出國報告

（出國類別：出席會議）

參加經濟合作暨發展組織（OECD）韓國政策中心「2016年所得稅研討會」會議報告

服務機關：財政部綜合規劃司
姓名職稱：科長 張琬如
派赴國家：韓國 (首爾)
出國期間：105年2月21日至2月28日
報告日期：105年5月26日

摘要

經濟合作暨發展組織(The Organisation for Economic Co-operation and Development, OECD) 以營造更強健、潔淨及公平之世界為目標，其為因應全球經濟、社會及環境之挑戰，定期與會員國及合作夥伴就所面臨問題深入討論與分析，期促進政策制定，以實質解決問題。

OECD 韓國政策中心(OECD KOREA Policy Centre)提供亞洲地區 OECD 會員國與非會員經濟體之官員及專家有關稅務、競爭、公共治理與社會政策之教育及培訓，進行研究及諮詢，共享政策經驗及趨勢。

本次所得稅研討會聚焦於 6 項主題：概論、個人所得稅(Personal Income Tax)、公司所得稅(Corporate Income Tax)、所得稅之衡量(Evaluate Income Taxes)、租稅獎勵(Tax Incentives)及租稅規避與逃漏(Tax Avoidance and Evasion)。OECD 3 名學者專家詳盡介紹相關概念與趨勢，各國代表分享觀點、經驗及各該國可行之解決方案，相互觀摩學習，進一步了解國際間所得稅發展，亦促進國際交流。

目次

參加經濟合作暨發展組織（OECD）
韓國政策中心「2016 年所得稅研討會」會議報告

壹、緣起及目的

經濟合作暨發展組織(The Organisation for Economic Co-operation and Development，以下簡稱 OECD)於 1961 年正式成立，目前由 34 個會員國[1]所組成，以營造更強健、潔淨及公平之世界為目標，該組織為因應全球經濟、社會及環境之挑戰，定期與會員國及合作夥伴就所面臨問題深入討論與分析，期促進政策制定，以實質解決問題。

1997 年 OECD 於韓國首爾成立韓國 OECD 多邊稅務中心(Korea-OECD Multilateral Tax Center, KTC)，2007 年整併該中心及 OECD 競爭區域中心(OECD-Korea Regional Centre for Competition)、OECD 公共治理亞洲中心(OECD Asian Centre for Public Governance)、健康及社會政策區域中心(Regional Centre on Health and Social Policy)，成立 OECD 韓國政策中心(OECD KOREA Policy Centre)提供亞洲地區 OECD 會員國與非會員經濟體之官員及專家稅務、競爭、公共治理與社會政策之教育及培訓，並進行研究及諮詢，共享政策經驗及趨勢。[2]

近年 OECD 韓國政策中心每年皆多次針對重要稅務議題舉辦各項研討會，邀請 OECD 會員國與非會員經濟體稅務機關代表及該領域之學者專家參加，就各該議題交換意見及經驗，從理論與實務進行深入討論，使各國代表相互瞭解各國現行租稅制度與所面臨問題，共同為改善各國租稅環境、建立更完善、健全及進步之租稅制度而努力。

財政部及所屬機關多年皆派員參與上述研討會，於會中與 OECD 專家及各國代表共同研討各項租稅議題，瞭解國際間發展趨勢，亦交換經驗及分享心得，加強

---

[1] Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States. 另有 5 個非會員但合作密切之夥伴國：Brazil, China, India, Indonesia, South Africa.

[2] OECD 韓國政策中心網頁，http://www.oecdkorea.org/user/nd60411.do。

我國與國際組織及與會國家之交流合作與實質關係。

貳、議程及與會人員

本(2016)年所得稅研討會於 2 月 22 日至 27 日假韓國首爾召開，聚焦於近期 OECD 研析討論之主要所得稅議題分析及政策挑戰，與會各國代表分享觀點、經驗及各該國可行之解決方案，研討議題主要分為 6 項：

一、概論。

二、個人所得稅(Personal Income Tax)。

三、公司所得稅(Corporate Income Tax)。

四、所得稅之衡量(Evaluate Income Taxes)。

五、租稅獎勵(Tax Incentives)。

六、租稅規避與逃漏(Tax Avoidance and Evasion)。

此次研討會由 OECD 稅務政策行政中心事務主管(Event Leader, Centre for Tax Policy & Administration) Mr Pierce O'Reilly、瑞士籍專家 Mr Alowin Moes 及韓國律村律師事務所稅務諮詢部主管(Head of Tax Consulting, Yulchon LLC) Mr Jae-Hyung Jang,擔任講座。與會代表包括香港 1 名、韓國 2 名、馬爾地夫 2 名、尼泊爾 4 名、菲律賓 2 名、中國大陸 2 名、斯里蘭卡 2 名、泰國 4 名及我國 2 名共 9 國(地區)，出席代表 21 人。

本次會議我國由財政部綜合規劃司張科長琬如及臺北國稅局林股長雅慧代表參加。會議期間我國代表與講座、主辦單位韓國政策中心及各國代表，皆保持良好互動，利用會議中場時間，交換意見、心得及國內制度與經驗，收穫豐碩。

本篇報告分為 4 部分，分別為：緣起及目的、議程及與會人員、研討議題摘錄及心得與建議。

叁、研討議題摘錄

一、概論

(一)租稅制度之目的

租稅有 3 項目標：稅收、效率及公平。

1.稅收

稅收為 OECD 會員國政府收入最大部分，雖然歷史上規費及政府其他收費亦曾為政府重要財源，但在已開發國家其重要性已大為降低，稅收占 GDP 比率逐年增加。以 1965 年至 2013 年趨勢觀察，該比率自 25%上升至近 35%。

穩定之財政收入為提供基礎建設、社會安全保障、教育及醫療保健等公共財之關鍵因素。

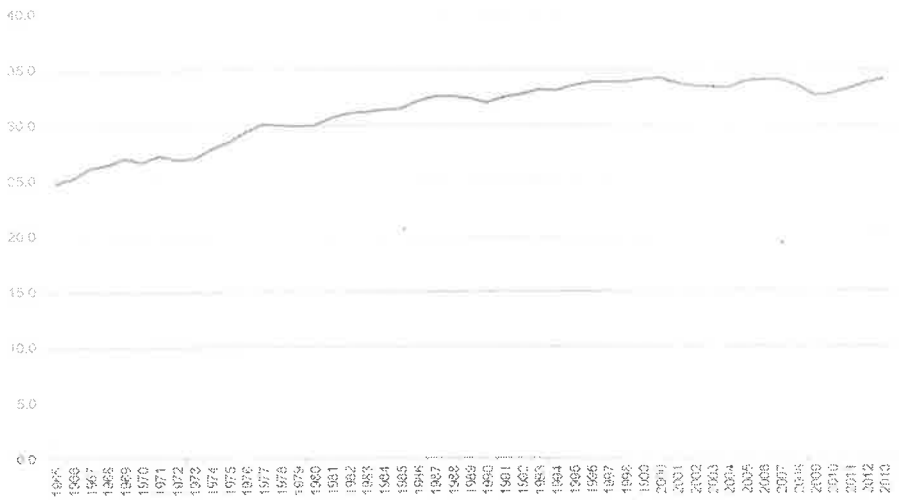


圖 1 1965 年至 2013 年平均 OECD 會員國稅收占 GDP 比率

2.效率

公部門所徵之稅，藉由商品價格影響市場經濟。古典經濟理論認為一次性租稅(lump-sum taxation)不致產生福利損失，但事實不然，現實中，不論對銷售、工作、所得或任何經濟行為課稅，皆導致納稅人改變其行為模式。在無租稅之最適行為模式假設前提下，稅課越多、影響行為改變越大、導致效率損失越多，因此，何為最佳稅制？即影響行為改變最小、或該行為改變有利於納稅人者。

表 1 有無課稅對市場之影響

	無課稅	課稅
銷售/消費稅	消費者所付價格＝生產者收入	市場價格＞生產者價格
所得/薪資稅	工作報酬＝雇主僱用員工成本	薪資＜勞動成本
資本/公司所得稅	儲蓄報酬＝資本成本	儲蓄報酬＝資本成本

行為變化之多寡，即為稅制之彈性(elasticity)

OECD 2008 年之研究，特定稅目較具破壞性，對經濟成長影響更大，將稅目對平均每人 GDP 之負面影響排序：首為公司所得稅(含金融交易稅(financial transaction taxes))，次為個人所得稅，再次為消費稅(加值稅、貨物稅、生態稅(ecological taxes))，最後為不動產稅。是以，將稅基從所得轉為消費或財產，兼以擴大稅基降低稅率，極為重要。亦須注意降低過度之租稅累進性，並考量公平之目標、及公平與效率如何權衡。

租稅改變納稅人行為即可能導致經濟扭曲，惟尚非所有行為改變都屬不利，當無課稅而行為模式卻非最適時，稅制常因不同目的而介入調整，租稅規定鼓勵或抑制特定經濟活動，即所謂租稅獎勵或庇古稅(Pigouvian taxes)。

政府可因外部成本對納稅人課稅，使外部成本內部化、增加稅收、消除效率損失、解決市場失靈，如碳稅(Carbon Taxes)、菸稅(Tobacco Taxes)、糖稅或健康稅(Sugar/Health Taxes)。

租稅獎勵通常為降低政府欲鼓勵特定活動之稅負，如投資、儲蓄等，多數租稅獎勵常僅因特殊政策目的，並非因矯正市場失靈或外部性而設計。租稅獎勵型態如：所得免稅、免稅額、扣抵額、較低稅率等。

租稅獎勵是否創造新之較佳行為？如縱使無租稅獎勵存在該較佳行為仍會發生，獎勵制度則為浪費。而由租稅獎勵產生之利益如何分配？是否吸引新納稅人投入？獎勵利益為高所得之納稅人或是低所得之納稅人享有？租稅獎勵之效果往往比適用租稅獎勵之人數更為重要。另於分配議題方面，富人較窮人更廣泛利用租稅獎勵。租稅獎勵亦造成稅制複雜性。

針對各類不同型態所得而設不同規定及各類租稅獎勵規定造成大部分之行政成本及依從成本，降低行政及依從成本即減少整體經濟成本。此外，累進稅不會增加行政成本及依從成本

3.公平

水平公平(horizontal equity)，即對相同者公平處理(Equal treatment of equals)，福利平等、支付能力亦平等，所謂支付能力係指所得、消費或財富，簡言之，納稅能力相同者，繳納相同稅負。然資本所得係採實質或名目？課稅單位採家庭或個人？孩童或無工作能力配偶是否降低支付能力？等，皆須進一步考量。而增加水平公平與達成其他政策目標間，亦須權衡。

垂直公平(Vertical Equity)，係稅後所得之分配須較稅前所得更為公平，即納稅能力不同者，繳納不同稅負。而公平取決於「所得公平分配」之價值判斷，垂直公平意指重新分配，須仰賴累進稅制，增加邊際稅率。

OECD 會員國中，提高垂直公平之主要政策工具為：社會保障、累進所得稅制、降低必需品之加值稅稅率、累進之財富稅及繼承稅。OECD 與東協(The Association of Southeast Asian Nations, ASEAN)會員國間最大不同處，東協國家稅前所得分配較不公平，中產階級與貧窮線以下人口相對更為多數。

4.目標間之衝突與調和

為達「效率」之目標，常運用低稅率、彈性之稅基及單一稅率制(Uniform taxation)，而低稅率往往與累進性及重分配相衝突，無彈性之稅基亦與重分配相衝突，公平與效率之目標，須予權衡。

單一稅率制，確保中立性、水平公平、降低行政及依從成本，但與租稅獎勵制度相衝突，租稅獎勵制度，特定情況下產生正面效果、而當該租稅優惠多為高所得者享有則不利重分配、增加行政及依從成本。

效率與公平、中立與獎勵，皆存在抵換關係。「廣稅基、低稅率」，可改善中立性與效率、確保水平公平，若採低累進制，則與重分配目標相衝突，若採擴大高稅率級距者之稅基，則可符合重分配之目標，與採行租稅獎勵制明顯衝突，惟可降低行政及依從成本。

(二)租稅彈性及歸宿

1.租稅影響均衡價格

在無課稅之情形下，當商品供給量與需求量相等時，該商品之供給價格與需求價格相等，為均衡價格。消費者消費一定數量商品所願意支付之最高價格與商品實際市場價格間之差額為消費者剩餘(consumer surplus)，生產者生產一定數量商品之總利潤與其生產成本之差額即為生產者剩餘(producer surplus)。

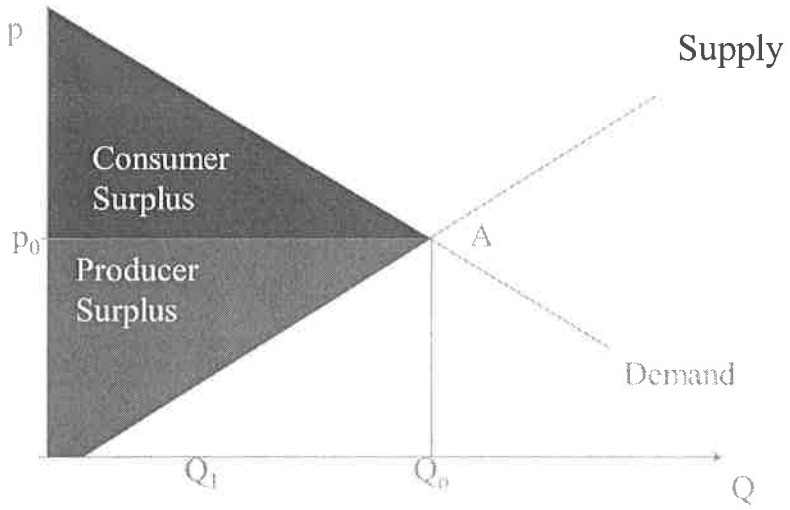


圖 2　無課稅情形下均衡價格

一旦課稅後，影響需求線與供給線之移動，造成福利損失(圖 4 ABC 所圍三角形所示)。若稅率提高，福利損失將更擴大。

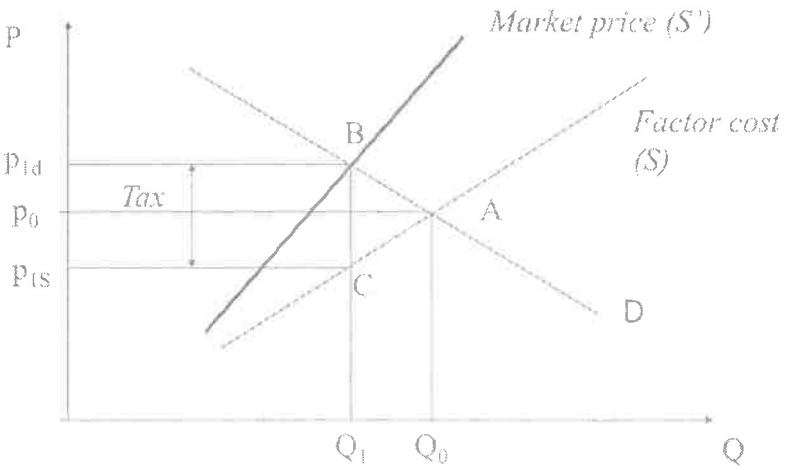


圖 3 課稅情形下均衡價格

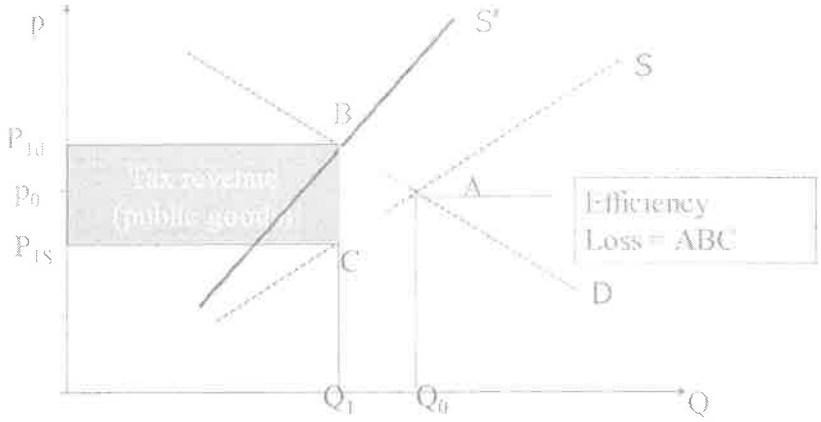


圖 4 效率損失

以舉債及事後逐年償還方式支應政府支出，較採一次性高稅率徵稅為佳。(再假設為完全競爭情形下)政府所面臨之挑戰為固定稅收下極小化福利損失，此外，更須思考：由誰承擔此福利損失。

2.彈性與租稅歸宿

支付租稅者不必然為該稅負之承擔者，法規所定之租稅負擔者亦不一定等於經濟面之負擔者，由於租稅可以轉嫁，藉由直接影響商品價格，從而透過行為反應影響交易數量及間接影響其他商品價格。此租稅變動導致之行為改變稱為租稅彈性(tax elasticity)，其定義為：價格變動一定比率下，需求價格之變動量。需求彈性有幾項性質：因價格上升需求量降低，通常為負值，需求曲線上各點之彈性往往並不相同，垂直需求線之彈性係數為 0，完全無彈性，水平需求線之彈性係數為無限大，為完全彈性。一商品價格影響另一商品需求量之效果，為需求交叉彈性(cross-price elasticity)，通常不為 0。

$$\varepsilon = \frac{\%\ \text{change in quantity demanded}}{\%\ \text{change in price}}$$

表 2 需求曲線之價格彈性比較

無彈性之需求線	有彈性之需求線
福利損失小	福利損失大
稅收多	稅收少
消費者承擔大部分租稅歸宿	生產者承擔大部分租稅歸宿

3.單一稅率制與效率

單一稅率制較具效率，若商品稅率一致，消費者行為不會被課稅所改變，例如稅前商品 A 價格為商品 B 之 2 倍，稅後仍維持不變。若商品 A 與 B 為可互替代，商品 A 之價格彈性將更高，採不同稅率將造成福利損失。若部分資產須課稅、部分資產免稅，持有者行為將因此改變。Ramsey 法則：對於稅基無彈性者，可採較高之稅率，彈性越高者，稅率宜低。

4.對劣品課稅

當一商品之生產及消費產生負外部性(如汙染、菸害)，可採課稅方式，使外部成本反映於價格

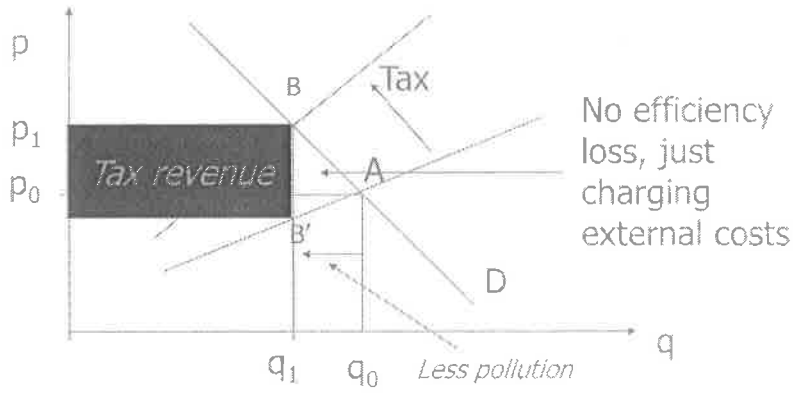


圖 5 以外部成本課稅無效率損失

(三)稅率及趨勢

1.租稅負擔率(Tax-to-GDP ratios)

2012 年 OECD 會員國租稅負擔率(稅收占 GDP 比率)平均為 34.6%，最高者為丹麥(46.4%，2013 年為 47.6%)，最低者為墨西哥(19.5%，2013 年為 19.7%)。

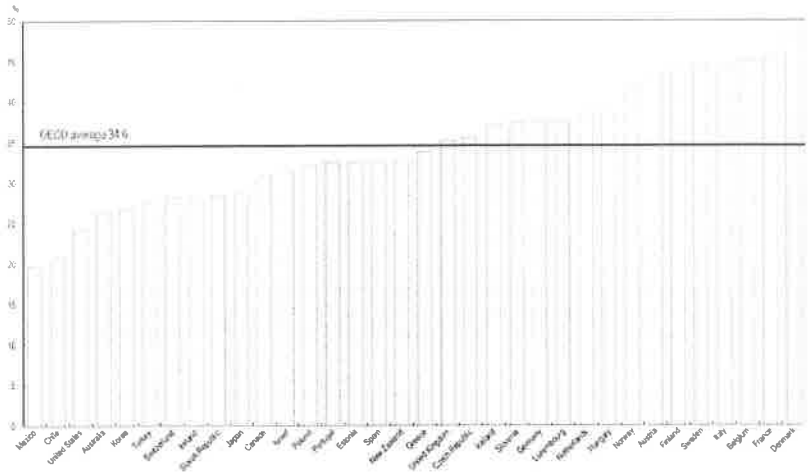


圖 6　2012 年 OECD 會員國租稅負擔率

自 1975 年至 2012 年間，OECD 會員國租稅負擔率平均增加約 5%，而有 11 個會員國其租稅負擔率呈減少趨勢，23 個會員國呈增加趨勢，其中斯洛伐克及義大利分別為租稅負擔率減少及增加最多之國家。

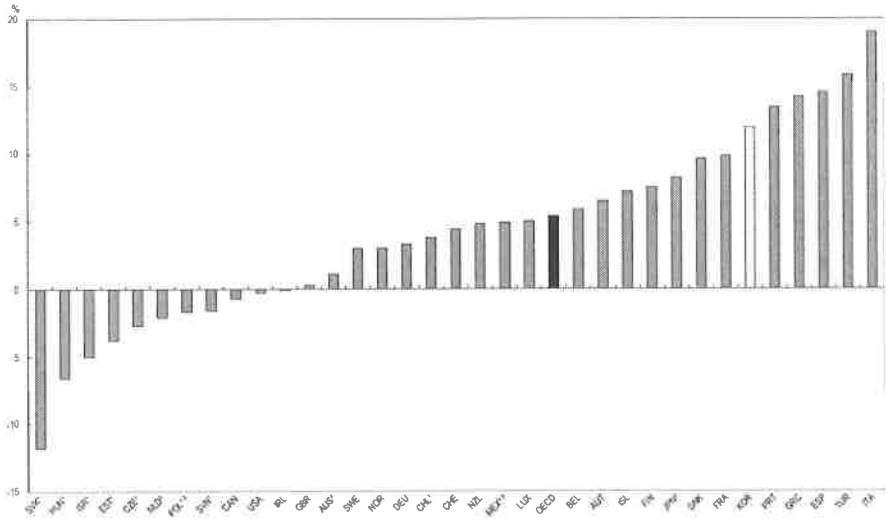


圖 7　1975 年至 2012 年 OECD 會員國租稅負擔率趨勢

以 2011 年 OECD 資料，各稅占總稅收比率，個人所得稅為 24%、公司所得稅為 9%、社會安全捐為 25%、薪資稅為 1%、財產稅為 5%、一般消費稅為 20%、特種消費稅為 11%，及其他稅為 3%。

	1965	1975	1985	1995	2005	2010	2011
Personal income tax	26	30	30	26	24	24	24
Corporate income tax	9	8	8	8	10	9	9
Social security contributions [2]	18	22	22	25	25	26	26
(employee)	(6)	(7)	(7)	(9)	(9)	(9)	(10)
(employer)	(10)	(14)	(13)	(14)	(14)	(15)	(15)
Payroll taxes	1	1	1	1	1	1	1
Property taxes	8	6	5	5	6	5	5
General consumption taxes	12	13	16	19	20	20	20
Specific consumption taxes	24	18	16	13	11	11	11
Other taxes [3]	2	2	2	3	3	3	3
Total	100	100	100	100	100	100	100

1. Percentage share of major tax categories in total tax revenue. Data are included from 1965 onwards for Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States; from 1972 for Korea; from 1980 for Mexico; from 1990 for Chile; from 1991 for Hungary and Poland; from 1993 for the Czech Republic and from 1995 for Estonia, Israel, the Slovak Republic and Slovenia.

2. Including social security contributions paid by the self-employed and benefit recipients (heading 2300) that are not shown in the breakdown over employees and employers.

3. Including certain taxes on goods and services (heading 5200) and stamp taxes.

圖 8　1965 年至 2011 年間 OECD 會員國各稅目所占比例

2013 年 OECD 會員國法定個人所得稅稅率，最高者為瑞典 56.7%(2015 年為 57.0%)，最低者為捷克(15%，2015 年亦同)。(https://stats.oecd.org/Index.aspx？DataSetCode=TABLE_I7)

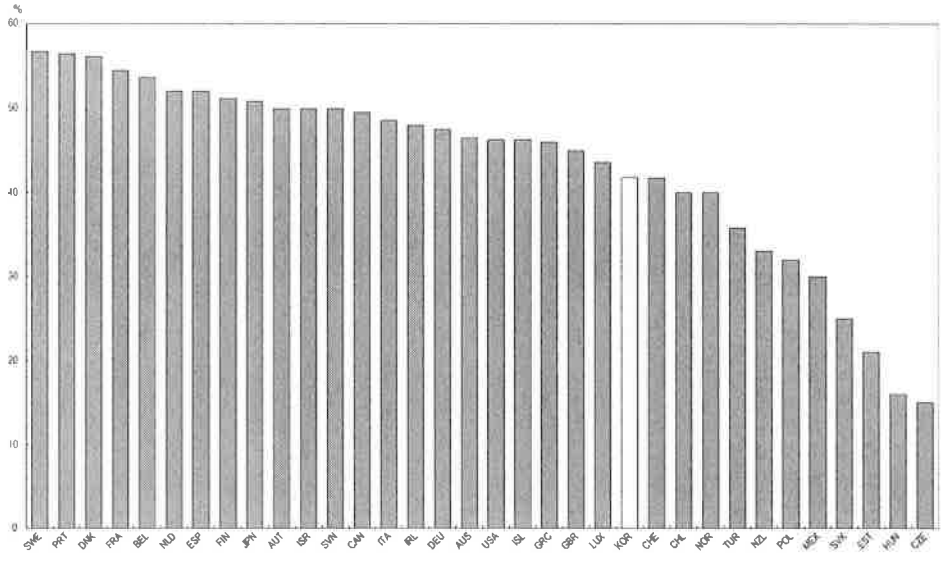


圖 9　2013 年 OECD 會員國法定最高個人所得稅稅率比較

觀察 1981 年至 2013 年 OECD 會員國最高個人所得稅稅率，多呈現下降趨勢。

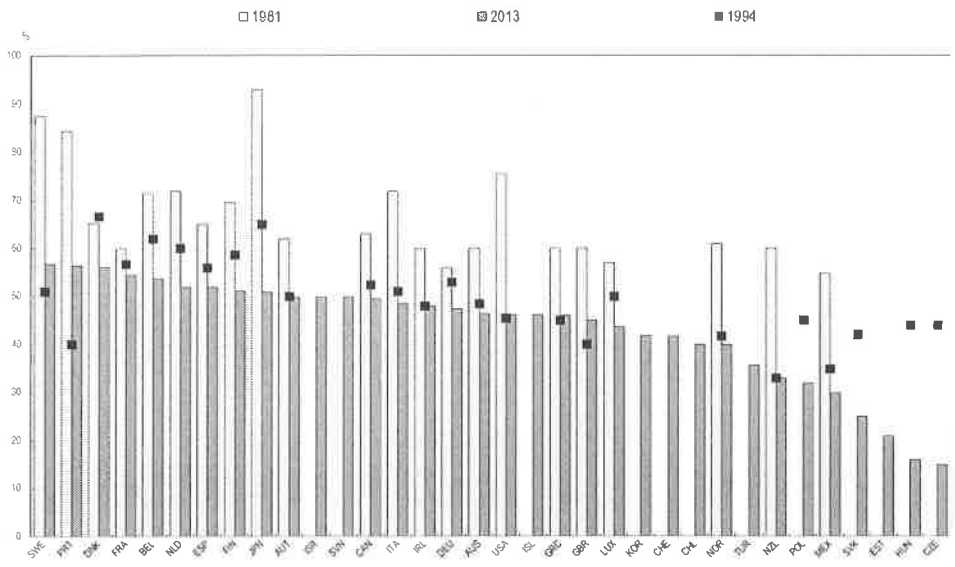


圖 10　1981 年至 2013 年 OECD 會員國最高個人所得稅稅率趨勢

依 2013 年 OECD 會員國統計資料，以單身無扶養孩童之納稅義務人平均稅楔[3]占勞動成本比率，OECD 平均為 35.9%，最高者為比利時 55.66%(2015 年為 55.31%)，最低者為智利 7.0%(2015 年亦同)。(https://stats.oecd.org/Index.aspx？DataSetCode=AWCOMP)

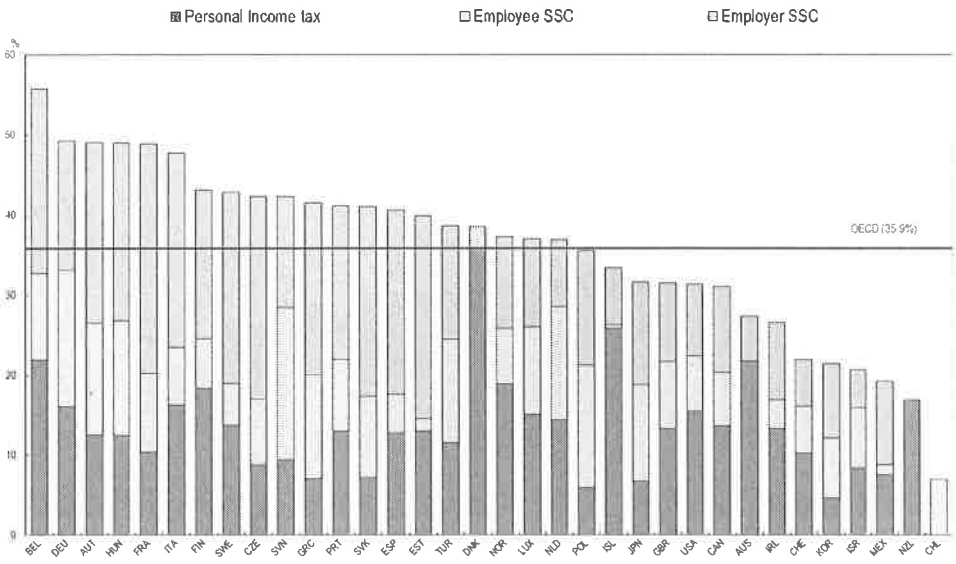


圖 11　2013 年 OECD 會員國平均稅楔占勞動成本比率

股利課稅方面，2013 年 OECD 會員國法定股利課稅稅率(含公司所得稅及個人

[3] 稅楔=(總勞動成本-淨工資收入)/總勞動成本。此加計個人所得稅、員工及雇主負擔之社會安全捐。

所得稅)，最高者為法國 64.38%(2015 年同)，最低者為愛沙尼亞 21%(2015 年為 20%)(https://stats.oecd.org/Index.aspx？DataSetCode=TABLE_II4)

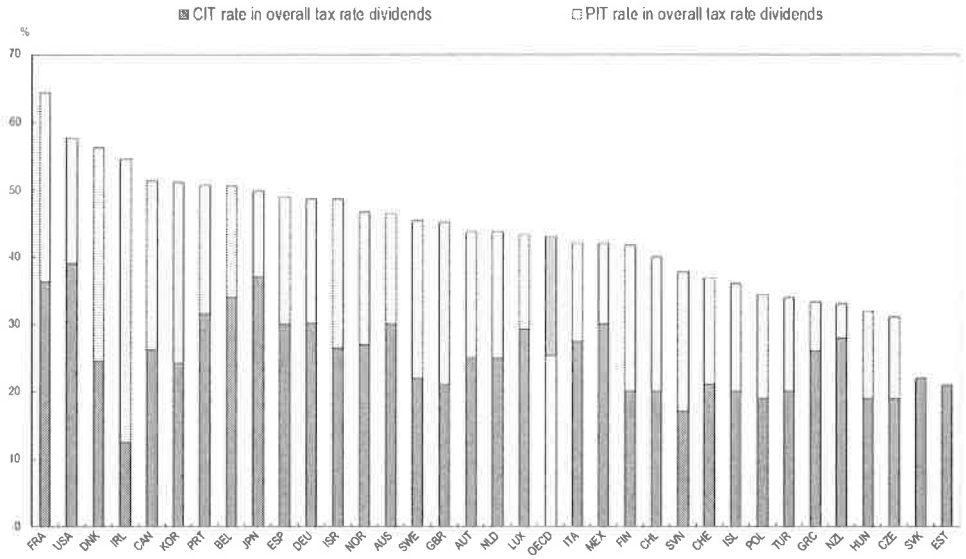


圖 12　2013 年 OECD 會員國股利法定稅率

消費稅方面，2014 年 OECD 會員國法定標準加值稅稅率平均約為 20%，最高者為匈牙利 27%(2015 年亦同)，最低者為日本 5%(2015 年為 8%)。(http://www.oecd.org/tax/consumption/consumption-tax-trends-19990979.htm)

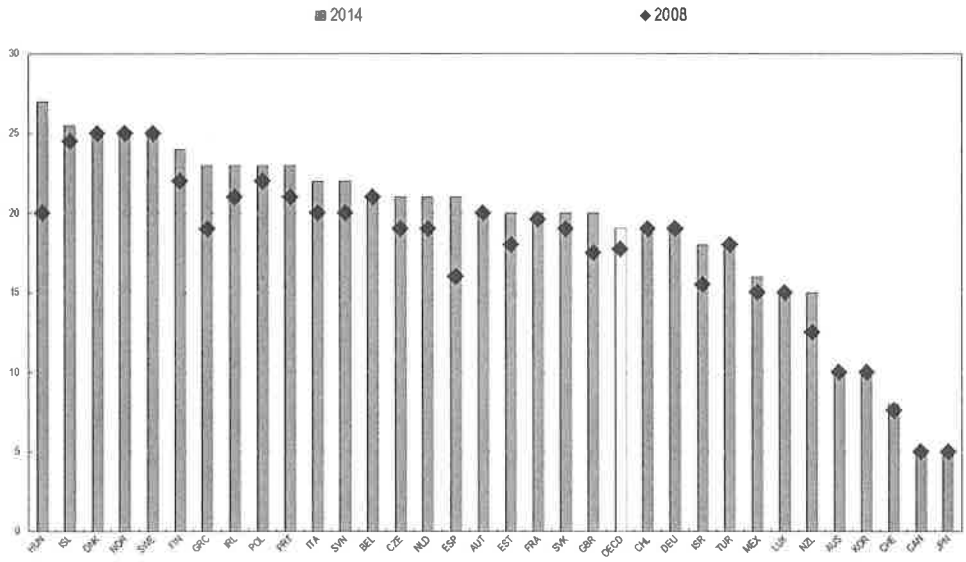


圖 13　2008 年及 2014 年 OECD 會員國加值稅稅率

二、個人所得稅

(一) 稅收稅率情形

2012 年 OECD 會員國個人所得稅稅收占 GDP 比率，平均為 8.57%，最高者為丹麥 23.85%(2014 年為 27.67%)，最低者為斯洛伐克 2.94%(2014 年為 3.03%)。其中多國呈現個人所得稅稅收比率低於社會安全捐稅收比率之情形。(https://data.oecd.org/tax/tax-on-personal-income.htm)

