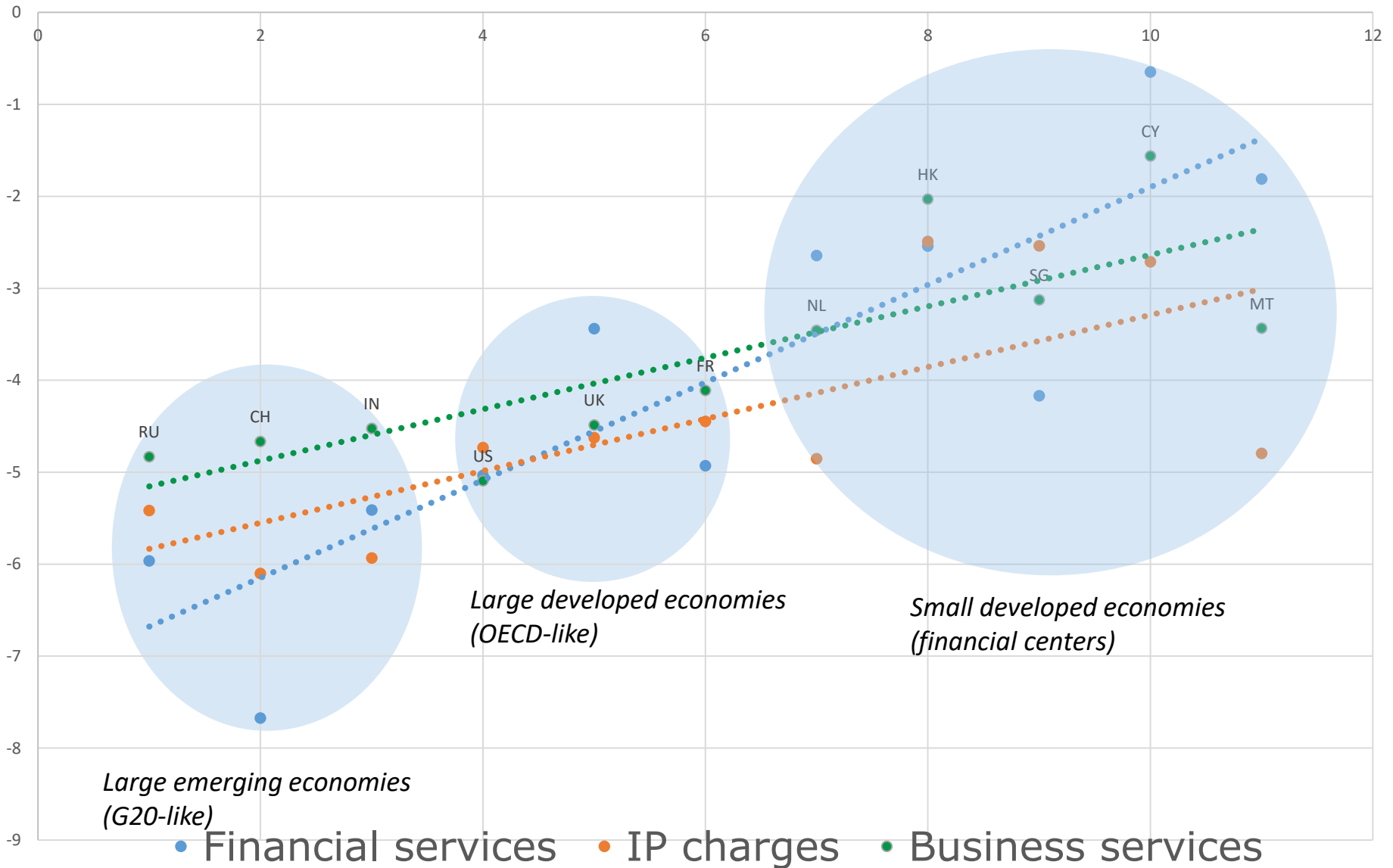
# 1. Countries role in global corporate capital flows

