SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

INTERNATIONAL TAXATION

Ing. Šárka Sobotovičová, Ph.D.
INTERNATIONAL TAXATION AND TAX SYSTEMS/NPMZD

OUTLINE OF THE LECTURE

1. TAX JURISDICTION
2. DOUBLE TAXATION
3. TAX ADMINISTRATION
4. TAX REVENUE SOURCES
5. INTERNATIONAL COMPARISON

INTERNATIONAL TAXATION

- Globalization means, that a nation´s tax policy no longer stands alone, but must be robust enough to withstand from other countries.
- As a result of the increased complexity in tax policies, rules and administration, we are starting to see greater co-operation among nations, as well as changes in tax policies to make tax systems more robust in the global era.
- For example, the worldwide trend towards reducing the corporation tax rate (OECD average in 1980s 50% to between 25% and 30% at present).

JURISDICTION TO TAX

- Requires familiarisation with both domestic taxation laws of individual countries and international tax law,
- Each country has its own domestic system, that provide for how to tax residents and what types of receipt or activity it wishes to bring into the tax net,
- International tax law consists of customary international law and international agreements,
- It covers the right of a state to tax, tax treaties and dispute settlement where it is unclear what the respective taxing rights of two states are.
- There are certain international agreements which constitute international law and the rest is merely customary. Agreement include the Vienna convention on the Law of Treaties, the Treaty of Rome and the network of bilateral (multilateral) double tax treaties.

PRINCIPLES OF TAX JURISDICTION

- The concept of tax residence is often quite different from the concept of residence for other purposes.
- It can be said that the company's profits are sourced in the country, which may also then give that country a right to tax those profits. The extent of a country's right is known as its **tax jurisdiction.**
- Two principles are therefore in common use around the world to determine the extent of a country's tax jurisdiction: residence and source.
- A country may reserve the right to tax its residents on their worldwide income and gains.
- A country will usually wish to tax all income and gains arising within its jurisdiction.

DOUBLE TAX CONVENTIONS

- From a taxpayer perspective it may lead to double taxation.

- Hence the two countries will have to come to an agreement regarding which of them has the right to tax international incomes flows.

- This treaties are bilateral Double tax treaties, which aim to define which country a taxpayer will be considered to be the resident of for tax purposes and how taxes on different types of income and capital are to be divided between the two countries.

- This treaties comprise set of rules with the aim to:
    - Avoid double taxation
    - Prevent tax evasions
    - Prevent discrimination between taxpayers
    - Provide legal certainty in international operations.

DOUBLE TAXATION

- Double taxation means that the taxpayer is being exposed to more than one tax on the same income. There are two types of double taxation – economic and juridical.

- **Economic double taxation** includes any situation where income is taxed twice. The example could be commonly used taxation of corporate profits (first profit is taxed by CIT and subsequently dividends are taxed by PIT).

- **Juridical double taxation** is narrower than economic one and covers situations when more than one country attempts to tax the same income. The juridical double taxation is the aim of Double tax treaties.

TAX PRINCIPLES IN AN INTERNATIONAL ENVIRONMENT

- **Inter-nation equity** means how should tax revenues be divided between the various countries,

- The principle of **neutrality** suggests that taxes shouldn´t interfere with decision making. A neutral tax is one which leaves a pre-tax decision unchanged post tax, so that taxes don´t impinge on choices about savings and investment for example.
- **National neutrality** is insular, it focuses on ensuring that the domestic fisc doesn't lose when residents invest overseas.
- **Capital export neutrality** is concerned with the neutrality in the location of investment. The total domestic and foreign taxes doesn´t leave a capital exporter worse off than if the investment had all been in the home country.

TAX PRINCIPLES IN AN INTERNATIONAL ENVIRONMENT

- **Capital import neutrality** is concerned with the neutrality in the source of investment. From a government's point of view means that domestic companies should be protected from a higher tax burden in a foreign market than taxpayers from other countries operating on the same market.
- **National ownership neutrality** suggests that the amount of tax paid by a business should not depend on the identity, or location, of its owners.
- **Capital ownership neutrality** suggests that the tax systems should not distort asset ownership on a worldwide basis, which should be such that productivity is maximised.