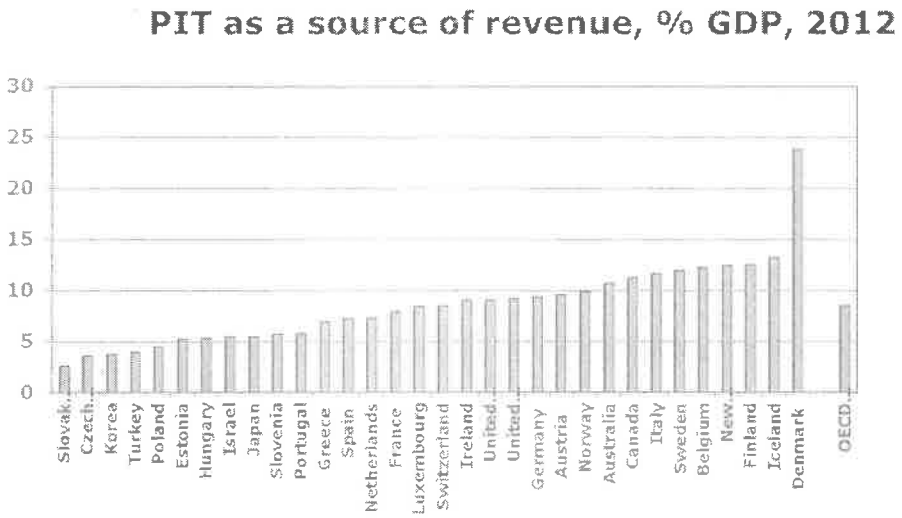


圖 14　2012 年 OECD 會員國個人所得稅稅收占 GDP 比率

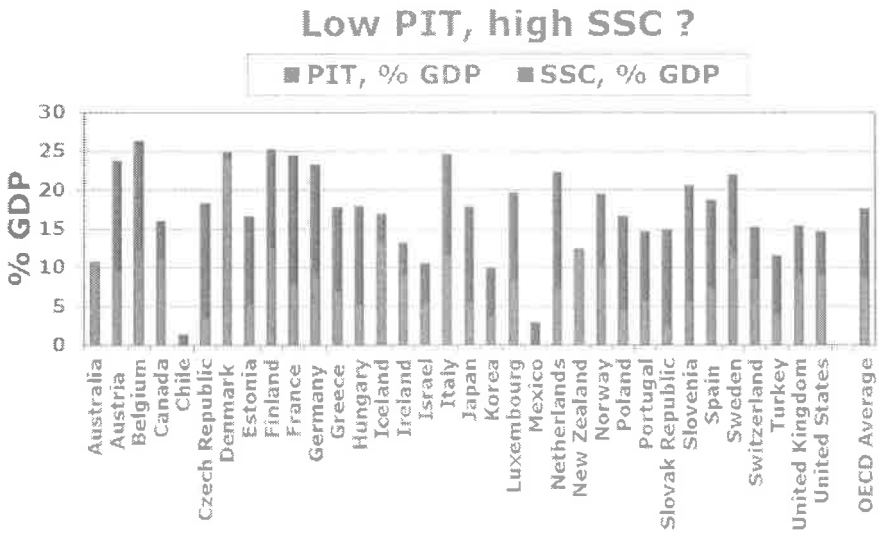


圖 15　2012 年 OECD 會員國個人所得稅稅收及社會安全捐稅收占 GDP 比率

比較 2000 年與 2005 年最高邊際稅率，多呈下降趨勢。

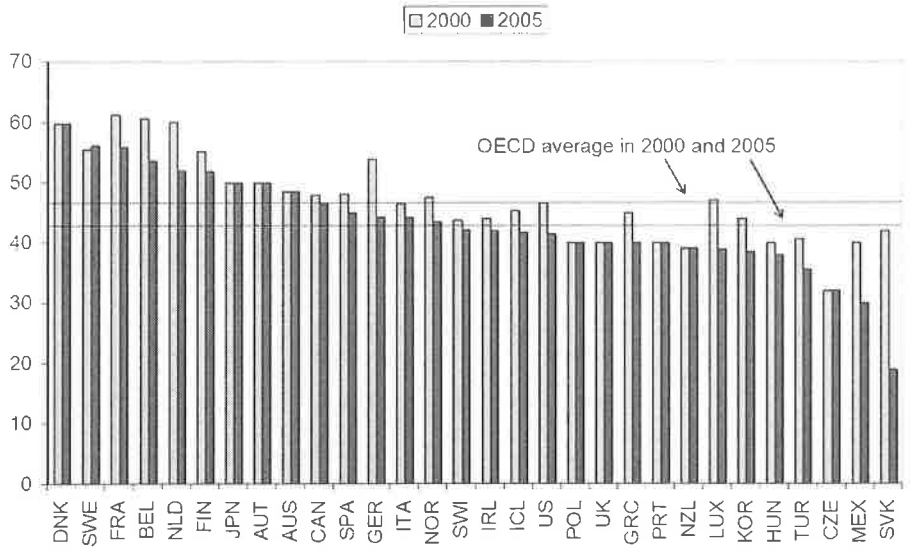


圖 16　2000 年及 2005 年 OECD 會員國個人所得稅最高邊際稅率比較

OECD 各會員國間個人所得稅稅率存在相當大差異，但平均而言，最高所得邊際稅率下降，股利所得之邊際稅率亦呈下降，而由於低所得者可適用稅額扣抵之情形擴大，累進性略有增加。

(二)稅制選擇考量

1.綜合或分類稅制

綜合 (comprehensive)所得稅制為合併不同類所得後適用一稅率，分類(scheduler)所得稅制則為不同類所得分別適用不同稅率。實務上，未有國家實施純粹之綜合所得稅制或分類所得稅制，通常多二者兼採，如以綜合所得稅制為主，但數項來源所得另採不同稅率，或採分類所得稅制，但允許特定損失可抵消。採綜合所得稅制為主者，如美國(但長期資本利得適用較低稅率)、澳大利亞及紐西蘭(1891 年採分類所得稅制，1900 年起改採綜合所得)，採分類所得稅制者，如英國(為第 1 個實行所得稅制國家，最早於 1799 年採綜合所得，1803 年改採分類所得)及法國(但資本利得稅採單一稅率 30.1%)，另 90 年代北歐國家採雙元所得稅制。

反對分類所得稅制理由如下：(1)為使稅負最小，將有誘因將所得重新分類，由適用高稅率分類之所得改變為適用低稅率分類之所得。(2)需耗用較多之行政資

源。(3)有違量能課稅原則，不易實行累進制，由於無法相互抵消，納稅人若於合併各項所得為損失，仍可能於分類所得項有應納稅額。至贊成分類所得稅制之理由如：可針對不同性質所得課稅，如對具移動性之資本課以低稅率、對不易移動之勞動力課以較高稅率等。反對及贊成綜合所得稅制之理由，則與分類所得稅制相反，反對理由如：無法針對流動性不同課徵不同稅率，亦產生資本外逃風險；贊成理由如：(1)符合量能課稅原則一致，符合垂直公平，不同來源所得處理一致，符合水平公平。(2)減少改變所得之誘因。(3)行政及依從成本較低。

綜合所得稅制之稅基，包括所得及增加之淨財富，即薪資、執行業務所得、福利性所得、年金、失業補助、其他社會福利所得、資本利得等。其中福利性所得之衡量、資本所得未因通貨膨脹調整、資本利得若以權責發生課稅尚有如何計價、流動性、行政及依從成本等均屬複雜議題。

至於部分所得是否納入稅基，包括具政治壓力之租稅獎勵課題，如：何者得予例外、是否有違中立性、是否有礙重分配、是否增加行政及依從成本、減少稅收等

2.課稅單位

課稅單位之選擇，究應採個人基礎或家庭基礎？觀察 OECD 會員國情形，有自家庭轉向個人之趨勢，19 個 OECD 會員國採純粹個人單位制，僅 4 會員國－法國、盧森堡、葡萄牙及瑞士－採純粹家庭單位制，比利時允許部分所得分開計算，德國與美國允許選擇以個人或家庭申報，以色列為防杜避稅，於特定情形下須以家庭為單位。

以法國之家庭商數制(quotient familial system)為例，已婚夫妻商數為 2、單身個人商數為 1、首 2 位扶養子女商數為 0.5、餘扶養人商數為 1，家庭總所得除以家庭總商數後，適用累進稅率，再乘上該商數，計算應繳稅額。

對於以家庭為課稅單位之稅制，贊成理由如：(1)符合水平公平，雙薪家庭收入較高。(2)可將非勞動所得歸屬低薪配偶；反對理由如：(1)婚姻懲罰，所得合併可能適用較高稅率級距。(2)對雙薪家庭存在較高，另須考量未婚同居是否與已婚相同處理等課題。

(三) 稅制與勞動力

由於勞動力影響經濟活動、稅收多寡及未來經濟潛力，是以稅制設計(個人所得稅及社會安全捐)，當以不負面影響勞動力為目標。另須注意短期與長期之反應不同，政策應著重長期之反應，惟難以預測，此外，工會亦有相當影響力，如提高稅負可能使工會要求提高更多薪資。

結合雇主負擔高社會安全捐及高最低薪資之結構，易導致低技術水準勞工不受就業市場歡迎。

OECD 研究顯示，壯年男性群體所得彈性較小，家庭中若扶養孩童且照顧成本高者，第 2 薪資者所得彈性亦小，婦女群體所得彈性由 0 至 1，差異相當大，但有越重視工作職場之趨勢，高齡勞動者群體則視退休及失能政策有不同所得彈性。儘管有多項理由支持對於高所得彈性群體宜課以較低稅率，但仍須考慮公平及廣稅基等課題。

三、公司所得稅

(一)概論

公司不像個人具有肉體，但是法律上承認其存在，為「法人」，公司組織透過僱用員工(勞動)、股東(資本)、債權人(資金)及政府(基礎設施、土地、資源等)使公司價值增加。

公司所得稅與個人所得稅之連結，有不同之方式，如：完全設算扣抵制(Imputation system)、傳統制(Classical system)、雙元所得稅制(Dual income tax system)及股利免稅制(Exemption system)等。完全設算扣抵制，可以確保中立性(無涉利益遞延)，但若股東為他國居住者，可能產生居住國不願允許他國已繳公司所得稅扣抵該國個人所得稅之問題，在此情形下，即產生國內與國外投資者間之不公平。在傳統制下，資本利得稅於利潤之分配或保留，產生雙重課稅課題，舉債融資較募股更有利，公司型態企業較非公司型態者稅負重，開放之經濟體中，結合來源國公司

所得稅及居住國個人所得稅制，居住國納稅人有誘因投資低稅國家，來源國納稅人有誘因降低其公司所得稅稅率。股利免稅制，僅於公司所得稅階段課稅，為租稅中立；若公司所得稅大於個人所得稅，舉債融資較募股有利，非法人型態公司較有利；若公司所得稅小於個人所得稅，股票籌資較舉債有益，法人型態公司較有益。

若目標為避免舉債融資優勢之偏誤，國內採設算扣抵制或股利免稅制，可解決此項問題。若目標為稅制應為不影響公司型態之決定，國內採設算扣抵制、或股利免稅制、或傳統制中所得與資本稅制分離，搭配資本稀釋相關規定，皆可達成目標。

(二)公司所得稅之效率

由於任何租稅皆對於公民/選民/人民之整體福利產生不利影響，是以稅制設計宜以最小之影響下籌得最大稅收，如何於給定之稅收目標下，極小化福利損失，即為應思考之課題。

最具效率之稅制，宜為低稅率、稅基廣但不具彈性。假設欲保護具技術、開拓市場或較具產業文化等外部性之新生產業(infant industry)，另須考量如壟斷、道德風險、集團聚集等議題。此外，亦宜思考產業特性不同，租稅負擔是否應相同，如製造業與娛樂業等。

(三)公司所得稅之中立性

所有租稅皆造成市場不同程度扭曲，是以稅制目標應為如何在最小化扭曲下，籌措足夠財源。扭曲致福利減少，價值較低之經濟活動可能排擠強化福利之經濟活動，如租稅獎勵即可能獨厚特定經濟活動。

由於租稅獎勵之效果未必與該投資額獲益相符合，部分投資額屬縱無租稅獎勵亦會投資者，在大多數情況下，其適用租稅獎勵，即產生意外收益(windfall gain)，衡量原本投資額與新增投資額間差異之附加效果則為重要，但不容易估算。

關鍵參數：如：1.(有效)稅率之差異。2.供給與需求之彈性(到何種程度方影響價格變動？)。3.若稅前價格無變化，則租稅獎勵為完全反應於市場價格等。

租稅獎勵可能有助於矯正市場失靈，如研究發展、汙染等，租稅獎勵亦有助於

特定產業之擴散。

(四)租稅公平

所得分配是個人與個人間之議題，但是公司組織並不是個人，是以此議題面向在於：全球所得源自資本所得之份額日益增加，公司所得稅可確保資本對稅收之貢獻。

另目前仍有許多國家給予中小企業較優惠待遇，比較大企業與中小企業：兩者股東組成可能不同、大企業往往公開上市、對於非上市之中小企業給予租稅獎勵，該租稅獎勵可能流向企業之富裕股東。

公司所得稅之租稅公平問題，實與公司股東結構密切相關。

(五)國際租稅競爭

對國際租稅競爭持正面態度之理由：1.競爭可能有助於減少政府支出規模。2.對具彈性之稅基減少徵稅，可能有助於達到最適之目標。對國際租稅競爭持反對態度之理由：1.僅有替代效果，無法增進全球福利。2.扭曲租稅架構，對經濟有負面影響：如租稅競爭可能導致對具移動性稅基降低稅率、卻對無法移動之稅基增加稅率。3.租稅競爭有違中立性，可能增加個人所得稅與公司所得稅稅率間之差距。

(六)公司所得稅趨勢

觀察近年國際間公司所得稅發展：

1.稅率下降。

2.稅收增加。

3.部分稅基擴大：如由加速折舊優惠轉為較中性之折舊法，部分國家採行擴大稅基之政策，如限制利息扣除，國際稅務資訊交換。

4.部分稅基縮小：降低智慧財產權所得之稅率(如荷蘭、比利時及愛爾蘭)，多數 OECD 會員國慷慨運用研發租稅抵減。

根據 2011 年 OECD 統計資料，OECD 會員國法定最高公司所得稅稅率平均為 25.5%，最高為日本 39.54%(2016 年為 29.97%)，最低為愛爾蘭 12.5%(2016 年亦同)。

(http://stats.oecd.org//Index.aspx？QueryId=58204)

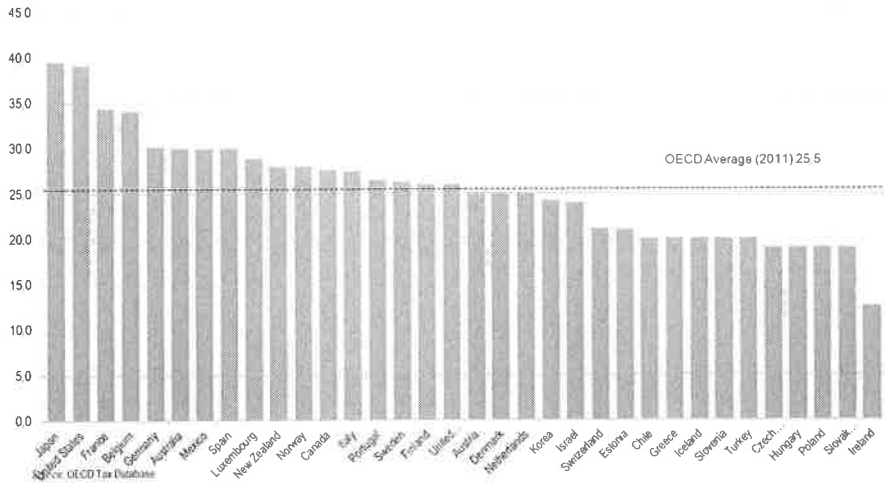


圖 17　2011 年 OECD 國家法定最高公司所得稅稅率

另觀察，1981 年、1994 年及 2011 年 OECD 會員國之最高公司所得稅稅率資料，多呈下降趨勢，1981 年會員國平均稅率為 47.5%，1994 年平均為 37.1%，2011 年平均為 25.5%。

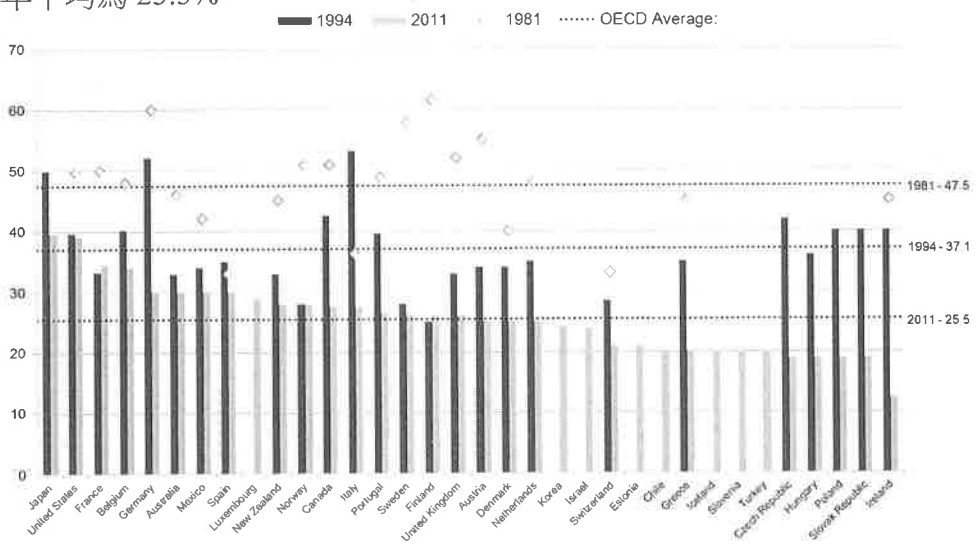


圖 18　1981 年至 2011 年 OECD 國家法定最高公司所得稅稅率呈下降趨勢

另公司所得稅稅收占 GDP 比率，1975 年至 2005 年有上升趨勢，1975 年至 1995 年間約 8%，2000 年、2005 年高達約 10%，2009 年則呈下降，回復至略高於 8%。

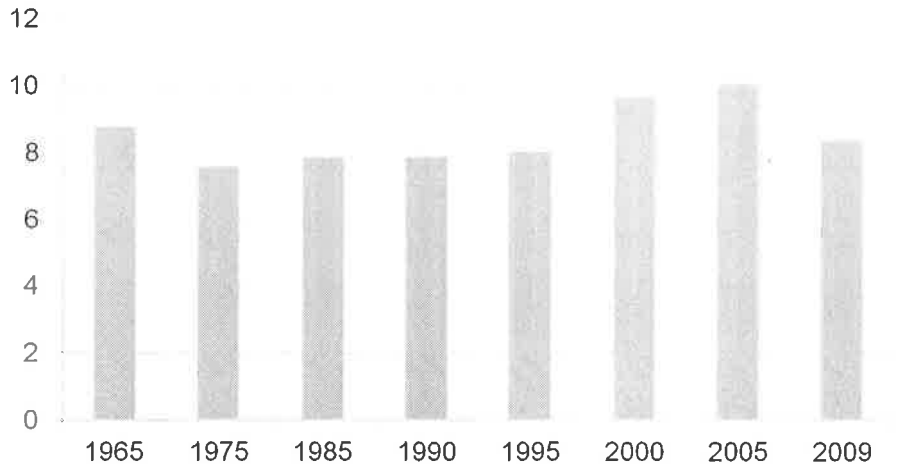


圖 19　1965 年至 2009 年 OECD 國家公司所得稅占 GDP 比率

(七)公司所得稅政策思考

課徵公司所得稅之主要理由如下：1.為個人所得稅之防護網，對於資本利得尤其重要。2.可對非居住者股東權益所得先行扣繳。3.可設計為截流公共支出於商品或服務及法定提供予公司之部分利益。

公司所得稅稅制之設計，須思考下列面向：

1.如何維持公司所得稅稅收？日後若降低稅率，是否有適當擴大稅基之方式，以維持原有稅收。

2.如何維持或創造一個可吸引國內或國外投資者之投資環境？

3.如何解決舉債融資或募股之財務扭曲，及內部與外部權益扭曲之問題。

4.如何處理增加之稅務複雜度？由於全球化及開放經濟之影響，公司為降低稅負所為之規畫使稅務複雜度益增，稅捐稽徵機關須審慎因應。

在效率方面之思考，公司所得稅影響總投資金額及投資型態，對於金融投資，租稅獎勵之稅務處理影響舉債與權益運用，另公司所得稅可能影響併購。

(八)公司所得稅之租稅歸宿

在租稅歸宿方面，不論個人或企業，法定之有責支付稅捐者，與實際負擔稅捐者不盡然相同，是以形式上支付稅捐者並不重要，經濟承擔租稅負擔者才為終極考量，企業任何稅捐，都有其最後歸宿，可能為顧客、股東或是員工。

對於租稅歸宿之分析，有兩種型態：1.部分均衡分析(Partial equilibrium analysis)－－獨立市場中為達均衡點之價格與數量之調整，忽略與其他市場之關係。2.全面均衡分析(General equilibrium analysis)－為達所有相關市場全面均衡之一切調整，假設前提所有市場皆互相影響。

誰支付公司所得稅？小型 (資本進口) 經濟體理論說明為勞動者(或其他不可移動之要素)支付；設資本可完全移動，貿易商品為完全替代品；傳統想法認為稅負為資本擁有者負擔。

另公司所得稅之國際效應部分，公司所得稅可能影響投資地點、企業總部設置地點、公司稅基所在、國際投資財務來源及投資獲益之運用、母公司選擇其國外企業活動之法定形式等，是以為減少公司所得稅總稅負，租稅規劃策略應運而生。

(九)公司所得稅改革

如何減少舉債與權益間之扭曲？1.採兩稅完全合一制(Full integration systems)。2.限制利息扣除額(Limiting the interest deductibility)。3.權益可適用相同扣除(similar deduction for equity)。

限制利息扣除額方面，可能採全面取消，或採概括性公司所得稅制(Comprehensive business income tax, CBIT)，而荷蘭係採取得利息不課稅但支付利息亦不得減除，德國則採與利潤有關利息之扣除額有限制。限制利息扣除額意味邊際債務融資將被課稅，投資可能減少，但稅基擴大，此可吸引高獲利公司、跨國公司進駐、降低透過移轉訂價轉移利潤之誘因。

四、所得稅之衡量

有效稅率為年度稅收占總所得之比率，可呈現租稅負擔情形，但不當設計亦可能誤導資訊。

(一)前看式(Forward-looking)與後看式(backward-looking)稅率

衡量一具特定投資折現報酬有稅負及無稅負之差別，前看式稅率，主要源自法令規定(如法定公司及個人稅率、折舊率、扣抵稅額等)，假設一投資(不論該投資為收支平衡或有固定報酬)，稅率為必要報酬對稅負之百分比。而後看式稅率，為根據政府相關資訊而得，憑藉高品質之稅收及總體經濟資訊。

前看式稅率之優勢，由於主要源自立法資訊，而非根據納稅申報資料，為一呈現租稅負擔之指標，而此稅率相當透明，可檢視有效稅率之因果關係及意涵。而此稅率亦有所限制，假設前提如公司為營利性，但許多公司為特定目的而做出虧損，資訊有限致難以衡量經濟折舊率，檢視租稅對外國直接投資之效果，通常忽略跨境稅務規劃策略，即利用境外控股財務公司或新金融商品以規避稅負。

(二)邊際有效稅率與平均有效稅率

邊際有效稅率(marginal effective tax rate, METR)：指額外增加一單位投資時，所賺取所得之預期稅負，用於反應未來之租稅負擔。

平均有效稅率(average effective tax rate, AETR)：指年度稅額占公司所得額之比率，反映過去之租稅負擔。

邊際有效稅率及平均有效稅率，皆是前看式稅率，基於追求企業利潤最大化罪是投資之理論條件，認為公司管理者所為投資決策為極大化未來稅後收益之貼現值，兩者皆考慮到關鍵租稅參數及相關租稅負擔之變量，假設具競爭力之市場，公司投資於如機器設備或廠房之實體資本，恰達均衡點，即最後一單位購買資本之經濟利潤為零，該點投資邊際利潤等於邊際成本。

於封閉型經濟，稅制藉由公司階段及股東階段報酬影響投資；於開放型經濟，投資僅受公司所得稅影響(假設公司稅後收益將續投入國際資本市場)，租稅扭曲投

資程度決定於公司邊際有效所得稅率。

五、租稅獎勵

租稅獎勵廣受歡迎，尤其是政治人物及受益者。大多數租稅獎勵並非成本效益考量，稅收損失往往大於所產生效益。

(一)投資之租稅獎勵

由於需要增額投資以促進經濟成長，進而增加稅收，是以須有效地刺激投資，但此非易事。其首要關鍵問題為就決定經濟成長而言，投資產出率與投資品質同等重要。再者，儘管租稅獎勵可刺激投資，但若租稅獎勵可能減低生產力，對於經濟成長之淨影響亦可能是負值。此外，稅及非稅因素皆相當重要，若減稅導致財政問題，以致惡化投資環境之其他要素，則實際影響效果不明確。

人均所得成長率由下列要素驅動：1.實體資本投資。2.人力資本投資，透過教育、技術培訓及醫療保障等。3.生產力成長，總要素生產力成長(total factor productivity growth)為衡量實質產出成長與單獨由要素(資本與勞動)投入造成增加間之差異，除技術外，總要素生產成長源自移轉資源至更具生產力部門之結構改變、減少競爭性市場之障礙、強健之金融市場及管理技術。

生產力成長之因素尚包括：知識外部性、規模經濟及追趕效應(Catch-up effect)[4]。若忽略生產力構成要素及成長方程式人力資本構成要素，將完全低估高投資效益並削弱追求繁榮之力道。

(二)何為租稅獎勵

租稅獎勵之特性包括：1. 可能造成稅收減少。2.往往減損基準稅制(benchmark tax system)。3.旨在鼓勵特定結果。4.可由直接支出計畫所取代。

基準稅制目標在於提升稅收及重分配，而租稅獎勵之目標在於改變行為模式。

[4] 在其他條件不變下，如果一國開始較為貧窮，則會有相對較高之經濟成長率。此一初始狀態對後續成長之影響稱為追趕效應。

租稅獎勵係屬偏離基準稅制者。個人所得稅之基準稅制有下列特性：課稅單位採個人基礎或家庭基礎，可扣除業務必要費用，兒童扣除或扣抵額，累進稅率制、雙元所得結構(勞動所得採累進稅制、投資所得採單一稅率制)。公司所得稅之基準稅制包括：稅基為保留盈餘及分配利潤，避免雙重課稅規定，一般折舊規定及損失遞延扣抵，而加速折舊、稅額扣抵、較低稅率、免稅期限及其他超額成本減除，皆屬租稅獎勵。加值稅基準稅制包括：稅基為家庭最終消費及非加值稅主體經濟中間消費、對國內消費課稅及外銷零稅率，而對特定商品免稅或適用較低稅率，則為租稅獎勵。

(三)採行租稅獎勵之主要理由

租稅獎勵為政府刻意干預私部門市場運作，促使納稅人做出或增加原本在無誘因下不願意做之行為。由於政府干預市場將扭曲資源分配、改變市場價格、造成納稅人間差別待遇及增加行政與依從成本，是以政府不宜於無充分理由下干擾市場運作。

採行租稅獎勵之主要理由為：1.促進社會政策目標(如兒童扣抵額係為鼓勵生養下一代)。2. 促進經濟成長(如出口獎勵)。3.創造就業。4.重新配置投資資源於政策重點。5.吸引外人直接投資(foreign direct investment, FDI)及國際移動性產業(如外國人大額投資租稅假期、金融保險或營運總部適用零或低稅率)。

租稅獎勵為租稅競爭之工具，使各國以多低稅率吸引具移動性之企業，以致具不可移動性之底層公司間較不具競爭情形。

(四)租稅獎勵之優缺點

贊成採行租稅獎勵措施者，認為其有下列優點：1.增加投資誘因。2.於各國租稅競爭中，可爭取全球性流動資金。3.內化正向外部性。4.可能增加稅收。5.由於較採行直接支出措施方式不容易檢視，具政治方面優勢。6.租稅獎勵確為有效。

反對採行租稅獎勵措施者，認為其缺點包括：1.實際成本可能過高，租稅獎勵可能為錦上添花，甚至可能產生反向外援。2.由於逃漏稅(如移轉所得、利息扣除等)造成稅收流失。3.稅務行政及依從成本高。4.損失之稅收致須採行其他財政調整。

5.導致經濟扭曲，如刺激生產效率低之投資、錯誤之技術決策等。6.造成不公平。7.對於績效不佳者資訊不透明，亦乏適當問責制。8.多數租稅獎勵效果不彰。

(五)租稅獎勵型態

1.直接獎勵

優惠稅率(preferential tax rates)、租稅假期(tax holidays)、經濟特區(special zones)、投資稅額扣抵(investment tax credits)、資本相關獎勵如加速折舊(accelerated depreciation)及資本折讓(capital allowances)、股利優惠(treatment of dividends)、額外扣除額(extra deductions)及投資補貼等。

2.間接獎勵

出口獎勵(export incentives)、加工出口區(export processing zones)、降低貨品及原料進口關稅(reduced import duty)、關稅保護(protective tariffs)等。

(六)分析租稅獎勵之工具

1.透過相關調查所獲得之統計資料。

2.事前分析(ex-ante tax analysis)：租稅相關指標(如有效稅率、折舊計算)、個體模擬模型(Micro simulation models)、一般均衡模型(Applied General Equilibrium Model, AGE)。

3.事後評估(ex-post evaluations)：計量分析(Econometric analysis)

(七)租稅獎勵之成本效益分析

對於租稅獎勵可能額外增加之效益而言，稅收損失、所得分配結果、稅制不中立、行政及依從成本等，皆是其相對成本。以稅收損失為例，事後計算(Ex-post calculations)為常用以估算成本之方式，如以獎勵數額乘上邊際稅率為稅收損失額，但此法未考慮納稅人行為改變之影響。

租稅獎勵之附加效果較已確定之稅式支出金額更重要。衡量之方法有幾個面向：確定適用獎勵優惠之納稅人、衡量確因獎勵帶動之額外投資、計算確定期間內

之可能租稅成本、獨立計算經濟活動受獎勵影響後之社會福利成本、確定政府及納稅人所增加之行政及依從成本。

然精確之評估並不容易，主要問題在於：缺乏精確數據，難以評估確由租稅獎勵誘發之額外經濟活動及數量(由於納稅人不盡然因租稅獎勵新增投資，其可能僅移轉其他投資至獎勵項目)，不易估算獎勵於未補助項目之價格影響等。

成本大於效益之情形：新增之經濟活動小於稅收損失，成本因下列原因增加－1.無謂之獎勵，無論有無補助該經濟活動本就會發生。2.轉移，獎勵 X 項目，但原有 Y 項目被摒棄。3.增加複雜度，增加確定獎勵範圍及防止濫用之成本。4.增加徵納雙方依從成本。

(八)透過較佳設計提升租稅獎勵之效率

對於擬新提出或改革原有之租稅獎勵，政策須考量以下面向：1.如何達成欲獎勵之目的。2.何為適格經濟活動。3.是否須設定規模標準。4.何為適格納稅人。5.是否應設適用期限。

關於如何達成獎勵目的，另須考量：1.採自動適用或登記核准方式。2.若採登記，登記制度之主管機關為何？稅務機關或其他政府部門。3.登記是一次為準或是須逐年重新登記？4.取消登記或登記失效之結果如何？係僅否定未來所獲獎勵利益或是另須追回已主張之獲益。

在界定適格經濟活動方面，須明確定義適格之型態，適用範圍是否包括混合或附加之相關經濟活動？經濟活動發生地點是否須於國內或須於特定區域？受獎勵之經濟活動是否與其他政府計畫目標一致？如課徵環保稅與政府計畫推出吸引投資於製造之政策是否不衝突等。

至於投資之樣態與規模方面，租稅獎勵應旨在鼓勵新增前所無或額外增加之投資，而非獎勵若無誘因亦會發生之投資，獎勵應限制於新或額外購置資產之投資。

納稅人方面，其法定形式為何？為公司或個人？其關係夥伴及其他實體又應如何處理？獎勵為居住者方可適用或非居住者亦可？公司稅務狀況如何？虧損公司是否適用、免稅公司又應如何處理？是否有規模限制？如超過特定金額方可適用獎

勵規定等。

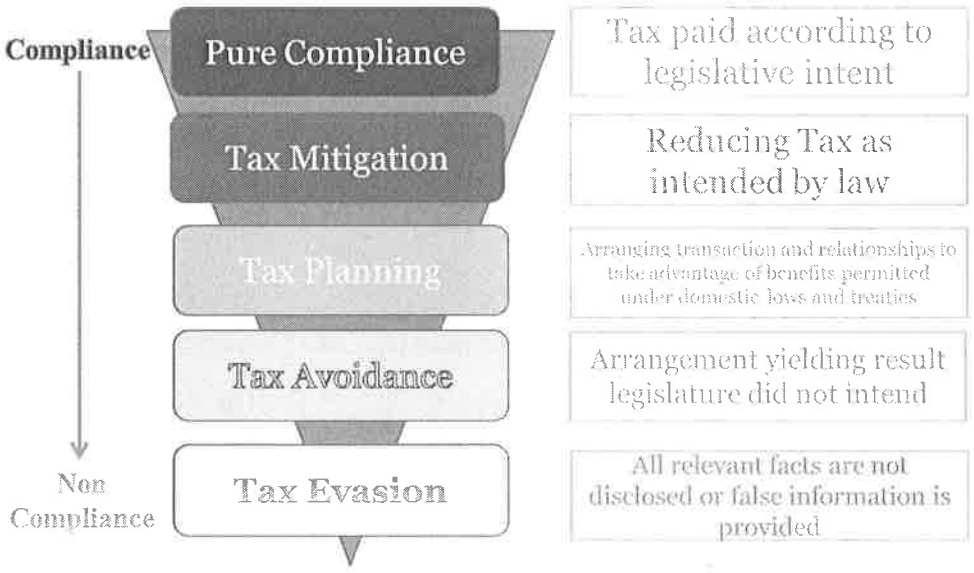
期間規定方面，獎勵何時開始適用？而現存經濟活動如何處理？是否存在一明確之事前規定(如五年免稅)？一旦取消獎勵對現行經濟活動影響為何？是否受到永久保障，或是保障一段固定期間，或保障立即中止。

六、租稅規避與逃漏

租稅規劃通常可由 3 個方向著手：減少應稅所得、減少適用稅率及運用移轉訂價。

若自完全依從至完全不依從分類，約可分為 5 類：

1.完全依從(Pure Compliance)，完全依法納稅。
2.租稅減輕(Tax Mitigation)，依法令範圍減少稅負。
3.租稅規劃(Tax Planning)，利用國內法及條約允許之獲益空間安排交易。
4.租稅規避(Tax Avoidance)，所從事之稅務安排非循原立法意旨。
5.租稅逃漏(Tax Evasion)，不揭露所有相關事實或提供錯誤虛假資訊。



(一)租稅逃漏

租稅逃漏，係違法行為，為納稅人透過短漏申報、賄賂稅務人員或拒絕繳納等

方式，故意地避免繳付其實際應納稅額，其忽略、隱匿、謊報或虛假陳述，致扭曲事實，由於係故意，是以相當於詐欺行為，可能處以嚴厲懲罰或監禁。

造成租稅逃漏之原因為：監控系統不彰(Weak surveillance system)、稅務機關腐敗猖獗、稅法及申報機制太複雜、租稅減免制度存在漏洞、缺乏透明機制等。受限於銀行資訊保密及課稅管轄權問題，使資訊無法充分交換，惡化租稅逃漏問題。

為解決租稅逃漏問題，須找出納稅人(確認何者為該筆所得所有人)，並確認該所得之性質及正確數額。

(二)租稅規避

租稅逃漏與租稅規避不同者在於：前者不告知稅負相關事實，為違法且犯罪，後者仍於法律之框架內。

規避租稅係利用法律空間達到減少納稅之目的，而立法意旨並非欲使納稅人採特定行為以減少租稅債務(不包括虛假交易或逃漏)，相關行為有違稅法之目的及含義。事實上，「規避」並非一非常明確之概念，亦難以一客觀之測試區分納稅人欲減輕、規避或逃漏其納稅責任，由於缺乏精準度，造成不確定性及增加依從成本。所有稅制都存在租稅規避之可能性。

在個人方面，可能利用年金、保險或慈善捐贈等，減少稅負。典型租稅規避，可能涉及幾個面向：1.將所得轉換為低稅率形式套利。2.運用減稅降低借貸成本之金融交易。3.運用時間落差，如延遲認列所得、先適用扣除額、延遲繳納稅款等。4.槓桿運用多項租稅優惠。

界定租稅規避有數項指標：1.無商業理由之複雜安排。2.插入特定步驟試圖打破交易鍊及隱匿交易安排之本質。3.過於快速之行動安排。4.技術上正確，但違背稅法之架構與目的。5.表面為支出，但私下有使成本減少之退回。6.利用租稅天堂、虧損公司、慈善機構及其他免稅機構。7.藉由不尋常之保險、補償型態年金移轉稅務優惠予投資者。

(三)韓國反避稅之處理

韓國針對租稅規避，主要以 3 個面向處理：

1.使所得明確

為使所得更為明確，韓國鼓勵運用信用卡及推廣現金收據制度、懲處違法申報並獎勵舉報。由於現金交易被視為是低報收入之主要原因，韓國 1999 年大力推動信用卡，防止以現金交易低報所得，如薪資所得者採信用卡支付，可享[(信用卡支付額－薪資*10%)*10%]之扣除額，此所得扣除額順利推廣運用信用卡。2003 年，另推出現金收據制度，客戶使用現金收據證明其支付零售商之現金支出，可適用扣除額。此 2 項制度減少低報情形