State	FDI stock, 2016 (%/GDP)	External turnover in "MNE-serving" services, 2016 (%/GDP)	Value of net cross- border M&As, 1990- 2017 (%/GDP, 2016)
<b>Average for emerging states</b>	<b>34%</b>	<b>1%</b>	<b>10%</b>
Russia	56%	1%	13%
China	24%	0%	8%
India	21%	2%	9%
<b>Average for developed states</b>	<b>83%</b>	<b>3%</b>	<b>63%</b>
USA	69%	2%	26%
United Kingdom	100%	4%	112%
France	79%	4%	51%
<b>Average for smaller developed states (financial centers)</b>	<b>1142%</b>	<b>31%</b>	<b>123%</b>
China, Hong Kong SAR	973%	11%	134%
Singapore	599%	29%	88%
Netherlands	267%	14%	120%
Malta	2152%	80%	39%
Cyprus	1721%	20%	233%

# 1. Countries positions in global corporate capital flows



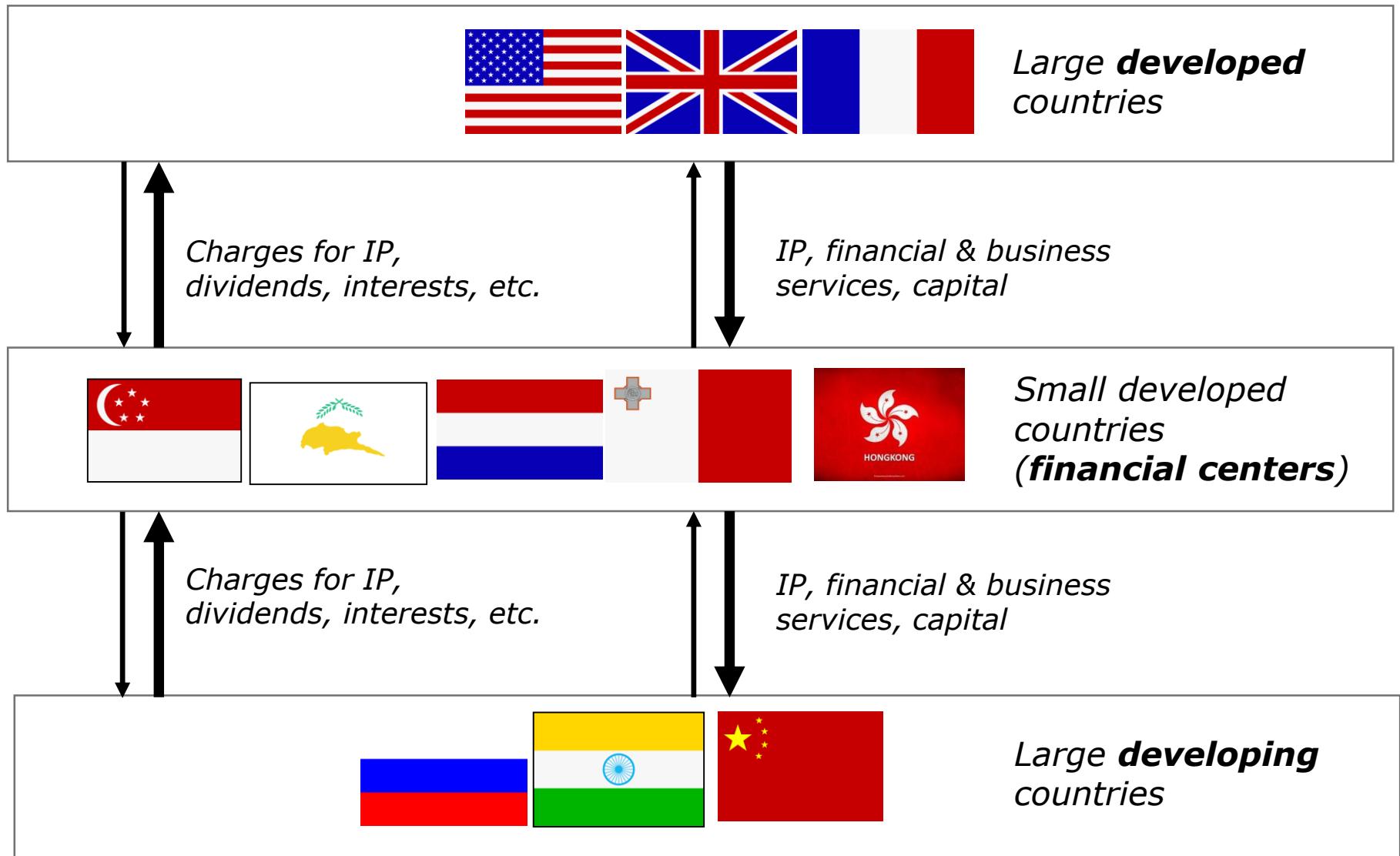
# 1. External turnover in MNE-related services