FACTORS THAT THREATEN THE INTEGRITY

- As Tanzi stated factors that threaten the integrity of tax systems, and most of which relate to the internationalization of tax:
  - Electronics commerce and transactions
  - Electronic money
  - Intra-company trade
  - Offshore financial centres and tax heavens
  - Derivatives and hedge funds
  - Inability to tax financial capital
  - Growing foreign activities
  - Foreign shopping

The economic crisis has lead to increased pressure on tax administration to ensure the maximum amount of revenue is collected.

SUPRA-NATIONAL ORGANISATIONS

- **OECD** (Organisation for Economic Co-operation and Development) - active in promoting the adoption of double tax treaties and in establishing principles for the taxation of international money flows resulting from electronic commerce.
- **EU** – active in promoting harmonisation of the tax systems of its member countries.
- **UN** (United Nations) role includes promoting measures to ensure that developing countries get their fair share of the tax profits of multinational companies operating within their borders.
- **IMF** (International Monetary Fund) – technical assistance to countries in developing their tax policy and practice

COORDINATION, COOPERATION, CONVERGENCE, HARMONIZATION

- Consider two countries A and B raising a tax on a specific base so as to maximize some social objective. The reference case is that of tax competition whereby each country sets its tax base and rate independently, considering the tax base and rate of the other one as given.

- There are different ways to depart from this reference case.

COORDINATION, COOPERATION,

- **Cooperation** refers to joint optimization:
  - Countries A and B jointly determine the tax bases and rates so as to maximize some common social objective. In the EU, the common external tariff policy is an example of cooperation.
- **Coordination** refers to commitment:
  - Since the choices of country A depend on those of country B and conversely, there might be multiple balance (for instance one with high tax rates and another one with low tax rates).
  - Coordination then consists in a reciprocal commitment to a specific behavior. The code of conduct on corporate taxation, which commits Member states to eliminate harmful practices, is an example of coordination. In a wider sense, coordination includes information exchange, for example on savings income.

CONVERGENCE, HARMONIZATION

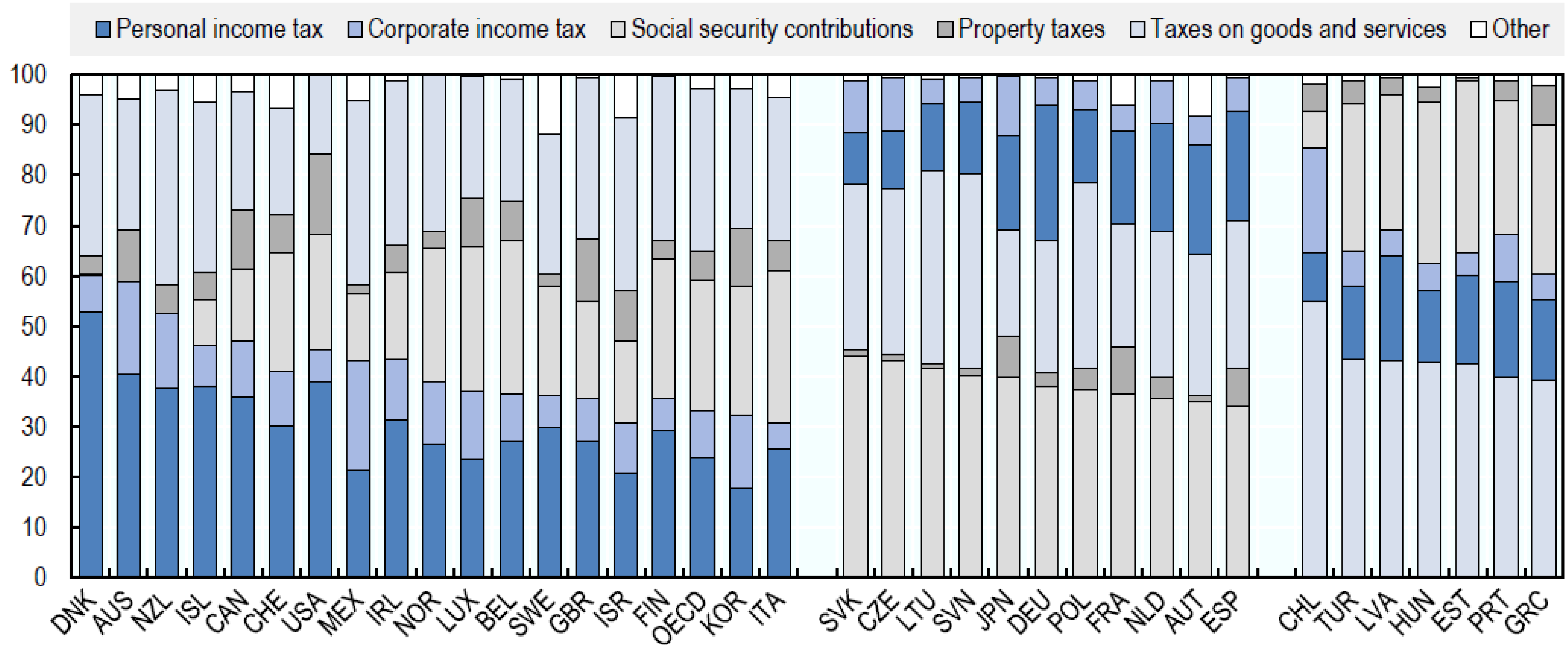
- **Harmonization** refers to an equalization of tax bases and/or tax rates. A variant of harmonization is to impose minimum tax bases or rates. Harmonization is one form of coordination. The minimum standard VAT rate and the Parent-subsidiary directive are examples of harmonization.
- **Convergence** refers to a narrowing of tax base differences or of tax rate differences. Convergence may arise from coordination or from competition.

