

Should Unfairness be Maintained in Corporate Taxation?

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ECIPE-Timbro policy paper, forthcoming

Should unfairness be maintained
in corporate taxation?

*The disguise of the tax incidence
in EU and OECD tax planning...*

The surface of the tax debate

- Policymakers generally concerned about “Fair Taxation” / “Tax Justice”
- Different perceptions about concept(s) of fairness in general and principles for fair (corporate) taxation
- “Tax Progressivity” generally considered important policy objective
- Hoo-ha about corporate “Tax Avoidance” (legal) or “Tax Evasion” (illegal) in politics and media

Digital tax debate: fairness vs. unfairness in corporate taxation

The lie...

(theoretical numbers for hypothetical companies)

Claims for effective average tax rates in the EU28 (European Commission, DG TAXUD)

23,2%



Traditional international business model

10,1%



Digital international B2C model

8,9%



Digital international B2B model

The reality...

(effective corporate tax rates based on audited annual reports)

Effective corporate tax rates, 6-year average 2012-2017, by company (ECIPE)

38,2%



Amazon

27,0%



Facebook

26,8%



Alphabet (Google)

17,6%



Renault

20,5%



Volkswagen

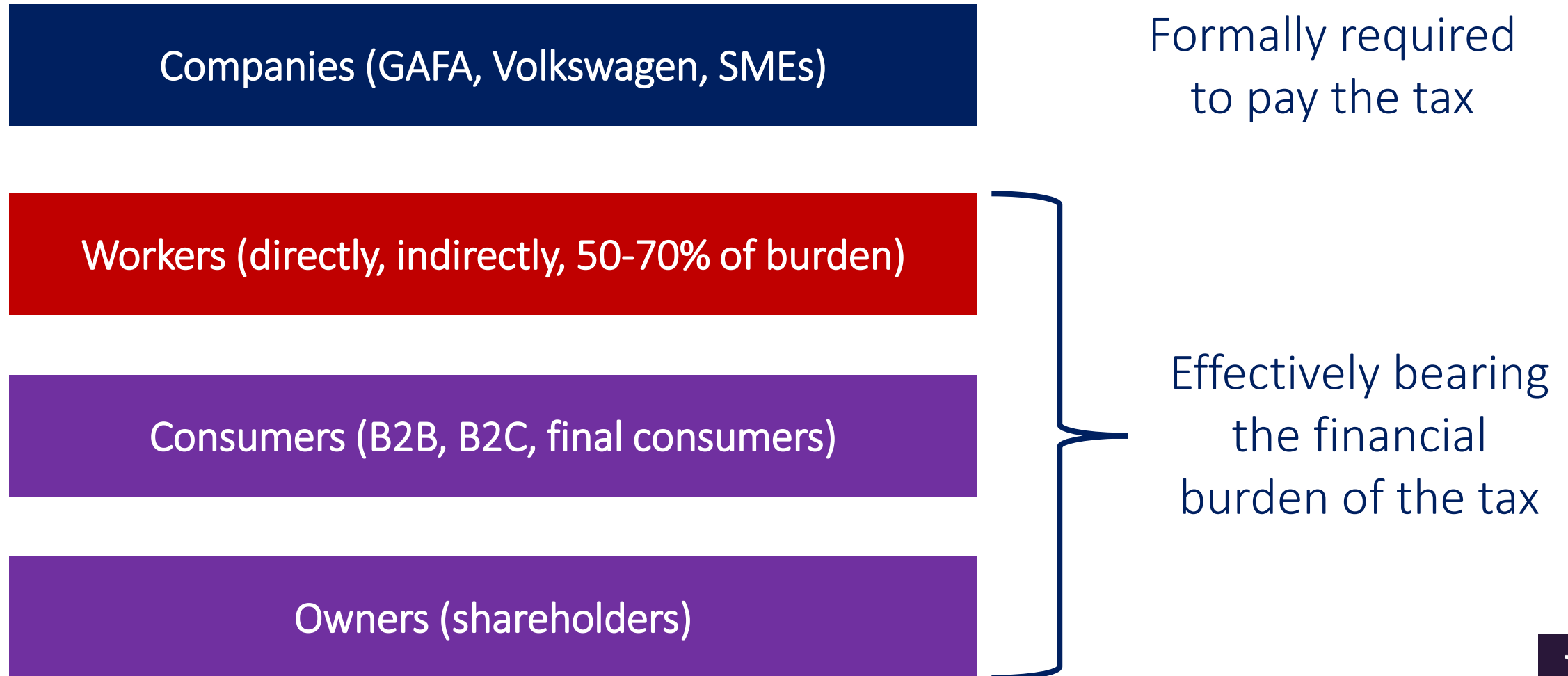
19,1%



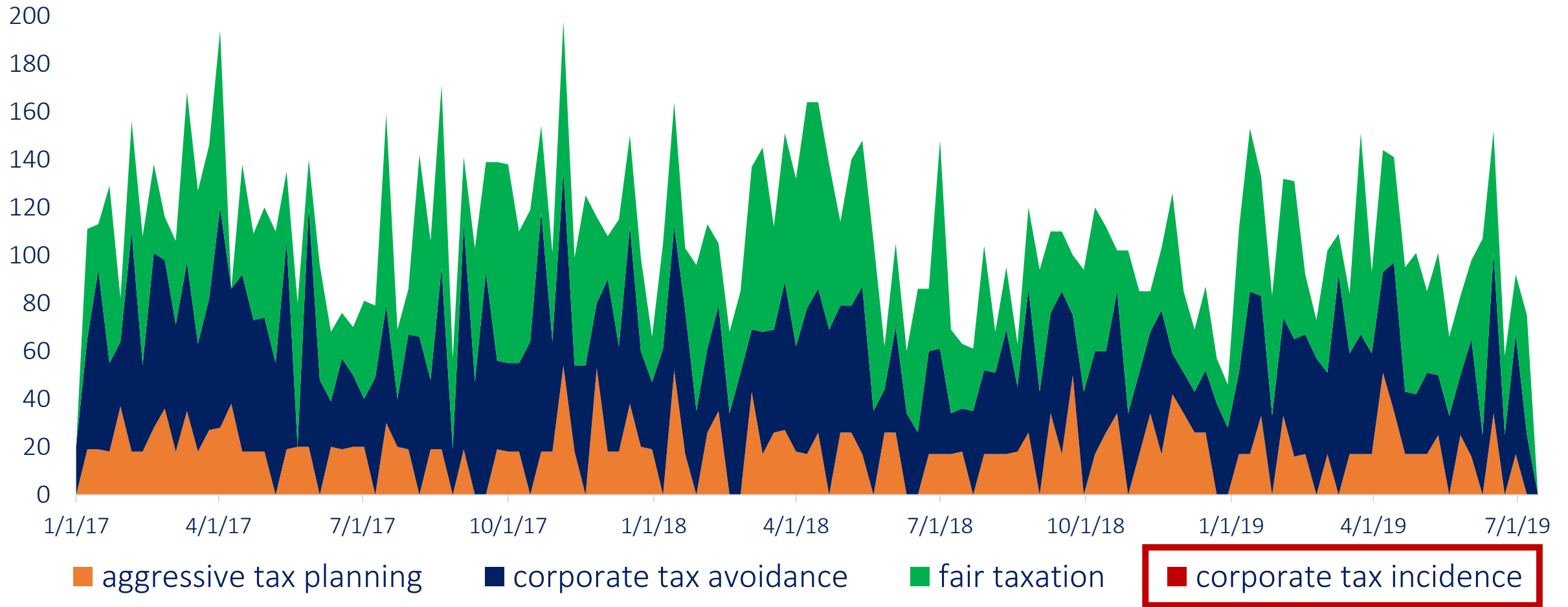
Deutsche Telekom



Tax incidence of taxes on corporate income – ignored by tax policymakers in OECD, EU, member states



Lack of public awareness of distribution of real burden (tax incidence effects) of corporate taxation



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



Recommended literature: Fuest et al. (2018)

Do Higher Corporate Taxes Reduce Wages? Micro Evidence from Germany

Clemens Fuest

Andreas Peichl

Sebastian Siegloch

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Tax avoidance is good for tax progressivity

- Empirical studies: workers bear the largest part of the corporate tax burden (directly, indirectly, **50-70% of overall financial burden**)
- Fuest et al. (2018), for example, find that **low-skilled, young and female employees** bear a larger share of the tax burden



Address unfairness by tackling tax obfuscation

➤ As already outlined by Buchanan in 1960,

*”[a] final form of fiscal illusion involved on the levy of taxes comes about in the uncertainty concerning the actual incidence of the tax. **Government will try not to levy taxes for which the incidence is known. The aim will rather be to induce as much uncertainty as possible thus keeping the individual in the dark concerning the actual amount of tax which he does pay in real terms.**”*

The way forward for responsible tax policymaking

➤ With corporate taxes in place, the distributional effects (fairness) of all taxes imposed on individual citizens are impossible to assess.



➤ As outlined by Baert et al. (2019, p. 23), *“tax policy making will remain suboptimal in terms of its impact on employment and growth.”*