# 1. Countries' positions in global financial flows

- 1) Large developing countries:** lesser involved in global financial flows (primarily **capital importers**) and lesser significant MNE-related services suppliers (primarily import)
- 2) Large developed states:** primarily **capital exporters**, primarily exporters of intellectual property (IP), financial and business services
- 3) Small developed states (**financial centers**):** **intermediaries** of capital flows, intermediaries and importers of IP, financial services and business services

# 1. Countries' positions in global financial flows





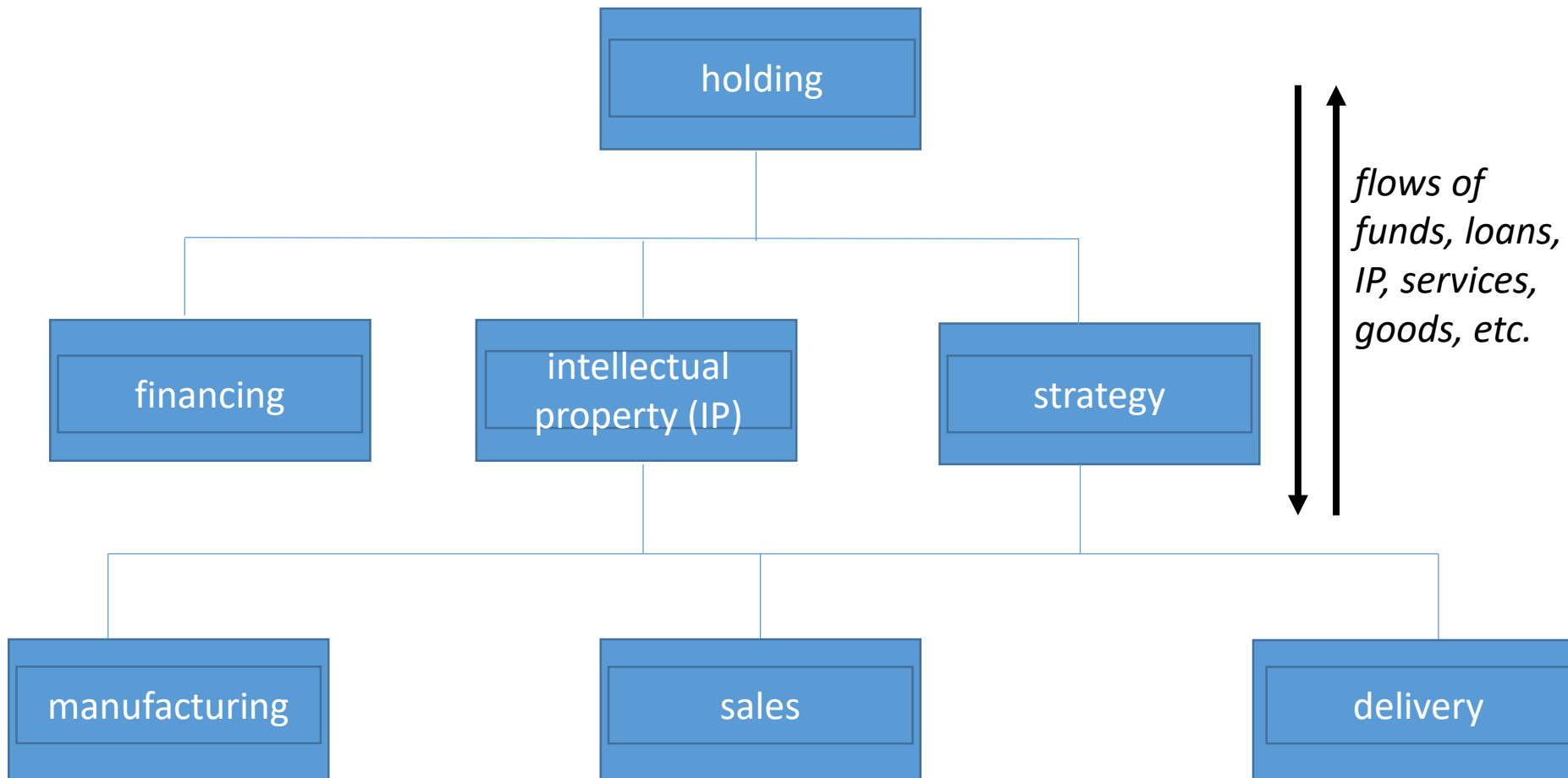
## 2. Implications for tax competition tools