TAXES IN OECD COUNTRIES

Graph 6: EU-28 tax revenues according to type of tax base, 2005-2017
(% of total taxes)

Source: DG Taxation and Customs Union, based on Eurostat data.
NB: Figures in some cases do not add up to 100% due to rounding

Figure 1.5. Tax structures in 2017 (as % of total tax revenue)



Note: Countries are grouped and ranked by those where income tax revenues (personal and corporate) form the highest share of total tax revenues, followed by those where social security contributions, or taxes on goods and services, form the highest share.

CORPORATE INCOME TAXES

- The corporate income tax is a direct tax on corporate profits. All OECD countries levy a tax on corporate profits. However, many countries differ substantially in how they define taxable income and the rate at which they apply the tax, which affects the amount of revenue these countries raise. Generally, the corporate income tax raises little revenue compared to other sources.

INDIVIDUAL INCOME TAXES

- Income taxes are levied directly on an individual's income, typically wage income. Many nations, such as the United States, also levy their individual income taxes on investment income such as capital gains and dividends, placing a double-tax on corporate income.
- These taxes are typically levied in a progressive manner, meaning that an individual's average tax rate increases as his income increases.

1000 Taxes on income, profits and capital gains
- 1100 Taxes on income, profits and capital gains of individuals
  - 1110 On income and profits
  - 1120 On capital gains
- 1200 Corporate taxes on income, profits and capital gains
  - 1210 On income and profits
  - 1220 On capital gains
- 1300 Unallocable as between 1100 and 1200

SOCIAL INSURANCE TAXES

- Are typically levied in order to fund specific programs such as unemployment insurance, health insurance, and old age insurance. In most countries, these taxes are applied to both an individual's wages and an employer's payroll.
- For example, the United States levies social insurance taxes at the state and federal levels in order to fund programs such as Social Security, Medicare, and Unemployment Insurance.

