



Universität St.Gallen



The Taxation of the World Society – WU Wien

Prof. Dr. Peter Hongler – 18 May 2020

Outline

1. The World Society
2. The Taxation of the World Society
3. Corporate Income Tax as Panacea
4. Normative Outlook

**International taxation and
redistribution**

State-market-citizen relation



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The World Society

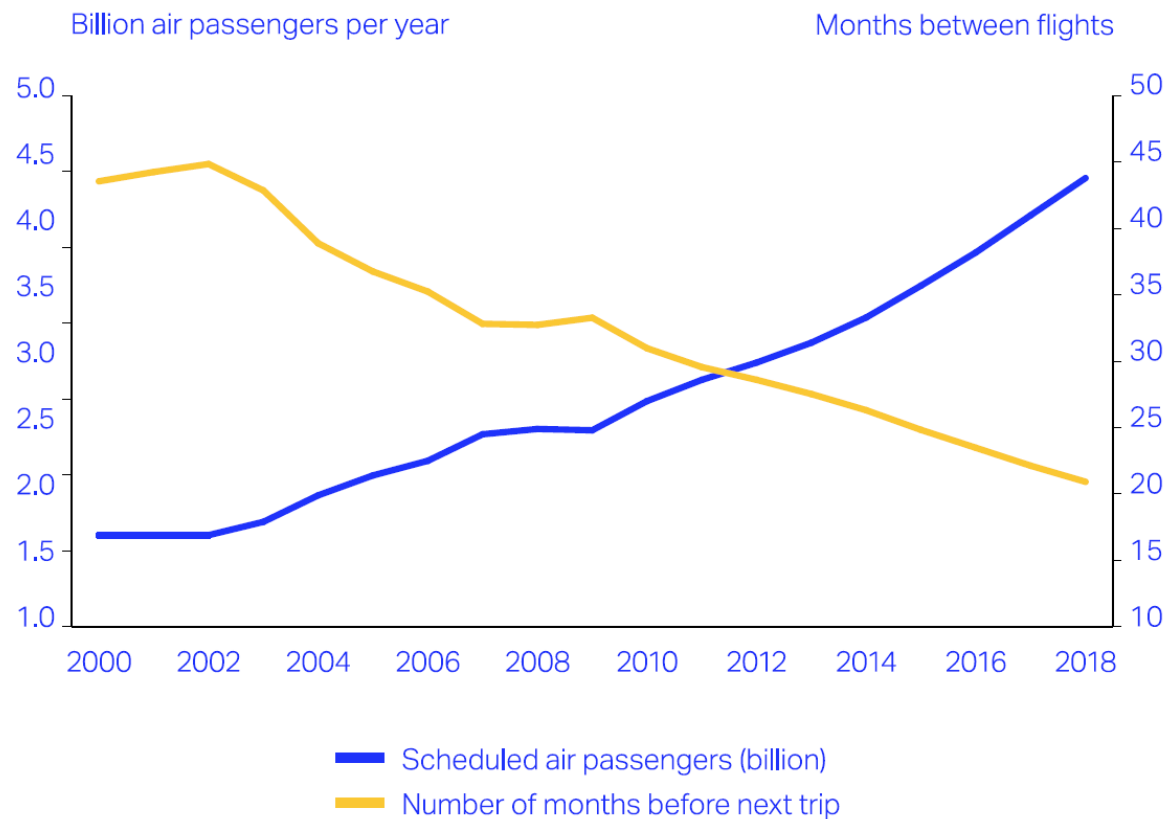
The World Society

1. Cross-border mobility was extreme
2. Global capitalism
3. Globalization and inequalities
4. Gap is growing between state responsibility and effective governmental leeway

