



International tax policy


Tashkent state university of economics

Lecture 1





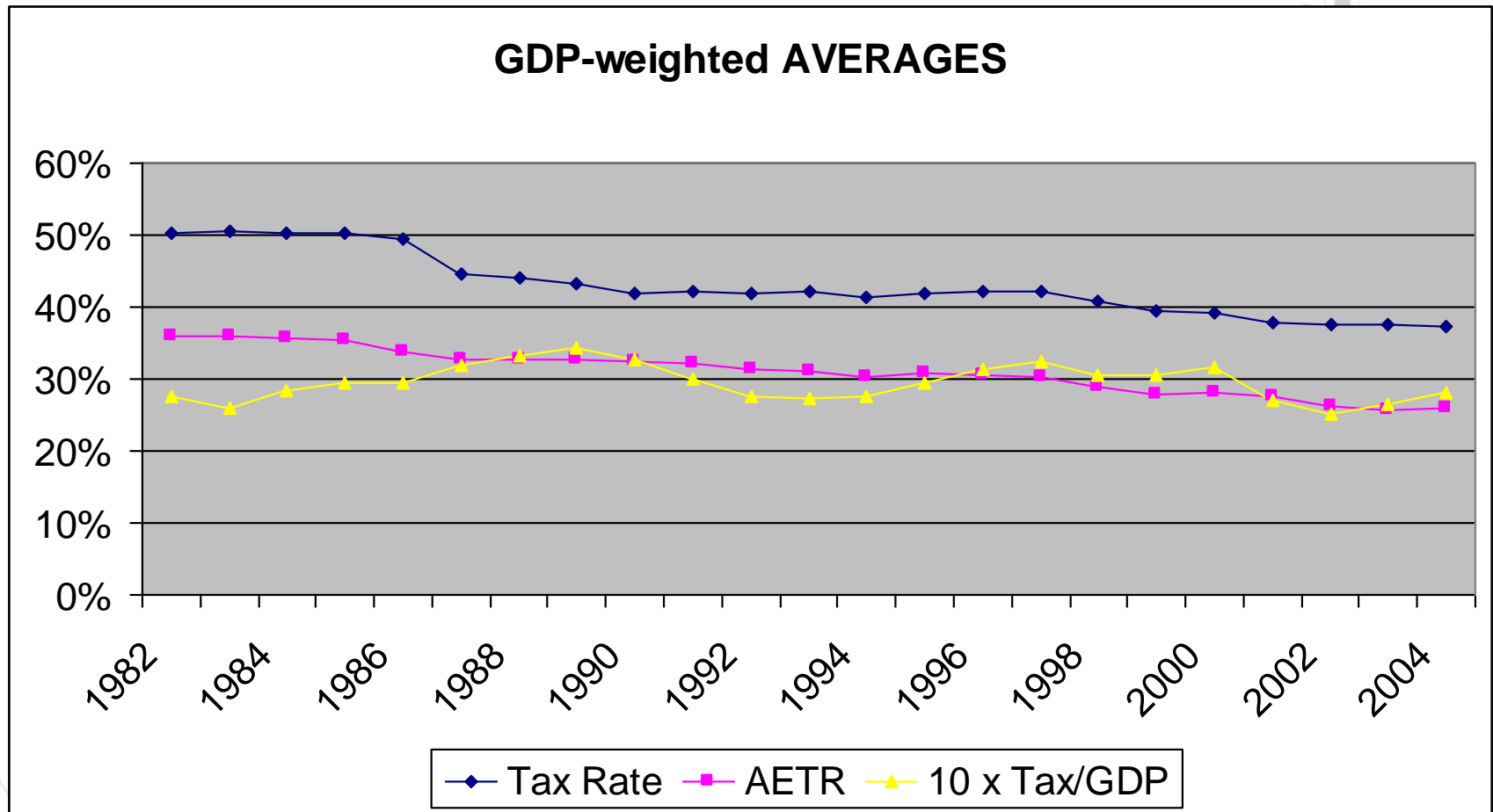
Issues we will consider:

- ◎ Trends in corporate tax amongst OECD countries
 - ◎ Economic considerations
 - ◎ Special incentives
 - ◎ Some Policy Lessons
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What is so important about corporate tax?