SOCIAL INSURANCE TAXES

- 2000 Social security contributions
  - 2100 Employees
    - 2110 On a payroll basis
    - 2120 On an income tax basis
  - 2200 Employers
    - 2210 On a payroll basis
    - 2220 On an income tax basis
  - 2300 Self-employed or non-employed
    - 2310 On a payroll basis
    - 2320 On an income tax basis
  - 2400 Unallocable as between 2100, 2200 and 2300
    - 2410 On a payroll basis
    - 2420 On an income tax basis

- 3000 Taxes on payroll and workforce

PROPERTY TAXES

- A much smaller source of tax revenue for most OECD countries is the property tax. The property tax is levied on the value of an individual’s or business’s property, whether that property is tangible or intangible.
- In the United States, property taxes are most typically levied on real estate, cars, and boats by state and local governments. Other types of property taxes include net wealth taxes and estate, gift, and inheritance taxes.
- The United Kingdom relies the most on property taxes in the OECD and on the other hand the Czech Republic rely very little on property taxes.

PROPERTY TAXES

- 4000 Taxes on property
  - 4100 Recurrent taxes on immovable property
    - 4110 Households
    - 4120 Other
  - 4200 Recurrent taxes on net wealth
    - 4210 Individual
    - 4220 Corporate
  - 4300 Estate, inheritance and gift taxes
    - 4310 Estate and inheritance taxes
    - 4320 Gift taxes
  - 4400 Taxes on financial and capital transactions
  - 4500 Other non-recurrent taxes on property
    - 4510 On net wealth
    - 4520 Other non-recurrent taxes
  - 4600 Other recurrent taxes on property

TAXES ON GOODS AND SERVICES

- Consumption taxes are taxes on goods and services.
- These are either in the form of excise taxes, value-added taxes (VAT), or retail sales taxes. Most OECD countries levy consumption taxes through value-added taxes and excise taxes.
- The United States is the only country in the OECD with no value-added tax.
- Instead, most state governments apply a retail sales tax on the final sale of a product and excise taxes on goods such as cigarettes and alcohol.

TAXES ON GOODS AND SERVICES

- 5000 Taxes on goods and services
  - 5100 Taxes on production, sale, transfer, leasing and delivery of goods and rendering of services
    - 5110 General taxes
    - 5111 Value added taxes
    - 5112 Sales taxes
    - 5113 Turnover and other general taxes on goods and services
    - 5120 Taxes on specific goods and services
    - 5121 Excises
    - 5122 Profits of fiscal monopolies
    - 5123 Customs and import duties
    - 5124 Taxes on exports
    - 5125 Taxes on investment goods
    - 5126 Taxes on specific services
    - 5127 Other taxes on international trade and transactions
    - 5128 Other taxes on specific goods and services
    - 5130 Unallocable as between 5110 and 5120
  - 5200 Taxes on use of goods, or on permission to use goods or perform activities
    - 5210 Recurrent taxes
    - 5211 Paid by households in respect of motor vehicles
    - 5212 Paid by others in respect of motor vehicles
    - 5213 Other recurrent taxes
    - 5220 Non-recurrent taxes
  - 5300 Unallocable as between 5100 and 5200

TAXES ON GOODS AND SERVICES

- The structure of consumption taxes in the OECD has significantly changed over time. In 1965 (the earliest year of data available), 78.1 percent of all revenue from consumption taxes came from excise taxes, customs duties, and sales taxes. In 1965, no country had a truly broadbased, value-added tax. Only France levied a VAT on a limited basis.
- In the 1970s and 1980s, countries started replacing sales taxes, excise taxes, and custom duties with the value-added tax, which was seen as an improvement due to its export neutrality and exemption of business-to-business transactions. As countries throughout Europe and the rest of the OECD adopted the VAT, reliance on its revenue steadily grew. By 2012, it accounted for 59.5 percent of total consumption tax revenue across the OECD.
- In contrast, tax revenue from sales taxes, excise taxes, and customs duties declined to 33.8 percent of total consumption tax revenues.

