TP WEEK

CbCR may bring upswing in corporate tax revenues

Corporate tax revenue collections remain at low levels around the globe, the OECD's annual tax revenue statistics show, but advisers believe increased transparency and potential audits drawing on country-by-country reports could turn this around.

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The OECD released on Thursday its annual **Revenue Statistics report**. The 2017 edition analyses tax revenues in OECD countries from 2015 and 2016.

The report shows that corporate tax revenue in OECD countries on average remains lower than before the financial crisis, around 8.9% of total tax revenues in 2015, but the average tax-to-GDP- ratio has increased from 34% in 2015 to 34.3% in 2016.

The countries with the highest share of taxes on corporate income as a percentage of total tax revenue in 2015 were Chile (21%), Mexico (20.1%) and Australia (15.3%). At the other end of the spectrum are Slovenia (4%) and Hungary and France (4.6%).

David Bradbury, head of the tax policy and statistics division at the OECD's Centre for Tax Policy and Administration, told *TP Week* that many factors could have contributed to this.

"Corporate income taxes are typically quite cyclical in the sense that as the economy grows, there will be a greater amount of corporate tax revenues that are collected as these levels will follow the economic cycle," he said.

"There are many other factors contributing to overall levels of corporate income tax. For example, the statutory tax rate will play a role, but so too will any changes in the base of the corporate income tax. In a given country, the share of corporate taxes can be affected by a shift towards incorporation by different businesses. Then of course, there will be the effects of corporate tax avoidance and base erosion and profit shifting. Because of the complex interaction of all of these factors it is quite difficult to identify the effects of any one of these factors on its own simply by looking at aggregate revenue data."

However, advisers have told *TP Week* they expect the BEPS project to boost corporate tax collection through increased transparency. Enhanced transparency through country-by-country reporting (CbCR) has the potential to lead to more audits, as well as to companies correcting their tax positions to avoid scrutiny from tax authorities and the media.

"The BEPS project has achieved a number of results and two of these include the increased awareness of tax-related risks and the coordinated approach by authorities to identify the risks and to collaborate to find solutions, which can either be implemented on a global scale, such as Action 13 [on CbCR], or on a local level," Michael Hewson, director and founder of Graphene Economics in Johannesburg, told *TP Week*.

"Overall, the increased level of transparency will certainly increase the number of transfer pricing audits and the extent to which revenue authorities are able to identify potential risks. Therefore, we do expect this to result in an increase in revenue collections."

CbC reports

Anna Sekowska, head of tax at Wolf Theiss in Warsaw, told *TP Week* that supranational business activity will become much more transparent because of CbC reports, enabling the authorities to track potential tax evasion through exchange of information between administrations.

Sekowska said the BEPS actions seem to be comprehensive and well-targeted, and address many of the gaps in international and domestic tax systems leading to abusive practices such as profit shifting. "The incremental implementation of the BEPS instruments should contribute to increased revenue collection in these countries. The level of effectiveness of these measures will be determined in the coming years," she said.

Bradbury said that while he expected to be better able to analyse the effect of the BEPS project when CbC reports come in from 2019, so far, data collected through revenue statistics is not likely to reveal much about BEPS.

"[Aggregated and anonymised data from CbC reports] will tell us more about what's happening in terms of BEPS. It will still be difficult to discern all the trends from BEPS but this will give us a much better idea than looking at raw revenue data of the sort that is provided in the Revenue Statistics publication," Bradbury said.

Gravity for emerging markets

For developing countries the BEPS project could have a particularly visible effect because of their heavy reliance on corporate income tax.

For instance, African countries are being looked at by various organisations, including the OECD, UN, World Bank and African Tax Administration Forum, to assess the impact of the BEPS project and transfer pricing-related challenges such as finding comparables, Hewson said.

“Several of these organisations are working very closely with countries in Africa to develop transfer pricing capacity in the revenue authorities while programmes like Tax Inspectors Without Borders are assisting with audits of companies. This increased level of legislation and activity among revenue authorities has already resulted in a significant number of transfer pricing audits across the continent,” he said.

Lena Angvik

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