表 3　韓國 2000 年至 2008 年低報比率下降情形

2000	2003	2005	2006	2007	2008
54.4	62.3	41.3	41.2	41.6	29.9

2.重視實質甚於形式

無論是何種交易，採實質重於形式原則，如公司透過第三方進行任何交易(一系列之活動或交易)，以不當減少租稅負擔，將被重新認定為直接交易或單筆交易。

3.拒絕不公正交易

不承認關係雙方間不正當或不公平之計算，主要運用於國內關係雙方之交易價格，如移轉訂價偏離公平價格(arm's length price)，韓國國稅廳可重新認定關係雙方帳戶額，從而調整至相關企業帳。

肆、心得與建議

一、心得

本次所得稅研討會，主題包括概論、個人所得稅、公司所得稅、所得稅之衡量、租稅獎勵及租稅規避與逃漏，OECD 學者專家深入淺出說明租稅理論與國際間租稅發展最新趨勢，與會之各國代表亦皆充分表達意見與看法，交流各國制度與實務經驗，有助於了解稅制設計理念、各國差異及與我國之比較。

部分觀念雖然基本，但可令人重新思考，尤其現今面對日趨複雜之稅制，何者為政府真正欲達到之目標，何者為有效之政策工具、手段，面對稅收、公平、效率、政治社會環境，又應如何權衡。

為營造達到多項政策目標(財政健全、租稅公平、吸引投資、生態永續、稅務行政及依從成本低等)之理想租稅環境，政府須多方思考，分析國內現狀，瞭解可用資源及所面臨之限制，同時參考國際趨勢與鄰近國家情形，審慎修訂相關稅制規定。

此外，本次研討會主辦單位－OECD 韓國政策中心，透過與 OECD 合作每年皆舉辦多場不同議題之國際研討會，藉此參與國際交流，累積舉辦國際會議實力，同時亦展現該國文化、經濟、社會各面向予參與會議之各國代表，行銷韓國，進而加深其國際影響力。韓國之企圖心與逐年精進之作法，值得我國借鏡。

二、建議

(一)可考量適時調降個人所得稅最高邊際稅率

觀察近 30 年國際個人所得稅趨勢，法定最高稅率多呈下降。我國為增加租稅公平，讓富人回饋社會，去(2015)年新增一級課稅級距：年所得淨額超過 1000 萬元者，超過部分適用最高稅率 45%。比較我國與 OECD 會員國個人所得稅法定最高稅率，我國最高邊際稅率 45%屬偏高(僅比利時及以色列 50%、葡萄牙 48%高於我國，澳洲、法國、德國及日本 45%與我國相同，加拿大 40%、美國 39.6%、韓國 38%甚至低於我國，香港及新加坡亦分別僅為 17%、20%)，鑑於高租稅負擔可能促使人民以足投票進而移民，為網羅並留用人才，建議可適時檢討我國個人所得稅稅率，於達到特定程度公平目標後，調降最高級距邊際稅率。

(二)適時檢討各項租稅獎勵規定

鑑於多數租稅獎勵措施係基於特定政策目的，並非完全成本效益考量，往往造成稅基流失，亦可能扭曲整體資源配置。以我國所得稅租稅減免項目為例，截至104年6月底止，個人綜合所得稅及營利事業所得稅稅式支出項目共107項(分別為50項及57項)，減免種類多、範圍廣、稅收損失金額相當龐大。由於租稅獎勵實際成本高，有些項目可能為錦上添花，縱使未有該項獎勵，相關經濟行為本就存在，而租稅獎勵規定疊床架屋，造成稅制複雜，導致徵納雙方稅務行政及依從成本高，建議可適時檢討各項獎勵規定，確實評估各項目獎勵成本與效益，依社會經濟變化調整適用規模標準及設定落日期限，甚至可改由直接支出補助，以有效掌握效果，達成政策目標。

(三)積極參與國際會議

參與各項議題國際研討會，可透過會議中各項議題之討論，瞭解國際財稅議題最新發展趨勢，並經由會議間與其他國家代表互動，交換經驗，建立國際友誼。建議我國應積極派員參與各項國際會議，吸收知識及與各國交流，培育具有國際視野之人才，甚至可考慮爭取舉辦國際會議之機會，藉此累積實力，亦利用時機推廣我國社會、經濟、文化各面向，展現實力。

附錄、參考資料

GOALS OF THE TAX SYSTEM

Pierce O'Reilly
Tax Economist
Centre for Tax Policy and Administration, OECD

OECD Income Tax Workshop
22-27 February 2016, Seoul, Korea

OECD
BETTER POLICIES FOR BETTER LIVES

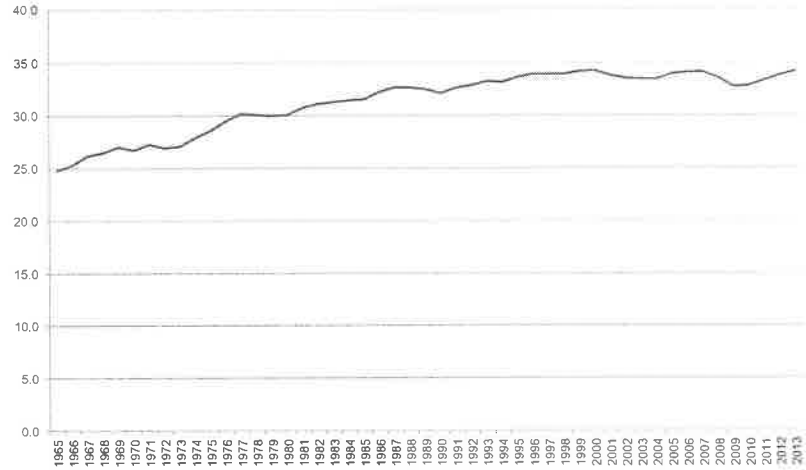
Overview

1. **Revenue**
2. Efficiency
3. Equity
4. Reconciling Conflicting Goals

Revenue

- Taxes are the largest component of government revenue in OECD countries.
  - Historically, fees & other government charges are another significant source of revenue – less prominent in developed countries.
  - Natural resource revenue significant in some countries as well.
  - In the OECD, taxes have risen as a share of government revenue, and as a share of GDP.

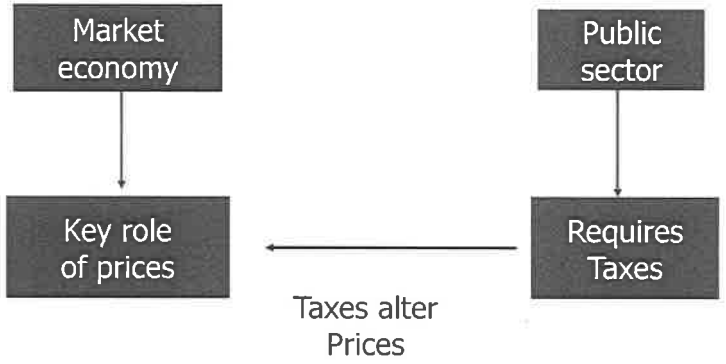
OECD Tax to GDP Ratio 1965-2013



Revenue

- Stable sources of revenue a key factor in the provision of public goods, e.g. infrastructure & security.
- Also important for other services such as education, healthcare.
- Other consideration: effective tax system allows the government to manage the business cycle through fiscal policy.

Tax policy goals: Efficiency



Overview

1. Revenue
2. **Efficiency**
   a) **Minimizing excess burden**
   b) Correcting Externalities & Market Failures
   c) Reducing administration and compliance costs
3. Equity
4. Reconciling Conflicting Goals

The efficiency costs of taxation

- Classical economic theory suggests that 'lump-sum' taxation can be carried out without welfare loss. In practice this is not possible.
- In reality, taxation of sales/work/income/economic activity of **any kind** causes taxpayers to change behaviour from the no-tax optimum.
- We think of behaviour without taxes as being optimal (though not always the case!)
- Thus, the more taxation
  →the more behaviour change
  → the more efficiency loss.
- How can we tax best? Involves taxing where behaviour change is minimised (or when behaviour changes are good for taxpayers).
- How much behaviour changes is also known as the **elasticity** with respect to taxation.

Tax policy goals: Efficiency

	No taxation	With taxation
Sales/Consumption Taxes	The price the consumer pays equals the revenue of the producer	Market price > producer price The tax system inserts a wedge.
Income/Payroll Taxes	Return from work = cost for hiring the worker for the employer	Net wage < labour cost
Capital/Corporate Income Taxes	Return from savings (s) = cost of capital (p)	s < p

Overview

1. Revenue
2. **Efficiency**
   a) Minimizing excess burden
   b) Correcting Externalities & Market Failures
   c) Reducing administration and compliance costs
3. Equity
4. Reconciling Conflicting Goals

Taxation and economic growth

- Recent (2008) OECD research
- Some taxes are more distortive than others and harm economic growth to a greater degree
- "Ranking" of taxes in terms of their negative impact on GDP per capita:
  - 1. Corporate income taxes (CIT, financial transaction taxes)
  - 2. Personal income taxes
  - 3. Consumption taxes (VAT, excise & ecological taxes)
  - 4. Recurrent taxes on immovable property

→ Shift part of the revenue base from income to consumption and property

- Broad tax bases and low tax rates – very important!
- Reduce tax progressivity
- But need to also consider equity issues - equity/efficiency tradeoff...

Tax Incentives and Market Distortions

- Taxes can cause economic distortions when they change behaviour away from what it might be otherwise.
  - But not all behaviour changes are bad.
- Often, the tax system is adjusted for various purposes where the no-tax behaviour is not optimal.
  - Specific tax provisions are offered to encourage or discourage a kind of economic activity.
  - Known as either 'tax incentives' or 'Pigouvian taxes'.

Externalities & 'Taxing Bads'

- Taxing "bads" can allow government to charge taxpayers for external costs
  - 'Internalises' external costs
  - Increases tax revenue
  - With no efficiency loss
  - It is not "acting against the market"
  - But it corrects market failures
  - The same holds in the case of inelastic demand
- Examples
  - Carbon Taxes, Tobacco Taxes, Sugar/Health Taxes

Why tax incentives?

- Case of externalities
  - Research and Development
  - Energy savings schemes
  - Housing ?
- Market failures
  - Pension savings
  - SME's (financing)
- Most of the tax incentives are not justified by market failures or externalities, they just reflect specific tax policy goals

Tax incentives – Encouraging 'Goods'

- Just as 'taxing bads' can potentially improve efficiency by internalising externalities, so tax incentives can improve efficiency when well designed.
- Tax incentives reduce taxes on certain kinds of activity that the government wants to encourage, e.g. investment, saving.
- But, this can be challenging.

What kind of tax incentives?

- Income tax
  - Income exemption
  - Tax allowances
  - Tax credits
- Reduced VAT rates
- Reduced CIT rates, allowances, tax credits

Key issues

- Additionnality or windfall gain?
  - Does the tax system create new good behaviour?
  - Or just provide a wasteful subsidy to good behaviour that would happen anyway?
- Distribution of the benefits of the incentives
  - Does it incentivise new taxpayers? High-income taxpayers? Low-income taxpayers?

Overview

1. Revenue
2. **Efficiency**
   a) Minimizing excess burden
   b) Correcting Externalities & Market Failures
   c) Reducing administration and compliance costs
3. Equity
4. Reconciling Conflicting Goals

Tax incentives

- Tax incentives may be given through income exemptions, reduced consumption tax rates, tax credits, tax allowances..
- Windfall gain anyway
- What matters is not the number of taxpayer using the incentives, but the additional effect
- Distribution issues: incentives are more widely used by the rich than by the poor
- Tax incentives add to the complexity of the tax system
- More discussion later this week!

Administrative and compliance costs

- Reducing these costs key in terms of reducing the overall economic cost of taxation.
- Especially where capacity is low – need to align tax mix so that administration costs not too high. Also important in managing informal sector.
- Most of the administrative and compliance costs come from:
  - Specific rules for various types of income
  - (Targeted) tax incentives
- On the other hand, progressive taxation does not increase administrative and compliance costs
- More discussion of this later this week!

Overview

1. Revenue
2. Efficiency
3. **Equity**
   1. **Horizontal Equity**
   2. Vertical Equity
4. Reconciling Conflicting Goals

Horizontal Equity

- Horizontal equity = equal treatment of equals
- But.....
  - Capital income : real or nominal?
  - Taxing family or individuals ?
  - Does a child and/or a non-working spouse reduce ability to pay ?
- Often tradeoffs in increasing horizontal equity and achieving other tax policy or equity goals.

Horizontal Equity

- What does horizontal equity mean?
  - Equal treatment of equals
  - Equal in well-being, equal in ability to pay
  - "Ability to pay" = income, consumption or wealth
  - Equal treatment of various types of income, consumption and assets
- But.....

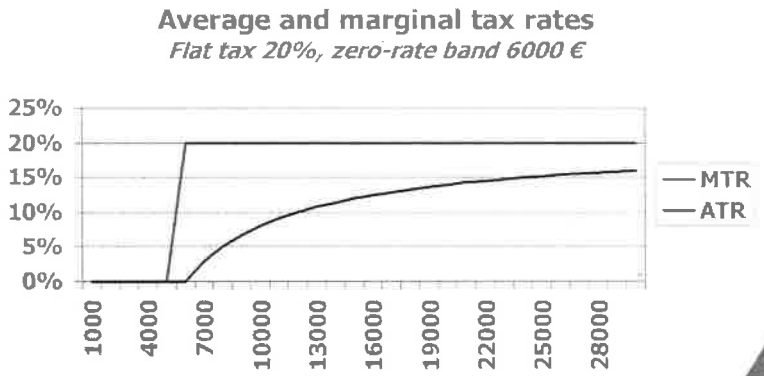
Overview

1. Revenue
2. Efficiency
3. **Equity**
   1. Horizontal Equity
   2. **Vertical Equity**
4. Reconciling Conflicting Goals

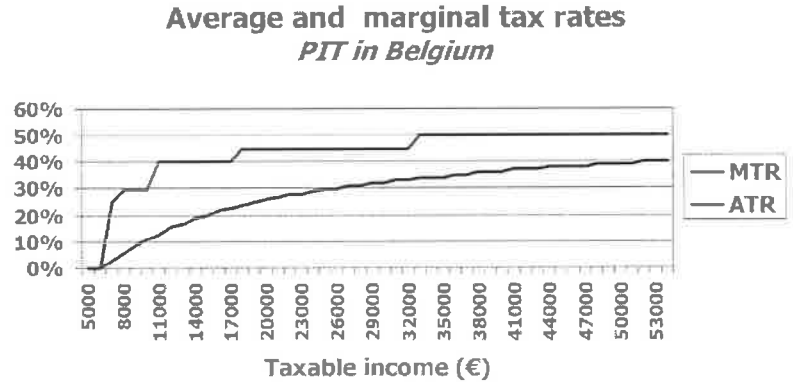
Vertical Equity

- Vertical equity requires that income after tax has to be distributed more equally than income before tax
- What has to be achieved depends on value's judgments about a "fair income distribution"
  - Among the main differences between OECD and Asean countries
  - Pre-tax inequality is higher in Asean countries, compared to the OECD
  - Relative magnitude of the middle class and of the part of the population below the poverty threshold
- Vertical equity implies redistribution, which requires progressive taxation
  - Increasing marginal tax rates
  - Average tax rate increases with the tax base

Vertical Equity



Vertical Equity



Main instruments to raise vertical equity

- In OECD Countries
  - Social protection
  - Progressive income taxation
  - Reduced VAT rate for necessities
  - Progressivity in wealth taxes (inheritance)
- In Asean countries
  - Lower SSC
  - Low reliance on PIT, but progressivity remains

Overview

1. Revenue
2. Efficiency
3. Equity
4. **Reconciling Conflicting Goals**

Review

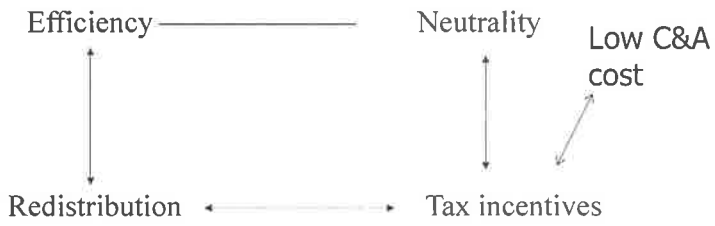
- Uniform taxation
  - ensures neutrality
  - ensures horizontal equity
  - reduces administrative and compliance costs
  - Conflicts with tax incentives
- Tax incentives
  - May have the right effect in some circumstances
  - Hamper redistribution when they benefit mostly to households at the upper end of the income distribution
  - increase administrative and compliance costs
- There is a strong case for "taxing bads"

Reconciling conflicting goals

- Efficiency
  - Low rates
  - The higher the elasticity of the tax base, the lower tax rate should be
  - Uniform taxation
- 'Low rates' conflict with progressivity and redistribution
- Higher taxation of inelastic tax bases will in many cases hamper redistribution
- 'Ramsey' taxation conflicts with uniformity/horizontal equity
- Equity-Efficiency trade-off

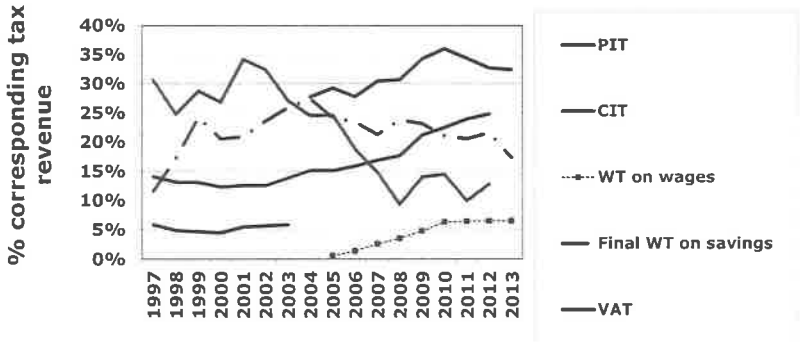
Tax policy: conflicting goals

What we have learned from the theoretical approach



Some empirical evidence about tradeoffs

Revenue forgone from tax expenditures - Belgium



Tax policy, efficiency, redistribution
Guidelines for tax policy

- "Broad bases, low rates"
  - Improves neutrality and efficiency
  - Ensures horizontal equity
  - Conflicts with redistribution ?
    - Yes: lower progressivity
    - No: broader tax base in higher income brackets
  - Clearly conflicts with the use of tax incentives
  - Reduces compliance and administration costs

Tax policy, efficiency, redistribution: Guidelines for tax policy

- Two main trade-offs
  - Efficiency-equity
  - Neutrality-incentives

For more information, please contact:

Pierce O'Reilly, Ph.D

Tax Economist

Personal and Property Taxes Unit

Tax Policy and Statistics Division
Centre for Tax Policy and Administration

2, rue André Pascal - 75775 Paris Cedex 16
Tel: +33 1 45 24 15 97 – Fax: +33 1 44 30 63 51

Pierce.oreilly@oecd.org || www.oecd.org/tax

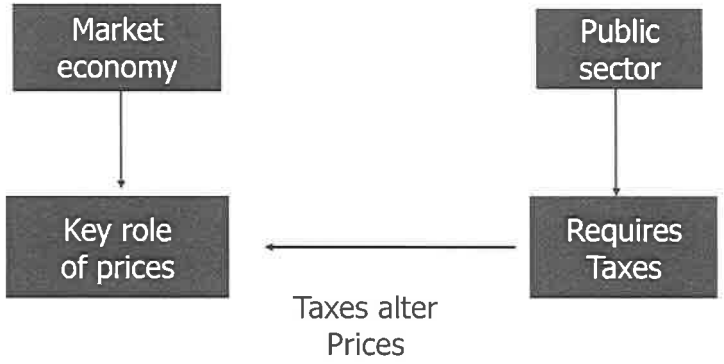
TAX ELASTICITIES AND TAX INCIDENCE

Pierce O'Reilly
Tax Economist
Centre for Tax Policy and Administration, OECD

OECD Income Tax Workshop
22-27 February 2016, Seoul, Korea

OECD
BETTER POLICIES FOR BETTER LIVES

The Impact of Taxes on the Economy



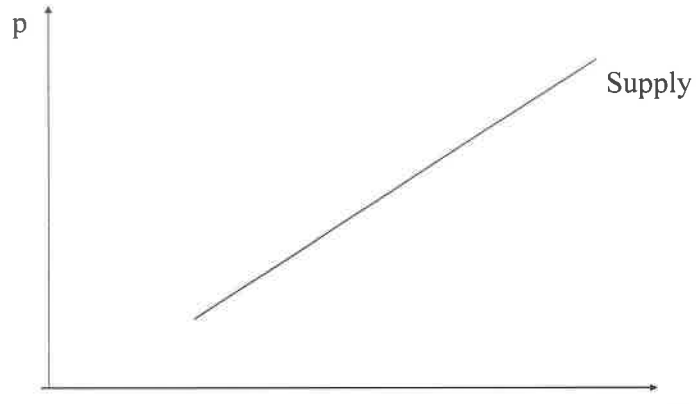
Overview

1. **No Tax Scenario**
2. Introducing a Tax
3. Efficiency Loss and Incidence
4. Tax Elasticities
5. Uniform Taxation
6. Efficiency Issues and Tax Incentives

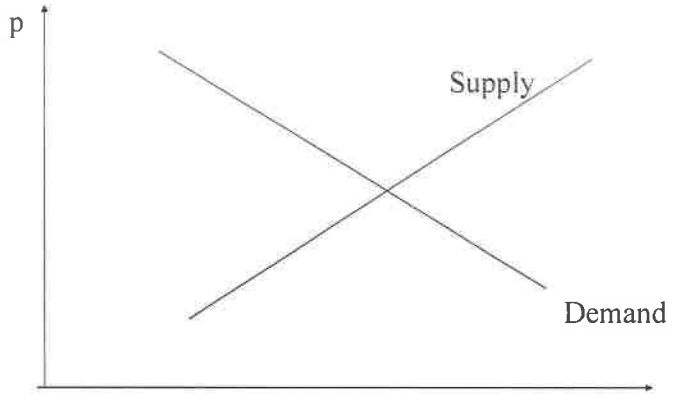
The Impact of Taxes on the Economy

	No taxation	With taxation
Sales/Consumption Taxes	The price the consumer pays equals the revenue of the producer	Market price > producer price The tax system inserts a wedge.
Income/Payroll Taxes	Return from work = cost for hiring the worker for the employer	Net wage < labour cost
Capital/Corporate Income Taxes	Return from savings (s) = cost of capital (p)	s < p

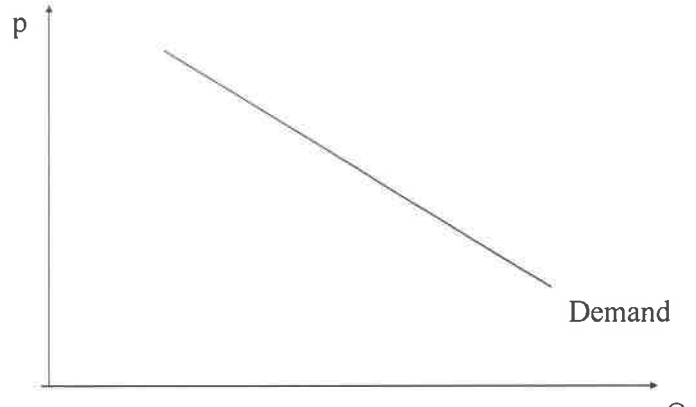
Supply Curves



Demand and Supply



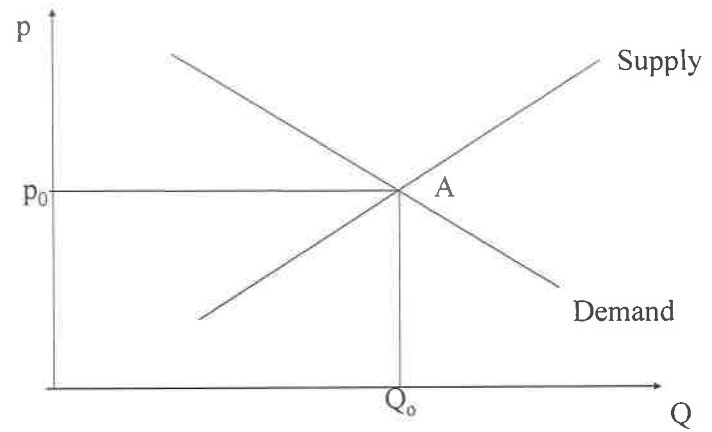
Demand Curves



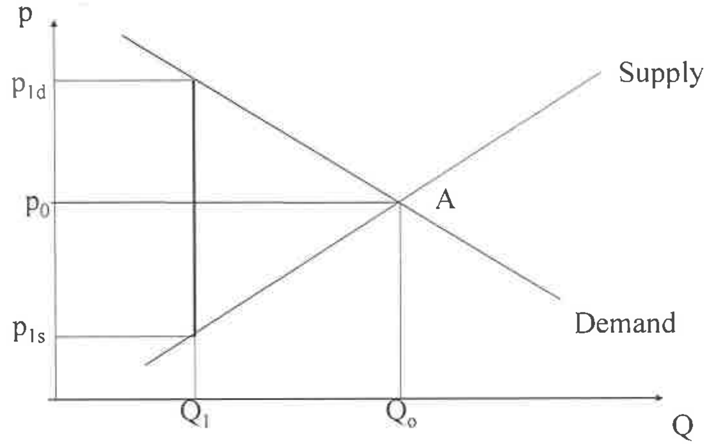
Market equilibrium

- The equilibrium is the price p_0 such that $D(p_0) = S(p_0)$
- In the simple diagram, p_0 is unique if $D(p)$ decreases with p and $S(p)$ increases with p.
- If $p > p_0$, then supply exceeds demand, and price needs to fall to match supply and demand
- If $p < p_0$, then demand exceeds supply, and price needs to increase to match supply and demand

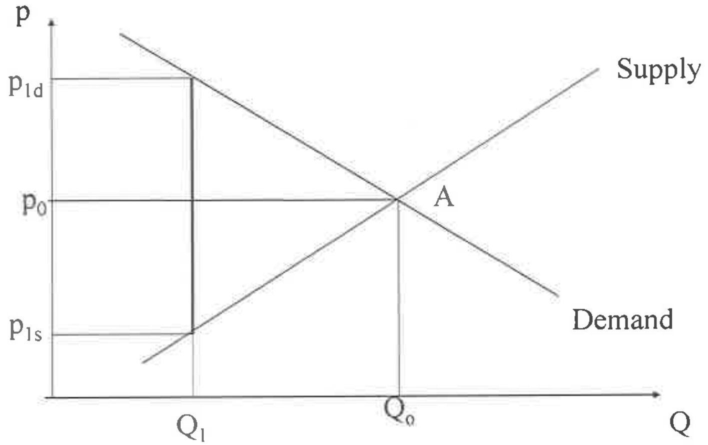
Market equilibrium



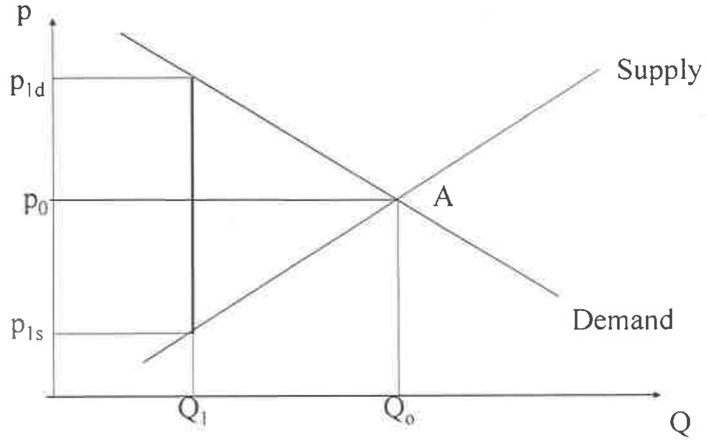
Producer & Consumer Surplus



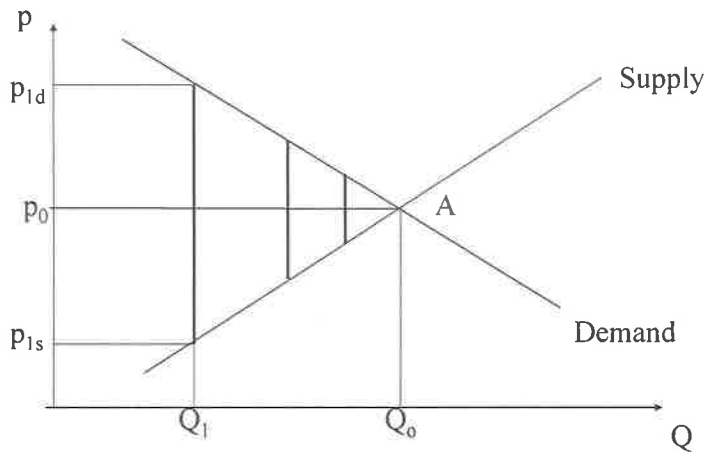
Producer & Consumer Surplus



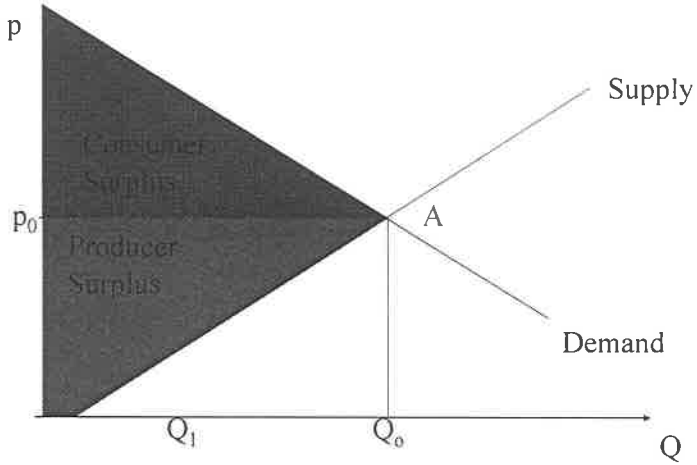
Producer & Consumer Surplus



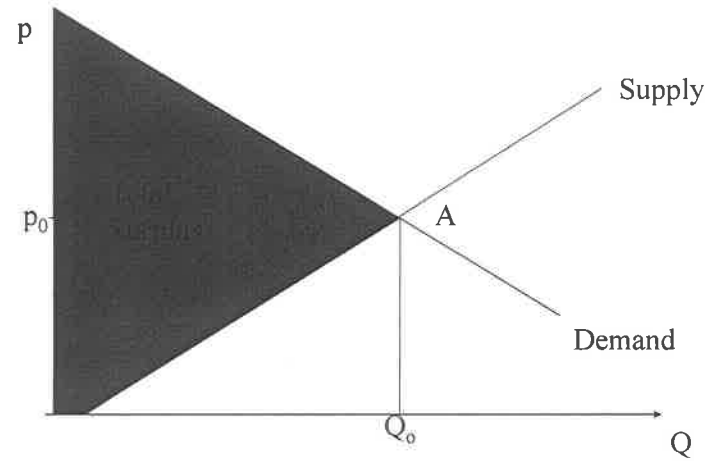
Producer & Consumer Surplus



Producer & Consumer Surplus



Producer & Consumer Surplus



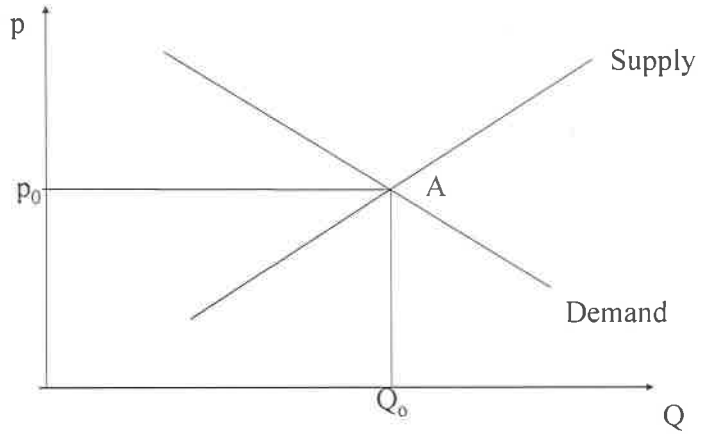
Overview

1. No Tax Scenario
2. **Introducing a Tax**
3. Efficiency Loss and Incidence
4. Tax Elasticities
5. Uniform Taxation
6. Efficiency Issues and Tax Incentives

Introducing a tax

- Tax levied on consumers: the total willingness to pay for consumers does not change when a tax is imposed on consumers. Instead, the demand curve as perceived by producers changes; producers perceive they could only receive a lower price "P – *t*" for a given supply Q (as the consumers have to pay, on top of the price they pay to suppliers, the tax *t*). That is, suppliers perceive that the demand curve shifts down.
- Tax levied on producers: the supply curve as perceived by consumers shifts upward; suppliers not only want to receive the price p but also money so they can pay the tax t. This means that consumers perceive it more expensive for the firm to supply any given quantity.

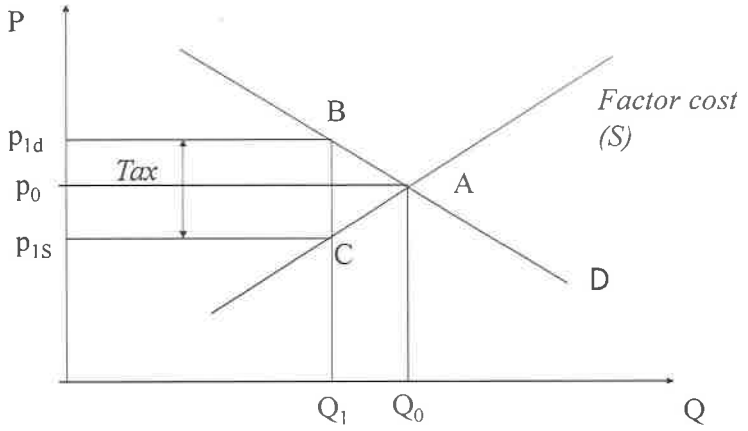
Producer & Consumer Surplus



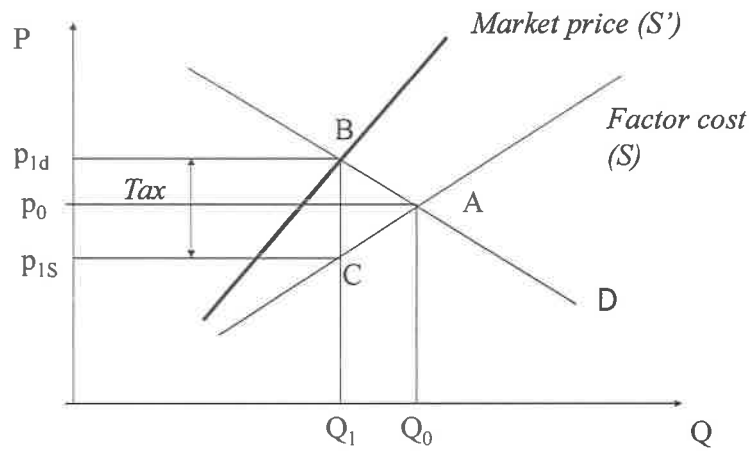
Introducing a tax

- Tax levied on consumers: the total willingness to pay for consumers does not change when a tax is imposed on consumers. Instead, the demand curve as perceived by producers changes; producers perceive they could only receive a lower price "P – *t*" for a given supply Q (as the consumers have to pay, on top of the price they pay to suppliers, the tax t). That is, suppliers perceive that the demand curve shifts down
- Tax levied on producers: the supply curve as perceived by consumers shifts upward; suppliers not only want to receive the price p but also money so they can pay the tax t. This means that consumers perceive it more expensive for the firm to supply any given quantity.
- The incidence of a unit tax is independent of whether it is levied on consumers or producers!