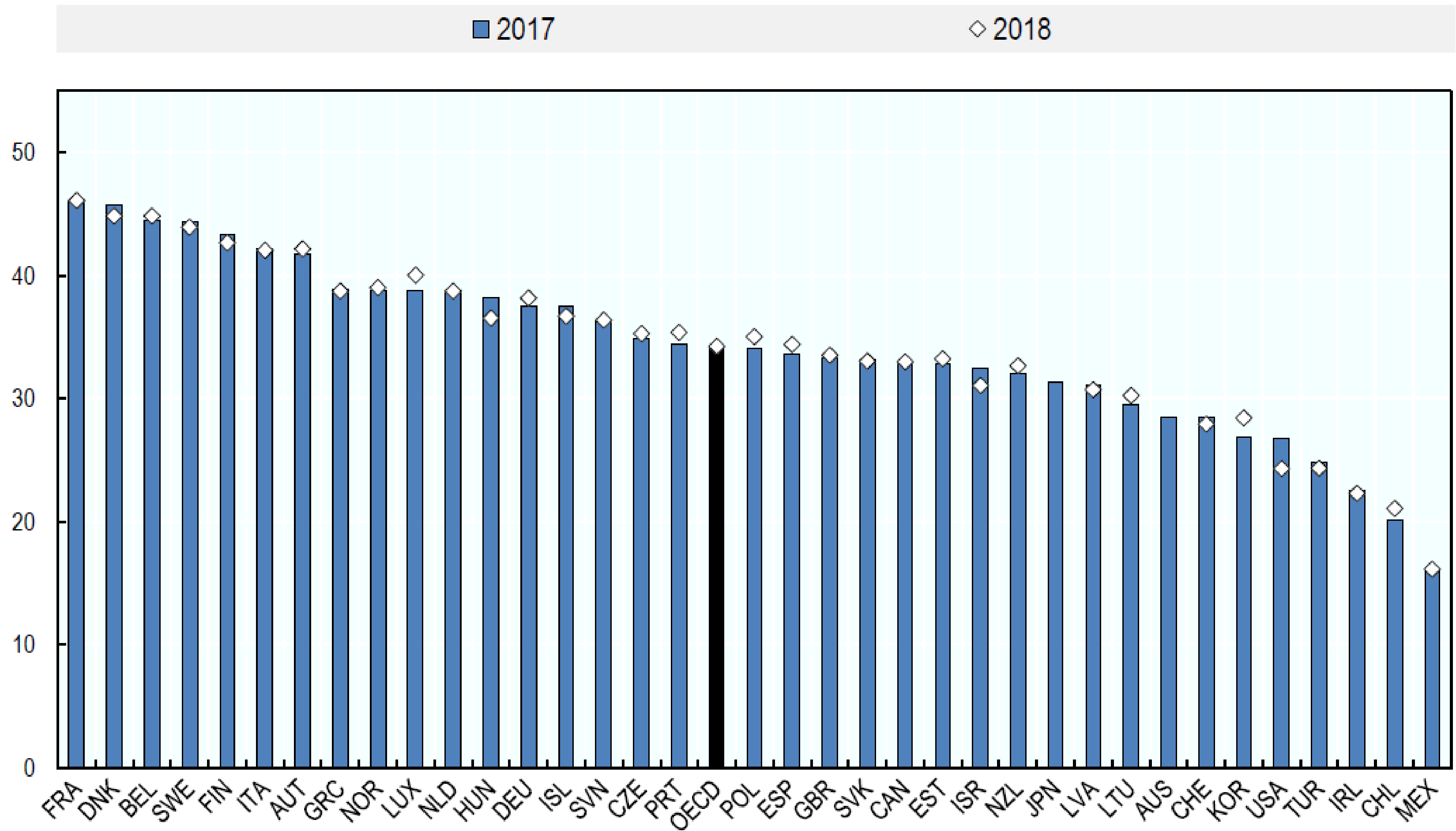
OTHER TAXES

6000 Other taxes
- 6100 Paid solely by business
- 6200 Paid by other than business or unidentifiable

INTERNATIONAL COMPARISON

- The tax quota is on of the basic indicators enabling an international comparison of the tax burden. It is a macroeconomic indicator representing the ratio of taxes in the gross domestic product. It represents the part of the gross domestic product, which is redistributed through public budgets. It is presented as a percent and thereby it sufficiently serves the purpose of comparison.
  - The **simple tax quota** includes only the incomes of public budgets, which are really marked as taxes. With regard to the fact that the tax incomes (quasi-taxes) are actually also incomes resulting from obligatory insurance on social security and a contribution to the state employment policy and incomes resulting from obligatory insurance on health insurance, the **compound tax quota** including these incomes is the relevant indicator

Figure 1.4. Tax to GDP ratios in 2017 and 2018p (as % of GDP)



Note: Preliminary data for 2018 were not available for Australia and Japan.