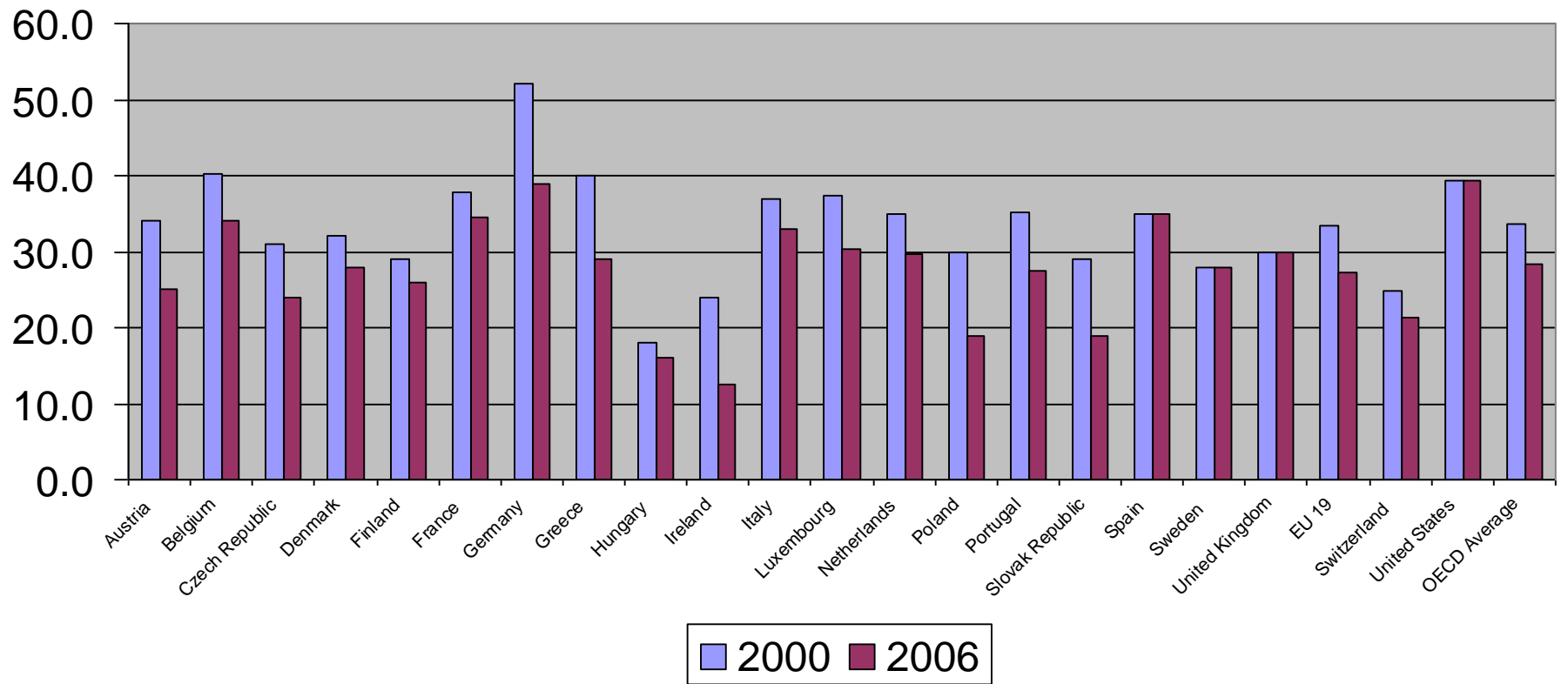
- ◎ A fairly minor part of tax revenue:
 - 9.3% for OECD, 8.1% for the EU15 (and much is relieved against PIT)
 - Personal income tax: 24.9%, 25.0%
 - Social security contributions: 26.1%, 28.8%
 - Sales taxes: 32.1%, 30.4%
- ◎ But has important effect on behaviour:
 - Affecting the level and composition of investment – and so affecting growth
 - Influencing the pattern of foreign direct investment