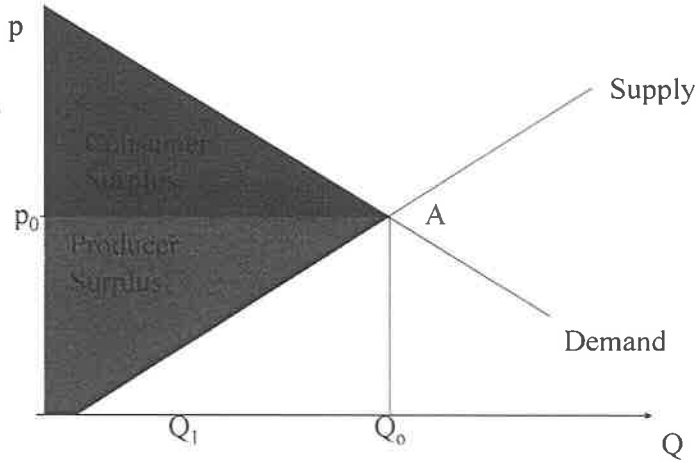
Let us introduce a consumption tax



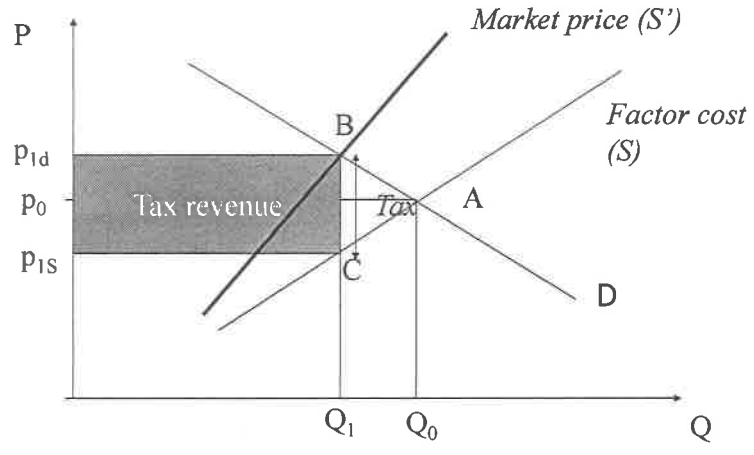
Let us introduce a consumption tax



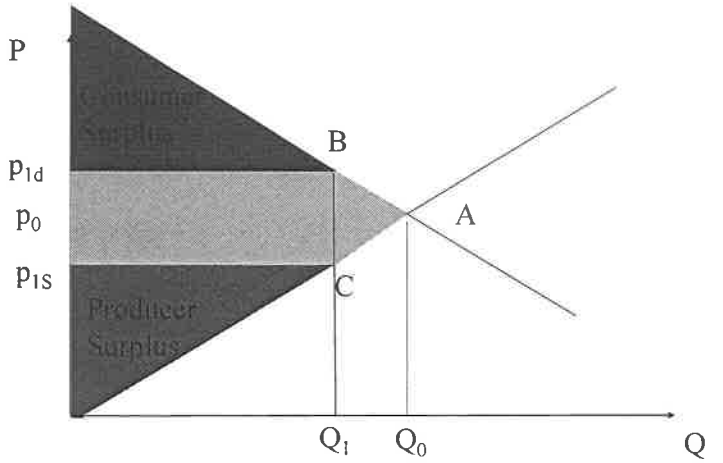
Pre-tax Producer & Consumer Surplus



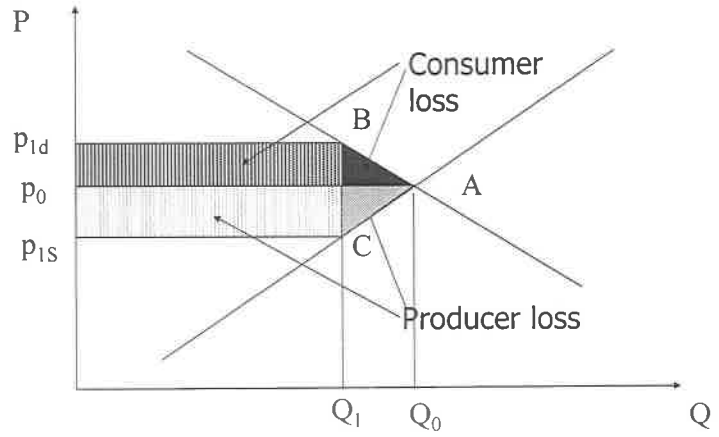
Let us introduce a consumption tax



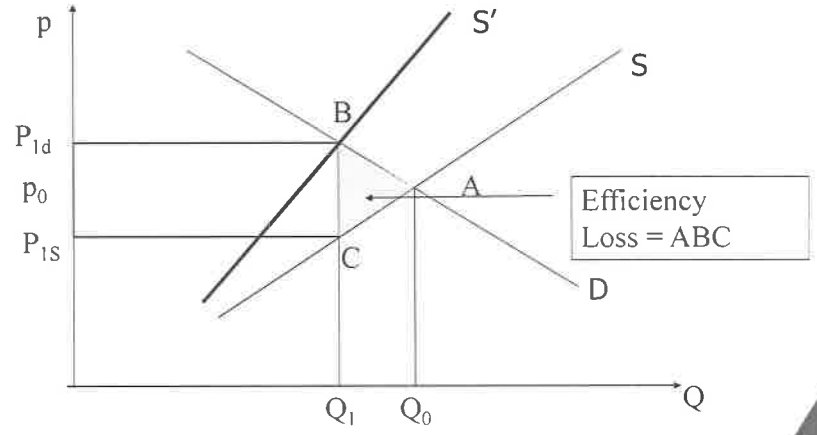
Post-tax Producer & Consumer Surplus



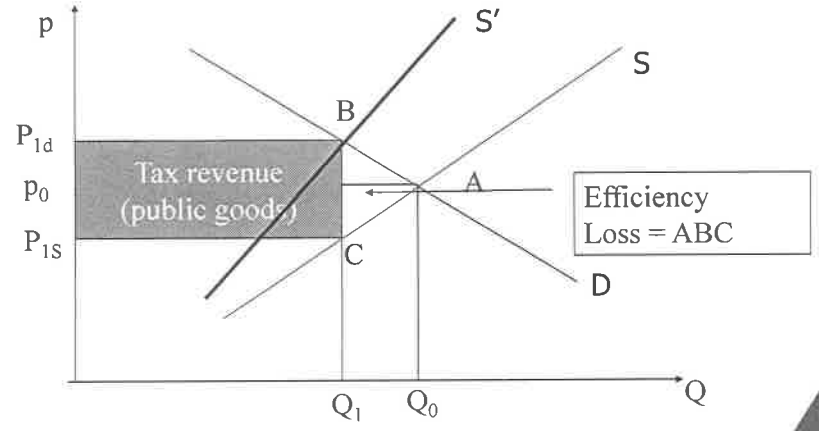
Tax Policy raises revenue and distributes welfare losses



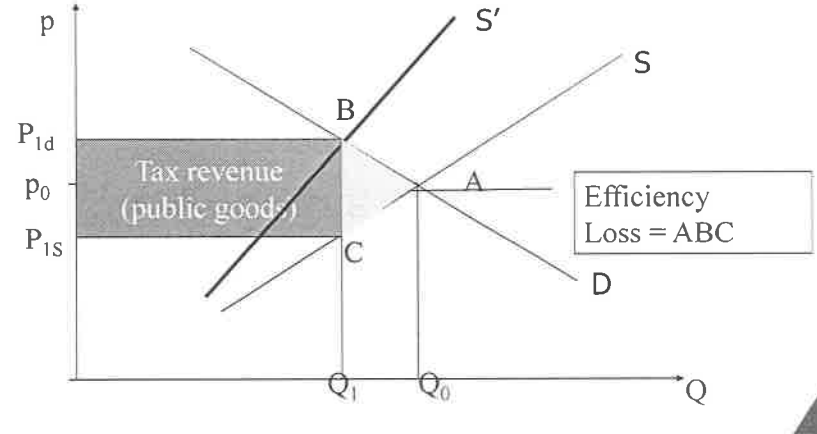
Taxation results in a welfare loss



Taxation results in a welfare loss

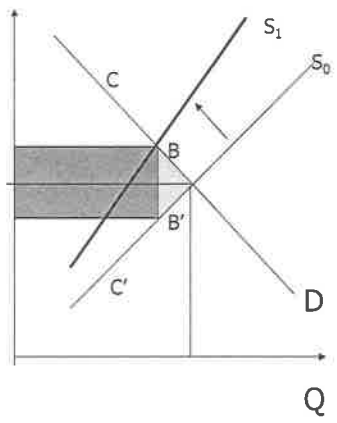


But returns on revenue from public goods may outweigh loss



Lower the tax rate, higher the ratio TR/WL

- An increase in the tax rate results
  - in a less than proportional increase of the tax revenue
  - in a more than proportional increase of the welfare loss

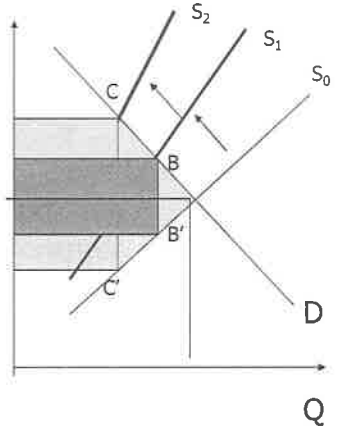


Overview

1. No Tax Scenario
2. Introducing a Tax
3. **Efficiency Loss and Incidence**
4. Tax Elasticities
5. Uniform Taxation
6. Efficiency Issues and Tax Incentives

Lower the tax rate, higher the ratio TR/WL

- An increase in the tax rate results
  - in a less than proportional increase of the tax revenue
  - in a more than proportional increase of the welfare loss
- Welfare loss increases with the square of the tax increase.



Efficiency Loss and Taxation

- High (and increasing) welfare losses from higher taxation.
  - More efficient to spread taxes across all goods to keep each tax rate low.
  - Better to fund large one-off government expenses with debt and repay slowly afterwards rather than having one-time high tax rates.
- The challenge is to minimise the welfare loss (WL), for a given amount of tax revenue (TR)
  - or more broadly to maximise TR/WL
- Note that we assume perfect competition (can be relaxed!)
- Who bears this welfare loss?
  - This is called the study of tax incidence.

Tax incidence

- Who pays the tax is not necessarily who bears the burden of the tax
  - Statutory incidence is NOT equal to the economic incidence
  - The market equilibrium is independent of who nominally pays the tax
- Why?
  - Because taxes can be shifted: taxes affect directly the prices of goods, which affect quantities because of behavioural responses, which affect indirectly the price of other goods
- Who then really bears the burden of the tax? The agent who is the least sensitive to the tax; i.e. the agent who changes her/his behaviour the least in response to the tax!
- This change in behaviour is called tax elasticity.
- Tax elasticity is key to understanding tax incidence.

What are elasticities?

- **Responsiveness** of behaviour to changes in tax.
- Each individual has a demand for each good that depends on the price p of the good.
- Aggregating across all individuals, we get aggregate demand D(p) for the good.
- At price p, demand is D and p is the $ value for consumers of the marginal (last) unit consumed.
- Elasticity of demand ε: The % change in demand caused by a 1% change in the price of that good:

$$\varepsilon = \frac{\%\text{ change in quantity demanded}}{\%\text{ change in price}}$$

$$\varepsilon = \frac{\frac{\Delta D}{D}}{\frac{\Delta p}{p}} = \frac{\frac{dD}{D}}{\frac{dp}{p}}$$

- Elasticities are unit free, and so are often used in tax policy and economic analysis.

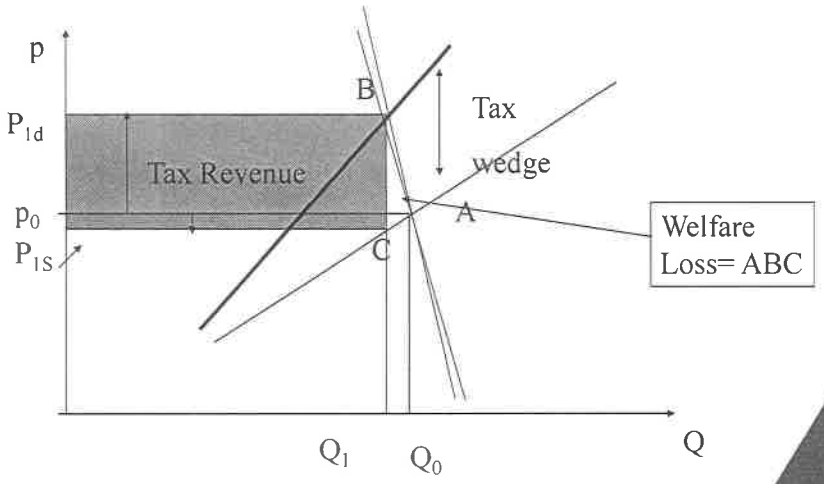
Overview

1. No Tax Scenario
2. Introducing a Tax
3. Efficiency Loss and Incidence
4. **Tax Elasticities**
5. Uniform Taxation
6. Efficiency Issues and Tax Incentives

Elasticity of Demand

- Properties of Elasticity of Demand
  - Typically negative, since quantity demanded typically falls as price rises.
  - Typically not constant along a demand curve.
  - With vertical demand curve, demand is perfectly inelastic ($\varepsilon = 0$).
  - With horizontal demand curve, demand is perfectly elastic ($\varepsilon = -\infty$).
  - The effect of one good's prices on the demand for another good is the cross-price elasticity. Typically, not zero.

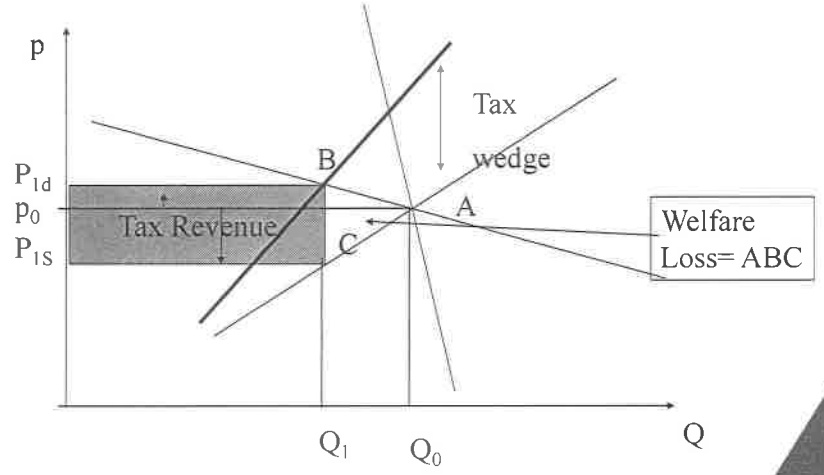
Inelastic demand curve - lower welfare loss



Price-elasticty of the demand curve

Inelastic demand	Elastic demand
Low welfare loss	Large welfare loss
Large tax revenue	Low tax revenue
Maximise TR/WL	Minimise TR/WL
The consumers bear the largest part of the economic incidence of the tax	The producers bear the largest part of the economic incidence of the tax

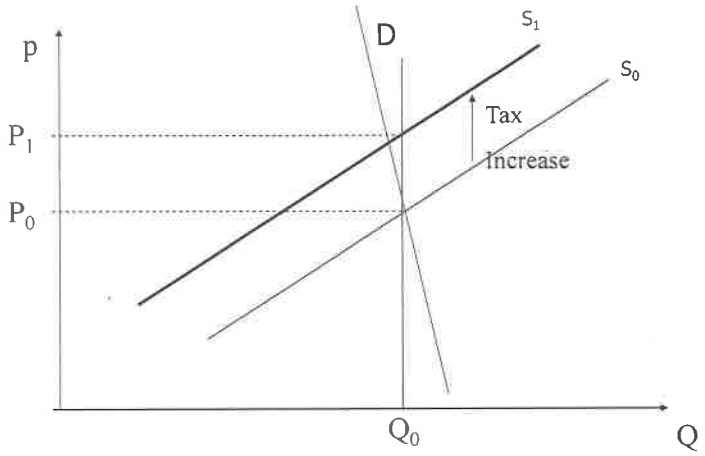
Elastic demand curve – higher welfare loss



Who bears the burden of the tax?

- When do consumers bear the entire burden of the tax?
  - ε_D = 0. Inelastic demand (e.g short-run demand for petrol – need to drive to work)
  - ε_s= ∞. Perfectly elastic supply
- When do producers bear the entire burden of the tax?
  - ε_s=0. Inelastic supply (fixed quantity supplied?
  - ε_D =∞. Elastic demand (e.g. if there is a close substitute good)

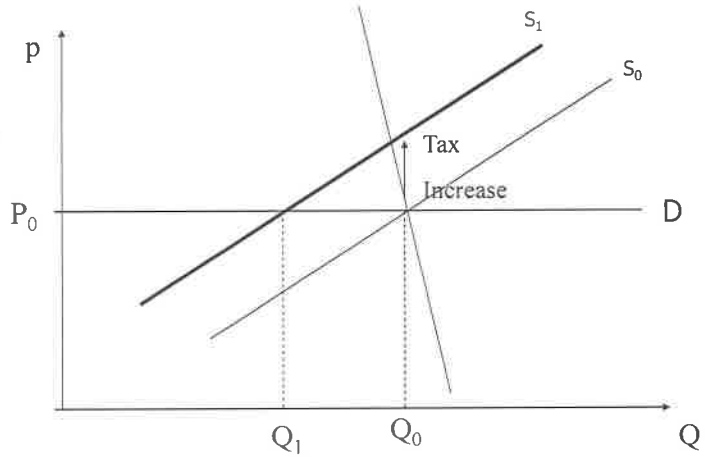
Perfectly inelastic demand



Overview

1. No Tax Scenario
2. Introducing a Tax
3. Efficiency Loss and Incidence
4. Tax Elasticities
5. **Uniform Taxation**
6. Efficiency Issues and Tax Incentives

Perfectly elastic demand



Uniform taxation and efficiency

Uniform taxation makes the tax system more efficient

- If the tax rate is the same for all goods and services, the consumer's behaviour will not be altered by the tax: if the price a good 'A' is twice the price of good 'B' before tax, the same will hold after tax.
- If 'A' and 'B' are substitutes, the price-elasticities of A and B will be higher, and having different tax rates will increase the welfare loss
- If the tax rate is the same for any form of saving, the saver's behaviour will not be altered by the tax
- On the other hand, if some assets are subject to (income) tax and others are exempted, the saver's behaviour will be altered by taxes

The case of uniform taxation is similar to the case of inelastic demand

Price-elasticty of the demand curve

Uniform taxation	Non-uniform taxation
Low welfare loss	Large welfare loss
Large tax revenue	Low tax revenue
Maximise TR/WL	Minimise TR/WL
The consumers bear the largest part of the economic incidence of the tax	The producers bear the largest part of the economic incidence of the tax

Overview

1. No Tax Scenario
2. Introducing a Tax
3. Efficiency Loss and Incidence
4. Tax Elasticities
5. Uniform Taxation
6. **Efficiency Issues and Tax Incentives**

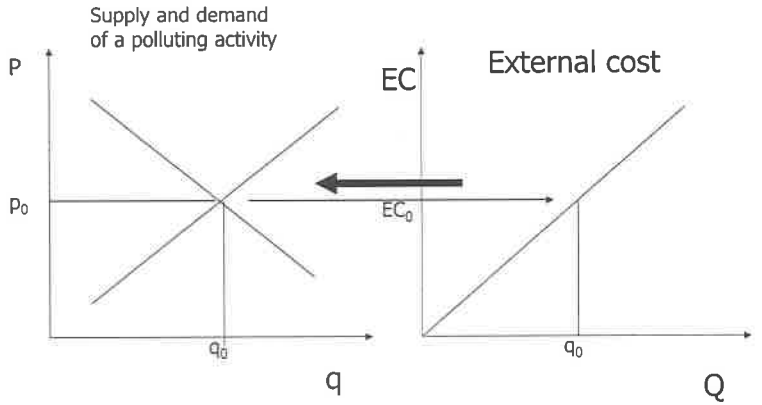
Policy implications

- 'Ramsey'-rules: higher tax rates for inelastic tax bases
- But broad bases (uniform taxation), low rates

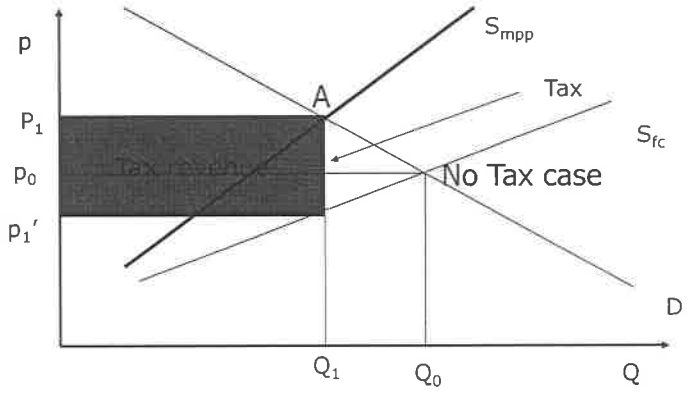
What about taxing "bads"?

- Consider the case of goods of which production and consumption result in negative externalities (polluting activities, smoking tobacco)
- There is a case for charging the "external cost" into prices, by using taxes or similar instruments

What about taxing "bads"?

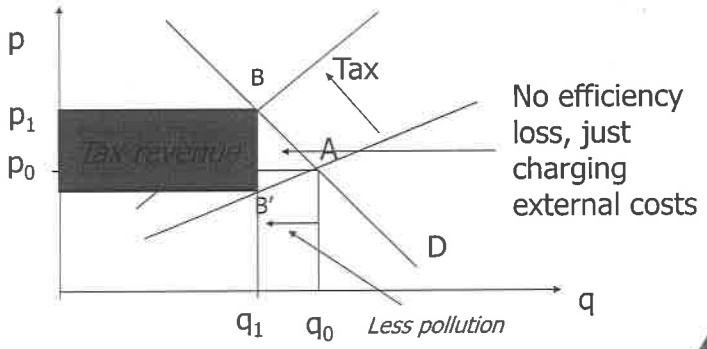


Tax incentives?

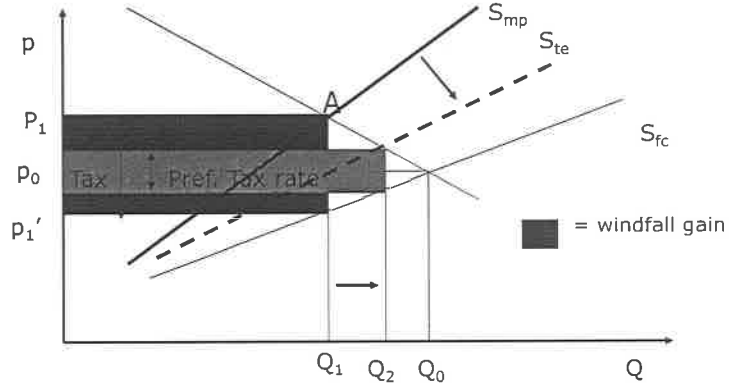


What about taxing "bads"?

- Let us set a tax = External cost



Tax incentives



For more information, please contact:

Pierce O'Reilly, Ph.D

Tax Economist

Personal and Property Taxes Unit

Tax Policy and Statistics Division
Centre for Tax Policy and Administration

2, rue André Pascal - 75775 Paris Cedex 16
Tel: +33 1 45 24 15 97 – Fax: +33 1 44 30 63 51

Pierce.oreilly@oecd.org || www.oecd.org/tax

Tax Rates and Trends

Alowin Moes, Ph.D.
Tax Policy
Federal Department of Finance
Swiss Federal Tax Administration

OECD Income Tax Workshop

Seoul, Korea
22-26 February 2016

Overview

Part I: Tax-to-GDP ratios
Part II: The tax-mix

Part III: Labour income taxation
Part IV: Tax-benefit system interaction

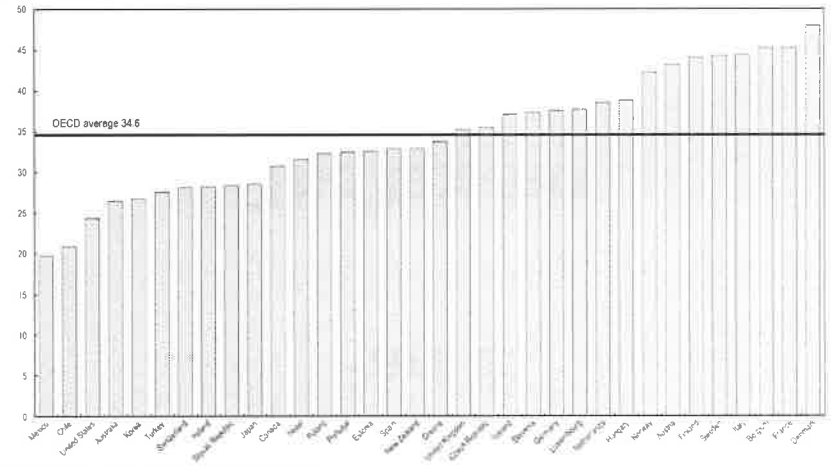
Part V: Taxation of capital income of individuals

Part VI: Consumption taxes

Part I:

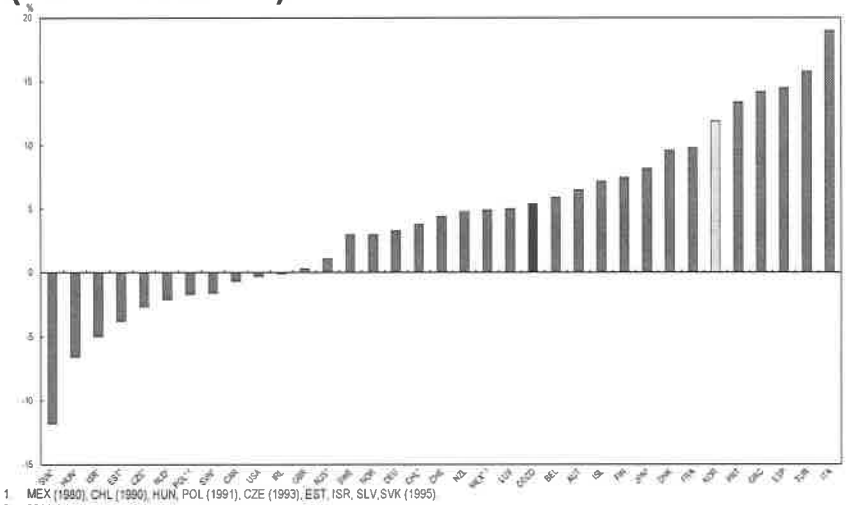
Tax-to-GDP ratios

Tax revenue as a percentage of GDP (2012)



2011 data for Australia, Japan, Mexico, Poland and The Netherlands
Source: OECD Revenue Statistics (2013)

Change in tax as a percentage of GDP (1975 to 2012)



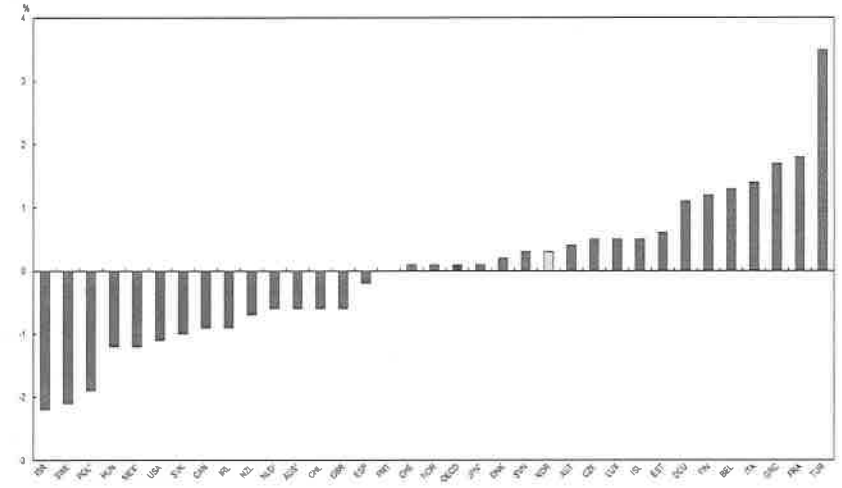
1. MEX (1980), CHL (1990), HUN, POL (1991), CZE (1993), EST, ISR, SLV,SVK (1995)
2. 2011 data

Source: OECD Revenue Statistics (2013)

Part II:

The tax mix

Change in tax as a percentage of GDP (2008 to 2012)



1. 2011 data

Source: OECD Revenue Statistics (2013)

Revenue shares of major taxes in the OECD-area over time

	1965	1975	1985	1995	2005	2010	2011
Personal income tax	26	30	30	26	24	24	24
Corporate income tax	9	8	8	8	10	9	9
Social security contributions [2]	18	22	22	25	25	26	26
(employee)	(6)	(7)	(7)	(9)	(9)	(9)	(10)
(employer)	(10)	(14)	(13)	(14)	(14)	(15)	(15)
Payroll taxes	1	1	1	1	1	1	1
Property taxes	8	6	5	5	6	5	5
General consumption taxes	12	13	16	19	20	20	20
Specific consumption taxes	24	18	16	13	11	11	11
Other taxes [3]	2	2	2	3	3	3	3
Total	100	100	100	100	100	100	100

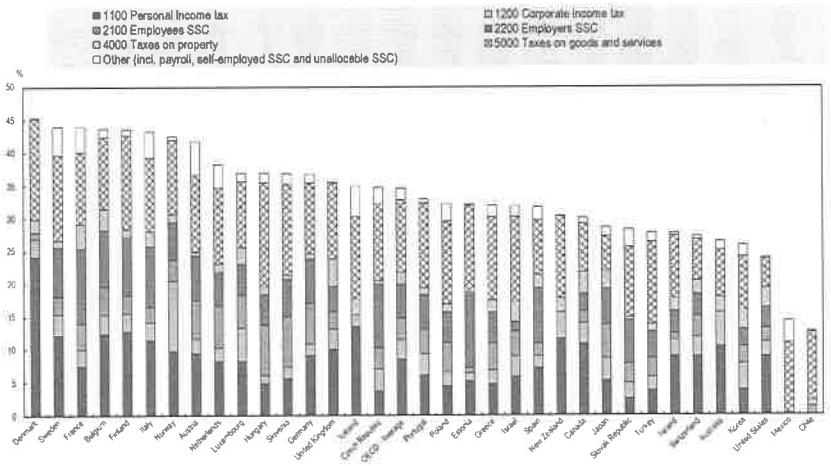
1. Percentage share of major tax categories in total tax revenue. Data are included from 1965 onwards for Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States; from 1972 for Korea; from 1980 for Mexico; from 1990 for Chile; from 1991 for Hungary and Poland; from 1993 for the Czech Republic and from 1995 for Estonia, Israel, the Slovak Republic and Slovenia.

2. Including social security contributions paid by the self-employed and benefit recipients (heading 2300) that are not shown in the breakdown over employees and employers.

3. Including certain taxes on goods and services (heading 5200) and stamp taxes.

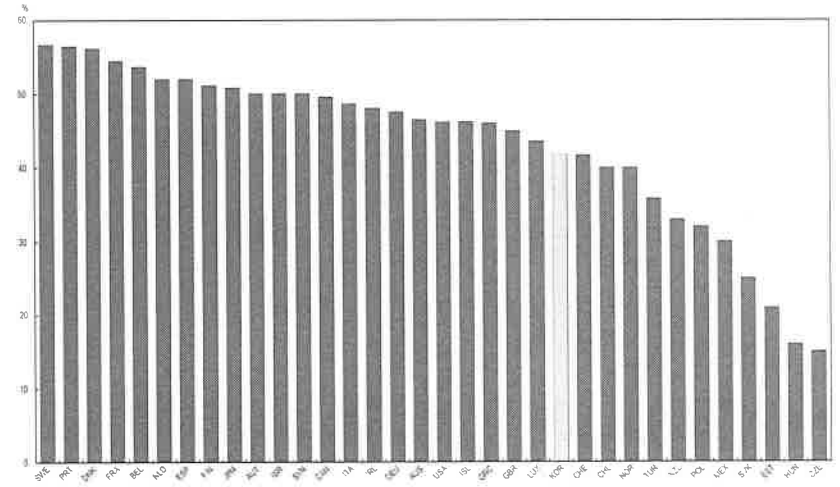
Source: OECD Revenue Statistics (2013)

Source of tax revenue: Tax as a % of GDP (2011)



Source: OECD Revenue Statistics (2013)

Top statutory PIT rate (2013)

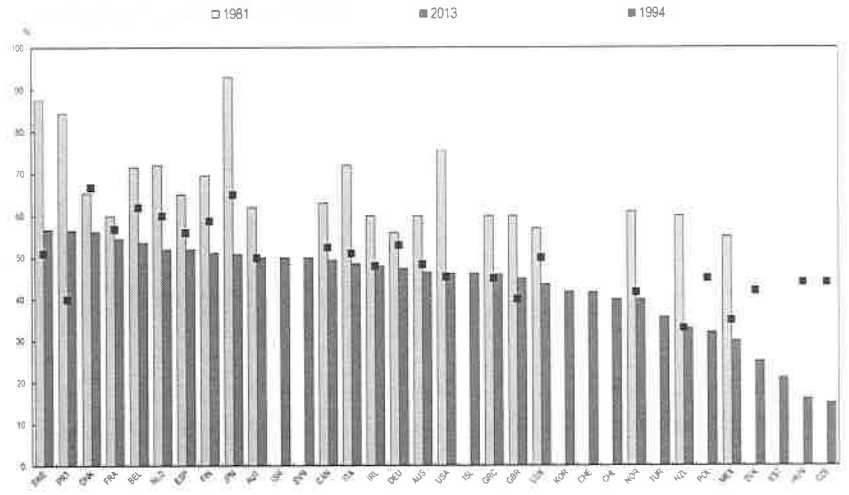


Source: OECD Tax Database (2014)

Part III:

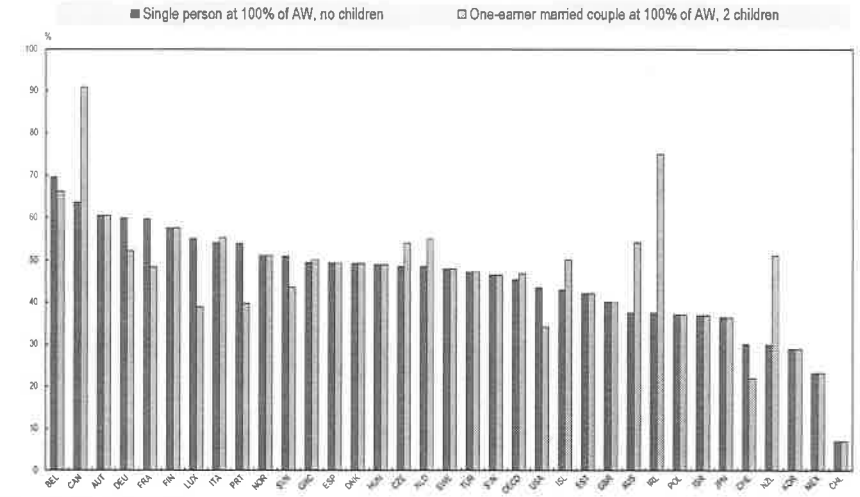
Labour income taxation

Trends in top PIT rates



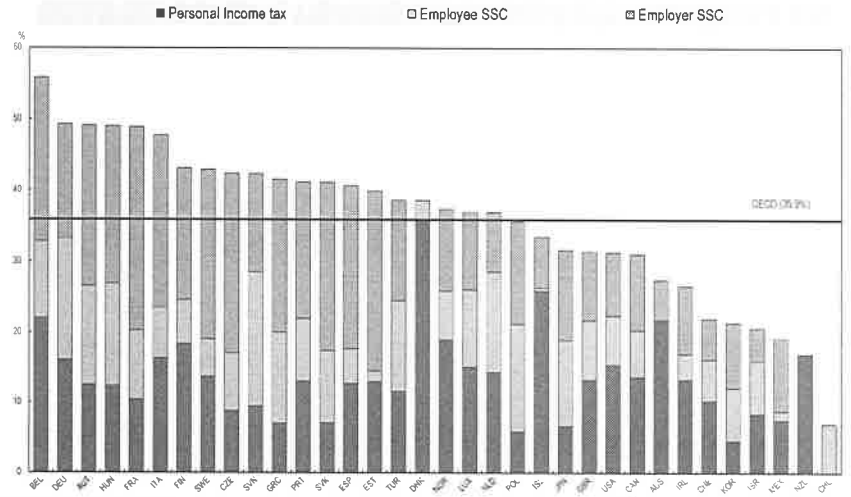
Source: OECD Tax Database (2014)

Marginal tax wedge as percentage of labour costs (2013)