**International taxation and
redistribution**

State-market-citizen relation

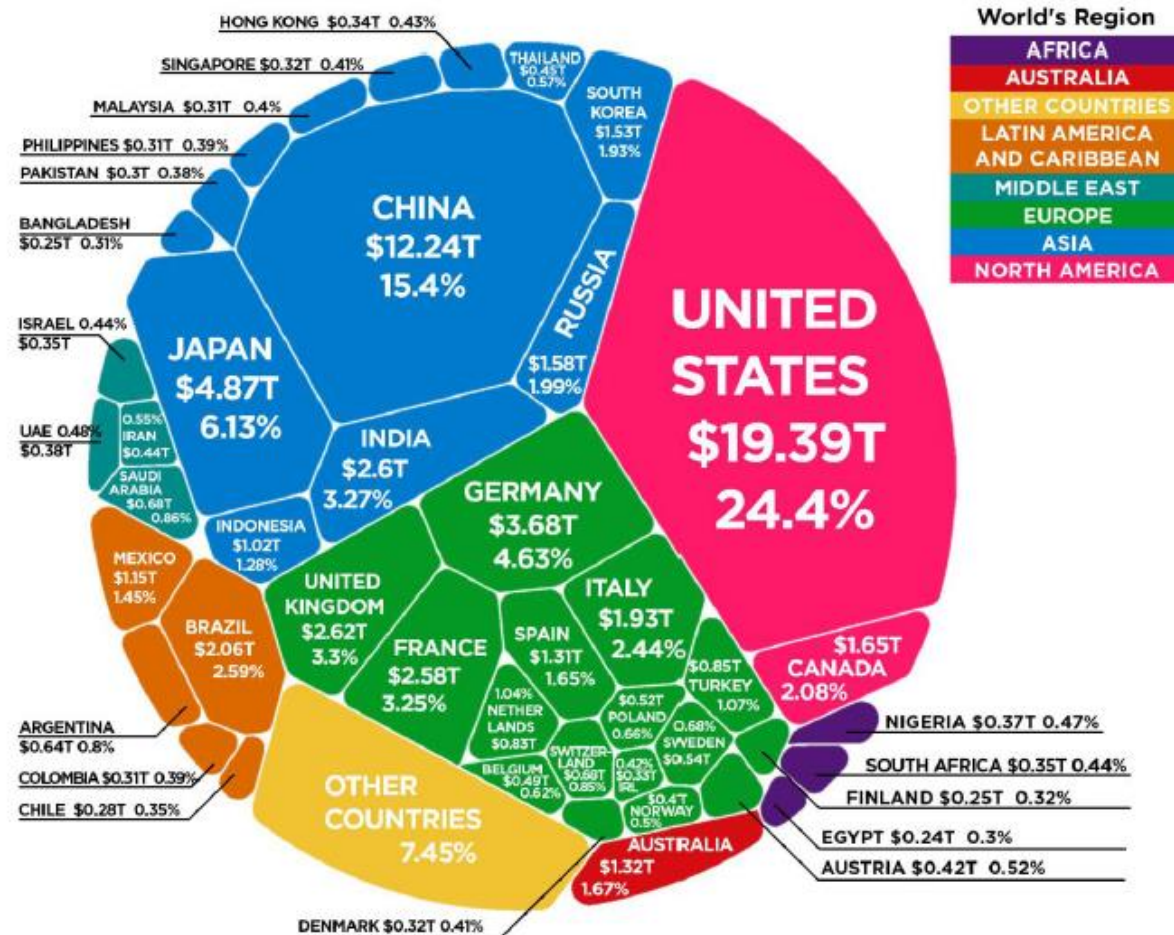
1. Cross-border mobility was extreme



Source: World Air Transport Statistics 2019 by IATA – Figure 4.4.



2. Global capitalism



Source: <https://www.weforum.org/agenda/2018/10/the-80-trillion-world-economy-in-one-chart/>

