BEPS: Blessing or Curse?

Off/on shoring and manufacturing employment

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Gary et al: "BEPs (mostly) stinks!"

MOTIVATION:

- When it comes to tax avoidance, if you can't beat 'em…
  - But maybe BEPS will "work."
- From US perspective, concerns should "transcend…tax rule" in favor of "prosperity of US firms," growth, jobs, R&D.
  - But surely tax revenues and growth are not exclusive…missing counterfactuals!
- BEPS seeks to move the legal goalposts, and that may "inflict significant damage on US economic interests"
  - But not obvious that paying taxes kills innovation.
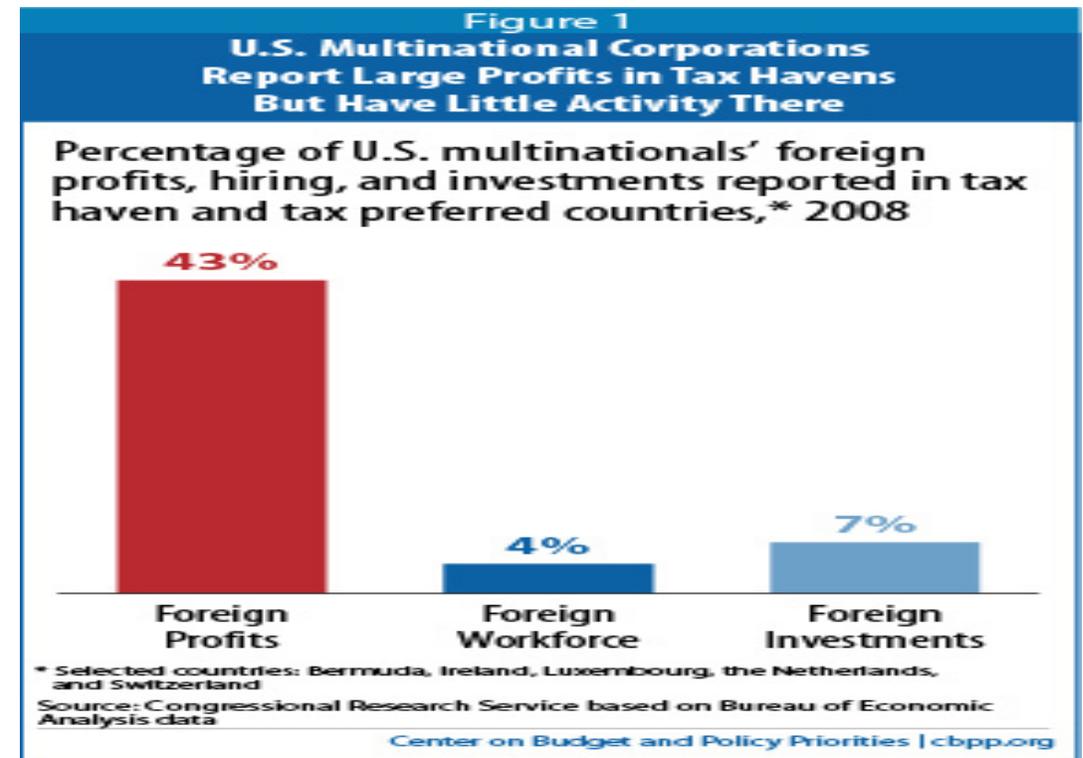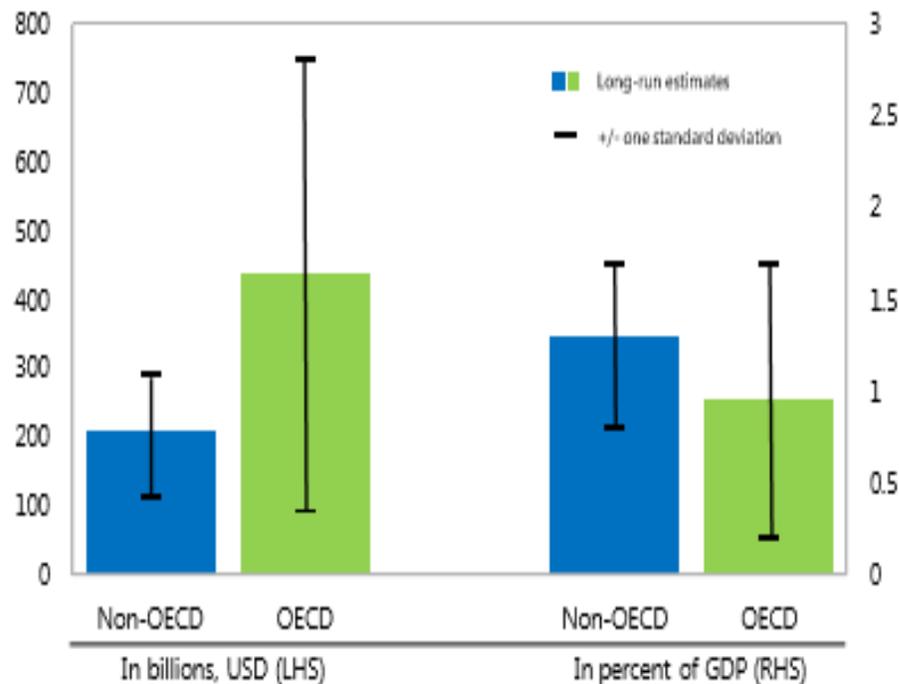
Problem/Solution