- Tax competition – governmental strategy of attracting FDIs by minimizing the overall taxation level (Unger, Mccarthy, 2008)
- But... different states need to attract different FDIs:
  1. Developed – secure what they already have
  2. Developing – gain new FDIs
  3. Financial centers – maximize passing FDIs through them
- So, different international tax strategies are employed...

## 2. International tax competition tools analysis

*Key considerations for analysis:*

- 1) tax obstacles for transfer of flows between companies*
- 2) administrative and fiscal powers of tax jurisdiction*



## 2. International tax competition tools

### **Tax policy considerations**

- Loosing tax revenues vs. attracting FDIs
- Acting alone vs. acting together
- Cooperate vs. compete

### **Tools**

#### ***Defending***

- (1) strengthen worldwide taxation at residence,*
- (2) increase international cooperation,*
- (3) increase taxation of non-residents at source,*
- (4) employ anti-avoidance measures*

#### ***Attacking***

- (1) tax incentives and special regimes,*
- (2) territorial taxation (narrower tax base),*
- (3) decrease tax rate*
- (4) cooperation with MNCs and other countries*

## 2. International tax competition tools analysis

### Methodology

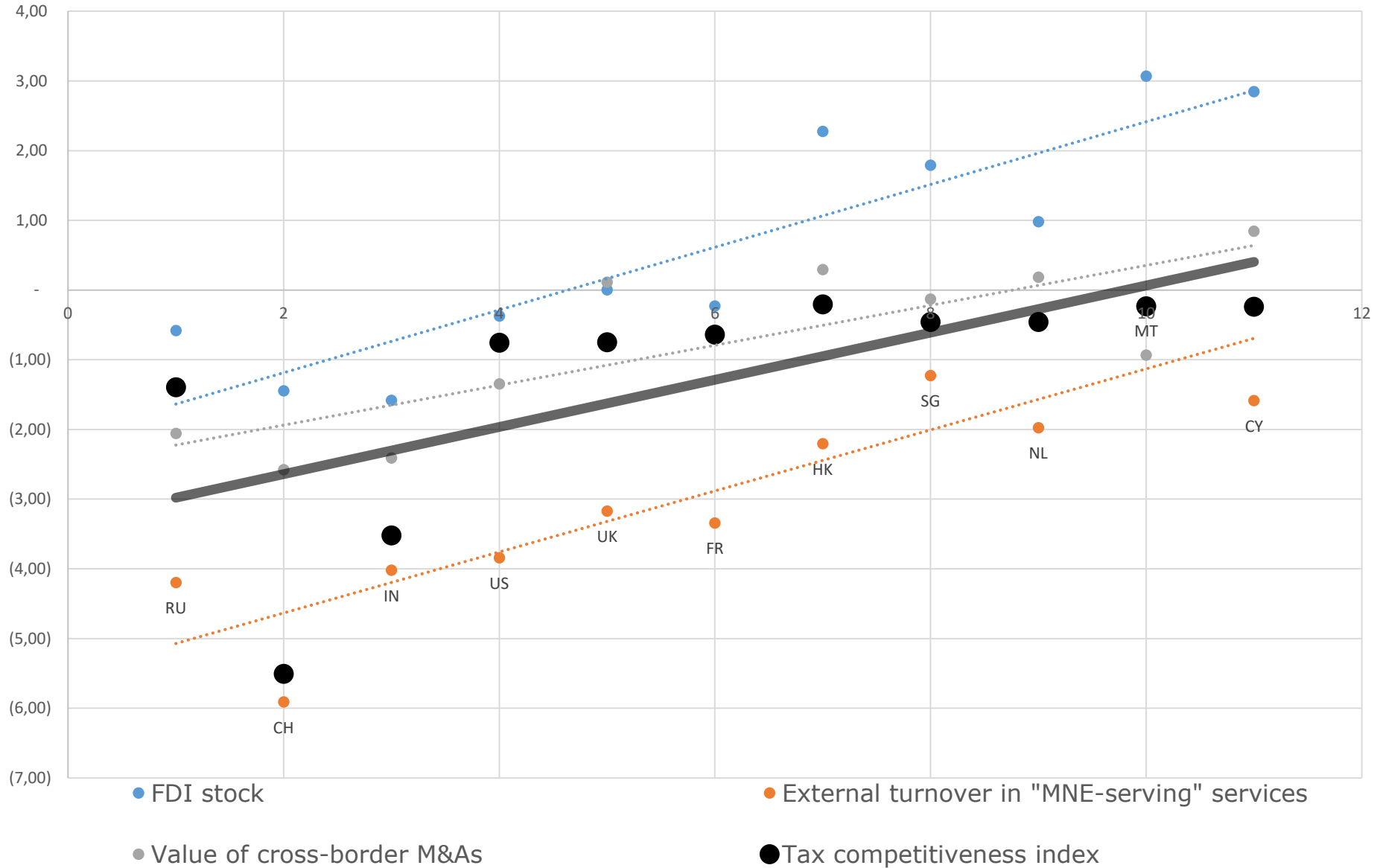
- Scoring international tax rules of the analyzed countries from the point of (1) defensive tax instruments and rules; (2) attacking tax instruments and rules