3. Globalisation and inequalities

Top 1% national income share



Source: <https://wid.world/>

3. Globalisation and inequalities

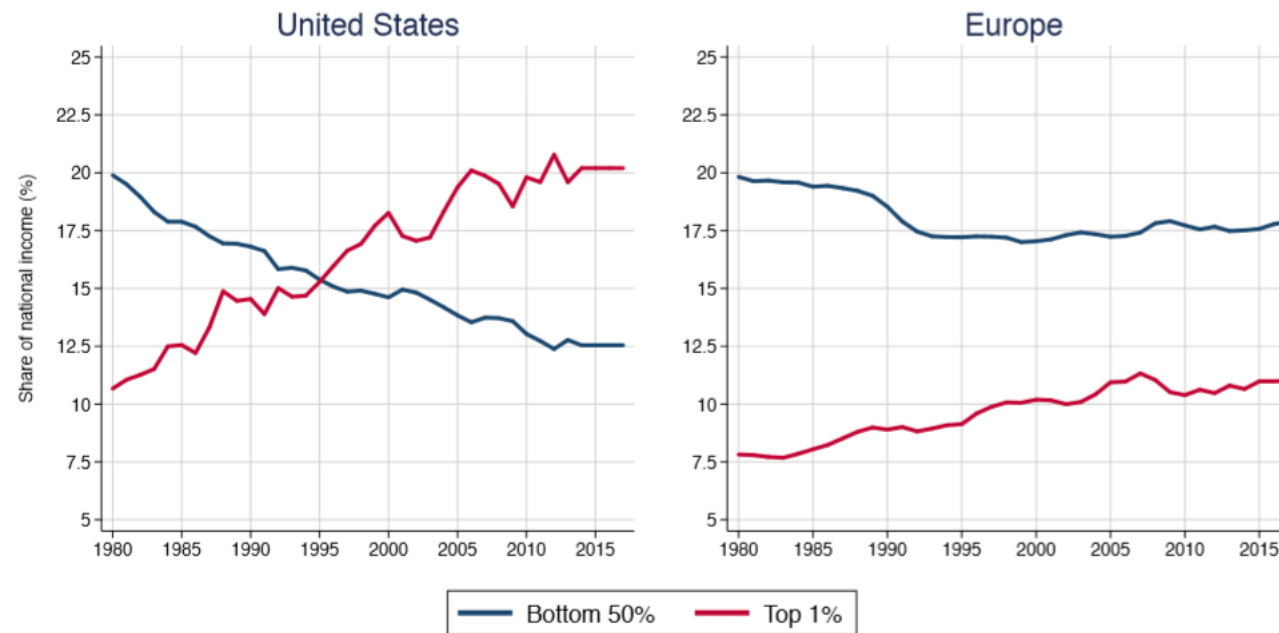
Bottom 50% national income share



Source: <https://wid.world/>

3. Globalisation and inequalities

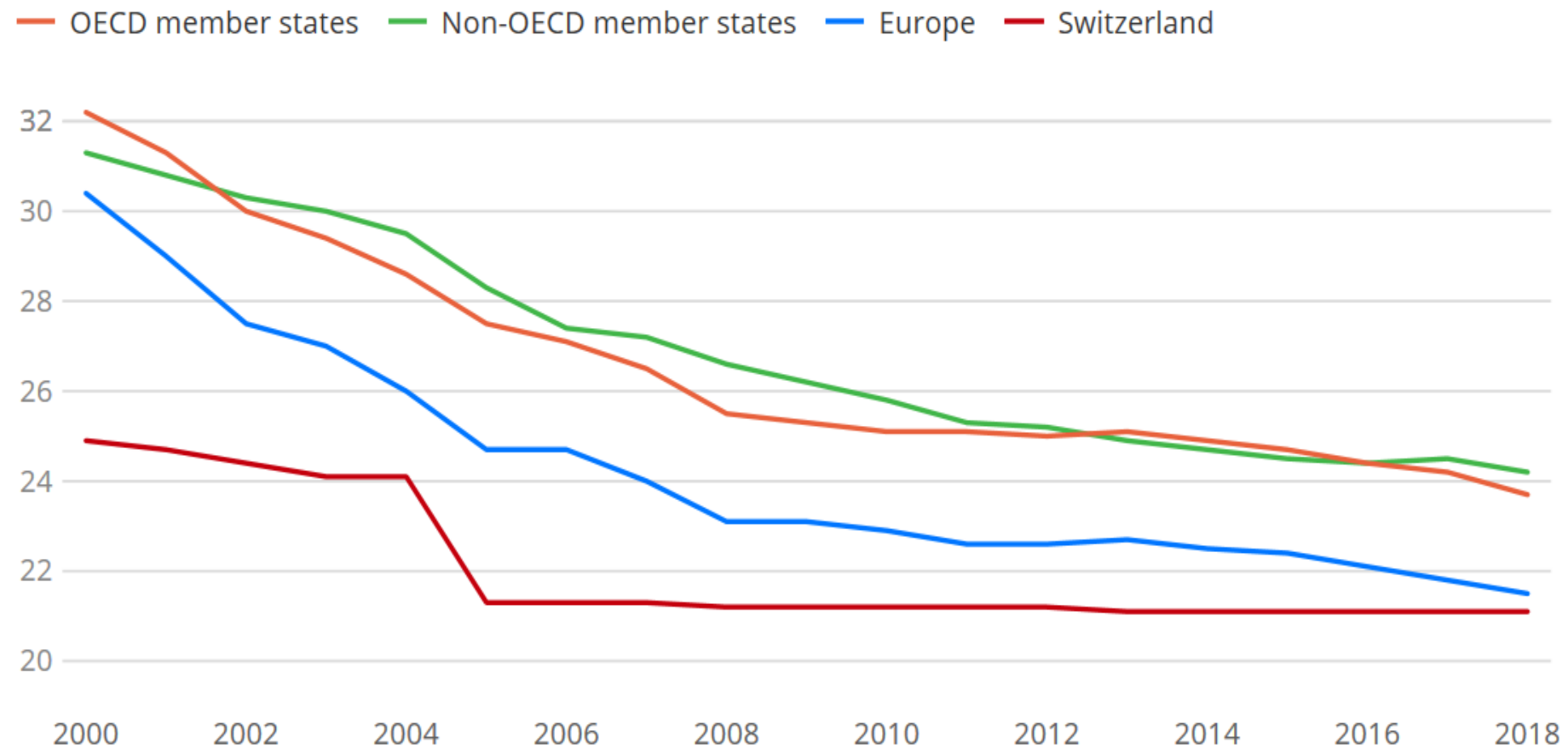
(a) Bottom 50% vs. Top 1% income shares



Blanchet, Chancel & Gethin (2019)



4. Gap is growing between state responsibility and effective governmental leeway





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The Taxation of the World Society