Problem:

- Base erosion and profit shifting/transfer pricing exists

- The loss of revenue is a serious problem to which the paper provides short shrift

- Inequality, stagnant earnings amidst high profitability

Solution (3-step plan):

- Get rid of corp inc tax

- ??

- Treasury coffers fill up

Losses from BEPS sorts of stuff

- Gravelle (2013) 25% of corp tax revs, 0.6% of GDP
- IMF, Huang

Figure 1
U.S. Multinational Corporations
Report Large Profits in Tax Havens
But Have Little Activity There

Percentage of U.S. multinationals' foreign profits, hiring, and investments reported in tax haven and tax preferred countries,* 2008

43% — Foreign Profits

4% — Foreign Workforce

7% — Foreign Investments

* Selected countries: Bermuda, Ireland, Luxembourg, the Netherlands, and Switzerland
Source: Congressional Research Service based on Bureau of Economic Analysis data

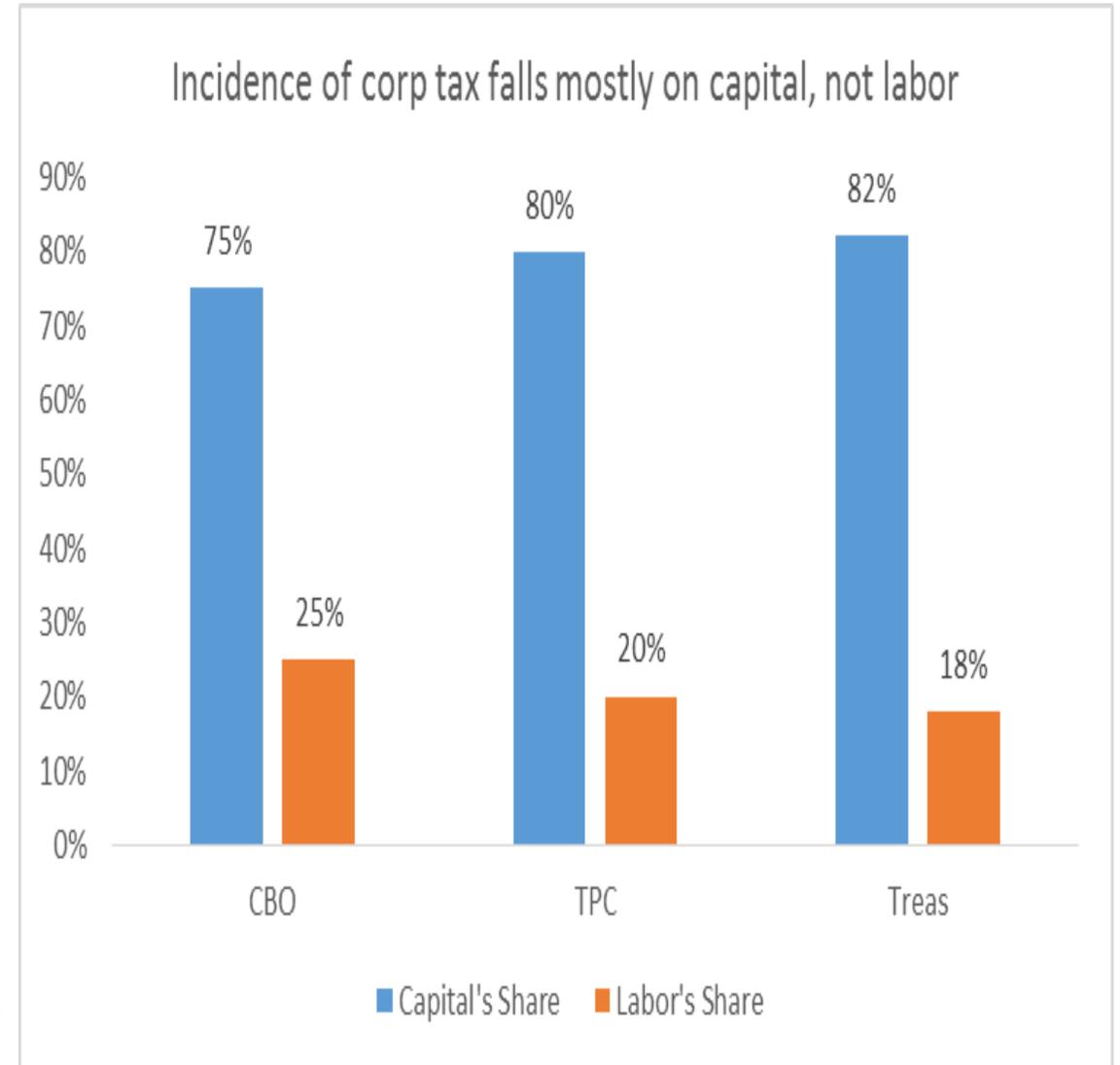Center on Budget and Policy Priorities | cbpp.org

Why getting rid of the corp tax is a bad idea

- Who knew? Turns out the income that's tax privileged is the income you've got gobs of. IE, creates new tax shelter
- Tax avoidance on steroids: pass through more than doubled as share of biz income in recent years
- EG, how would you undistributed corporate earnings? "Taxing shareholders on unrealized gains represents a huge change in tax policy that would be aggressively resisted by patient holders of equity."
- "Tax gap" much smaller for corps than pass throughs; biz income taxed at individual level largest single gap source; sole props report less than ½ their inc to IRS
- Regressive: Incidence falls largely on capital, not labor