REVENUE STATISTICS 2019 © OECD 2019

Table 1.2. Tax structures in the OECD area, selected years (unweighted average as % of GDP)

Per cent

	1965	1990	2000	2007	2010	2013	2015	2016	2017
Total tax revenue	24.9	31.9	33.8	33.6	32.3	33.4	33.7	34.4	34.2
1000 Taxes on income, profits and capital gains	8.7	12.1	11.9	12.1	10.6	11.1	11.3	11.3	11.6
of which:									
1100 Taxes on income, profits and capital gains of individuals	6.8	9.7	8.7	8.2	7.6	8.0	8.3	8.2	8.3
1200 Taxes on income, profits and capital gains of corporates	2.1	2.5	3.2	3.6	2.7	2.8	2.8	2.9	3.0
2000 Social security contributions (SSC)	4.5	7.3	8.6	8.4	8.8	9.0	9.0	9.1	9.1
3000 Taxes on payroll and workforce	0.3	0.3	0.4	0.3	0.3	0.4	0.4	0.4	0.4
4000 Taxes on property	1.9	1.8	1.8	1.8	1.7	1.8	1.9	2.3	1.9
5000 Taxes on goods and services	9.4	10.0	10.9	10.6	10.6	10.8	10.9	11.0	10.9
of which:									
5111 Value added taxes	0.4	5.2	6.4	6.5	6.5	6.6	6.7	6.8	6.8
5121 Excises	3.5	2.6	2.9	2.6	2.7	2.6	2.6	2.6	2.5
6000 Other Taxes	0.1	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1

Note: Percentage share of major tax categories in GDP. 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, Latvia, Lithuania, the Slovak Republic and Slovenia. The figures for the 2016 OECD average includes the one-off revenues from stability contributions in Iceland.

Source: OECD (2019), "Revenue Statistics: Comparative tables", OECD Tax Statistics (database), DOI: http://dx.doi.org/10.1787/data-00262-en.