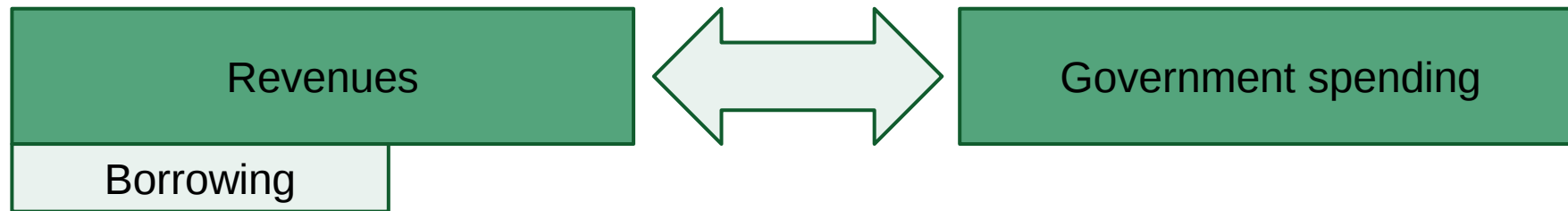
The Taxation of the World Society

1. Domestic tax systems – key elements
2. Taxes are not a global common good
3. State-citizen relation
4. State-market relation

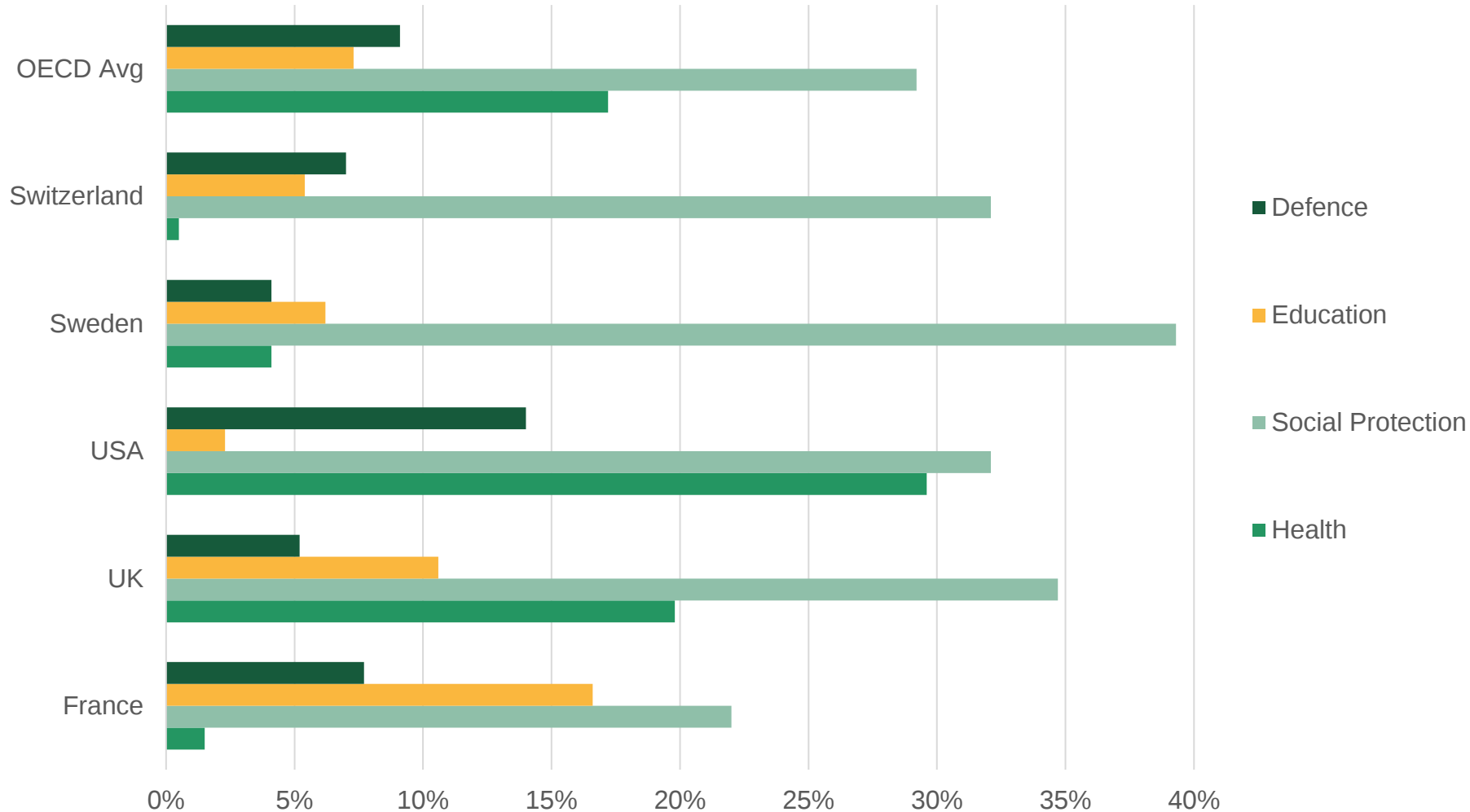
**International taxation and
redistribution**