Figure 1: Shares of Business Income by Entity Type, 1980-2010

Legend:
- Sole Proprietorships
- Partnerships
- S Corporations
- C Corporations
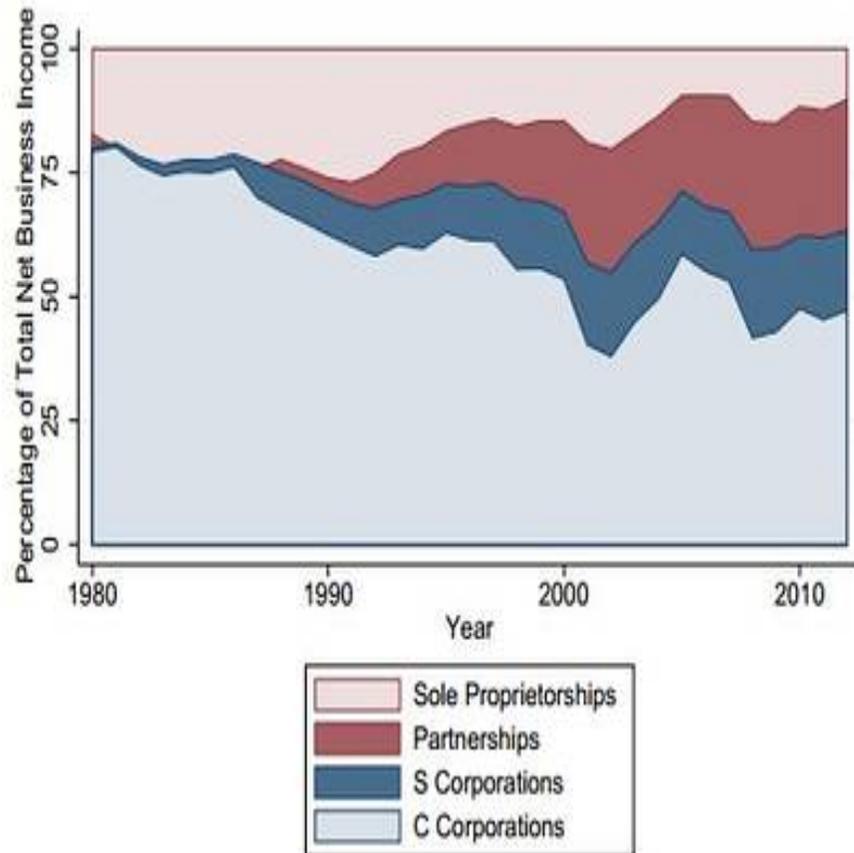
Notes: This figure shows the share of overall business income by entity types from 1980 to 2012 from DeBacker and Prisinzano (2015).

Incidence of corp tax falls mostly on capital, not labor

	Capital's Share	Labor's Share
CBO	75%	25%
TPC	80%	20%
Treas	82%	18%

I don't think Apple "stakeholders" pay 45% taxes on global profits.

- Compensation is netted out of reported profits so taxes on workers can't be taxes on profits.

- These numbers from Apple are "provision" not actual taxes paid!

- Their US effective rate is probably in mid-20s, but their tax avoidance is on overseas earnings—2% on $181 bn! (CTJ)

- Making them fine BEPS candidate.

- Question is: **would BEPS actions hurt Apple innovation?**

- Why assume so? Why not assume they could spend more time innovating and less time avoiding taxes.

Apple, cont…([CTJ, 2015](#))

"Apple has booked $181.1 billion offshore — more than any other company. It would owe $59.2 billion in U.S. taxes if these profits were not officially held offshore for tax purposes. A 2013 Senate investigation found that Apple has structured two Irish subsidiaries to be tax residents of neither the United States, where they are managed and controlled, nor Ireland, where they are incorporated. This arrangement ensures that they pay no tax to any government on the lion's share of their offshore profits."

Conclusion

- No question, corp code a mess
- But absent those revs, more fiscal pressure than we/OECD already face
- Lots of assertions that BEPS (or most other corp tax reforms) will have large economic costs; light on evidence
- To be fair, I don't have evidence that BEPS wouldn't hurt growth
- Lack of attention to problems they'd create by getting rid of corp code
- Let's work on corp tax reform and track BEPS

Off/On shoring

- Would we learn anything from looking at MNCs domestic exports?
- What's the model (demand proximity, costs, labor quality)?

RE manufacturing employment:

- The time series of manuf emp—stable in # from mid-1970s-2000—tells us something important, no?
- Manufacturing productivity not speeding up; to the contrary, both labor and multifactor.
- Where's the X-change rate!

Yrly change in manufacturing productivity: Labor and multifactor, and smooth trends
Source: BLS