IMPLICIT TAX RATES ON CONSUMPTION

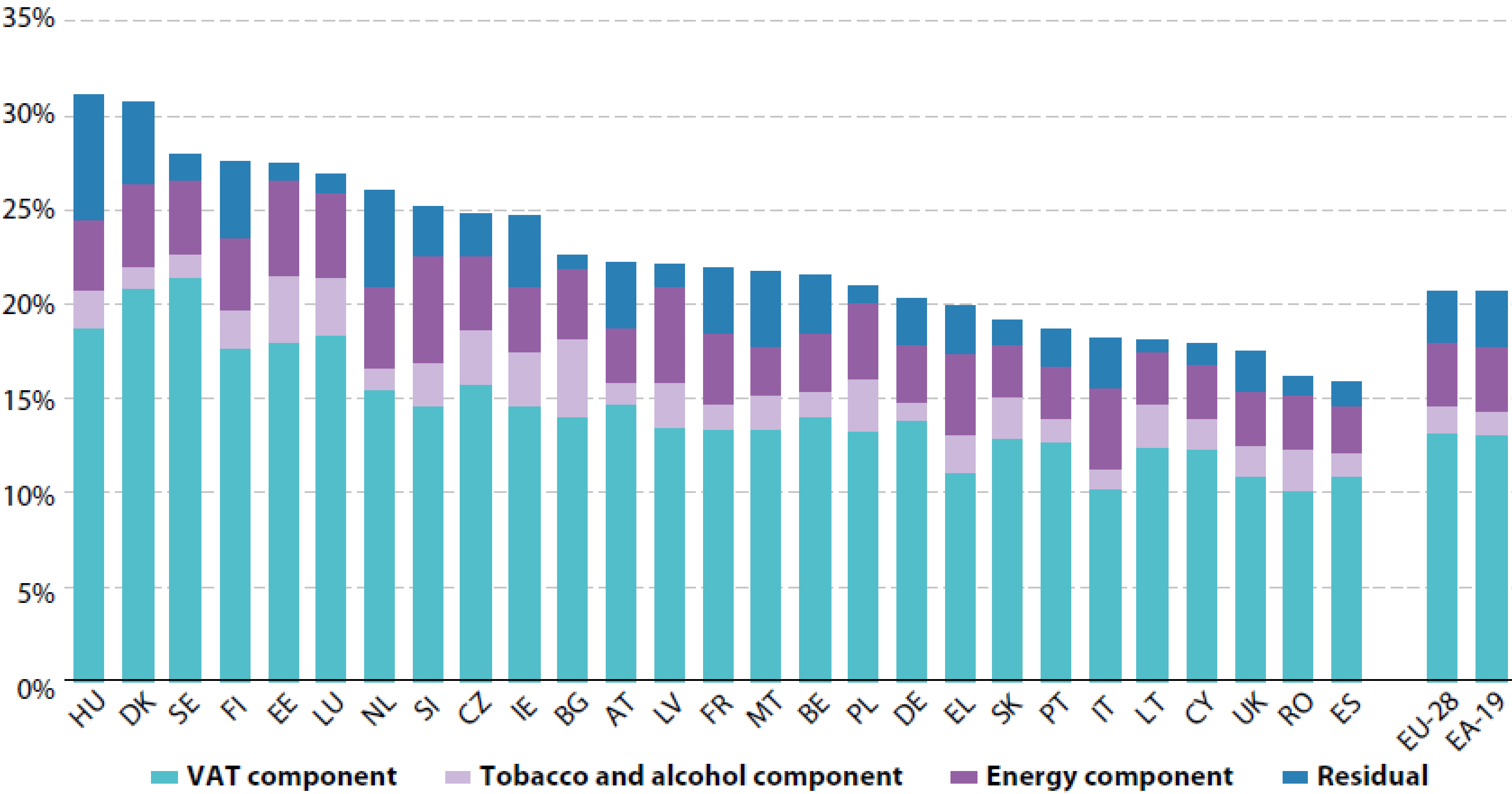
- The ITR on consumption is split into four categories:
  - VAT
  - Energy. This subcategory includes all consumption taxes on energy. These cover mainly excise duties on mineral oils, duties on electricity or similar taxes.
  - Tobacco and alcohol. These include all excise duties on alcohol and tobacco.
  - Residual. All remaining consumption taxes are booked in this subcategory. They are obtained as a difference from the total.

- **Implicit tax rate on consumption**:

  Taxes on consumption / Final consumption expenditure of households on the economic territory