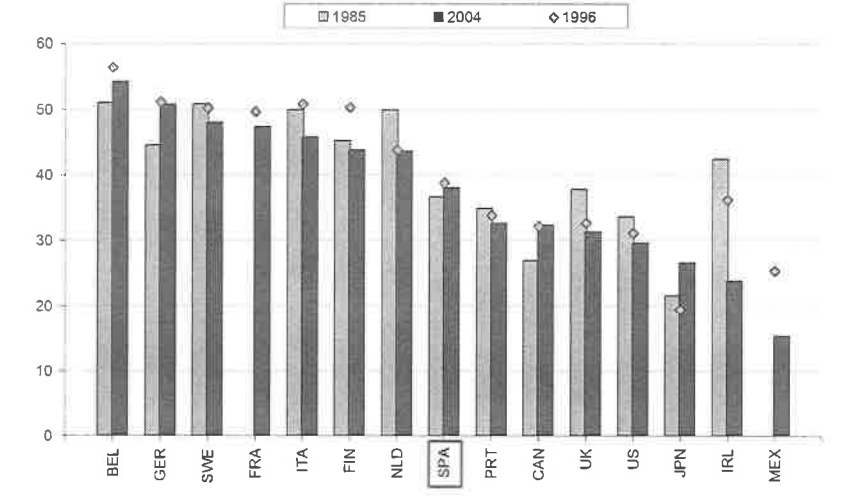
Source: OECD Taxing Wages (2014)

Average tax wedge as % of labour costs 2013 (single taxpayer, no children, 100% of AW)



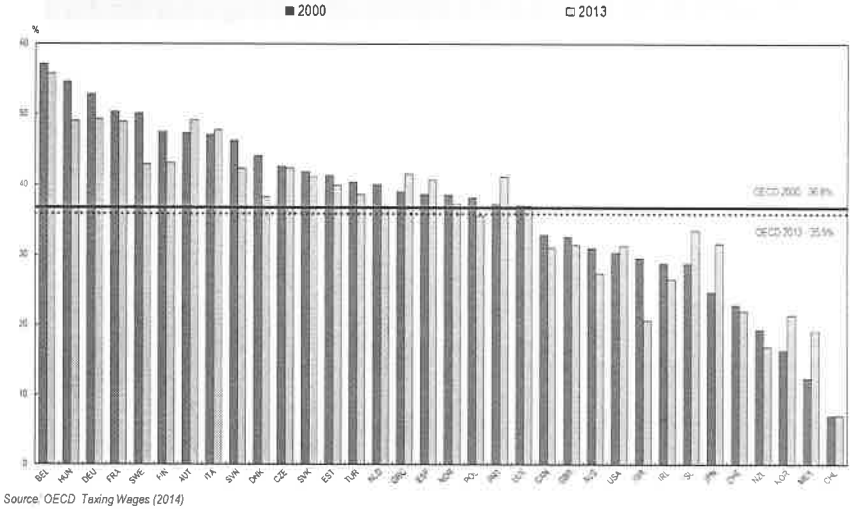
Source: OECD Taxing Wages (2014)

Average tax wedge as percentage of labour costs (single taxpayer, no children, 100% of APW)



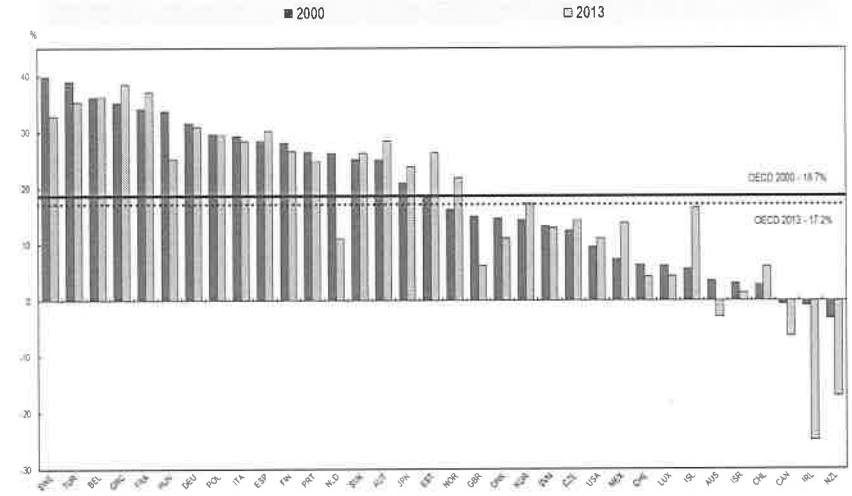
Source: OECD Taxing Wages (various years)

Change in average tax wedge (single taxpayer, no children, 100% of AW)



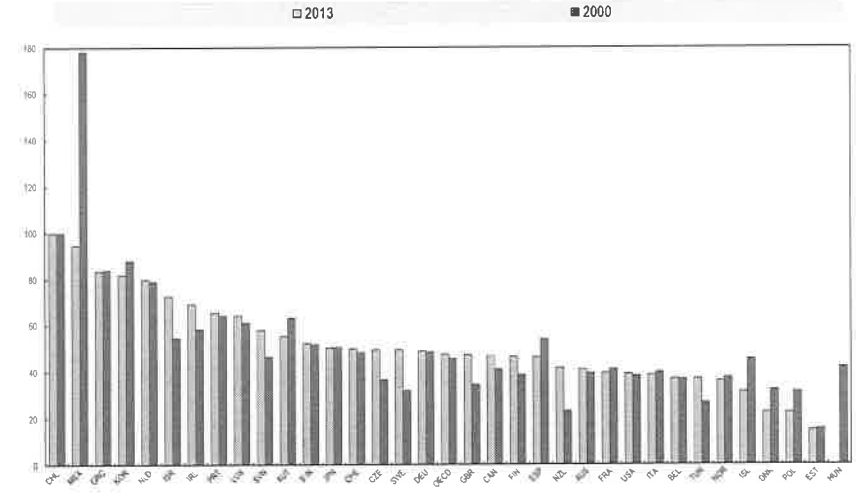
Source: OECD Taxing Wages (2014)

Change in average tax wedge (single taxpayer, 2 children, 67% of AW)



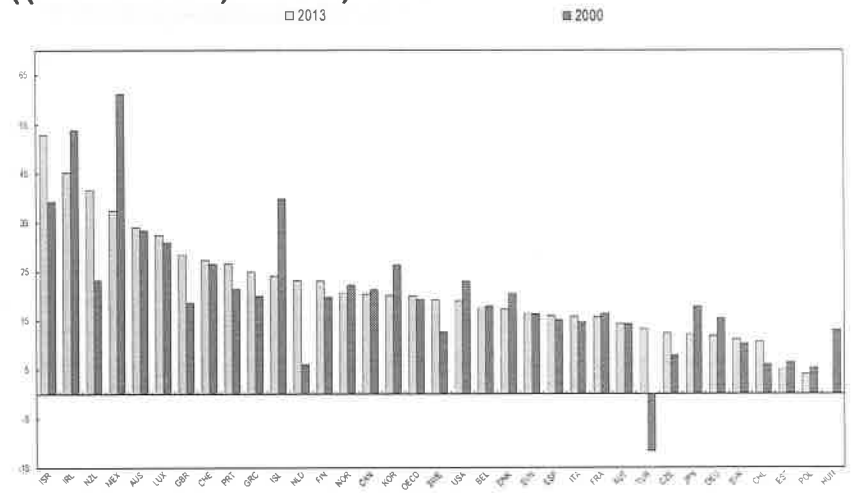
Source: OECD Taxing Wages (2014)

Average income tax progressivity, 2013 ((T167-T67)/T167)*100



Source: OECD Taxing Wages (2014)

Average tax wedge progressivity, 2013 ((T167-T67)/T167)*100



Source: OECD Taxing Wages (2014)

Part IV:

Tax benefit system interaction

Effective tax rates

- Participation tax rate

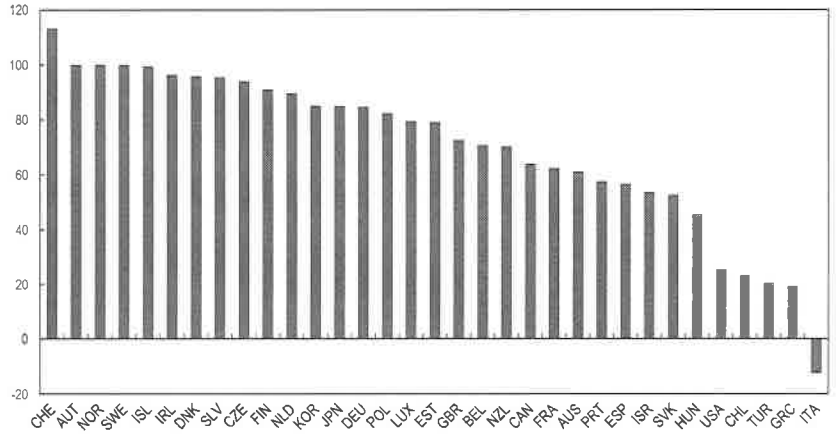
$$PTR = 1 - \frac{y_{netIW} - y_{netOW}}{y_{grossIW} - y_{grossOW}} = 1 - \frac{y_{netIW} - y_{netOW}}{y_{grossIW}}$$

- Marginal effective tax rate

$$METR = 1 - \frac{y_{netB} - y_{netA}}{y_{grossB} - y_{grossA}}$$

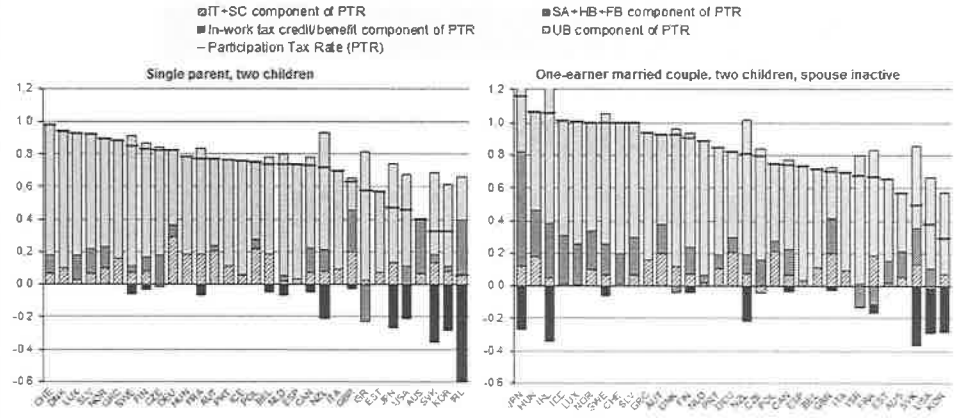
Participation tax rate, 2011 (LR unemployment-into-work earning 50% of AW)

One-earner married couple, two children, spouse inactive



Source: OECD Tax-Benefit models

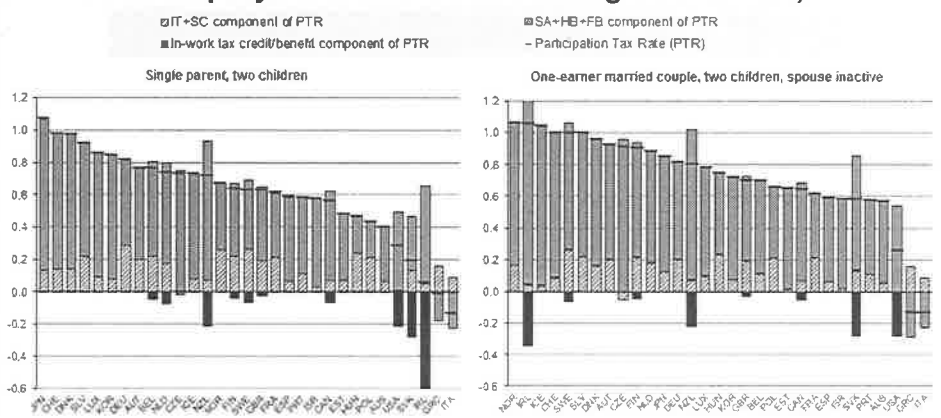
Decomposition of Participation Tax Rates, 2009 (SR unemployment-into-work earning 50% of AW)



IT: Income tax
SC: Social security contribution
HB: Housing benefits
FB: Family benefits
SA: Social assistance
IW: In-work benefits
UB: Unemployment benefits
Source: OECD (2011) "Taxation and Employment".

Note: Countries are ranked by decreasing order of the total PTR.

Decomposition of Participation Tax Rates, 2009 (LR unemployment-into-work earning 50% of AW)

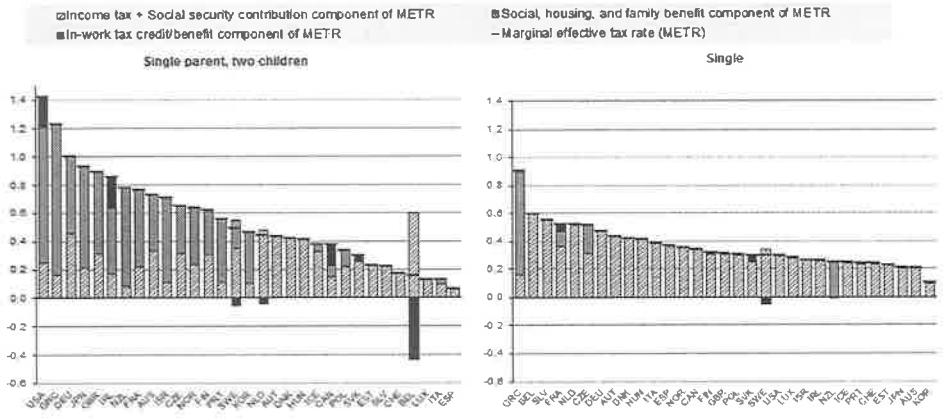


IT: Income tax
SC: Social security contribution
HB: Housing benefits
FB: Family benefits
SA: Social assistance
IW: In-work benefits
Source: OECD (2011) "Taxation and Employment".

Note: Countries are ranked by decreasing order of the total PTR.

Decomposition of METR, 2009

(Increasing hours worked: earnings up from 50 to 55% of AW)



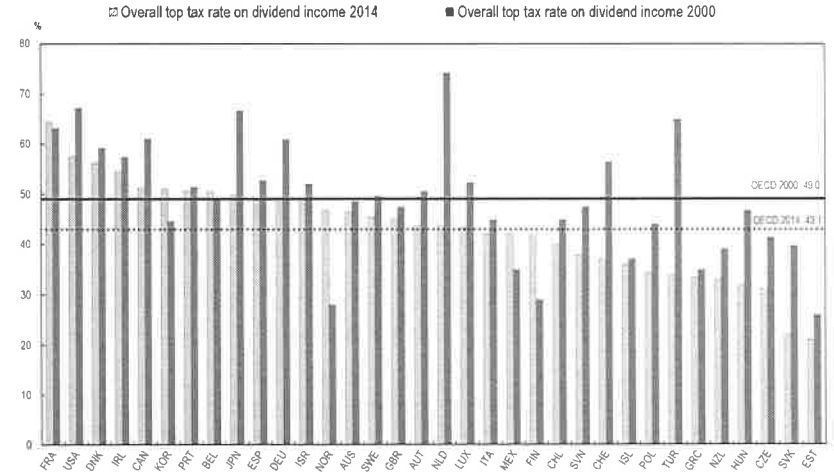
IT: Income tax HB: Housing benefits SC: Social security contribution
FB: Family benefits SA: Social assistance
Source: OECD (2011) "Taxation and Employment"

Note: Countries are ranked by decreasing order of the total METR

Part V:

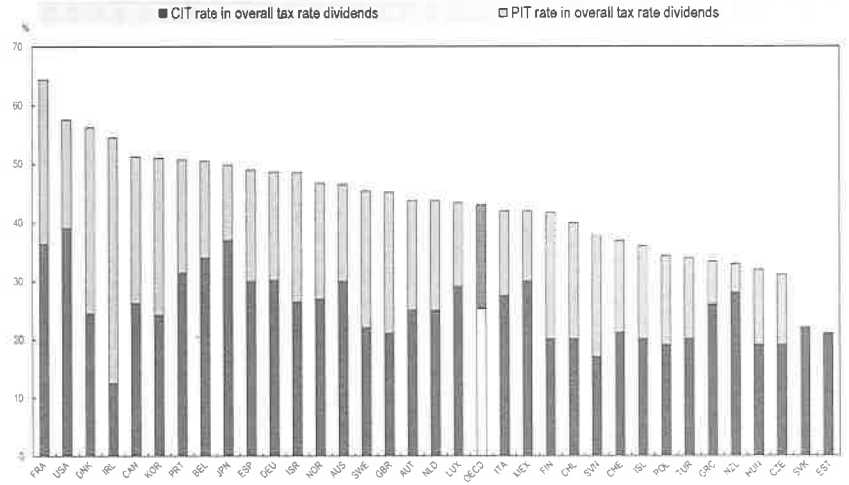
Taxes on capital income of individuals

Effective Statutory Tax Rates (CIT + PIT) on Distributed Dividends (2000, 2014)



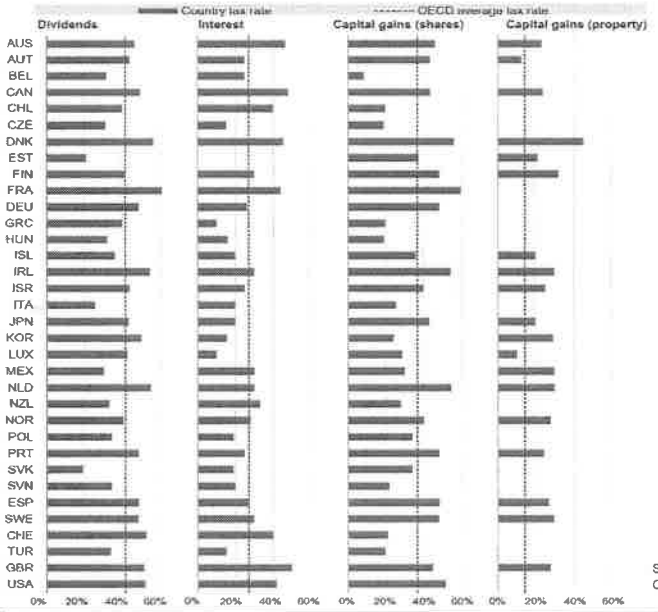
Source: OECD Tax Database (2014)

Effective Statutory Tax Rates (CIT + PIT) on Distributed Dividends



Source: OECD Tax Database (2014)

Combined statutory tax rates (2012)

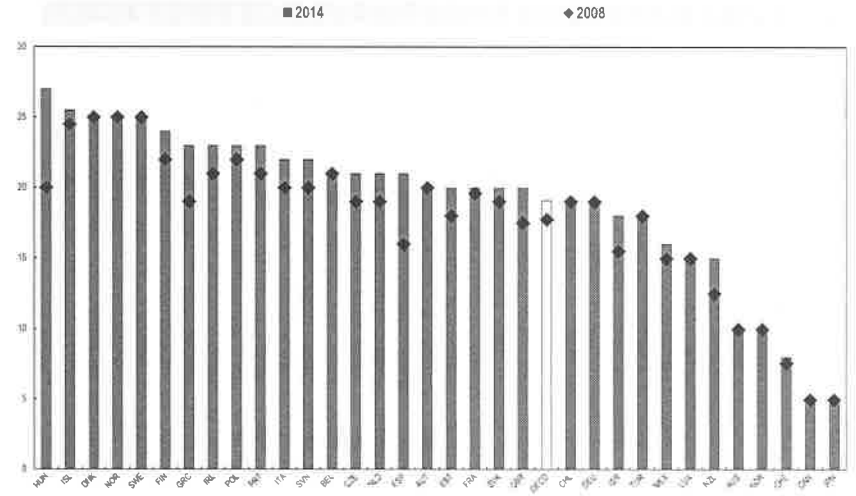


Source: Harding (2013), OECD Taxation Working Paper 19

Part VI:

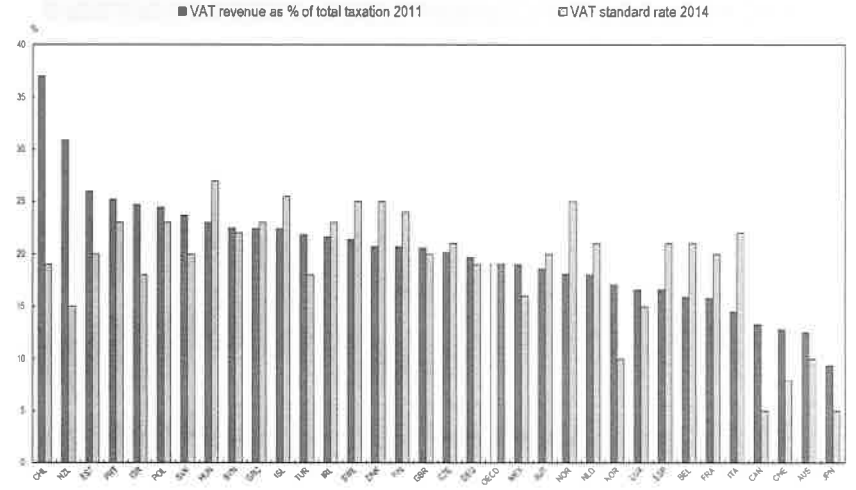
Consumption taxes

VAT standard rates, 2008 and 2014



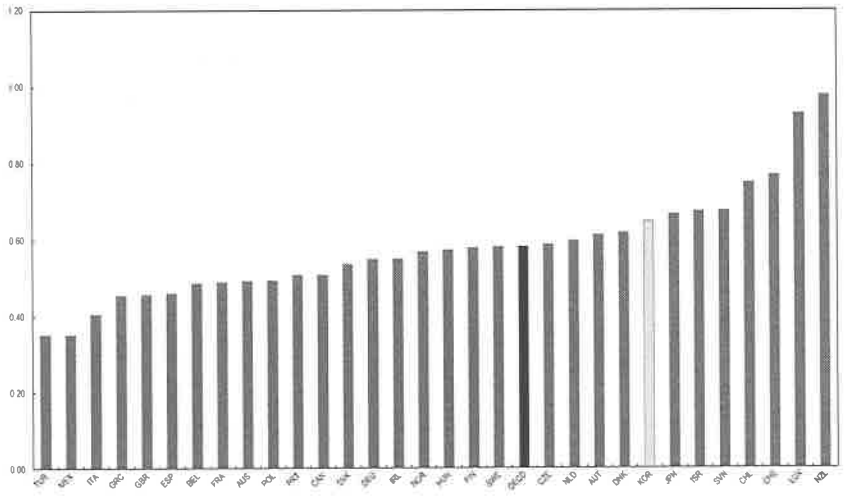
Source national delegates - position as at 1 January 2014

VAT revenues 2011 and VAT rates 2014



Source: OECD Revenue Statistics (2013), OECD Tax Database 2014

VAT revenue ratio (2010)



Source: OECD Consumption Tax Trends 2012

KEY CHOICES FOR A PERSONAL INCOME TAX SYSTEM

Pierce O'Reilly

Tax Economist

Centre for Tax Policy and Administration, OECD

OECD Income Tax Workshop

22-27 February 2016, Seoul, Korea

OECD
BETTER POLICIES FOR BETTER LIVES

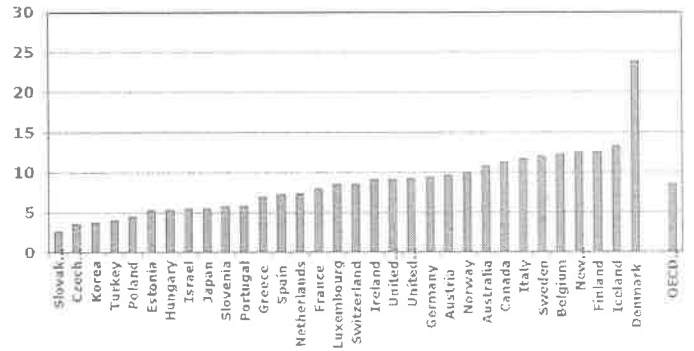
Overview

1. Comparing Personal Income Taxes

2. Key Choices
   a) Types of tax systems
   b) Choice of tax unit
   c) Tax concessions
   d) Tax-benefit interaction
   e) Rate Schedule

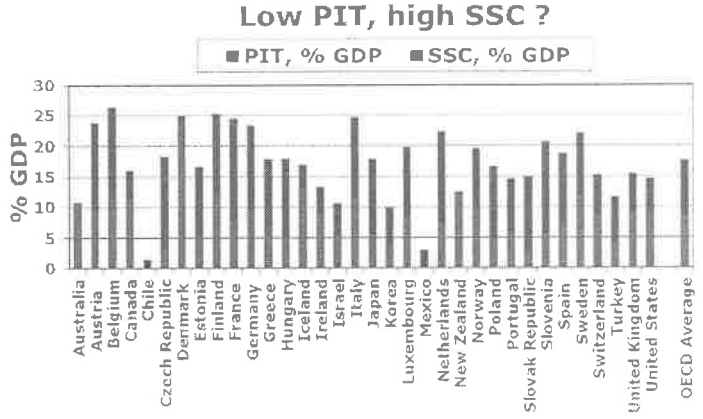
PIT as a source of revenue

PIT as a source of revenue, % GDP, 2012

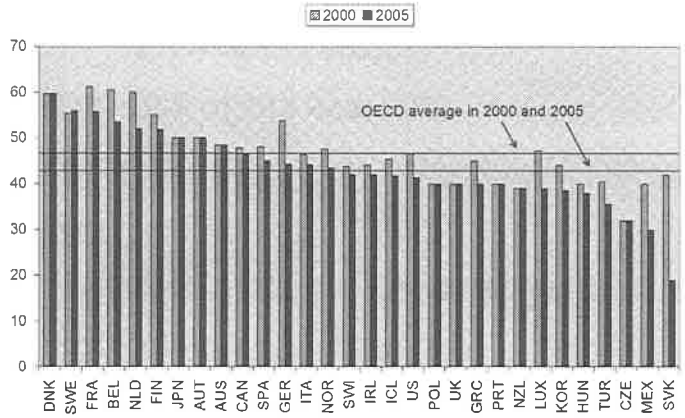


PIT as a source of revenue

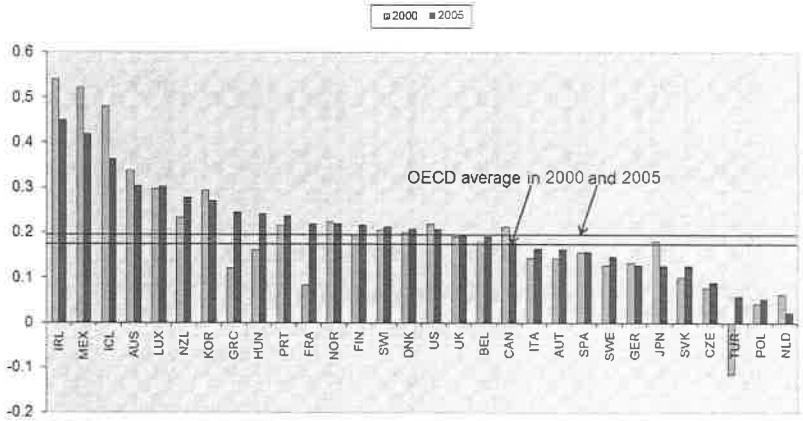
Low PIT, high SSC ?



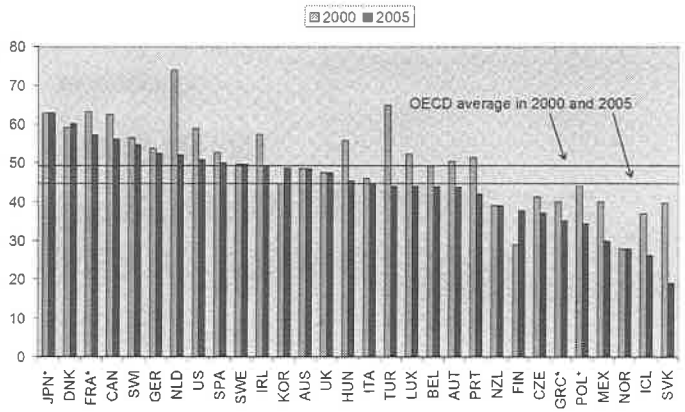
Marginal tax rates



A very simple measure of progressivity



Top marginal tax rates on dividend income



Summary of stylised facts

- Large disparities among OECD countries
- On average, a decrease in marginal tax rates, especially on top incomes.
- The same holds for the taxation of dividends
- Slight increase in progressivity, due to the spread of tax credits on low-earned incomes, (though some variation between countries).

Overview

1. Comparing Personal Income Taxes
2. **Key Choices**
   - **a) Choice of tax systems**
   - b) Choice of tax unit
   - c) Tax concessions
   - d) Tax-benefit interaction
   - e) Rate Schedule

Types of tax systems

- Comprehensive
- Schedular systems
  - Dual
  - Semi-dual

Comprehensive versus Schedular base

- A comprehensive (or "global") income tax system applies a single tax rate or tax schedule to aggregated income irrespective of source.
- A schedular income tax system involves separate taxes on different types or sources of income.
- In practice, no country operates a pure comprehensive or pure schedular system. Countries have characteristics of both.
  - e.g. comprehensive, but some items sources excluded from tax base.
  - e.g. schedular, but allow some loss offsets.

Who has what?

(Semi-) comprehensive

- US: but, e.g., long term capital gains taxed at lower rate.
- Australia.
- New Zealand: initially schedular (1891); then global (1900).
  - No CGT (Compare capital gains treatment in Aust. and NZ with US).

(Semi-) Schedular

- UK: the first income tax system! Initially global (1799); then schedular (1803). Recent changes though…?
- France. (e.g. with capital gains taxed at flat rate of 30.1%)
- Box system in the Netherlands (2001)
- Dual/semi-dual income tax systems in Nordic countries ('90s)

Who has what?

(Semi-) comprehensive

- US: but, e.g., long term capital gains taxed at lower rate.
- Australia.
- New Zealand: initially schedular (1891); then global (1900).
  - No CGT (Compare capital gains treatment in Aust. and NZ with US).

(Semi-) Schedular

- UK: the first income tax system! Initially global (1799); then schedular (1803). Recent changes though…?
- France. (e.g. with capital gains taxed at flat rate of 30.1%)
- Box system in the Netherlands (2001)
- Dual/semi-dual income tax systems in Nordic countries ('90s)

Pros and cons of Schedular approach

- Incentive to recharacterise income to minimise tax (-)
  - Move income from high-rate schedule to lower-rate schedule
- Requires significant administrative resources, in general, but exacerbated by need to protect boundaries (-)
- Inconsistency with ability-to-pay principle (-)
  - Difficult to implement progressivity
  - Taxpayer with aggregate loss across all sources will still face tax liability on source with taxable income (no offset).
- Can tax mobile and immobile sources differently (+)
  - Lower rate on mobile capital
  - Higher rate on immobile labour
  - (Rationale for dual income tax systems)
- Corporate financial policy (see later) (+)

Pros and cons of comprehensive approach

- Consistent with ability to pay principle (+)
  - Progressive schedule more effective (vertical equity)
  - Does not discriminate between different sources of income (horizontal equity)
- Reduce incentives to manipulate boundaries (+)
  - But still some boundaries unless fully comprehensive base
- Less administrative and compliance costs (+)
- Taxes all income sources at same rates, irrespective of mobility (-)
  - Risk of capital flight
  - What about mobile highly-skilled labour?

The tax base: comprehensive or not ?

- Comprehensive income taxation
- Tax base = income +Δnet wealth
  - Includes
    - Wages, salaries, income from self employment, including fringe benefits
    - Pensions, unemployment benefits and anyother social benefits.
    - REAL income from capital
    - Realised AND unrealised capital gains (taxation on a accrual basis)
  - Net of professional expenses and losses
  - No other deductions
  - This means no tax incentives

The tax base: comprehensive or not ?

- The pure version of the benchmark has never been applied...
  - Valuation of fringe benefits
  - No inflation adjustment for income from capital (apart from Israël)
  - Taxation of capital gains on a accrual basis raises complicated issues
    - Valuation
    - Liquidity
    - Adminsitrative and compliance costs
  - Political pressures for tax incentives

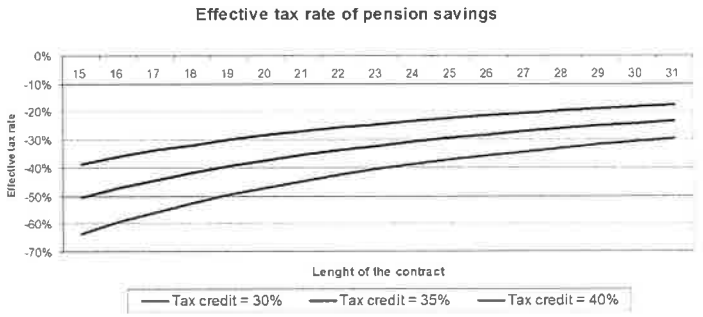
Country Example: Belgium

- How a tax incentive might be poorly designed...
- Pension savings in Belgium
  - ETR negative
    - Higher the income, higher the incentive
    - Later you start saving, higher the incentive

The tax base: comprehensive ?

- Tax incentives may be right but...
  - What about additionality ?
  - They conflict with neutrality
  - They may hamper redistribution
  - They result in higher in tax rates for the non-privileged part of the tax base
  - They increase administrative and compliance costs
  - They reduce tax revenue in a non-transparent way
  - Advantages > Drawbacks ?

Country Example: Belgium

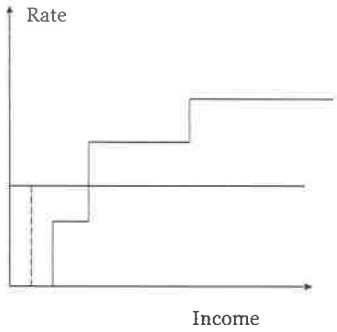


Country Example: Belgium

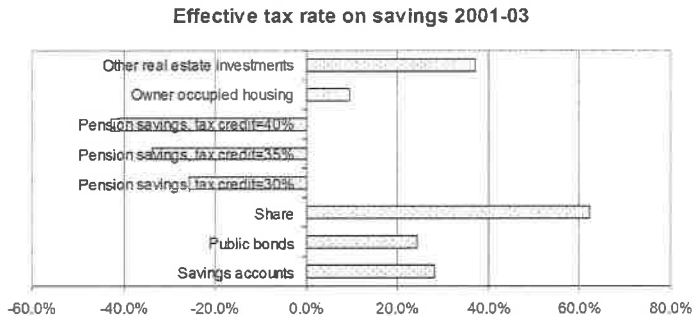
- Most of the departures from the benchnmark relate to the taxation of income from savings
- Imagine that you decide..
  - Not to make an inflation adjustment (too complicated!)
  - To exempt savings accounts (don't tax the savings of the poor)
  - To give incentive for pension savings (ageing)
  - To promote housing
- And the outcome is...

The case for dual income tax?

- DIT combines progressive taxation of earned income and flat taxation on income from savings (rate=CIT rate)



Country Example: Belgium



The case for dual income tax?

- DIT ensures neutrality in the taxation of savings if
  - PIT rate for income from capital – CIT rate
  - Taxation of dividends at the corporate OR at the personal level
  - Taxation of capital gains on a accrual basis
  - Still difficult to enforce, mainly for foreign source income
  - But more neutral than most of PIT systems
- Horizontal equity
  - Violates H.E compared the comprehensive income tax benchmark
  - But might be an improvement, taking into account how taxation of savings is effectively enforced

The case for dual income tax?

- Redistribution
  - Main difference with flat tax = progressive taxation
  - Less damaging for the middle class
- Dual income tax just ignores "flatness" but does flatness really matter ?

Country Example: Dual income tax system in Sweden

- A taxpayer's income is split into three categories: capital income, business income, and employment income.
  - Capital income is subject to national income tax at a flat rate of 30 per cent (20 per cent for dividend income from a closely-held company).
  - For business income, net result is calculated separately for all sources (partnership, business carried on abroad, any other business). Then aggregated (but with no loss offset) to get total business income.