State-market-citizen relation

1. Domestic tax systems – key elements

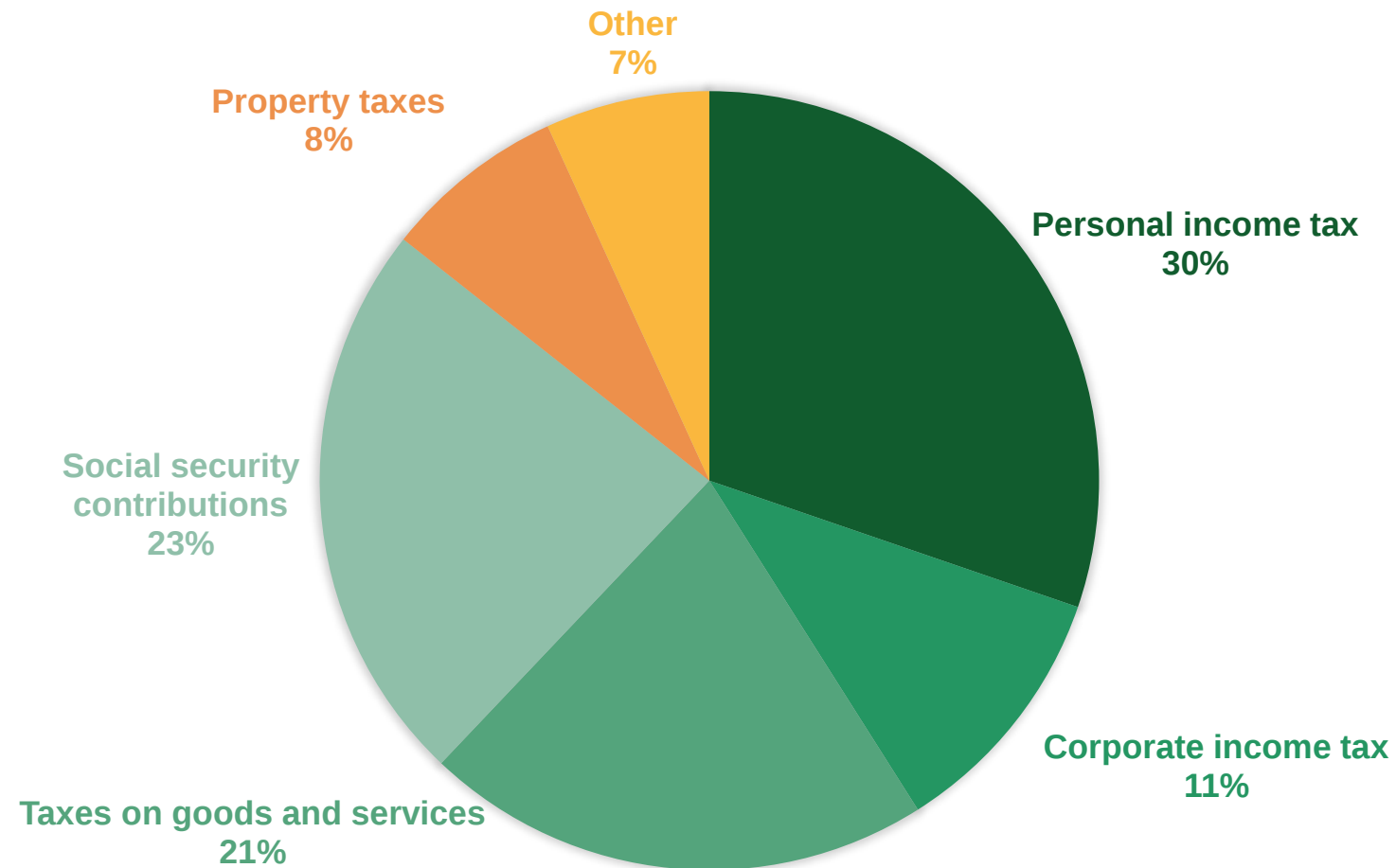


1. Domestic tax systems – key elements – spending

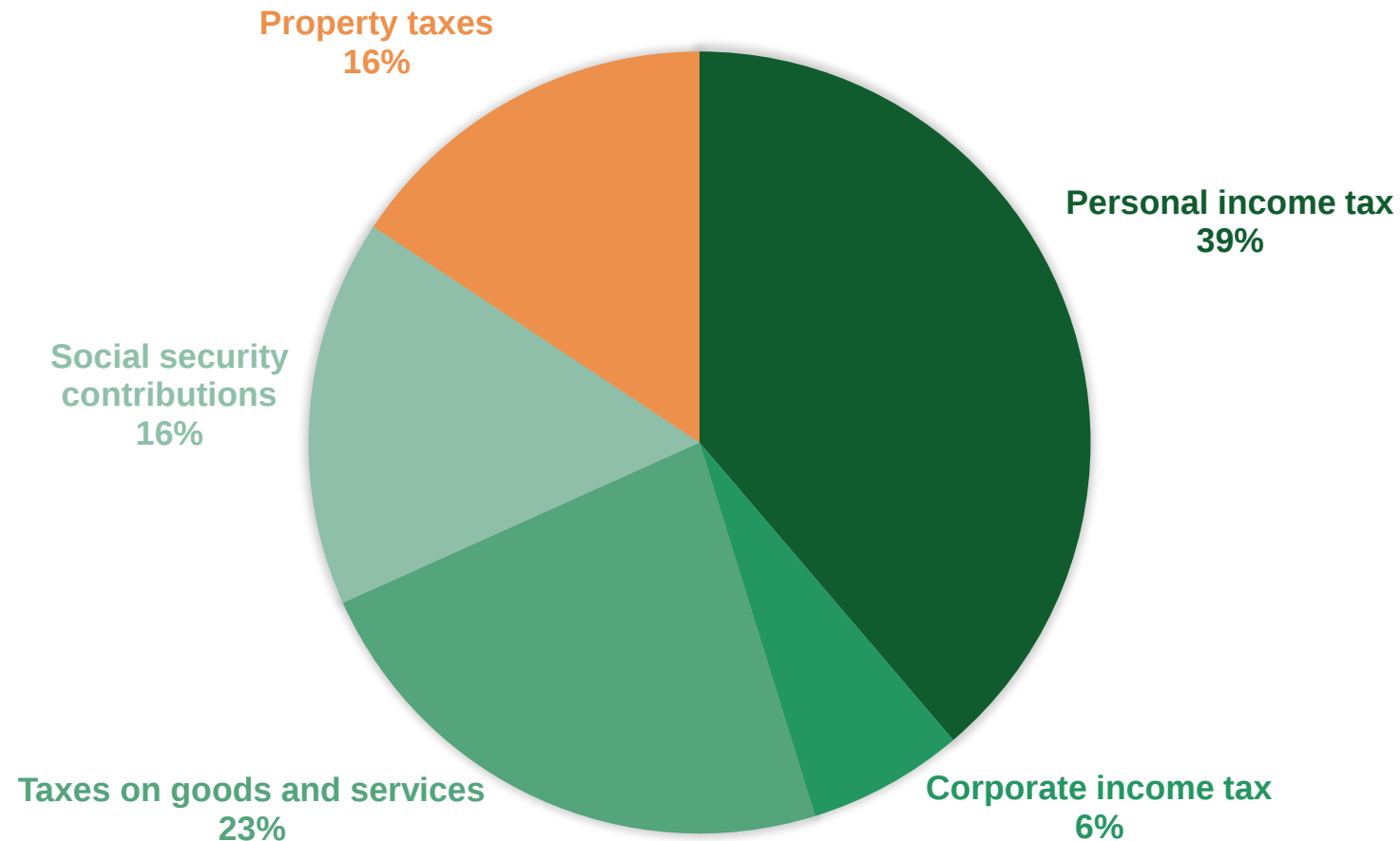


Source: Own presentation based on OECD, Government at a Glance 2019.

1. Domestic tax systems – key elements – tax mix Switzerland



1. Domestic tax systems – key elements – tax mix USA



2. Not a global common good

- Excludable! Tax revenues do not belong to the global community

Two intermediate conclusions:

- Efficiency should not be a primary goal of the international tax regime
- Minimum taxation is not justified based on the same rationale as in a domestic setting
- But: Tax law could help protecting other global common goods such as the environment

3. State-citizen relation

§ 370 Abgabenordnung – Steuerhinterziehung (GER)

(1) Mit Freiheitsstrafe bis zu fünf Jahren oder mit Geldstrafe wird bestraft, wer

1. den Finanzbehörden oder anderen Behörden über steuerlich erhebliche Tatsachen unrichtige oder unvollständige Angaben macht,