OECD-wide trends in corporate tax rates and revenues

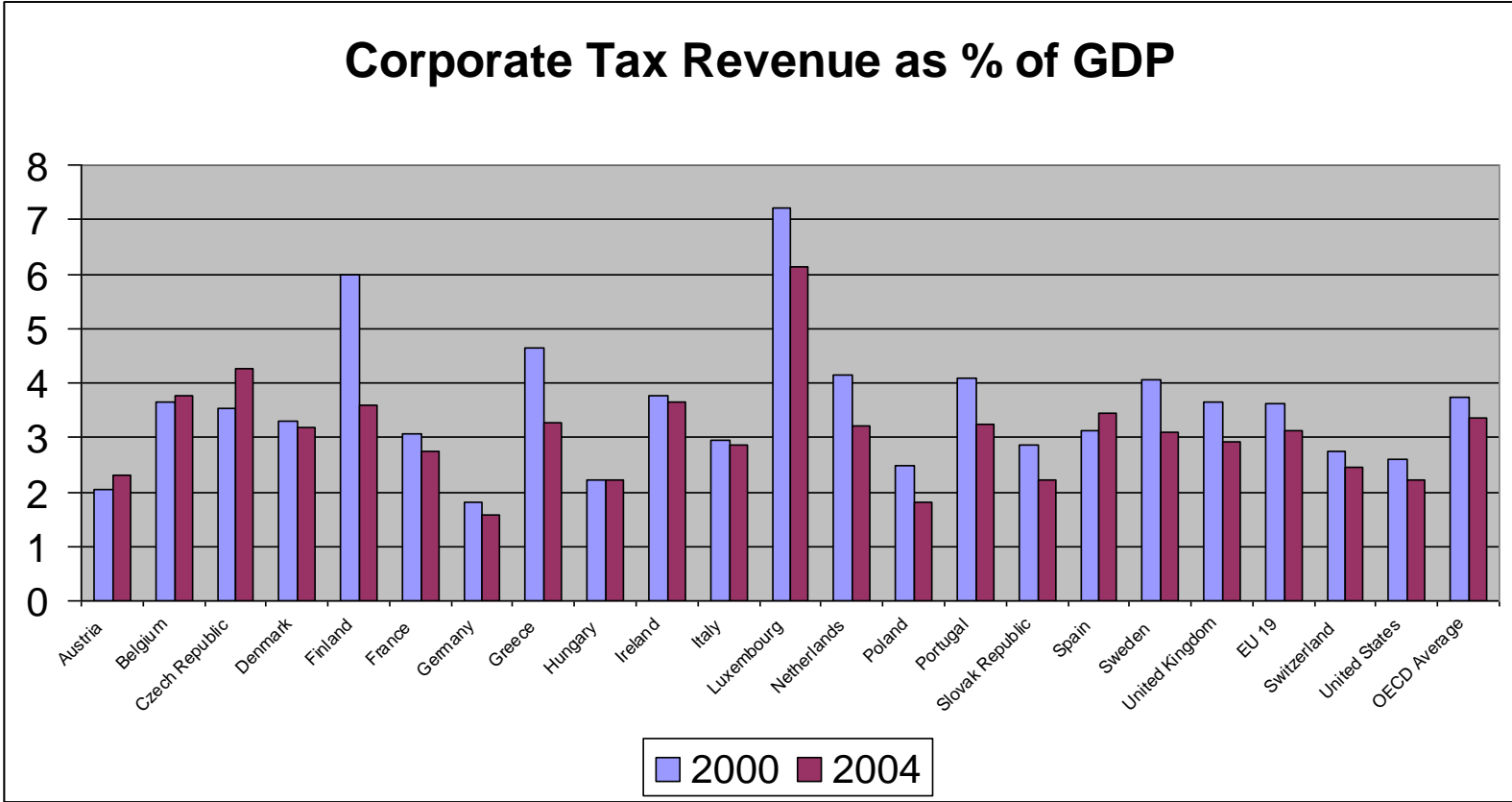


A wide range of rates

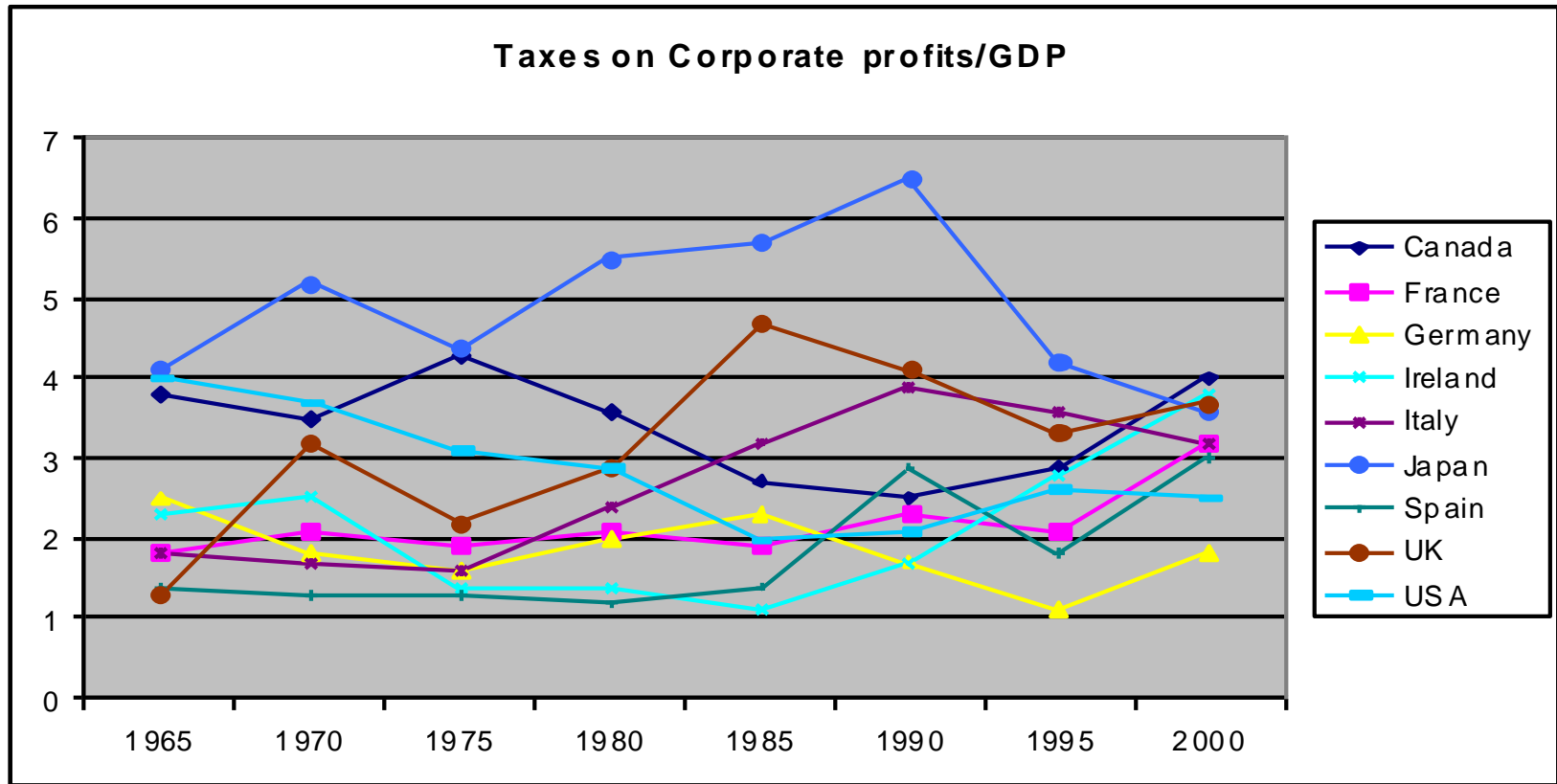
Statutory Corporate Tax Rates



A wide range of revenues



Business taxes tend to be cyclical



Ultimate Burden of Business Tax

- ◎ All taxes on businesses will have their final incidence on customers, owners (shareholders) or employees
- ◎ This is because businesses are legal entities and only people can pay tax so in the end even profits taxes on businesses are ultimately passed on to someone

Tax and Politics

- ◎ Companies don't vote but:
- ◎ Big companies can lobby effectively & individual voters don't really perceive true incidence of CT
- ◎ Politicians realise voters may not perceive impact of tax changes via CT
- ◎ Tensions between business and politics if marginal voters don't comprehend gains from cutting CT or costs of increasing it

Micro-economics of corporate tax

- ◎ Who pays CT?
- ◎ In small (capital importing) economy theory suggests 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 seen as a way of extracting locational rents

Taxation and FDI

◎ Changing Views

- Old View: Tax doesn't matter
- New View: Tax matters
- New New View: It matters, but not mostly for the reasons thought previously. Effect on ownership is what we should worry about.
- Q: Can all be true? A: Yes (to a degree)