    (Optionally, business income can be split into a capital and a labour income component and taxed accordingly).
  - Employment income and business income (or labour component thereof) are aggregated (with no loss offset) and then subject to national income tax at progressive rates and municipal income tax at a flat rate (producing a top combined rate of 56.6 per cent on income over SEK 476 700), and to employee and employer SSC.
- Still double taxation on dividends (with CIT rate of 28%), but still lower than top PIT rate (0.28+(1-0.28)*0.3=0.496)

Overview

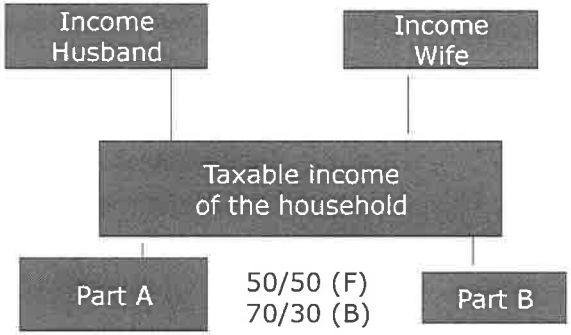
1. Comparing Personal Income Taxes
2. **Key Choices**
   a) Types of tax systems
   b) Choice of tax unit
   c) Tax concessions
   d) Tax-benefit interaction
   e) Rate Schedule

Choice of tax unit: individual or family basis

- Trend in OECD is away from family towards individual
  - Exception: Czech Republic in 2005
- 19 OECD countries use pure individual taxation
- Only 4 OECD countries have pure family taxation: France, Luxembourg, Portugal, Switzerland.
- Others:
  - Some allow partial income splitting, e.g. Belgium (70/30 split)
  - Some allow to file as either individual or family, e.g. Germany, US.
  - Some apply joint taxation in specific situations, to prevent avoidance, e.g. Israel.

Choice of tax unit: individual vs family basis

- Splitting system



Arguments for and against family taxation

For

•Horizontal equity
- 2-earner families with different income shares
- But what about:
  - 1 earner vs 2 earner households
  - Married vs unmarried cohabitants

•Tax avoidance
- Attribution of non-labour income to lower earning spouse with individual taxation

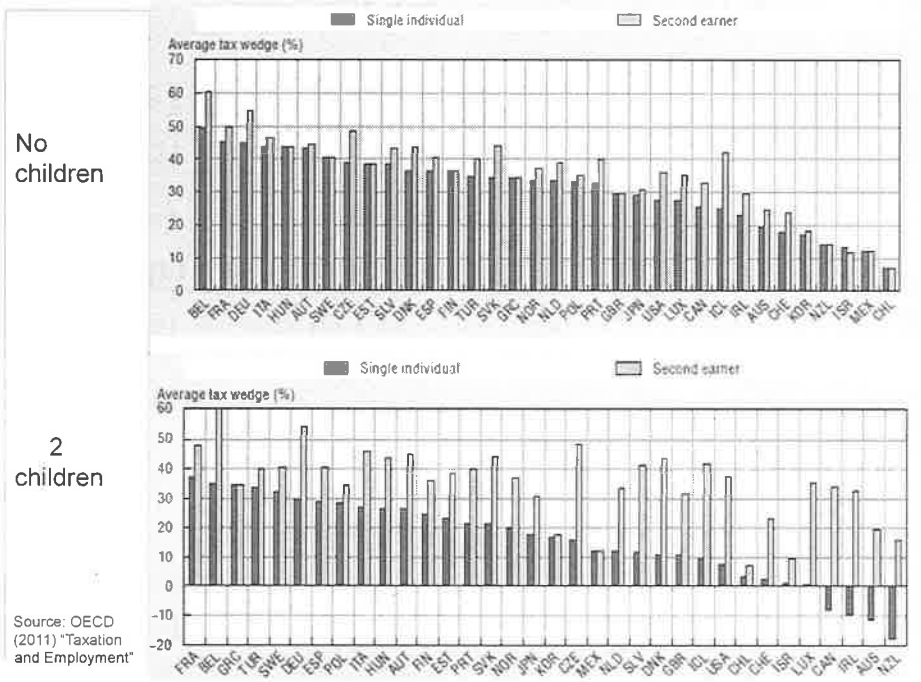
Against

•Marriage penalty (if PIT thresholds are not doubled)

•Strong work disincentives for second earners

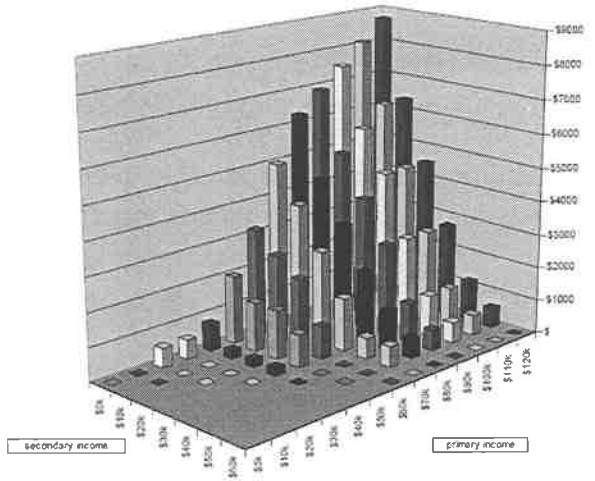
Country Example: French *quotient familial* system

- Tax unit is the fiscal household (“*foyer fiscal*”)
- Family is allocated a number of “family shares” as follows:
  - 2 shares for married couple
  - 1 share for a single individual
  - 0.5 shares for each of first 2 dependent children
  - 1 share for each additional child or dependent adult
- Total family income is then divided by the total number of family shares.
- Tax liability is then calculated for 1 share according to the progressive PIT rate schedule, and multiplied by the number of family shares.



Who wins from moving to family based taxation?

FIGURE 1: GAIN PER COUPLE UNDER INCOME SPLITTING



Source: NZ Government (2008) "Income splitting for families with children"

Overview

1. Comparing Personal Income Taxes
2. **Key Choices**
   a) Types of tax systems
   b) Choice of tax unit
   c) Tax concessions
   d) Tax-benefit interaction
   e) Rate Schedule

Tax expenditures: rationale

- Account for costs associated with deriving income
  - e.g. travel-to-work costs
  - (business expenses for unincorporated businesses)
- Better estimate ability to pay tax
  - e.g. basic/child reliefs, deductibility of health care costs; family-based tax credits
- Alter behaviour (for economic or social reasons)
  - e.g. deductions for savings, education, charitable giving; in-work tax credits.
  - More on this tomorrow…

Tax expenditures: Deduction vs Tax Credit

- A deduction reduces the level of taxable income.
- A tax credit reduces the final tax payable to government.

- The value of a deduction depends on the taxpayer's marginal tax rate; whereas the value of a tax credit is fixed.

- If the taxpayer has insufficient income in a year:
  - a deduction will increase losses which will generally be able to be carried forward to future years (note time value loss).
  - A tax credit may be wasteable (lost if there is no current tax liability to offset), or non-wasteable/refundable (cashed-out in the current period if there is no tax due)

Standard vs non-standard deductions/credits

- Standard deductions (Following *OECD Taxing Wages* classification)
  - Unrelated to actual expenditure incurred by taxpayer.
  - Automatically available to all taxpayers who satisfy the eligibility rules specified in the legislation.
  - Based on, e.g., income, number of children, marital status, or combination of the above.
  - Usually fixed amounts or fixed proportions of income
- Non-standard deductions
  - Wholly determined by reference to actual expenditure
  - Not fixed amounts or fixed proportions of income

Standard deductions/credits

- Most common deductions in OECD countries:
  - Basic relief (per taxpayer/family)
  - Dependent spouse relief
  - Standard child relief (dependent on number and age of children)
  - Standard (fixed) deduction for work-related expenses
  - Deduction for SSC or sub-central government taxes
- Most common tax credits
  - Family based tax credits
  - In-work tax credits

Non-standard deductions/credits

- Mortgage interest deductions (e.g Italy, Lux, Norway, Spain)
  - Generally without imputed rental being taxed
- Interest expenses generally (e.g. Denmark, Finland, Ireland, Sweden, US)
- Medical costs (e.g. Italy, US)
- Travel-to-work/work related expenses (e.g. Australia, Finland, Ireland, Lux, Norway, Sweden, Switzerland, UK)
- Union fees (e.g. Canada, Denmark, Norway)
- Contributions to private pensions/retirement savings plans (e.g. Canada, Denmark, Italy, Norway, Sweden, Turkey)
- Charitable donations (e.g. Canada, Italy, NZ)
- Education expenses (e.g. Hungary, Italy, US)

Country Example: Japan

Standard reliefs

- Basic allowance of JPY 380 000.
- Dependent spouse allowance of JPY 380 000 where:
  - Live with spouse; and
  - Income of spouse does not exceed JPY 380 000.
- Allowance for other dependents (children or other relatives) of JPY 380 000 per dependent (JPY 630 000 if child between 16 and 22).
- Deduction for social insurance premiums.
- A percentage of employment income is deducible (percentage reduces as income increases).

Country Example: Japan

Non-standard reliefs

- Tax credit for housing loans
  - Floor space must be not less than $50m^2$, and at least half of the floor space must be used as owner-occupied dwelling.
  - Taxpayer's income cannot exceed JPY 30 million.
  - Credit rate varies according to year of purchase. Cap also imposed.
- Deduction for life insurance premiums and personal pension plan premiums
- Deduction for medical expenses (maximum deduction is JPY 2 million).
- Deduction for earthquake insurance premiums

Example: United States

Standard reliefs

- US standard deduction of USD 10 900 (in 2008) for families; 5 450 for individuals; 8 000 for heads of households.
- USD 3 500 personal exemption to each taxpayer (indexed by inflation)
  - reduced by 0.67 percent (USD 23.33) for each USD 2 500 or fraction thereof by which the taxpayer's income exceeds USD 239 950 for married couples, USD 159 950 for single taxpayers, and USD 199 950 for heads of households.
- USD 3 500 exemption for each dependent child or other dependent claimed
- Refundable child tax credit of USD 1 000 per child (abated).
- Refundable earned income tax credit for low income workers
  - More generous for families with children

Example: United States

If don't claim standard deduction, can claim the following non-standard reliefs:

- Medical and dental expenses that exceed 7.5 per cent of income;
- State and local income taxes, real property taxes, and personal property taxes;
- Home mortgage interest;
- Investment interest expense up to investment income with an indefinite carry forward of disallowed investment interest expense;
- Contributions to qualified charitable organisations (including religious and educational institutions);

Problems with tax expenditures

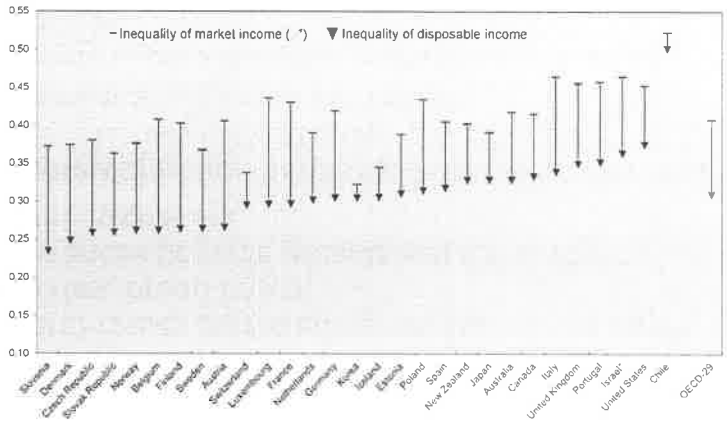
- General issues surrounding tax incentives apply – low rates, broad bases!
  Allowances provide greater benefit to higher income taxpayers.
- Withdrawal of tax credits/cash transfers can result in very high marginal effective tax rates (METRs), often over a large income range.
  - Family based withdrawal increases second earner METRs.
- Dependent spouse credits/deductions have negative effect on second earner work incentives.
- Increase complexity, compliance and administrative costs, fraud.

Overview

1. Comparing Personal Income Taxes
2. **Key Choices**
   a) Types of tax systems
   b) Choice of tax unit
   c) Tax concessions
   d) Tax-benefit interaction
   e) Rate Schedule

Redistribution through taxes and benefits plays an important role

Market incomes are distributed more unequally than household net incomes: taxes and benefits reduce inequality by a quarter

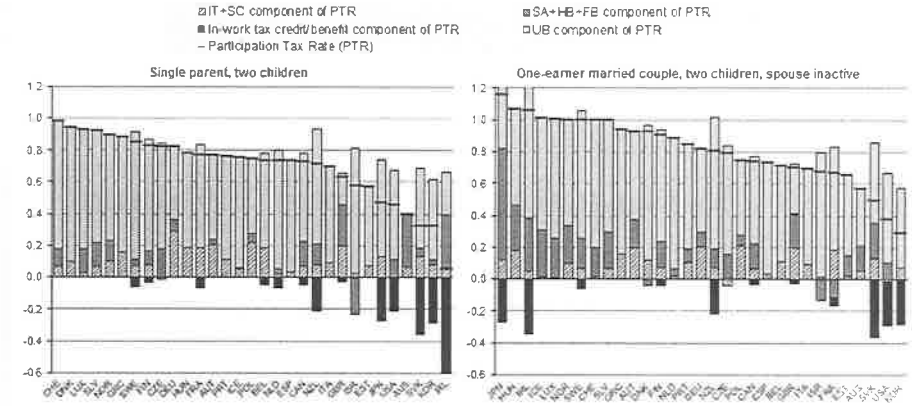


Note: Market incomes are all gross incomes from earnings, savings and capital
Source: OECD 2011, Divided we Stand

Tax-benefit interaction

- Can't look at tax system in isolation
- Generous benefits achieve social goals, but create a disincentive to enter the workforce
  - Unemployment
  - Social assistance
  - Family benefits
  - Housing
- Universal benefits too costly (and unfair?)
- Use of in-work tax credits a (partial) solution...

Decomposition of Participation Tax Rates, 2009 (SR unemployment-into-work earning 50% of AW)



IT: Income tax
SC: Social security contribution
HB: Housing benefits
FB: Family benefits
SA: Social assistance
IW: In-work benefits
UB: Unemployment benefits
Source: OECD (2011) 'Taxation and Employment'.

Note: Countries are ranked by decreasing order of the total PTR.

Overview

1. Comparing Personal Income Taxes
2. **Key Choices**
   a) Types of tax systems
   b) Choice of tax unit
   c) Tax concessions
   d) Tax-benefit interaction
   e) Rate Schedule

For more information, please contact:

Pierce O'Reilly, Ph.D

Tax Economist

Personal and Property Taxes Unit

Tax Policy and Statistics Division
Centre for Tax Policy and Administration

2, rue André Pascal - 75775 Paris Cedex 16
Tel: +33 1 45 24 15 97 – Fax: +33 1 44 30 63 51

Pierce.oreilly@oecd.org || www.oecd.org/tax

TAXATION, LABOUR SUPPLY AND INFORMALITY

Pierce O'Reilly

Tax Economist

Centre for Tax Policy and Administration, OECD

OECD Income Tax Workshop

22-27 February 2016, Seoul, Korea

OECD

Why Does Labour Supply Matter?

- Labour supply the key response to labour income taxation (and arguably to PIT in general)
- Loss of labour supply leads to
  - Lost economic activity
  - Lost revenue
  - Lost future economic potential (labour market attachment, skills)
- As we saw, PIT & SSCs account for substantial fractions of total revenue in OECD countries
- How can we tax these bases without negatively affecting work in the economy?

Overview

1. **Labour Supply Margins**
2. Different Tax Rates on Labour Supply
3. Empirical Evidence on Tax and Labour Supply
4. Labour Market Informality and Tax

Labour Supply Margins

- **Intensive**:
  - Hours of work on the job, intensity of work, occupational choice [including education]
- **Extensive**:
  - Whether to work or not [e.g., retirement and migration, labour market inactivity decisions]

What causes different labour responses?

1. Different responses in short-run and long-run: long-run response most important for policy but hardest to estimate.
2. The reaction is reduced by frictions: adjustment costs, inattentive agents, or status quo biases (Chetty, 2012).
3. Different skill levels and potential earnings
4. Strong decentralised unions can reduce responses
   - High union membership and low degree of centralisation/co-ordination of wage bargaining
   - May push for higher wages after a tax increase (whereas centralised unions more likely to factor in increased unemployment in bargaining strategy)

Overview

1. Labour Supply Margins
2. **Different Tax Rates on Labour Supply**
3. Empirical Evidence on Tax and Labour Supply
4. Labour Market Informality and Tax

What causes different labour responses?

5. Minimum wages
   - High employer social security contributions combined with generous minimum wage levels can result in some low-skilled workers being "priced out" of employment
6. Reported earnings for tax purposes can also vary due to
   - Tax avoidance [legal tax minimization],
   - Tax evasion [illegal under-reporting, e.g. informality]
   - Both will be discussed later in the course.

Key Tax Rates on Labour Supply

- Crucial to focus on what the key margin is for labour supply
- Marginal tax rate not a sufficient statistic
- Participation tax rate involve examining the difference between income with and without labour market participation
  - May vary depending on circumstances of taxpayer
  - E.g. second earners (principal earner income matters)
  - Also on benefits earned out of work

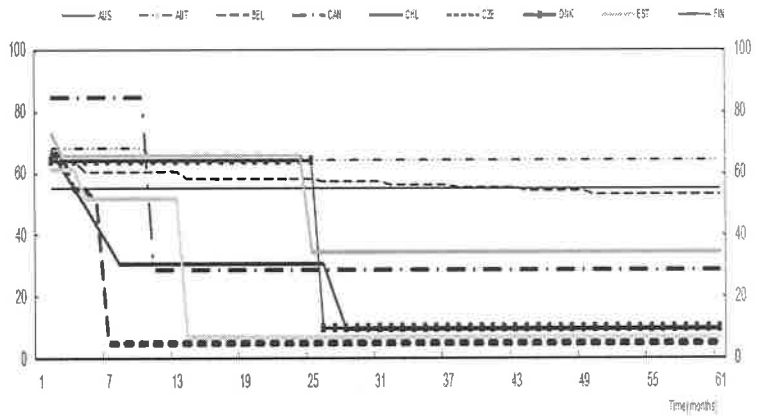
Net replacement rates

- Net replacement rates (NRR) measure to what extent tax-benefit regulations assure income adequacy in case of loss of employment.

  NRR = net income while out of work / net income while in work

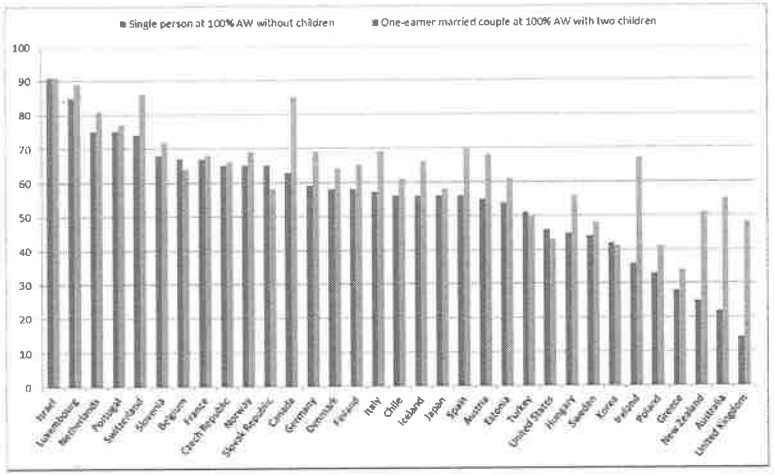
- NRRs compare total family income between two different work situations of one particular household member. They capture the degree of income protection provided by both the tax-benefit system (and any incomes of other household members)

Net replacement rates of unemployment benefit over a five-year period, 2013



Source: http://www.oecd.org/els/benefits-and-wages-statistics.htm

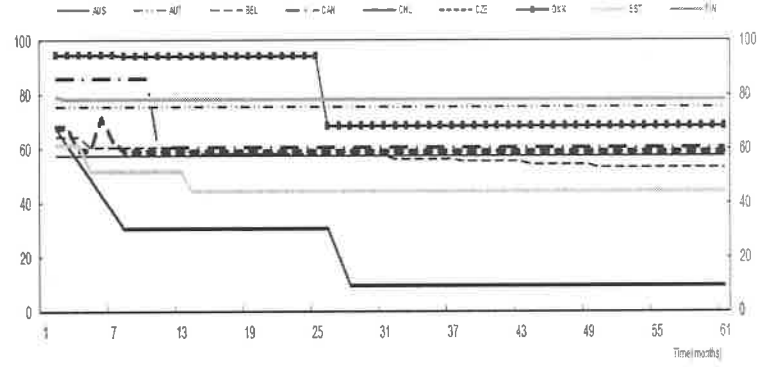
Net replacement rates of unemployment benefit, 2013



Source: http://www.oecd.org/els/benefits-and-wages-statistics.htm

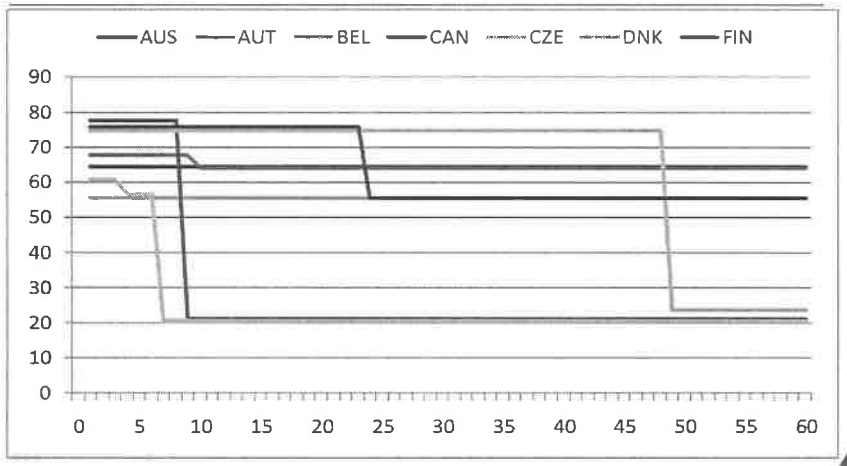
Net replacement rates of unemployment benefit recipients over a five-year period, 2013 (II)

Family qualifies for cash housing assistance and social assistance "top ups"



Source: http://www.oecd.org/els/benefits-and-wages-statistics.htm

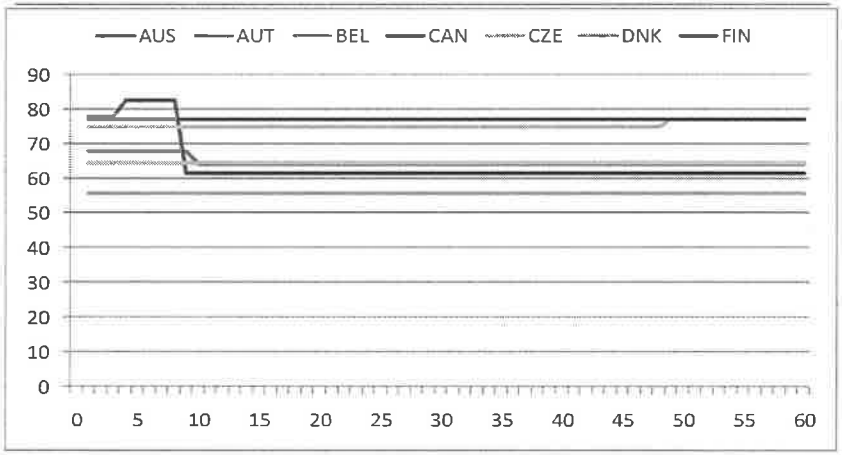
Net replacement rates over a five-year period, 2005 (not including SA)



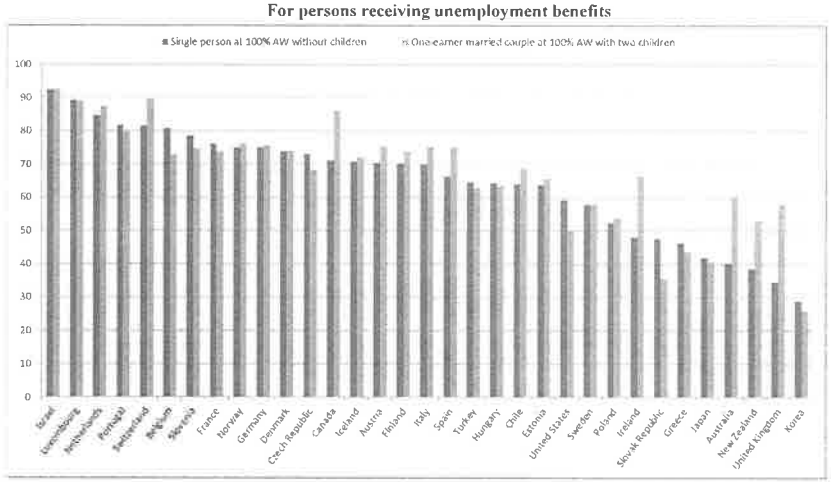
Participation tax rate (Average effective tax rate)

- AETRs measure by how much benefits decrease and taxes increase when moving from unemployment/inactivity to employment
- Does it pay to take up a job?
- $AETR = 1 - \frac{\text{change in net income}}{\text{change in gross income}}$

Net replacement rates over a five-year period, 2005 (including SA)



Participation tax rates for a transition into full-time work, 2013



Source: http://www.oecd.org/els/benefits-and-wages-statistics.htm

Effective tax rates

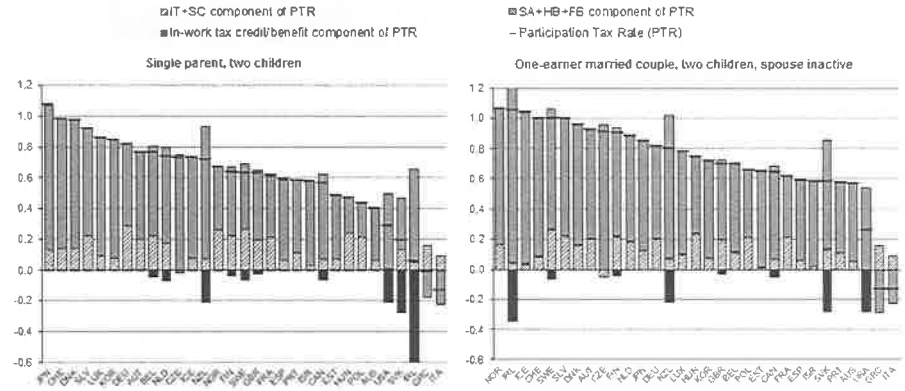
- Participation tax rate

$$PTR = 1 - \frac{y_{netIW} - y_{netOW}}{y_{grossIW} - y_{grossOW}} = 1 - \frac{y_{netIW} - y_{netOW}}{y_{grossIW}}$$

- Marginal effective tax rate

$$METR = 1 - \frac{y_{netB} - y_{netA}}{y_{grossB} - y_{grossA}}$$

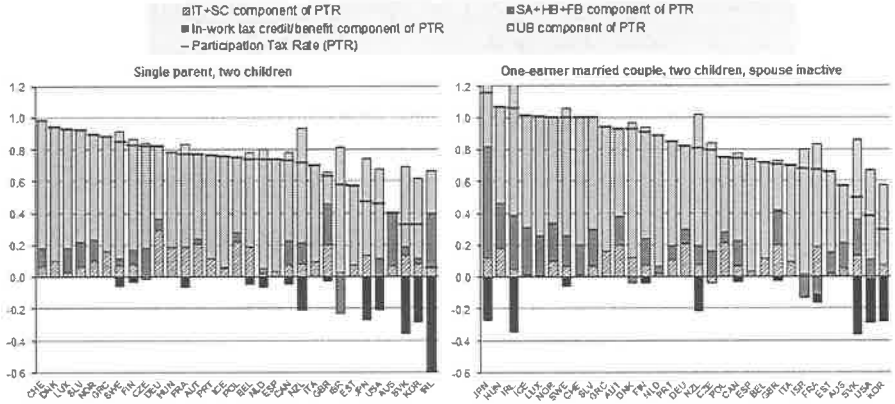
Decomposition of Participation Tax Rates, 2009 (LR unemployment-into-work earning 50% of AW)



IT: Income tax
SC: Social security contribution
HB: Housing benefits
FB: Family benefits
SA: Social assistance
IW: In-work benefits
Source: OECD (2011) "Taxation and Employment"

Note: Countries are ranked by decreasing order of the total PTR.

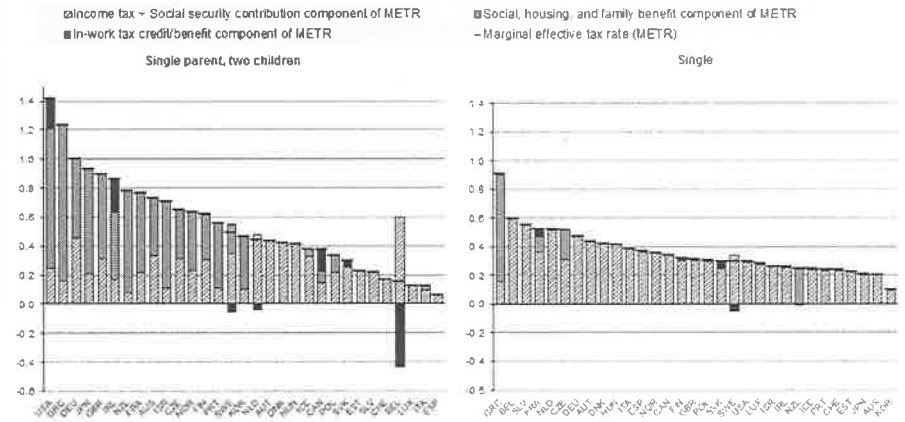
Decomposition of Participation Tax Rates, 2009 (SR unemployment-into-work earning 50% of AW)



IT: Income tax
SC: Social security contribution
HB: Housing benefits
FB: Family benefits
SA: Social assistance
IW: In-work benefits
UB: Unemployment benefits
Source: OECD (2011) "Taxation and Employment".

Note: Countries are ranked by decreasing order of the total PTR.

Decomposition of METR, 2009
(Increasing hours worked: earnings up from 50 to 55% of AW)



IT: Income tax
FB: Family benefits
HB: Housing benefits
SA: Social assistance
SC: Social security contribution
Source: OECD (2011) "Taxation and Employment"

Note: Countries are ranked by decreasing order of the total METR.

Overview

1. Labour Supply Margins
2. Different Tax Rates on Labour Supply
3. **Empirical Evidence on Tax and Labour Supply**
4. Labour Market Informality and Tax

Empirical evidence in the literature

- Empirical studies focus on tax changes (and in-work benefits), typically making use of difference in difference estimators or of structural estimators.
- Immervoll et al. (2007) use a baseline calibrated intensive margin of -**0.1.**
- Chetty (2012) finds a mean observed hours and taxable income elasticities among various studies of **-0.15;** this elasticity is much larger for top earners (**-0.84**).
- Elasticities are larger in the studies that focus on the largest changes in tax policy. Chetty (2012) makes use of this pattern to compute bounds on the elasticities that would prevail in the absence of optimization frictions.
- OECD work on the topic: Causa (2008) finds a negative effect of the marginal tax rate on hours worked for women, but not for men.
- Many other studies focus on the extensive margin (participation/employment rates), such as Bassanini and Duval (2006).

Which groups have large elasticities?

- Based on OECD studies (mainly US).
- Most existing empirical evidence for a particular country/reform (some cross country studies e.g. Bargain et. al. 2012).
- Lack of evidence on the role of transfers for the poorest (e.g. Immervoll, Jenkins and Königs, 2015 on benefit dependence).
- Literature suggests elasticity of about -0.1 for both men and women, with a wider heterogeneity of estimates for women (men [-0.287,0.002]; women [-0.4,0.52] - Blundell and MacCurdy (1999)) .

Which groups have large elasticities?

- Smaller elasticities for prime-age males
- Larger elasticities where levels of labour force attachment are lower
  - Second earners
    - Often lower elasticities, especially with children & higher costs of childcare
    - Problematic as the participation margin for second earners can be high.
    - As discussed, the choice of tax unit matters a lot.
  - Women
    - Elasticities go from zero to over one. Average around 0.5. Though these have declined overtime as women become more attached to labor market.
    - Elasticities often concentrated along the extensive margin.
  - Older workers
    - Often depends on retirement & disability policies.
  - Low-income workers
    - Low skills, low potential wages
    - Benefit system must also be taken into account

Policy Implications

- Is there a case for Negative Income Taxes/In-work Refundable Taxes?
  - Potential positive externalities to labour market participation – esp. for single mothers (e.g. health of children) (though evidence mixed, e.g. Bettendorf et. al.)
  - NIT experiments in the United States have suggested very high (extensive margin) participation elasticities – especially for single mothers.
  - Intensive margin elasticities much lower
  - Intensive margins concentrated among self-employed workers, could be due to tax avoidance.
  - Knowledge and salience also matters a lot (see Raj Chetty's work & 2013 paper with Saez on EITC information.)

Overview

1. Labour Supply Margins
2. Different Tax Rates on Labour Supply
3. Empirical Evidence on Tax and Labour Supply
4. **Labour Market Informality and Tax**

Policy Implications

- As we have seen, there are reasons to lower taxes on high-elasticity groups
- But hard to reconcile with equity considerations, and with efforts to keep the tax base broad

A variety of reasons why agents operate in the informal economy

1. High and costly labour, product, environment, financial market and tax regulatory burden augmented by the (financial) tax and "non-tax" burden |
2. Lack of Financial and other Net Benefits of functioning in the formal sector (i.e. net of benefits realized by agents functioning (partly or fully) in the informal sector):
3. Governance
   a) Poor Governance in the formal and/ or the informal sector:
   b) Low Effective Enforcement in the formal and/ or informal sector:
4. Lack of trust
5. Absence of or imperfect "formal" markets
6. High Poverty

Why bringing informal businesses and individuals within the reach of the tax system?

1. Raise Revenue
2. To strengthen Equity,
   a) sustain tax morale and tax compliance among formal agents.
   b) But, agents typically have low- income and taxation is potentially regressive = rationale for presumptive tax regimes!
   c) Efforts to tax the informal economy might increase the risk of relatively coercive or corrupt behaviour by tax officials: these concerns need to be tackled at source!
3. To improve Social Welfare:
   - Can impose significant economic risks and create vulnerability (e.g. health, crime).
   - Can lead to underinvestment in human capital – negative long-term effects.
4. To improve Efficiency:
   - Informal activities use and congest public infrastructure without paying a contribution (free-riding).
   - Informal businesses take market shares from formal companies such that the latter lack a sufficient scale of production to increase their productivity (though limited evidence).

A selection of other key lessons learned from the Informal economy literature

Exclusion versus exit requires different strategies.

The duality "formal>< informal" is misleading: a continuum of firm types exists, from the most informal (subsistence-type activities) to the most formal businesses.

- Depending upon the context, businesses often move along this continuum, some seeking formalisation other falling into informality as the cost-benefit calculations of being in one category or another change.
- Formal and informal economies are intrinsically linked.
- Challenging to reconcile (especially) longer-run costs of informality for society and agents with (especially) shorter-run benefits of informality for individuals and businesses.
- Governments should make the cost-benefit shift in favour of formality for as many business types as possible through broad, including tax, reforms!

Why bringing informal businesses and individuals within the reach of the tax system?

5. To stimulate Economic Growth:
   - The growth benefits of formalisation are positive but are heterogeneous across firm types. The smallest firms frequently benefit the least while mid-sized firms typically benefit the most.
   - As informality can be explained, to some extent, as rational sorting of firms and workers based on inherent productivity characteristics, formalization *per se* may not address the fundamental determinants of productivity.
6. To strengthen good governance.
   a) In order to increase tax compliance, the state may be more responsive and accountable to groups that pay taxes;
   b) Agents that pay taxes are more likely to make demands for responsiveness and accountability;
   c) Efforts to tax informal sector operators could catalyse collective action and political engagement by informal sector associations

Lessons learned from the "Tax and Development" literature

- Tax mix in developing countries typically include distortive trade taxes, because revenues from other taxes are not available. Because of a narrow tax base (low incomes, large informal economy, poor tax administration, unproductive businesses), countries typically have levied high direct tax rates paid by those agents that do operate in the formal economy.
- High direct tax rates and trade taxes have not contributed to improving the productivity of domestic businesses.
- Policy advice developing countries typically have received: abolish trade taxes.
- However, abolishing trade taxes may make domestic businesses vulnerable to imports.

Lessons learned from the "Tax and Development" literature

- Revenue implications: governments may have to increase direct tax rates even more, thereby further distorting the economy.
- McNabb and LeMay-Boucher (2014) find empirically that shifting the tax mix away from trade taxes towards CIT and especially PIT will decrease economic growth.
- Also introducing tax incentives to attract FDI is expected not to be good policy if it put domestic businesses at a competitive disadvantage compared to newly attracted FDI.
- **CONCLUSION: tax policy reform needs to be accompanied by strategies that strengthen the formal economy and the tax administration!**

Lessons learned from tax policy reform in OECD countries

- **Belgium:** introduction of electronic invoicing in bars and restaurants; very high tax burden on labour income – electronic invoicing (for VAT purposes) may force many businesses into bankruptcy. A comprehensive reform is required that strengthens tax compliance but lowers the tax burden on workers at the same time.
- Further discussion of presumptive taxation and other SME-based incentives later in the week.