2. die Finanzbehörden pflichtwidrig über steuerlich erhebliche Tatsachen in Unkenntnis lässt oder
3. pflichtwidrig die Verwendung von Steuerzeichen oder Steuerstemplern unterlässt

und dadurch Steuern verkürzt oder für sich oder einen anderen nicht gerechtfertigte Steuervorteile erlangt.

3) In besonders schweren Fällen ist die **Strafe Freiheitsstrafe von sechs Monaten bis zu zehn Jahren**. Ein besonders schwerer Fall liegt in der Regel vor, wenn der Täter

1. in großem Ausmaß Steuern verkürzt oder nicht gerechtfertigte Steuervorteile erlangt

Art. 175 DBG – Vollendete Steuerhinterziehung (CH)

¹ Wer als Steuerpflichtiger vorsätzlich oder fahrlässig bewirkt, dass eine Veranlagung zu Unrecht unterbleibt oder dass eine rechtskräftige Veranlagung unvollständig ist, wer als zum Steuerabzug an der Source Verpflichteter vorsätzlich oder fahrlässig einen Steuerabzug nicht oder nicht vollständig vornimmt, wer vorsätzlich oder fahrlässig eine unrechtmässige Rückerstattung oder einen ungerechtfertigten Erlass erwirkt,
wird mit Busse bestraft.
[...]