<b>Defensive tools</b>	<b>Attacking tools</b>
(1) Strengthening taxation at residence	(1) Internal offshore zones
(2) Cooperation in global anti-abuse and transparency initiatives	(2) Tax incentives for MNCs/financial industry (special tax regimes)
(3) Strengthening taxation of non-residents	(3) "Territorial" taxation or narrower tax base
(4) Recent or planned increase of tax rate	(4) Recent or planned decrease of tax rate
(5) Comprehensive transfer pricing rules	(5) Exemption for dividends received from holdings or paid to investors
(6) General Anti Avoidance Rules	(6) Absence of withholding taxes
(7) Discriminative tax rate for foreign companies/branches	(7) Comprehensive ruling practices
	(8) Deemed interest deduction
	(9) Obligatory arbitration on mutual agreement procedures
	(10) Formal residence definition

# 3. International tax competition tools comparative analysis

Country	International tax policy tools		
	Defending	Attacking	Tax competitiveness index
<b>Average for emerging states</b>	<b>80%</b>	<b>20%</b>	<b>-60%</b>
Russia	68%	32%	-36%
China	88%	14%	-74%
India	84%	14%	-70%
<b>Average for developed states</b>	<b>57%</b>	<b>59%</b>	<b>2%</b>
USA	56%	55%	-1%
United Kingdom	60%	59%	-1%
France	56%	64%	8%
<b>Average for smaller developed states (financial centers)</b>	<b>31%</b>	<b>71%</b>	<b>40%</b>
China, Hong Kong SAR	20%	73%	53%
Singapore	44%	68%	24%
Netherlands	44%	68%	24%
Malta	28%	77%	49%
Cyprus	20%	68%	48%