Lessons learned from tax policy reform in Colombia

- Very distortive business income tax burden – need to make economy and FDI less dependent on natural resources.
- Introduction of relatively strict international tax rules.
- Distortive financial transaction taxes as tax revenue raiser.
- Need to raise more revenues
- Very large informal economy (up to 70%) – very high inequality – very high offshore tax evasion.
- **Tax reform needs to be accompanied by reforms that strengthen the formal economy, the tax administration, the legal tax framework as well as reduce offshore tax evasion.**
- **Making such a reform happen is a major challenge**

References

- Bettendorf, Leon, Kees Folmer, and Egbert Jongen. 2013. The dog that did not bark: The EITC for single mothers in the Netherlands. CPB Discussion Paper 229
- Blundell, Richard, and Thomas Macurdy. Labor Supply: A Review of Alternative Approaches, *Handbook of Labor Economics*
- Chetty, R., J. Friedman and E. Saez "Using Differences in Knowledge Across Neighborhoods to Uncover the Impacts of the EITC on Earnings", American Economic Review, 2013, 103(7), 2683-2721 (web)
- Pencavel, J. "Labor Supply of Men: A Survey", Handbook of Labor Economics, vol. 1, chapter 1, 1986. (web)

For more information, please contact:

Pierce O'Reilly, Ph.D

Tax Economist

Personal and Property Taxes Unit

Tax Policy and Statistics Division
Centre for Tax Policy and Administration

2, rue André Pascal - 75775 Paris Cedex 16
Tel: +33 1 45 24 15 97 – Fax: +33 1 44 30 63 51

Pierce.oreilly@oecd.org || www.oecd.org/tax

CORPORATE INCOME TAX

DESIGN ISSUES

Income Tax Workshop
Korea
February 2016

Jaehyung Jang
Yulchon LLC,
PPT edited by JJANG

OECD
BETTER POLICIES FOR BETTER LIVES

Overview

- Why tax corporations?
- Link with personal income tax
- Efficiency
- Neutrality
- Equity
- International tax competition

Why tax corporations?

- A corporation does not have a physical presence but is generally recognised as a 'legal person'
- Value added by corporations is through:
  - Workers (labour)
  - Shareholders (capital)
  - Lenders (capital)
  - Government (infrastructure, land, resources) etc
- Corporate tax can be:
  - Pre-payment of personal tax
  - Rent tax
  - Payment for benefits not priced

Why tax corporations? (cont.)

- Pre-payment
  - Single taxing point (corporation) instead of many taxing points (shareholders)
  - Taxing unrealised capital gains is difficult
  - Tax on non-residents – source-based tax
- Rent tax
  - Location specific rents / monopoly rents
- Payment for benefits not priced
  - Transport, education, local amenity, fresh air, regulatory systems, Courts, etc

Link with personal income tax

- Various systems
  - Imputation system
  - Classical system
  - Dual income tax system
  - Exemption system
- Issues
  - Debt bias
  - Deferral/retained profits bias
  - Incorporation bias

Debt Bias (1)

- Taxable income
  - pQ – wL – rB – dK
    (pQ : total revenue, wL : labor cost
    rB : paid interest, dK : amortized amount
    K : Fixed Capital)

- Economic income
  - pQ – wL – (r+σ)K
    (σ : economic depreciation rate)

Debt Bias (2)

- Where (rB + dK) < (r+σ)K
  - Debt financing is beneficial to the equity financing.

Link with personal income tax *Imputation system*

		Retained Profits	Unicorporated
Gross profits	100	100	100
CIT (30%)	30	30	
Profits net of CIT	70	70	
PIT (40%)	=(100*0,4)-30 = 10	Deferral until realisation (t)	40
Net profits	60	PV of 60 in year t	60

Link with personal income tax
Classical system

		Retained Profits	Unincorporated
Gross profits	100	100	100
CIT (30%)	30	30	
Profits net of CIT	70	70	
PIT (40%)	28	Deferral until realisation (t)	40
Net profits	42	PV of 42 in year t	60

Link with personal income tax
Exemption system

		Retained Profits	Unincorporated
Gross profits	100	100	100
CIT (30%)	30	30	
Profits net of CIT	70	70	
PIT (40%)	0	0	40
Net profits	70	70	60

Link with personal income tax
Variant of a classical system

	Equity	Retained Profits	Unincorporated
Gross profits	100	100	100
CIT (30%)	30	30	
Profits net of CIT	70	70	
PIT on earned income (40%) PIT on financial income (20%)	14	Deferral until realisation (t)	40
Net profits	56	PV of 56 in year t	60

Link with personal income tax
Total tax liability under various systems

		Retained Profits	Unincorporated
Imputation	40% PIT rate	30-40% PIT rate	40% PIT rate
Classical	58% CIT+PIT	30-58% CIT + PIT	40% PIT rate
Classical (variant)	44% CIT+PIT	30-44% CIT+ PIT	40% PIT
Exemption	30% CIT rate	30% CIT rate	40% PIT rate

Link with personal income tax
Discussion of issues

- Imputation system
  - Ensures neutrality (apart from the benefit of deferral) in a domestic context
  - If the shareholder is resident of another country
    - the residence country may be reluctant to allow a credit of a foreign CIT on its own PIT
  - If the residence country disallows, discrimination between domestic and foreign investments
    - In the case of domestic investment, CIT will be credited against the PIT liability of the investor
    - Classical system will apply for foreign investments
- Source country: tax exporting
  - A capital importing country that raises its CIT rate reduces the CIT revenue of the residence country of the foreign shareholders

Link with personal income tax
Discussion of issues (cont.)

- Exemption system
  - Neutrality of PIT rate = CIT rate
  - CIT rate > PIT rate,
    - Debt bias
    - Bias towards unincorporated enterprises
  - CIT rate < PIT rate
    - Equity bias
    - Bias towards incorporated enterprises

Link with personal income tax
Discussion of issues (cont.)

- Classical system
  - Double taxation of distributed and retained (assuming a capital gain tax) profits
  - Debt bias
  - Incorporated enterprises more heavily taxed than unincorporated
  - In an open economy: combination of source (CIT) and residence countries tax rate (PIT)
    - Residence country: incentive to invest in low tax countries
    - Source country: incentive to reduce its CIT rate (and to increase PIT)
- Variant of classical system (separate taxation of income from capital)
  - Reduced discrimination against incorporation (subject to thin capitalisation rules)
  - Exacerbates the debt bias

Link with personal income tax
Discussion of issues (cont.)

- If your goal is to avoid the debt bias
  - An imputation system will work in a domestic context
  - An exemption system will work, if the PIT rate fits with the CIT rate
- If your goal is to make the tax system neutral on the incorporation decision
  - An imputation system will work in a domestic context
  - The variant of the classical system, with separate taxation of income from capital, may approximate neutrality, subject to thin capitalisation rules
  - An exemption system may work, if the PIT rate fits with the CIT rate

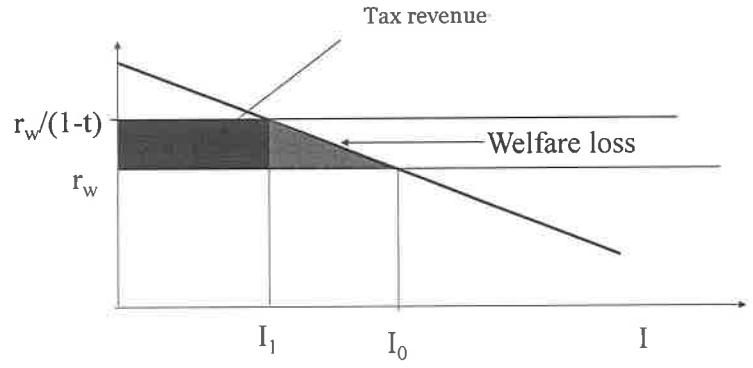
Efficiency

- Efficiency: all taxes have an adverse impact on the overall welfare of citizens/voters/people
- Efficient taxes raise the most money with the smallest adverse impact
- How to minimise the welfare loss (WL) for a given amount of tax revenue (TR)?

Efficiency: summary

- The most efficient taxes have:
  - a low rate
  - apply to an inelastic tax base
  - have a broad base (which allows low rate)
- Assumes perfect markets:
  - Imperfect competition may prevail
  - Market imperfection: for example, SMEs suffering from credit rationing or a shortage of equity
  - Externalities (R&D, polluting activities)

Efficiency: Welfare loss from corporate tax



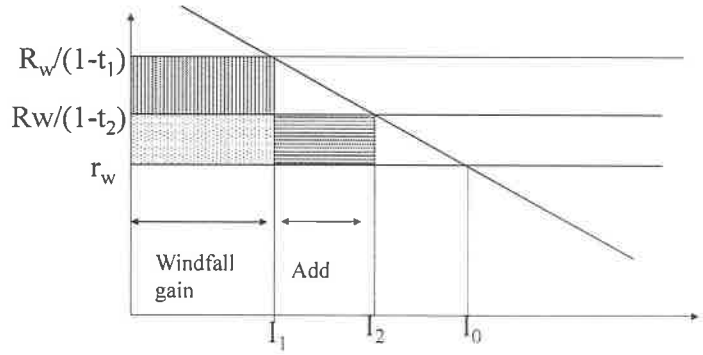
Efficiency: summary

- Assumes infant industry protection :
  - Infant industry may have externalities (technology, exploiting market, industry culture)
  - Protection abuse issues (monopoly, moral hazard, conglomerate issue)

Efficiency: summary

- Think about
  - Same tax burden on manufacturing business and entertainment business.
  - But, how about K-pop ?

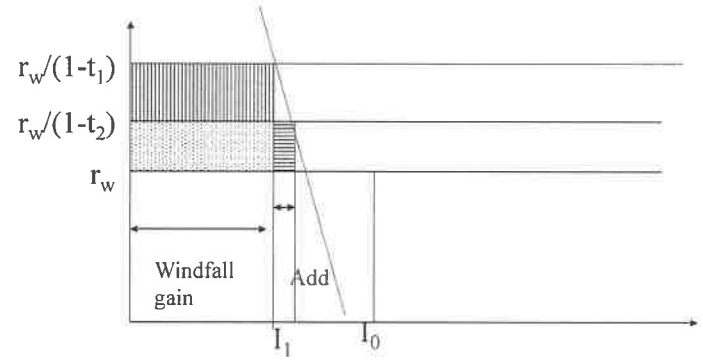
Tax incentives: windfall gains



Neutrality

- All taxes create distortions in the market
- Goal is to raise money whilst minimising distortion
- Distortion reduces welfare as less valuable activities crowd out more welfare enhancing activities
- Example: tax incentives – favour one activity over others

Tax incentives (cont.)



Tax incentives (cont.)

- The effect of a tax incentive does not fit with the amount of investment that benefits from it (I_2)
- I_1 would be invested anyway, but enjoys the tax incentives. There is a "windfall gain", in most, if not any circumstances
- What matters is the additional effect (I_2-I_1)
- Hard to quantify: the "pre-incentive" case may not be observable (I_1)

Tax incentives (cont.)

- Still... think of market failure
  - Tax incentives may contribute to remedying market failure
    (ex : R&D, pollution, infant industry)
  - Tax incentives may be helpful to the proliferation of the certain industry

Tax incentives (cont.)

- Key parameters
  - Differences in (effective) tax rates: larger rebate will give more additional activity
  - Elasticities of supply and demand (to what extent do they react to price changes ?)
  - No change in the pre-tax prices, so the incentive is fully translated into market prices

Equity

- Income redistribution is an inter-personal issue
- Corporations are not "persons", so the issue is irrelevant
- But
  - CIT helps (a lot!) to ensure a fair contribution of tax from capital
  - The share of income from capital is an increasing proportion of global income
  - So, the taxation of (domestic and foreign) income from capital matters for income redistribution

Equity

- Still many countries favors SMEs
- Large enterprise vs SME
- Their shareholders may be different
  - if large enterprises go public
  - Tax incentives to the unlisted SME go to the wealthy shareholders

- Equity issue in the corporate tax is related to the shareholder structure.

Tax Competition

- Facts
  - Downward trend in nominal tax rates
  - Preferential tax regimes widespread
  - The move away from imputation systems exacerbates the effect of tax competition
- Pro
  - Tax competition may help to reduce the size of the government (Leviathan)
  - Reduce taxation on elastic (mobile) tax bases: may be optimal ?

Tax Competition (cont.)

- Cons
  - Only displacement effects
    - No increase in global welfare (but note game theory)
  - Distortion of the tax mix may have adverse economic effects
    - Tax competition may lead countries to reduce tax rates on mobile tax base and to increase tax rates on immobile tax bases
    - High taxation of labour income may have adverse economic effects
  - May act against neutrality
    - The gap between PIT and CIT rates increases

Reform of the Corporate Income Tax System

Alowin Moes, Ph.D.
Tax Policy
Federal Department of Finance
Swiss Federal Tax Administration

OECD Income Tax Workshop

Seoul, Korea
22-26 February 2016

Structure of presentation

I: Corporate and dividend income tax trends

II: Corporate income tax policy considerations

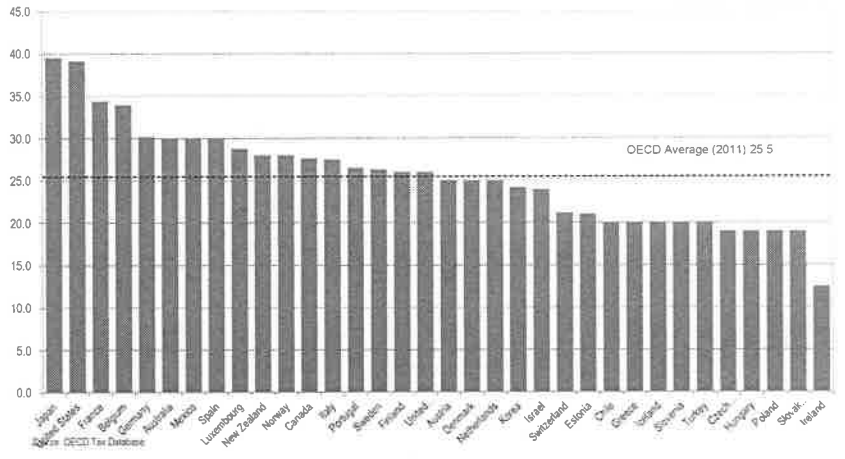
III: Broad options for corporate income tax reform

IV: Concluding remarks

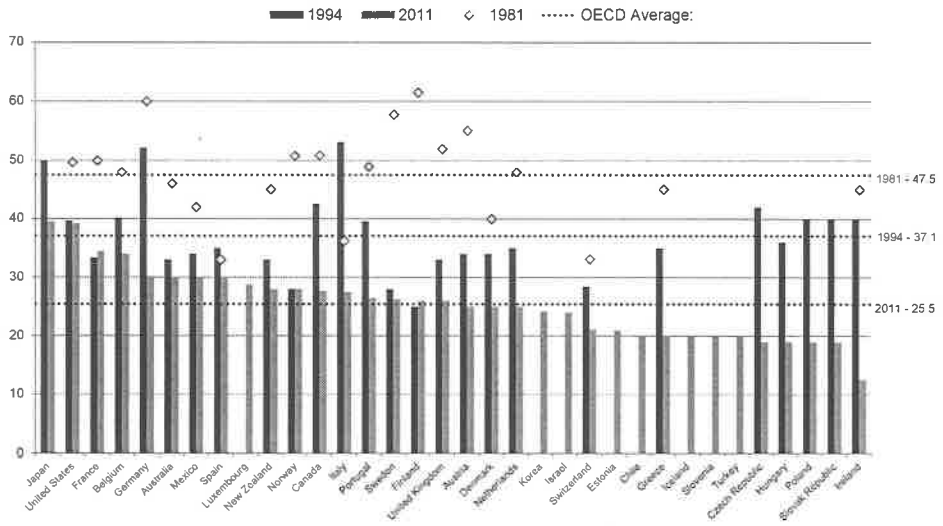
Part I:

Corporate and dividend income tax trends

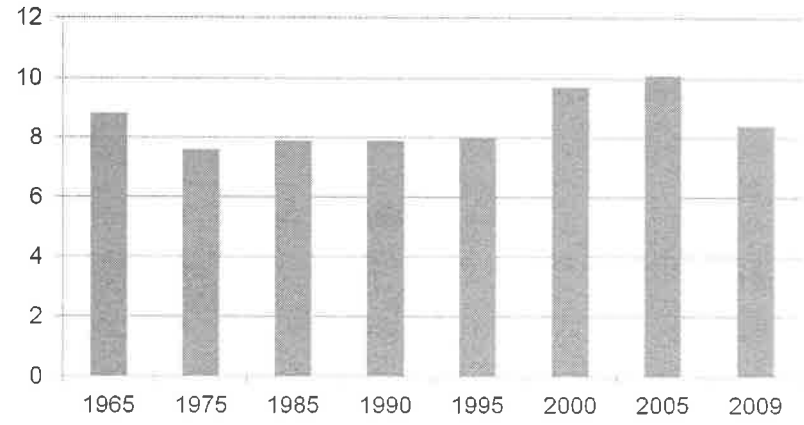
Top statutory corporate income tax rate (2011, %)



Top CIT rate over time (%)



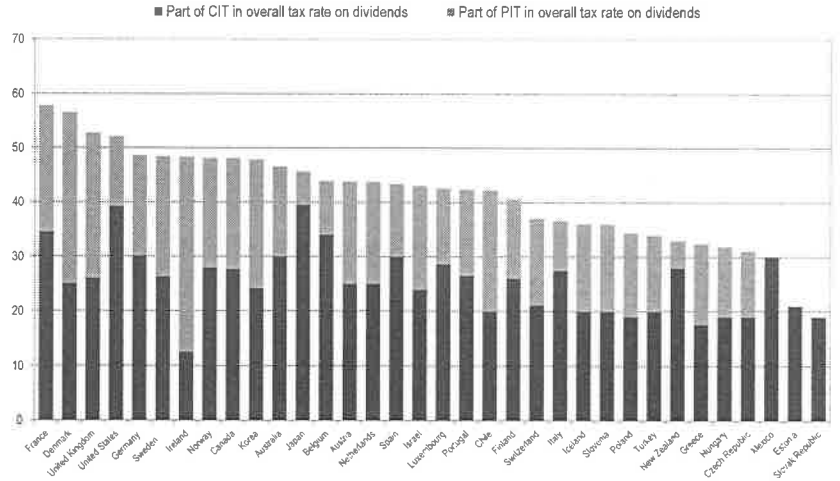
CIT revenue as % of GDP, over time



Corporate income tax rate by country size

	Statutory corporate income tax rate			
	2000	2004	2007	2011
Larger OECD economies	39.5	36.0	35.9	32.8
US-JPN-GER-UK-FRA-ITA				
Medium-sized OECD economies	35.4	32.8	29.6	27.8
CAN-ESP-KOR-MEX-AUS-NLD				
Smaller OECD economies	29.9	26.4	23.9	22.8
AUT-BEL-CHE-CHL-CZE-DNK-EST-FIN-GRC-HUN-ISL-IRL-ISR-LUX-NOR-NZL-POL-PRT-SVK-SVN-SWE-TUR				
OECD Average	32.6	29.2	27.0	25.5

Total tax rate on dividend income, 2011



Corporate income tax trends

- Reduction in CIT rates
- Increased tax revenues (but likely no longer true)
- Base broadening:
  - from accelerated tax depreciation allowances to more neutral tax depreciation, but unlikely that this can continue
  - Other base-broadening measures that countries are implementing:
    - Limiting interest deductibility (different possibilities)
    - International exchange of tax information (OECD work)
- Base narrowing:
  - Reduced CIT rates for intellectual property income (Netherlands, Belgium, Ireland)
  - Very generous R&D tax credits in many OECD countries
  - Allowance for corporate equity (restores debt/equity neutrality)

Part II:

Corporate income tax policy considerations

Corporate income tax: 4 major policy concerns

- How to maintain current levels of CIT revenue? Will further rate reductions be compensated by additional base broadening measures?
- How to maintain or create an attractive investment climate (for domestic and foreign investors)?
- How to solve the financial distortions: the debt-equity and external versus internal equity distortion?
- How to respond to the increased tax complexity: also caused by the globalization and the increased openness of economies? Tax complexity is the response of tax authorities to the increased corporate efforts to minimize tax liabilities.

Main reasons for levying a CIT

- Backstop to the personal income tax (especially important in case of capital gains),
- Withholding tax on equity income earned by non-resident shareholders,
- It captures part of the benefits of public expenditures on goods and services and of the legal provisions that are offered to the corporation,
- It can be designed not to create efficiency losses by taxing only the economic rents.

Main drivers of CIT reform

- Efficiency considerations:
  - CIT distorts total amount of investment and type of investment projects that will be invested in
  - Tax-induced incentive to finance investment with debt rather than equity
  - CIT might distort the choice for a particular legal form
  - CIT might influence mergers and acquisitions
- Who bears the burden of the CIT?
- Tax revenue considerations
- Complexity of the CIT system

CIT incidence

- The person / business that is legally responsible for paying the tax over to the revenue authority is not necessarily the same as the person/business who bears the tax burden
- Implication is that it doesn't necessarily matter who is formally responsible for paying the tax
- Economic burden is what ultimately matters
- All taxes on businesses will have their final incidence on customers, owners (shareholders) or employees

CIT incidence II

Two types of tax incidence analysis:

- Partial equilibrium analysis

  Price and quantity adjustments to reach equilibrium in an isolated market, ignoring connections with other markets

- General equilibrium analysis

  Adjustments in related markets to reach a general equilibrium in all markets. Interdependencies of markets being taken into account.

So who pays the CIT?

- In small (capital importing) economy theory suggest workers (or other immobile factors) do via lower wages
- Assumes capital is perfectly mobile, traded goods are perfect substitutes
- Relaxing assumptions moves burden back towards capital
- Traditionally thought of as tax on owners of capital
- More recently CIT seen as a way of extracting locational rents.

Capitalisation of asset taxes

- A permanent change in the taxation of an asset will be CAPITALIZED into the price and hence incident on the current owner
- This means that changes in the taxation of assets can impose large capital gains and losses on current owners
- CIT change might create windfall gains / losses without have a direct impact on behaviour
- Announcement effects may be important as prices adjust to reflect future taxes. Effect occurs on announcement, not on implementation

Corporate income tax - the international context

The corporate income tax might distort:

- The location of the investment
- The location of the business headquarters
- The location of the corporate tax base
- The international investment's source of finance and use of the investment's earnings
- The legal form that is chosen by the parent for its foreign business activities
- The ownership of the firm

Tax-planning strategies to reduce the overall corporate tax burden

Part III:

Corporate income tax reform

How to reduce the debt-equity distortion?

Distortions might be resolved in case of fundamental *corporate income tax* reform.

- Full integration systems / Methods for integration of distributed profits alone
- Limiting the interest deductibility: **PART III**
  - Comprehensive business income tax (CBIT)
  - Linked to profits
- Providing similar deduction for equity
  - The ACE tax system: **PART IV**
  - The ASE tax system

Distortions might be resolved in case of fundamental *corporate cash-flow tax* reform: **PART V**

Broad options for taxing corporate income

	Type of income subject to tax		
	Full return to capital	*Full return to equity*	*Economic rent*
Location of base			
Source country	Comprehensive business income tax	Conventional corporate income tax (deduction for foreign source income)	Source-based business expenditure tax (allowance for corporate equity, source-based cash flow tax)
Residence country		Conventional corporate income tax (credit for foreign taxes)	
Destination country			Destination-based business expenditure tax (destination-based cash flow tax, VAT-type cash flow tax)

Part III:

Different ways to limit the interest deductibility

Different ways to limit interest deductibility

- Full abolishment of interest deduction
- Comprehensive business income tax (CBIT):
  - CBIT entities (including financial institutions)
  - US proposal considered non-CBIT entities (households, government, foreign corporations)
- No taxation of received and no deduction of paid group interest:
  - The Netherlands
- No deduction of interest on debt to finance participations
- Limit deduction of interest linked to profits:
  - Germany

The ACE tax system

- The ACE tax system provides a deductible allowance for corporate equity in computing taxable profits (similar to the tax treatment of interest payments)
- The allowance = company's total equity capital * an appropriate interest rate
- Imputed return on equity = interest rate on medium term government bonds (no risk premium should be added)
- The ACE tax base is, in present value terms, equal to the tax base of the corporate cash-flow tax
- Normal return is not taxed; CIT is levied only on economic rents

- ACE only to new capital?
  - To limit impact on tax revenues
  - And to prevent windfall gain to existing capital owners
  - But higher costs for tax administration, also because of incentive to recategorise old as new capital.

- Neutral tax depreciation might still be preferred because it leads to more constant stream of tax revenues, especially in periods when firms invest a lot

- Allowance for proprietor's equity APE?

Cash-flow taxation: Start with differences in accounting systems

- Accrual-basis accounting: corporate income is included in the tax base when it is earned – not when cash is received – and corporate expenses are deducted when they are incurred – not when cash is paid. It requires a detailed set of tax rules that defines the proper timing of inclusion of earnings and deduction of expenses.

  Requires 'capitalization' of assets:

  - which assets? → assets that produce benefits in future years
  - How? → tax depreciation = economic depreciation

- Cash-basis / cash-flow accounting: income is included when cash is received and expenses are deducted when cash is actually paid. The cost of the investment is then immediately expensed, which implies a larger tax gain.

Corporate income or consumption type of tax reform?

- Income tax:
  - $I = C + \Delta W$ $\qquad$ $I = C + S$
  - Ideal income tax requires a system of accrual accounting

- Consumption tax:
  - $C = I - S$
  - Cash-flow accounting
  - *Direct* implementation (VAT)
  - *Indirect* implementation:
    - "tax expenditure" method: savings deductible, return on savings is taxed
    - "tax prepayment" method: savings not deductible, but return on savings not taxed

Consumption tax: only normal return is tax-exempt

The return on investment consists of 4 parts:
- The risk-free interest rate
- The expected risk premium
- The economic rents
- The remainder reflecting good or bad luck

"Tax-expenditure" method:
- The up-front deduction of investment yields a tax gain which offsets tax on normal return, such that risk-free return is effectively not taxed
- Economic rents and other components are taxed

"Tax-prepayment" method: risk-free interest rate is not taxed, also economic rents are tax-exempt.

Corporate cash-flow taxation

- R-base corporate cash-flow tax
  - Only real (R) transactions are included in the tax base
    tax base = receipts from sales of real goods and services – the expenses from purchases of real goods and services (including purchases of capital goods)
  - Financial transactions are not included in the tax base
  - No deduction for the financing of the investment
  - Debt and equity are taxed in the same way because the up-front deduction of investment offsets the taxes on the normal return. However, economic rents are taxed.
  - Corporations will be indifferent between NE and RE
  - As long as profits are reinvested, no tax will actually have to be paid. The tax can be postponed until the profits are distributed to the shareholder that uses them to finance consumption.

- R+F-base corporate cash-flow tax
  - Includes real (R) transactions + non-equity financial (F) transactions (=borrowing and lending of funds)
  - R+F-base = (sales + borrowing + interest received) – (purchases + interest paid + debt repaid)
  - Debt under R+F-base = "tax-prepayment" method
    the savings are effectively not deductible (the borrowed principal is included, but investment is excluded)
    the interest payments are effectively not taxed either (the return on investment is taxed but the interest payments are excluded)
  - Equity under R+F-base (as is debt under R-base) = "tax-expenditure" treatment
    the up-front deduction of the investment outlays offsets the taxes on the normal return of the investment. Economic rents are taxed.

- Corporate cash-flow tax raises less tax revenue than CIT:
  - only economic rents are taxed
  - Temporary revenue reduction when tax is introduced because of immediate expensing of new investment

    However:

  - The risk-free interest rate has historically been quite low
  - The CIT does not raise much revenue either
- Corporate cash-flow tax reduces tax complexity but new loopholes might arise.

Part IV:

Concluding remarks

- Both CIT base broadening and narrowing
- Limiting interest deduction implies that marginal debt-financed investment will be taxed:
  - Reduction in investment
  - Base broadening will increase scope for CIT rate reduction:
    - Attractive for highly profitable firms (reduced tax burden)
    - Attractive location for highly-profitable firms (MNEs)
    - Less profit-shifting incentives (through transfer pricing)
- ACE: marginal debt and equity-financed investment is not taxed (normal return; economic rents are taxed):
  - Increase in investment level
  - Base narrowing might lead to higher statutory CIT rate:
    - Not attractive for highly profitable firms (increased tax burden)
    - Less attractive location for highly profitable MNEs
    - More profit-shifting incentives (through above arm's length prices)

- Base broadening through interest limitations might provide revenues to finance generous tax treatment of innovative activities
- Shift of tax burden from corporate to personal shareholder level
- Is there a lower limit to the statutory CIT rate?
  - Difference CIT rate and top PIT rate cannot be too large (unincorporated businesses will incorporate)
  - CFC rules start applying (e.g. Japan)
- Good reform = fundamental reform

Thank you for your attention!

CORPORATE EFFECTIVE TAX RATES

Pierce O'Reilly
Tax Economist
Centre for Tax Policy and Administration, OECD

OECD Income Tax Workshop
22-27 February 2016, Seoul, Korea

OECD
BETTER POLICIES FOR BETTER LIVES

Overview

1. Forward-looking vs backward-looking ETRs
2. METRs vs AETRs
3. Theory of ETRs
4. Uses of ETRs

Forward-looking Rates

- Measure the difference between the discounted returns to a specific investment with and without taxes.
- 'Forward-looking' rates are derived primarily from information in tax legislation (statutory corporate and personal tax rates, tax depreciation rates, tax credit rates etc).
- They imagine a hypothetical investment (either an investment that just breaks even, or an investment with a fixed return).
- The tax rate is the percentage of the necessary return that is due to taxes.
  - How much would the necessary returns fall if no taxes were levied?
- As with explicit rates with respect to PIT

Backward-looking Rates

- These rates are based on revenue information from governments.
- The effective tax rate is the amount of revenue that has been collected in corporate tax receipts, expressed as a percentage of the total amount of corporate (or business) profits in a given year.
- Relies in high-quality revenue and macroeconomic information.
- Can be misleading in a globalised economy.
- Provides an overall indicator of the tax burden on corporations – forward-looking rates may leave out some corporate tax provisions that may be important.
- As with implicit rates with respect to PIT.

Strengths of forward-looking rates

- Strengths of METR / AETR analysis:
  - derived primarily from information in tax legislation (statutory corporate and personal tax rates, tax depreciation rates, tax credit rates etc) and not data reported in tax returns
  - summary tax burden indicators that take into account the net effect on investment decisions of key tax variables affecting net returns on investment (e.g. tax, depreciation and discount rates).
  - the framework (algebra) is transparent – can examine causality and implications for ETRs of individual elements of tax reform.

Overview

1. Forward-looking vs backward-looking ETRs
2. **METRs vs AETRs**
3. Theory of ETRs
4. Uses of ETRs

Limitations of forward-looking rates

- Limitations of METR / AETR analysis:
  - assumes profit-making firms (many firms make losses)
  - limited information on (difficult to measure) economic depreciation rates
  - examinations of tax effects on FDI generally ignore cross-border tax planning strategies (i.e. use of offshore holding and finance companies, new financial products to avoid tax)
  - significant resource costs in establishing and maintaining METR and AETR models.

What is a METR?

- METR=marginal effective tax rate
  - measure to assess tax distortion to decision over optimal level of investment in a capital asset type or project (examine marginal conditions)
- AETR=average effective tax rate
  - measure to assess tax distortion to choice over alternative investments (e.g. location) taking into account taxation of economic profit

What are METRs and AETRs?

- METRs and AETRs are 'forward-looking' tax rates, based on theoretical conditions for optimal investment of profit-maximizing firms.
- Both are 'forward-looking' as they assume that firm's managers make investment decisions to maximize the present discounted value of future after-tax returns.
- Both are 'effective' in the sense that they take into account key tax parameters and variables relevant to tax burden (e.g. not just statutory corporate tax rate).
- Both assume competitive output markets, where firms invest in physical capital (e.g. machinery, buildings) just up to the equilibrium point where economic profit is zero on the last unit of capital purchased (i.e. at the point where marginal benefit of investment equals marginal cost).

How are METRs and AETRs used?

- METR/ AETR analysis is widely used to analyze effects of corporate tax reform on investment (whether tax distortions to investment are increased/ decreased).
- METR analysis was used by Canada, the UK, the US to guide tax reforms in the late 1980s – provided evidence of variation in tax rates on investment across different asset types and industries, and a basis to broaden tax bases and lower tax rates.
- METRs/AETRS may be used in empirical analysis estimating the sensitivity (elasticity) of investment to taxation, and in applications estimating the investment response to tax reform (backward-looking ETRs based on observed tax/profit data cannot be used in this way).
- Seminal METR/AETR work by Jorgenson (1967), King and Fullerton (1984), Boadway, Bruce, Mintz (1984), and Devereux and Griffith (1998).

How do METRs and AETRs differ?

- METRs examine how taxation affects the equilibrium level of investment, by assessing how tax affects the benefit and costs of investment 'at the margin' (that is, on the last unit of capital purchased, where economic profit of additional investment falls to zero).
- AETRs assess the taxation of economic profit from infra-marginal investment – that is, tax on profit from all units of capital purchased in an investment project (not just the last unit).
- AETRs measure the present value of tax (PVT) on a hypothetical investment project, as a percentage of the present value of pre-tax economic income (PVY).
- AETRs are used to examine how taxation may affect the choice of investment location (ranking of AETRs).
- METRs assess tax effects on level/scale decisions, while AETRs assess tax effects on location decisions.

Strengths of METR / AETR analysis:

- Derived primarily from information in tax legislation (statutory corporate and personal tax rates, tax depreciation rates, tax credit rates etc) and not data reported in tax returns
- Summary tax burden indicators that take into account the net effect on investment decisions of key tax variables affecting net returns on investment (e.g. tax, depreciation and discount rates).
- The framework (algebra) is transparent – can examine causality and implications for ETRs of individual elements of tax reform.

Limitations of METR / AETR analysis:

- Assumes profit-making firms (many firms make losses)
- Limited information on (difficult to measure) economic depreciation rates
- Examinations of tax effects on FDI generally ignore cross-border tax planning strategies (i.e. use of offshore holding and finance companies, new financial products to avoid tax)
- Significant resource costs in establishing and maintaining METR and AETR models.

What does METR measure?

METR= (RG-RN)/RG

where:

- RG = pre-tax hurdle rate of return 'at the margin' (on last unit of profitable investment) required to 1) pay corporate tax, and 2) pay the required rate of return on bonds and the required (expected) rate of return on shares. RG is estimated from profit-maximizing conditions derived from investment theory of firms in competitive output markets.
- RN = after-tax rate of return at the margin on bonds and shares. RN is measured using market data, and depends on whether a corporate or overall METR is assessed.
- (RG-RN) = 'tax wedge', difference between pre-tax and after-tax returns at the margin, resulting from taxation. The larger the tax wedge, the larger the predicted tax distortion to investment.

Overview

1. Forward-looking vs backward-looking ETRs
2. METRs vs AETRs
3. **Theory of ETRs**
4. Uses of ETRs

What does corporate METR measure?

- Closed economy – investment influenced by taxation of returns at corporate level and shareholder level
- Open economy – investment influenced by corporate tax alone (required after-corporate tax rate of return is set in international capital markets) – tax distortion to investment determined by corporate METR (METR©)
- **METR=(Rg-R)/Rg** where
  - Rg=pre-tax rate of return on investment (net of depreciation) earned at the margin (on last unit purchased, at point where no longer profitable for further investment)
  - R=required after-corporate tax rate of return (before shareholder level (personal) tax)

Overall and corporate METRs

- Corporate and overall METRs may be assessed – choice depends on assumptions regarding the supply of, and thus the required rate of return on, equity capital.
- Overall METR
  - modelled as closed-economy case where domestic capital market supplies equity capital to firms
  - domestic investment equals domestic savings
  - required after-corporate tax rate of return depends on personal tax rates on dividends and capital gains – thus tax distortions to investment arise from both corporate and personal taxation.
- Corporate METR
  - modelled as open-economy case where international capital market supplies equity capital at the margin
  - domestic investment may exceed domestic savings
  - required after-corporate tax rate of return is set exogenously, independent of personal tax rates – personal taxation distorts savings decisions but not investment decisions.