4. State-market relation

- Low mobility costs (both for individuals and corporations)
- Capital-market liberalization
- European integration
- Digitalization of the economy

→ Increasing tax competition



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The Corporate Income Tax as a Panacea

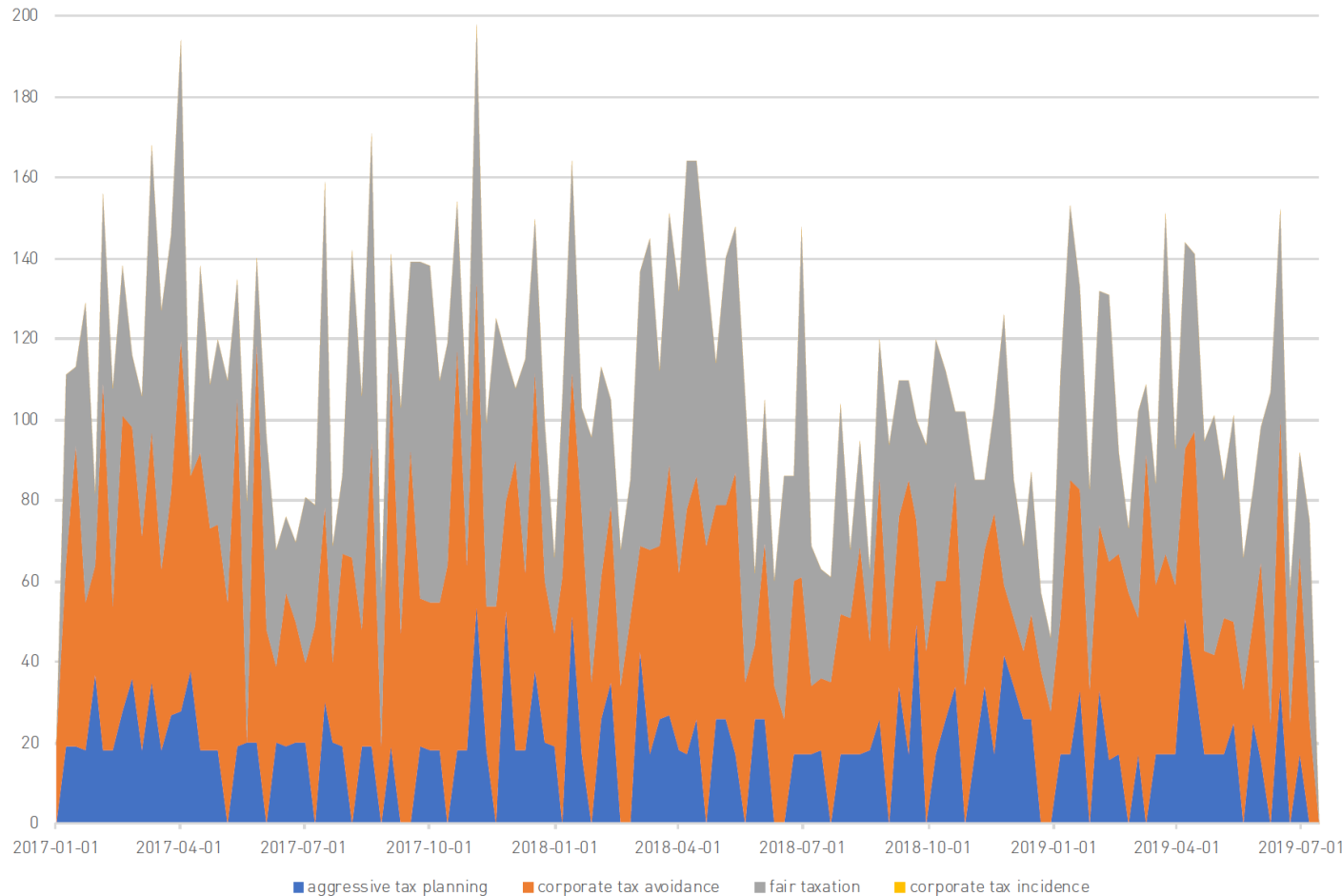
The corporate income tax as a panacea

- The corporate income tax system is blamed for many policy failures
- At the same time it is also the panacea for many of the world's problems
- Poor corporate income tax!!