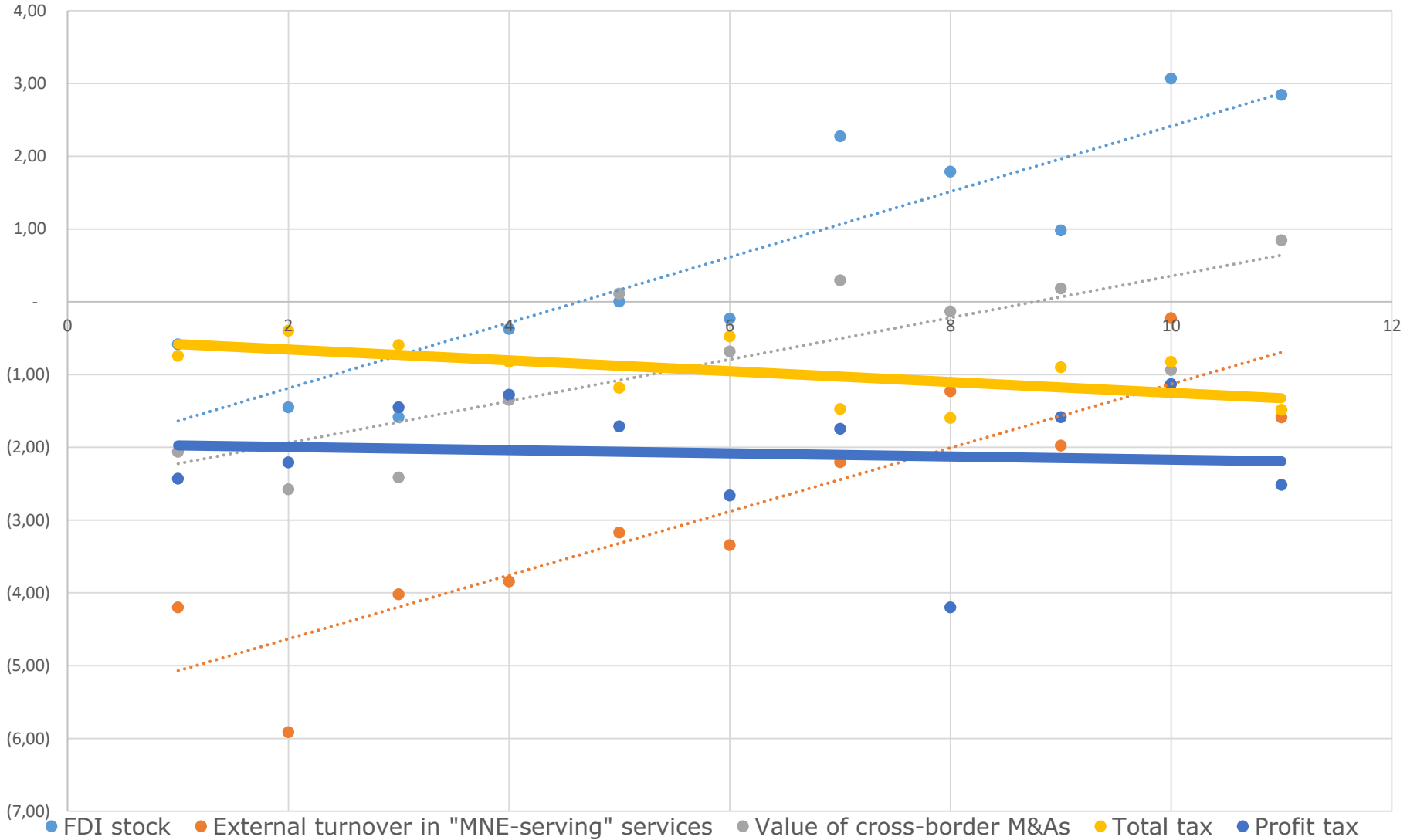
# 4. Impact of international tax rules on FDI



## 4. Impact of international tax rules on FDI (correlation analysis)

	<b>FDI stock</b>	External turnover in "MNE-serving" services	Value of cross-border M&As	International tax competitiveness index
FDI stock	100,0%			
External turnover in "MNE-serving" services	91,3%	100,0%		
Value of cross-border M&As	75,9%	71,4%	100,0%	
<b>International tax competitiveness index</b>	<b>72,1%</b>	78,7%	78,7%	100,0%