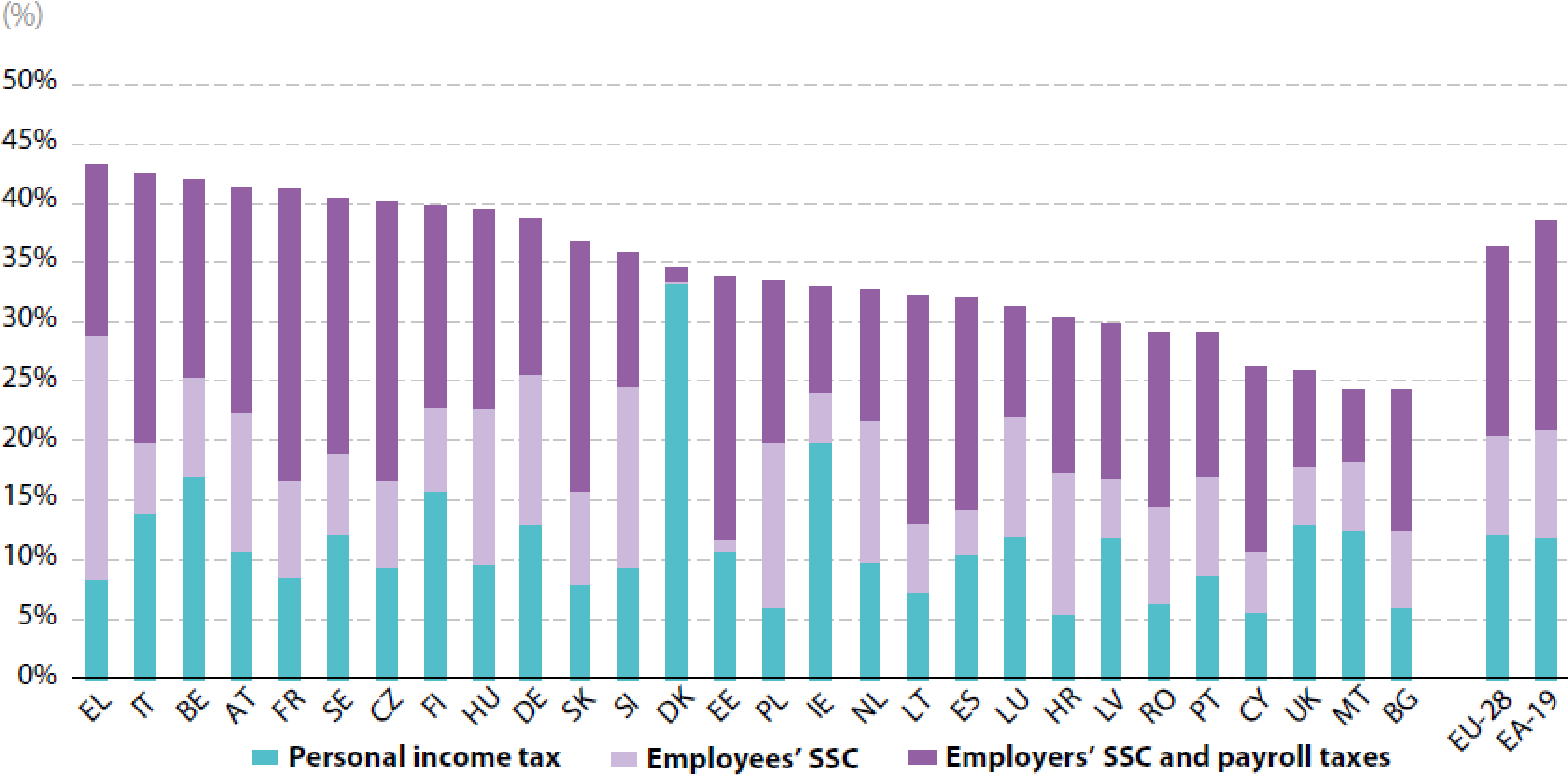
Graph 9: Decomposition of the implicit tax rate on consumption 2017

(%)



IMPLICIT TAX RATES ON EMPLOYED LABOUR

- The ITR on employed labour is a summary measure that approximates an average effective tax burden on labour income in the economy, and is defined as the sum of all direct and indirect taxes and employees' and employers' social contributions levied on employed labour income divided by the total compensation of employees working in the economic territory.
- **Implicit tax rate on employed labour =** direct taxes, indirect taxes and compulsory actual social contributions paid by employers and employees, on employed labour income / Compensation of employees + Wage bill and payroll taxes
- Direct taxes are defined as the revenue from personal income tax that can be allocated to labour income. Indirect taxes on labour income, currently applied in some Member States, are taxes such as payroll taxes paid by the employer. The compensation of employees is defined as the total remuneration, in cash or in kind, payable by an employer to an employee in return for work done.


Graph 13: Composition of the implicit tax rate on labour, 2017
(%)
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
EL
IT
BE
AT
FR
SE
CZ
FI
HU
DE
SK
SI
DK
EE
PL
IE
NL
LT
ES
LU
HR
LV
RO
PT
CY
UK
MT
BG
EU-28
EA-19
Personal income tax
Employees' SSC
Employers' SSC and payroll taxes

IMPLICIT TAX RATES ON CORPORATE INCOME

- The ITR on corporate income is defined as the ratio between revenue from taxes on income/profits of corporations (including holding gains) and all taxable capital and business income of corporations.

- The ‘no dividends’ version of the ITR on corporate income employs the same numerator as the ‘traditional’ version, but the denominator excludes all dividends.

Graph 17: ITR on corporate income differences (traditional version versus no dividends version), 2017