Two topics:

1. **International taxation and redistribution:** MNEs are not paying their fair share. A higher taxation of MNEs would lead to less inequality.
2. **State-market-citizen relation:** Corporate income tax competition has led to a situation in which the states are not anymore capable of deciding on how much taxes they want to levy from their citizens

1. International taxation and redistribution – CIT incidence (I/IV)



Source: Bauer (2019):
“Google Trends. Query of 17 July 2019. Interest over time. Period covered: 1 January 2017 – 14 July 2019. Region: worldwide. Numbers represent search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term. A value of 50 means that the term is half as popular. A score of 0 means that there was not enough data for this term.”

1. International taxation and redistribution – CIT incidence (II/IV)

Authors	Period	Economic Incidence on Labour
Fuest, Peichl, Siegloch: "The incidence of corporate taxation and its implications for tax progressivity" (2017)	1993-2012	51%
Felix & Hines (2009): "Corporate Taxes and Union Wages in the United States" (2009)	2000	54%
Arulampalam, Devereux & Maffini: "The Direct Incidence of Corporate Income Tax on Wages" (2012)	1996-2003	49%
Mckenzie & Ferde (2017): "Who pays the corporate tax? Insight from the literature and evidence for Canadian provinces"	1981-2014	152%-385%
Desai, Foley & Hines: Labor and Capital Shares of the Corporate Tax Burden International Evidence (2007)	1989; 1994; 1999; 2004	45%-75%
Felix: "Passing the Burden: Corporate Tax Incidence in Open Economies" (2007)	1979-2002	400%

1. International taxation and redistribution – CIT incidence (III/IV)

Ebrahimi & Vaillancourt: “The Effect of Corporate Income and Payroll Taxes on the Wages of Canadian Workers” (2016)	1998-2013	75%
Carrol: “Corporate Taxes and Wages: Evidence from the 50 States” (2009)	1970-2007	250%
Suarez Serrato & Zidar: “Who Benefits from State Corporate Tax Cuts? A Local Labour Markets Approach With Heterogeneous Firms” (2014)	1980-1990; 1990-2000; 2000-2010	30-35%
Felix: “Do State Corporate Income Taxes Reduce Wages?” (2009)	1977-2005	360%
Liu & Altshuler: “Measuring the Burden of the Corporate Income Tax Under Imperfect Information” (2013)	1982; 1992; 1997	40-80%

Baert et al. (2019)

1. International taxation and redistribution – CIT incidence (VI/VI)

- There is no evidence that increasing corporate tax revenue decreases global inequalities
- There is even no evidence that increasing corporate tax revenue decreases domestic inequalities
- Increasing corporate income tax revenues might be contra-productive (pressure on low-skilled, female and young workers)

2. State-market-citizen relation

- The argument is that the current corporate income tax system disallows democratic decisions
- States are not anymore able to decide upon the level of taxation
- The market seems stronger than governmental decisions
- Answer: Let's limit corporate income tax competition in order to rely more on the profits of MNEs (sic) !



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Normative Outlook

Normative outlook

- International taxation and redistribution
- State-market-citizen relation

**International taxation and
redistribution**

State-market-citizen relation

1. International taxation and redistribution

- We will not solve questions of the right level of redistribution through the international corporate tax regime
 - Cosmopolitan approach – corporate income tax regime is a bad if not the worst steering possibility
 - National (or right institutional approach) static approach – **reduction of inequalities is mainly achieved through the spending side of the state**
- There is simply no evidence that any of the current proposals (Pillar 1 + 2) and any of the recent changes (BEPS, ATAD) will lead to less domestic and/or international inequalities.
- **Normative goal: Development of multiple modernities (Habermas 2019)**

2. State-market-citizen relation

- No value imperialism (Hongler 2019)
 - International tax policy should not hinder the development of a legitimate domestic tax system (incl. state-citizen relation)
 - We should not support taxes that rely heavily on market results
-
- There is simply no evidence that any of the current proposals (Pillar 1 + 2) and any of the recent changes (BEPS, ATAD) will lead to an improvement with respect to the state-market-citizen relation.
 - **Normative goal: Development of multiple modernities (Habermas 2019)**



Back to square one

From Wikipedia, the free encyclopedia

"**Back to square one**" is a [phrase](#) that means "to go back to the beginning, after a dead-end or failure".

- **Art. 1 (a) OECD Convention**
- *The aims of the Organisation [...] shall be to promote policies designed:*
- *(a) to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;*
- **Art. 3 (b) OECD Convention**
- *[...] members agree that they will:*
- *(b) consult together on a continuing basis, carry out studies and participate in agreed projects;*

Sources

- Baert et al., The Role of Taxes on Investment to Increase Jobs in the EU – An Assessment of Recent Policy Developments in the Field of Corporate Taxes, European Economic and Social Committee, Study May 2019 (<https://www.eesc.europa.eu/en/our-work/publications-other-work/publications/role-taxes-investment-increase-jobs-eu-assessment-recent-policy-developments-field-corporate-taxes>)
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- Blanchet Thomas, Chancel Lucas & Gethin Amory, How Unequal is Europe? Evidence from Distributional National Accounts, 1980-2017, April 2019
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