# 4. Why my explanation is better than nominal tax rates?

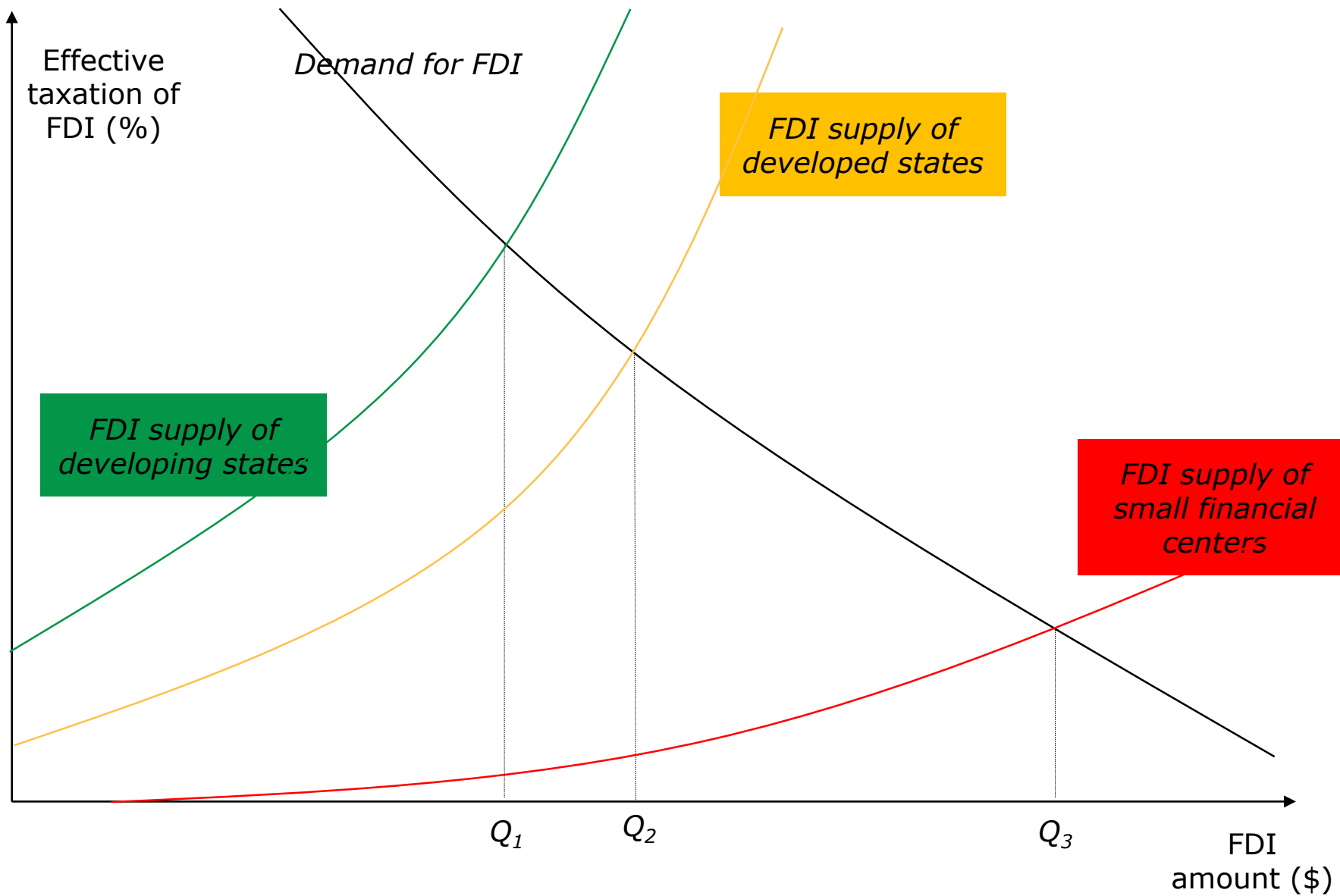




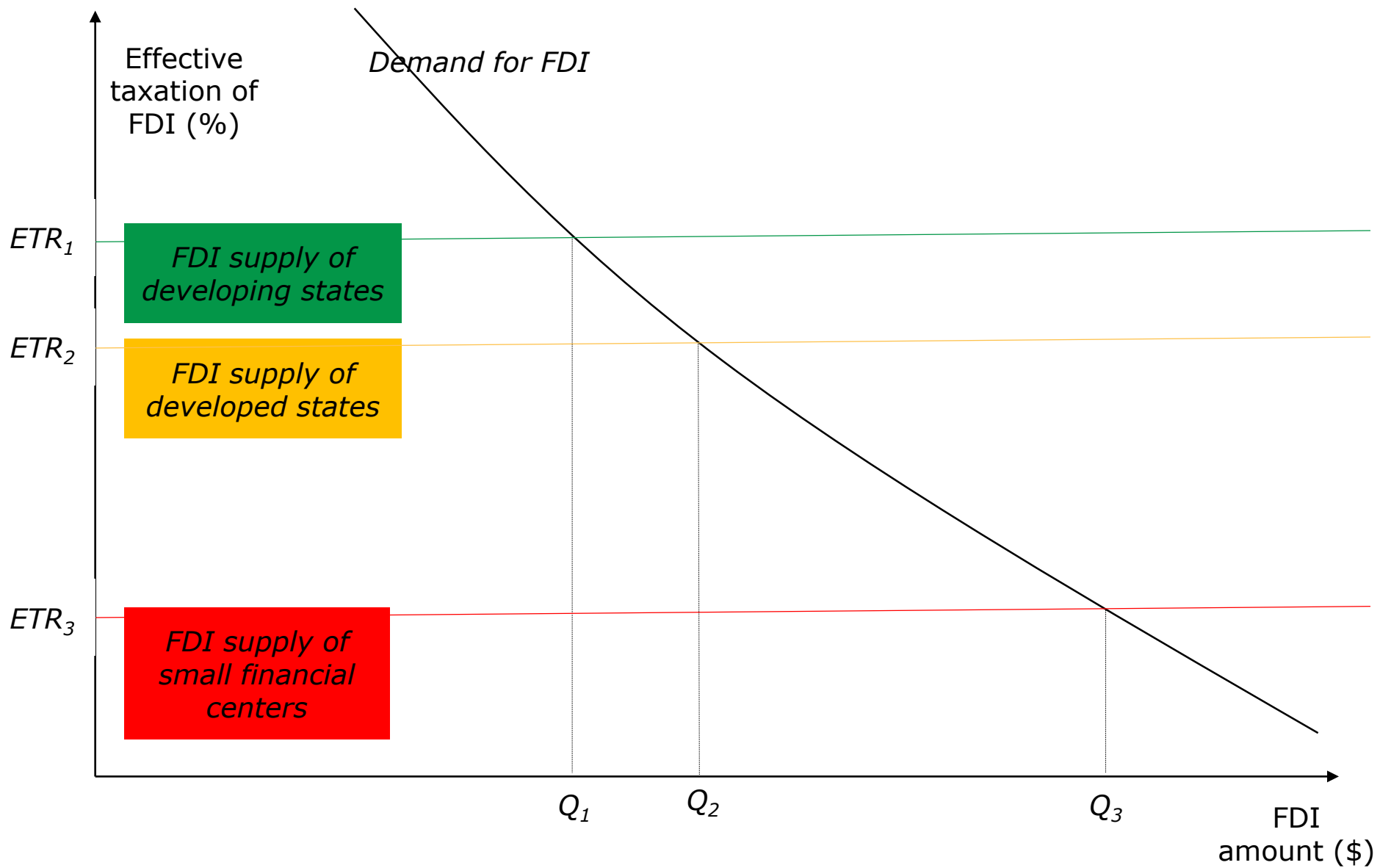
# Results

1. Small countries are really employing international tax competition tools to attract FDIs and they succeed in this
2. There is linear dependence between country tax competitiveness and amount of FDIs it attracts, however, only “success stories” countries were analyzed. This trend will likely to continue in the post-BEPS world
3. So, there are several “market leagues” of tax competition: rivals are competing with rivals

# Three "leagues" of tax competition



# Three "leagues" of tax competition



# Results

1. We clearly evidence three behavioral patterns in international tax competition game: (1) defensive; (2) neutral; (3) attacking
2. We delineated legal “tools” used to employ each of the patterns
3. Helicopter view on “big picture” of tax competition proved the hypothesis

**Many thanks for Your attention!**

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