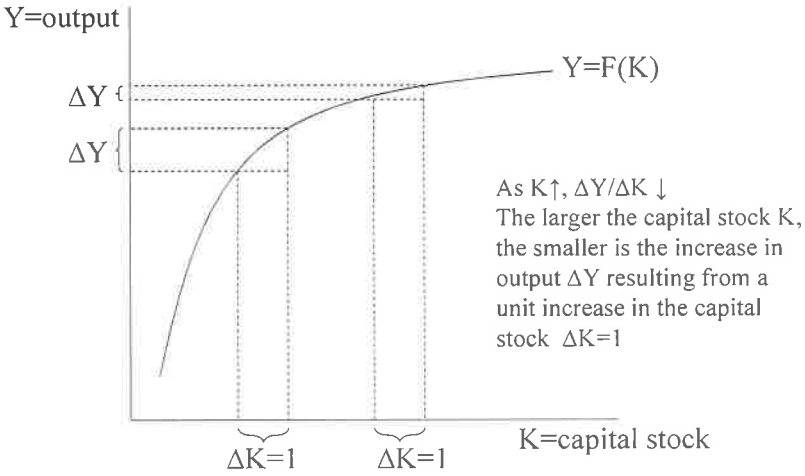
Overview

1. Forward-looking vs backward-looking ETRs
2. METRs vs AETRs
3. Theory of ETRs
4. **Uses of ETRs**

Interpretation of corporate METR

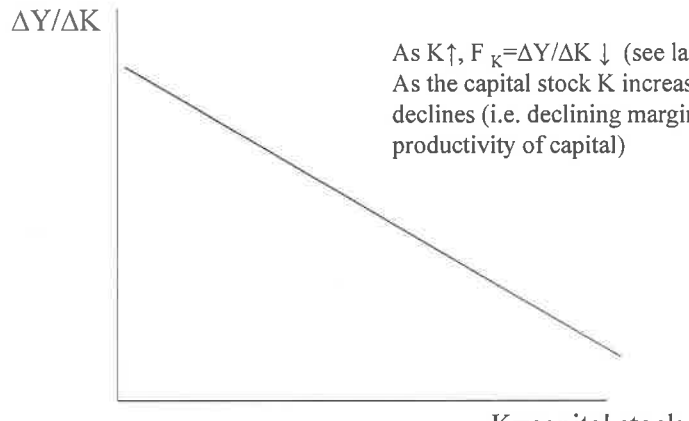
- Sign and size of corporate METR used to assess extent to which corporate tax system discourages (or encourages) investment relevant to the no-tax case
  - METR >0 (investment discouraged)
  - METR <0 (investment encouraged)
  - METR =0 (taxation has neutral effect)
- METRs are used to compare tax distortions to the level of investment under different sources of marginal finance (debt, retained earnings, newly issued equity).
- Transparent structure of model (parameter-based) allows examination of various distorting effects of taxation and net effects.
- Results must be used with care (based on underlying assumptions of the model, including capital weights, financing and repatriation assumptions).

First, some basics ....



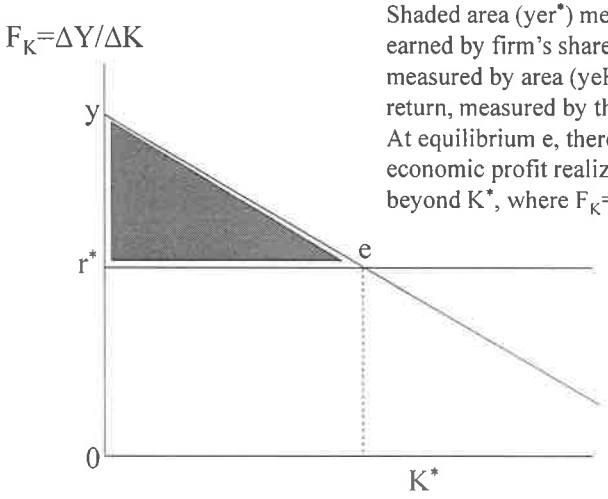
Y=F(K) means Y is a function of (i.e. depends on) the size of the capital stock K

Declining marginal productivity of capital



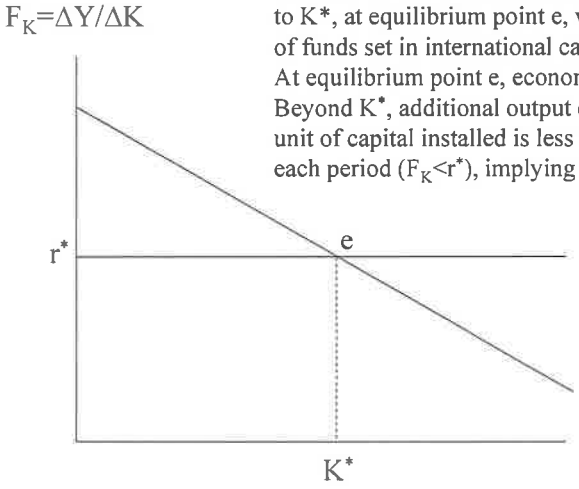
As K↑, $F_K=\Delta Y/\Delta K \downarrow$ (see last slide). As the capital stock K increases, F_K declines (i.e. declining marginal productivity of capital)

Illustration of economic profit (no-tax case)



Shaded area (yer^*) measures economic profit earned by firm's shareholders (total output measured by area (yeK^*0), less required return, measured by the area (r^*eK^*0). At equilibrium e, there is no additional economic profit realized by increasing K beyond K^*, where $F_K=r^*$

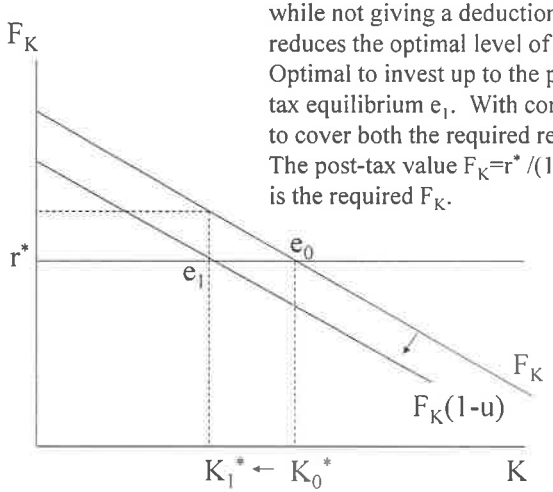
METR in the no-tax case (ignoring depreciation, inflation)



Optimal for profit-maximizing firm to increase K just up to K*, at equilibrium point e, where $F_K=r^*$, where r^* is cost of funds set in international capital market ($R=r^*$). At equilibrium point e, economic profit is maximized. Beyond K^*, additional output each period from the last unit of capital installed is less is than the additional cost each period ($F_K<r^*$), implying a loss.

At equilibrium e, $F_K=r^*$. Clearly in the no tax case: $METR©=(F_K-r^*)/F_K=0$

METR with simple corporate income tax in the case of equity finance

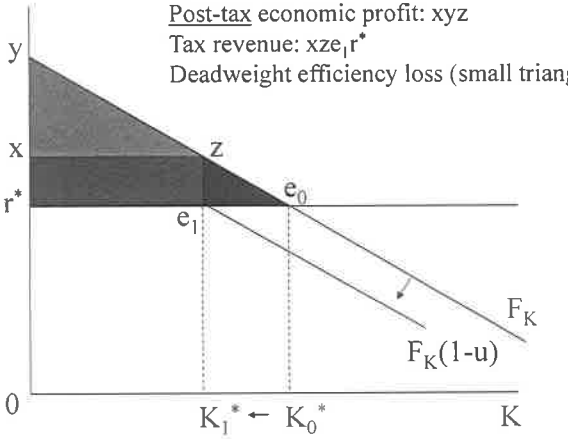


Corporate income tax (CIT) that taxes revenues at rate u, while not giving a deduction for the cost of equity funds reduces the optimal level of investment from K_0^* to K_1^*. Optimal to invest up to the point where $F_K(1-u)=r^*$, at post-tax equilibrium e_1. With corporate tax, F_K must be higher to cover both the required return on equity and pay for CIT. The post-tax value $F_K=r^*/(1-u)$. The larger is u, the higher is the required F_K.

At post-tax e_1, $F_K=r^*/(1-u)$
$METR=(F_K-r^*)/F_K$
$=([r^*/(1-u)]-r^*)/[r^*/(1-u)]$
Therefore:
METR©=u (>0)

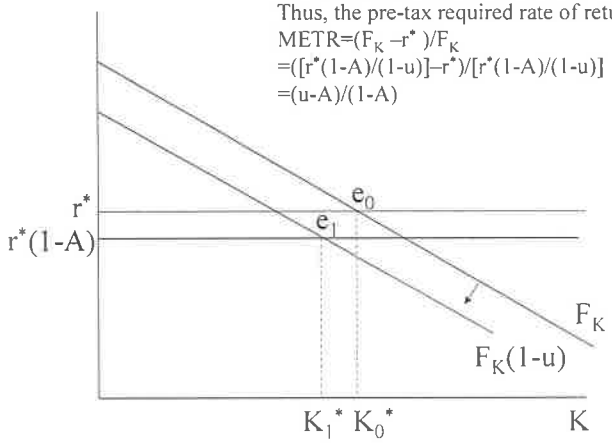
Division of income under corporate income tax (equity finance)

Pre-tax economic profit to shareholders: ye_0r^*
Post-tax economic profit: xyz
Tax revenue: xze_1r^*
Deadweight efficiency loss (small triangle): ze_0e_1



METR© with an investment tax credit (assume equity finance)

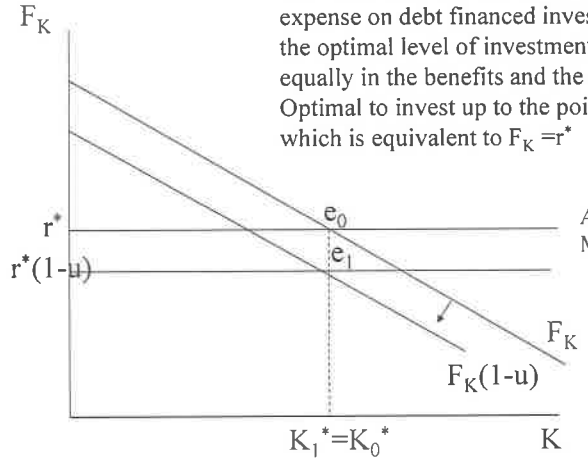
Let A = rate of investment tax credit (e.g. 5%)
At equilibrium e_1, $F_K(1-u)=r^*(1-A)$
Thus, the pre-tax required rate of return $F_K=r^*(1-A)/(1-u)$
$METR=(F_K-r^*)/F_K$
$=([r^*(1-A)/(1-u)]-r^*)/[r^*(1-A)/(1-u)]$
$=(u-A)/(1-A)$



METR with simple corporate income tax in the case of debt finance

Introduction of a corporate income tax (CIT) at rate u, that taxes revenues and gives a deduction for interest expense on debt financed investment does not impact the optimal level of investment (government shares equally in the benefits and the costs).
Optimal to invest up to the point $F_K(1-u)=r^*(1-u)$ which is equivalent to $F_K=r^*$

At post-tax e_1, $F_K=r^*$
$METR=(F_K-r^*)/F_K=0$



METRs used to assess the impact of taxation at the margin (e.g. impact of tax incentives)

Increase in tax parameter	*Transmission mechanism*	*Impact on Rg and METR©*	*Impact on investment*
Corporate tax rate (u)	decreases net return on business profits	increases	decreases
	decreases cost of debt finance	decreases	increases
	increases value of capital cost allowance	decreases	increases
Capital cost allowance rate (α)	decreases effective cost of physical capital	decreases	increases
Investment tax credit rate (ψ)	decreases effective cost of physical capital	decreases	increases

For more information, please contact:

Pierce O'Reilly, Ph.D

Tax Economist

Personal and Property Taxes Unit

Tax Policy and Statistics Division
Centre for Tax Policy and Administration

2, rue André Pascal - 75775 Paris Cedex 16
Tel: +33 1 45 24 15 97 – Fax: +33 1 44 30 63 51

pierce.oreilly@oecd.org || www.oecd.org/tax

Tax incentives: introducing the concepts

Alowin Moes, Ph.D.
Tax Policy
Federal Department of Finance
Swiss Federal Tax Administration

OECD Income Tax Workshop

Seoul, Korea
22-26 February 2016

Introduction

1. Tax incentives are popular, particularly among politicians and beneficiaries of the incentives; AND

2. Many, if not most, tax incentives are not cost-effective in that the revenue loss is greater than benefits provided.

The focus of the sessions on tax incentives is to reconcile these two points.

Topics Covered in this Session

1. **Why** focusing on incentives for investment?
2. **What** is a Tax Incentive
3. **Main rationales** for Tax Incentives
4. **Advantages & disadvantages** of Tax Incentives
5. **Types** of Tax Incentives
6. **Tools for analyzing** tax incentives
7. **Cost & Benefit analysis** of Tax Incentives
8. **Improving the efficiency through better design** of tax incentives

1. Why focus on incentives for investment?

"Because additional investment is needed to increase economic growth + tax incentives are effective in stimulating investment".

But is it that easy? Unfortunately not!

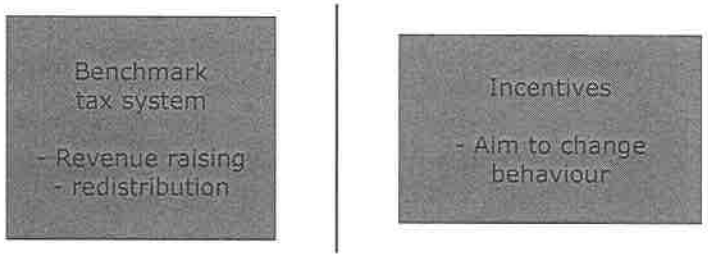
On the first proposition, the key issue is that investment productivity is at least as important as the quantity of investment in determining economic growth. Even if tax incentives stimulate investment, their net impact on growth could be adverse if the incentives reduce productivity.

On the second proposition: tax is important (especially for "footloose" projects) but non-tax factors are often more important. Moreover, if tax breaks cause fiscal problems that worsen other elements of the investment climate, the net effect is unclear.

- Given the rate of population growth, the growth rate of per capita income is driven by:
  - **Investment in physical capital**
  - **Investment in human capital**: through education, technical training, health care
  - **Productivity growth**: total factor productivity growth = measures the difference between actual output growth and that which would be explained by increases in factor inputs (capital and labour) alone. In addition to technology, TFP growth also stems from structural changes that shift resources to more productive sectors, the elimination of impediments to competitive markets, stronger financial markets and improved management techniques.
- Sources of productivity growth:
  - Knowledge externalities
  - Scale economies
  - Catch-up effect: poor growth performance in poor countries stems largely from policies and institutions that inhibit investment and undermine productivity.
- neglect of the productivity component as well as the human capital component in the growth equation can totally undermine the benefit of higher investment and impair the quest for prosperity.

The concept of tax expenditures

- We need to define the « benchmark tax system » from which tax expenditures (or tax incentives) derogate



2. What is a tax incentive?

A tax incentive:

- Lowers tax revenues
- Derogates from the **benchmark tax system**
- Aims to encourage a specific result
- Could be replaced by a direct spending program

For definitions and descriptions of tax incentives offered in some OECD countries See: OECD, 2009 « *Tax Expenditures in OECD Countries* » Public Governance Committee

BENCHMARK TAX SYSTEM: PIT

- Tax Unit: Individual vs. Family – Benchmark
- Deductions for Business/ professional Expenses – Benchmark
- Deductions or Credits for Children – OECD countries differ
- Lower rate or Exclusion of Capital Gains – Incentive/ Expenditure
- Progressive Rate Schedule (including zero rate band) – Benchmark
- Dual Income Structures - Progressive rates on earned income and flat rates on investment income – Benchmark

BENCHMARK TAX SYSTEM: CIT

- Tax base = retained and distributed profits – Benchmark
- Provisions preventing double taxation - Benchmark
- Ordinary depreciation rules – Benchmark
- Accelerated depreciation rules, tax credits, reduced tax rates (on size, sectors), tax holidays, any extra-cost deduction (>100%) – Incentives/ Expenditures
- Loss Carry Forward – Benchmark

BENCHMARK TAX SYSTEM: VAT

- VAT Tax base = final consumption by households and intermediate consumption of economic agents not subject to VAT – Benchmark
- Taxation on domestic consumption – Benchmark
- Zero rate for exports – Benchmark
- Exemption or Lower Rate for Certain Goods (Food, Rent etc.) – OECD Countries differ as to whether Benchmark or Incentive depending on the type of good or service, but mostly incentive/ expenditure

Is any departure from the benchmark an opportunity for base broadening?

- Difficulties to expand the base further than the « practical » definition of the benchmark
  - *Non taxation of unrealised capital gains, imputed rents..*
- Difficult to imagine that some tax expenditures could be repealed without being replaced by a spending program
  - *IWTC, tax credits or exemptions for social benefits*
- Tax expenditures may have their own rationale or may be efficient
  - *Externalities, imperfect competition (2nd best)*

3. Main rationales for tax incentives

- Tax incentives are a deliberate government interference in the operation of private markets to induce taxpayers to do (or increase) an activity that the taxpayer might not be willing to do without the incentive
- Governments have to be reluctant to interfere in the market without sufficient justification because government interference will
  - Distort the allocation of resources and change market prices
  - Discriminate among taxpayers
  - Increase compliance and administrative costs
- Consequently, tax incentives require justification.

Main rationales for tax incentives

- Promote social policy goals (e.g. tax credits for children to promote child bearing)
- Promote economic growth (e.g. tax incentives for exports)
- Create employment
- Redirect investment to the sectors where government want to focus on (e.g. natural resources)
- Attract foreign direct investment (FDI) and internationally mobile industries (e.g. tax holidays for large investments by foreigners; low or zero rates for banks, insurance and HQ)
  - tax incentives are used as an explicit tool of tax competition
  - Some tax incentives (to attract mobile capital) may allow countries to levy a higher tax rate on immobile firms – so, to some extent, tax incentives can reduce the race-to-the bottom (Keen, 2002)
- Compensation for externalities (R&D tax credits; environmental protection)

4. Advantages & disadvantages of tax incentives

Arguments in favour of tax incentives:

- Increase incentives for investment
- Useful in world of mobile capital and in light of tax competition of other countries
- Internalize positive externalities
- Signal of country's openness to private investment
- Correct for other deficiencies in the investment climate (poor infrastructure, high energy costs)
- May increase tax revenues
- Political advantages: less visible than direct expenditure
- Because they have been successful.

4. Advantages & disadvantages of tax incentives

Arguments against tax incentives:

- Actual tax revenue cost can be high: (partial) redundancy – reverse foreign aid
- Revenue leakage through avoidance and evasion (e.g. company churning, income shifting, interest deductibility)
- High tax administrative cost
- Revenue losses require other fiscal adjustments
- Introduce economic distortions (stimulate low productivity investments, distort technical decisions – often favour capital over labour)
- High compliance costs
- Tax preferences create inequities
- They score poorly in terms of transparency and accountability
- Alternative instruments can have a bigger impact
- Most often tax incentives do NOT work!

5. Types of tax incentives

Direct tax incentives

- Preferential tax rates
- Tax holidays
- Special zones
- Capital recovery incentives – accelerated depreciation and initial capital allowances
- Investment tax credits
- Treatment of dividends
- Extra deductions
- Investment subsidies

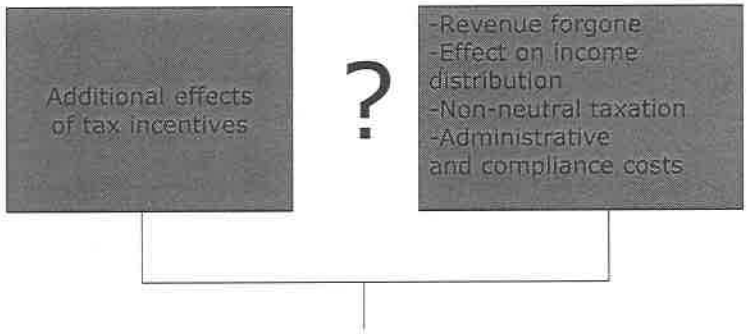
Indirect tax incentives

- Export incentives and export processing zones
- Reduced import duty on capital goods and raw materials
- Protective tariffs

6. Tools for analysing tax incentives

- Descriptive tax statistics, possibly obtained through surveys
- Ex-ante tax analysis
  - Tax indicators (ETRs, tax depreciation calculator)
  - Micro simulation models
  - AGE models
- Ex-post evaluations
  - Econometric analysis

7. Cost-Benefit analysis of tax incentives



Cost-Benefit analysis of tax incentives: Additionality is KEY!

- Usual approach to measure cost: « Revenue forgone »
  - Ex-post calculations
  - For example: allowance of 100, marginal tax rate = 40%, revenue loss = 40
  - No behavioural responses
- What matters is not the number of taxpayers that use a given tax expenditures, it is the additional effect.
- How can we measure it ?
  - First best: difference in difference approach
  - 2d best: look at the main factors explaining the take-up of tax incentives, and make your judgement on targeting
  - Poor targeting will result in a very low additional effect
  - An example of bad targeting: tax incentives for pension savings and life insurance in Belgium

Effectiveness: Measuring Cost and Benefits of an Incentive

- Identify taxpayers that will likely access the incentive
- Measure additional investment that takes place as a result of the incentive
- Determine the likely revenue costs over a time period
- Isolate the likely welfare costs from the distortion of economic activity and windfall gains
- Identify the increase in governments and taxpayers administrative and regulatory costs

Major Problems in Assessing Effectiveness

- Lack of data
- Difficulty in assessing how much additional activity took place as a result of the incentive (as opposed to activity that would have taken place without the incentive)
- Difficulty in determining what activities were **not** undertaken by taxpayers because of incentive
  - Taxpayers don't increase overall investment they just shift to different type of investment to access the incentive
- Difficulty of determining impact of incentive on prices of unsubsidized activity

Most Econometric Studies: Cost > Benefits

- Increase in activity is less than the revenue loss
- Costs arise from:
  - Redundancy – subsidize activity that would have taken place anyway
  - Shifting – investment in Activity X is undertaken, but Activity Y is now abandoned
  - Increased complexity – cost of defining incentive and anti-abuse rules
  - Increased compliance – to both taxpayer and government

8. Improving the efficiency through a better design of tax incentives

For each new or reformed tax incentive, you must provide answers to the following design questions:

- How to **access** the incentive
- What type of **activity** qualifies
- Is there a **size** requirement
- What type of **taxpayer** qualifies
- What **time** limits are there

Access Requirements

- Automatic access or Registration?
- If Registration, who administers the registration system?:
  - Tax department
  - Other government department – example: foreign investment agency
- Register once or annually?
- Consequence of de-registration or lapse of registration?
  - Deny future benefits only OR
  - Recapture benefits already claimed

Activities

- Type: Must provide a definition of eligible activities
- Scope: Do mixed or ancillary activities qualify
- Location: Does the activity have to take place in your country, or in a specific region?
- Consistency with goals of other government programs
  - Green taxes imposed while you try to introduce manufacturing incentives

Type and Size of Investment

- Tax incentives should be designed to encourage **new** or **additional** investment
  - Not reward investment that would have taken place without the incentive (no windfall gains).
- Incentive should be confined to the purchase of a new or additional assets or purchase of assets in excess of current levels of investment
- Type of investment qualifying for incentive

Taxpayer

- Legal form of the taxpayer
  - Companies and individuals?
  - Companies only
  - Treatment of partnerships and other entities
- Jurisdictional status
  - Residents only or non-residents also
- Tax status of the firm
  - Taxpayers which pay tax
  - Or also include tax loss companies
  - Treatment of tax exempt firms
- Size requirement?
  - Only investment over a certain amount qualifies?

Time

- When does the incentive commence?
- How are existing activities dealt with?
- Is there a pre-determined conclusion
  - Example: Tax holiday for five years
- What happens to existing activities if the incentive is withdrawn?
  - Protected forever?
  - Protected for a fixed period
  - Benefits terminated immediately

Thank you!

TAX AVOIDANCE, TAX EVASION, and Anti-Measures in Korea

Jaehyung Jang
Tax Policy Team, Yulchon LLC

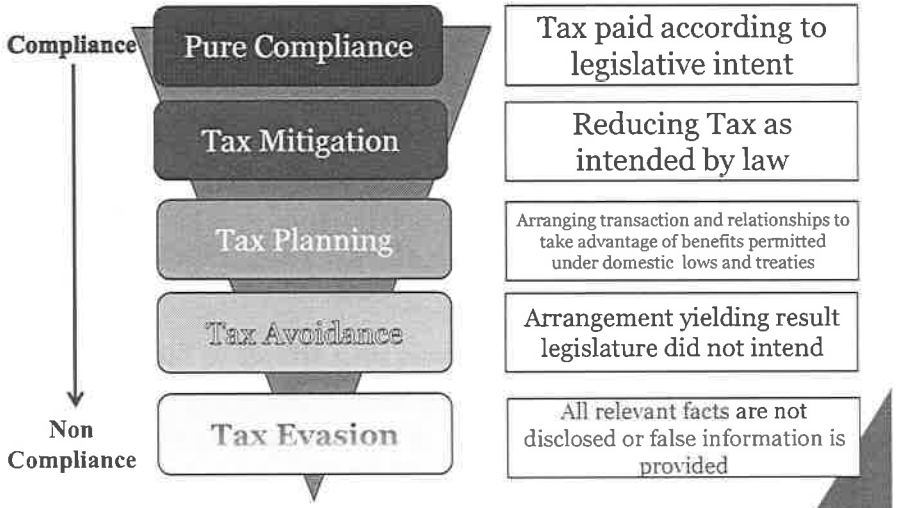
PPT edited by J Jang

OECD Income Tax Workshop

February 2016, Seoul, Korea

OECD
BETTER POLICIES FOR BETTER LIVES

Avoidance and Evasion



Introduction

Reducing Tax

- Reducing Taxable income
- Reducing Tax Rate
- Transfer Pricing

→ **TAX MANAGEMENT**

Tax Evasion

'An illegal practice' where a person intentionally avoids paying his/her true tax liability

- Under reporting
- Bribery of tax officials
- Refusal to pay …, etc.

Relevant facts are omitted, concealed, misreported or additional false statement are represented as correct → Misrepresentation of facts

to the extent that it is intentional (or insufficient care taken to meet required standards) it amounts to fraudulent conduct and is punishable by severe penalties or imprisonment

Tax Evasion

Two basic type of problem

Tax Evasion

- Finding the taxpayer (who is chargeable on the income)
- Establishing the nature of and the correct amount of chargeable income

By reasons of:

- Weak surveillance system
- Rampant corruption in Tax Authority
- Complicated tax laws and filing mechanism
- Tax reductions offering loopholes to Tax evaders
- Lack of transparency in Government expenditure

Exacerbated by bank secrecy and tax jurisdictions that don't exchange information

*OECD projects on "harmful tax practices" and exchange of information agreements have helped mitigate the amount of tax evasion

Nature of Tax Avoidance (cont.)

- Avoidance is an imprecise concept
- Difficult to provide objective tests as to whether taxpayers have mitigated, avoided or evaded their responsibilities
- Lack of precision creates uncertainty and adds to compliance costs
- Tax avoidance possibilities inherent in all tax systems

Nature of tax avoidance

Tax Avoidance

- Activities which reduce taxpayers' tax liabilities in ways that were 'not intended' when law was enacted
  (does not include sham transactions or evasion)
- Not in accordance with the "purpose and intent" of tax law

Difference between Tax evasion and Tax avoidance

TAX EVASION

- Not informing the revenue of all relevant fact
- Illegal and criminal penalties apply

TAX AVOIDANCE

- Within the framework of the law

Wealthy individual – (1)

Investing in things that lead to a reduction in the amount of tax

Individual's pension scheme

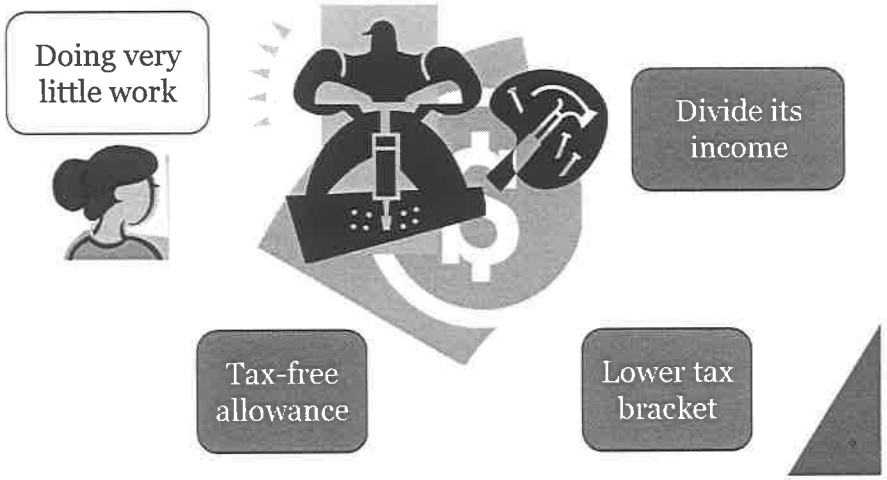
Enterprise Investment Scheme

Charity

Life insurance

Wealthy individual – (2)

Employing a husband or wife

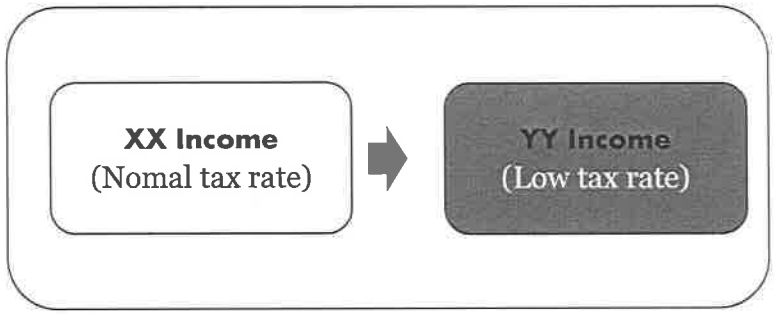


Avoidance typically involves

Arbitrage	• converting income into a lower taxed form
Financing Transaction	• using tax deductions to lower borrowing costs
Timing	• deferring recognition of income • advancing deductions • delaying payment of tax
Leverage	• Multiplying tax benefits

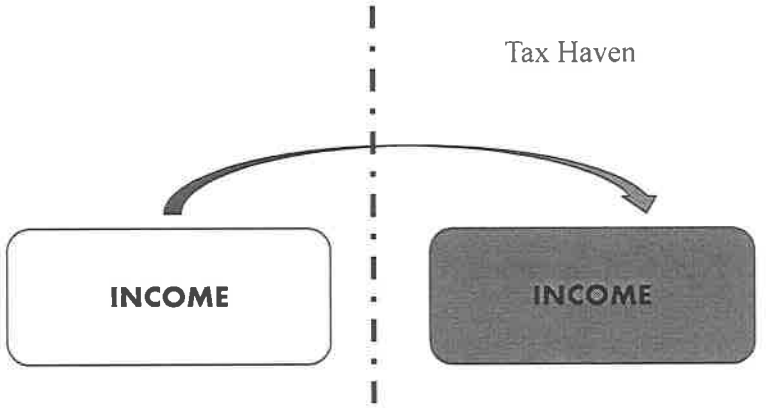
Examples to reduce taxes

Conversion of income schedule



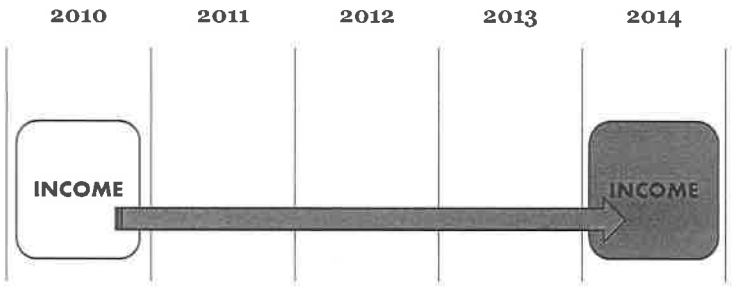
Examples to reduce taxes

Conversion of income source



Examples to reduce taxes

Manipulation of imputed year of income

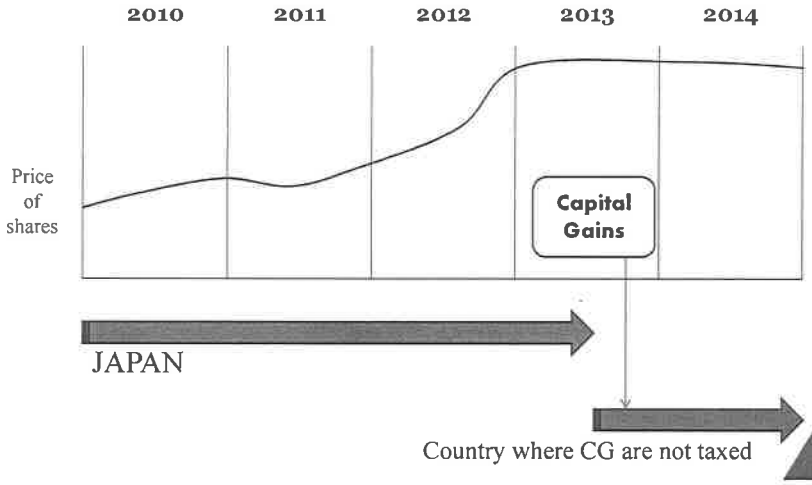


Indicators of Avoidance (1)

- Complex arrangements with no commercial rationale (save for avoiding tax)
- Circularity of transactions with no commercial reason
- Steps inserted to attempt to break links in chain and hide essentially circular nature of the arrangement
- Rapid action timetables
- Technically correct, but in substance defeats the scheme and purpose of the tax acts

Examples to reduce taxes

Capital Gains by Non resident



Indicators of Avoidance (2)

- Involvement of known promoters
- Apparent expenditure, however the amount is returned back (less the cost of the scheme)
- Use of tax havens, loss companies, charities and other tax exempt bodies
- A large book/tax difference resulting from difference between form of transaction and how it is reported for tax purposes
- Unusual unwind/insurance/indemnity-type provisions to shift tax benefits back to investor

Anti – Avoidance Measures in Korea(1)

Income reporting

- Encouraging use of credit card and cash receipt system
- Penalty on illegal reporting and rewards on whistle-blowing

Substance over form

- Substance over form principle and disregarding transaction form

Denial of unfair act

- Denying wrongful / unfair calculation between related parties

Anti – Avoidance Measures in Korea(2)

Income deduction on use of credit card/cash receipt system

- Introduced in 1999 to prevent the under-reporting of income of retailers using cash on transactions.
- Cash transaction was thought to be the main reason behind the under-reporting
- Following deduction was made to the wage earners
  ▸ [Credit Card use – Total wage × 10%] × 10%

Anti – Avoidance Measures in Korea(3)

Income deduction on use of credit card/cash receipt system

- Income deduction contributed to the wide spread use of credit card
- From 2003, cash receipt system was added to the Income deduction system.
- Customer using cash reports its cash disbursement via retailers counter and receives income deduction

Anti – Avoidance Measures in Korea(4)

Income deduction on use of credit card/cash receipt system

- After establishment of income deduction on credit card / cash receipt system, under-reporting issue has been diminished in the tax related debate.

※ Under-reporting ratio(%) - "KIPF 2010

2000	2003	2005	2006	2007	2008
54.4	62.3	41.3	41.2	41.6	29.9

* KIPF 2010

Anti – Avoidance Measures in Korea(5)

Substance over form principle

"any transactions a company undertakes through a third party, a series of activities or transactions to reduce a tax burden improperly, would be re- characterized simply as a direct or single transaction based on economic substance for tax assessment purpose".
[BNTA Art 14. para. 3]

Anti – Avoidance Measures in Korea(6)

Denial of wrongful act between related parties

- Mainly on price of the transaction between related parties in the domestic area.
- Like Transfer Pricing, NTS may re-write the accounts of the related parties thereby sanctioning adjustments to the related enterprises.

Anti – Avoidance Measures in Korea(7)

Denial of wrongful act between related parties

- Related parties' intentions are not so significant
- Deviation from the arm's length price suffices
- Secondary adjustments are also made.
  ex) Related parties are company – owner,
  difference between the transaction price and the the arm's length price is deemed to be "dividend"