PIIE PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

IMF Policy Report "Corporate Taxation in a Global Economy"

Spoiler Alert – Not the Usual Flowers But Surprise Bouquets!

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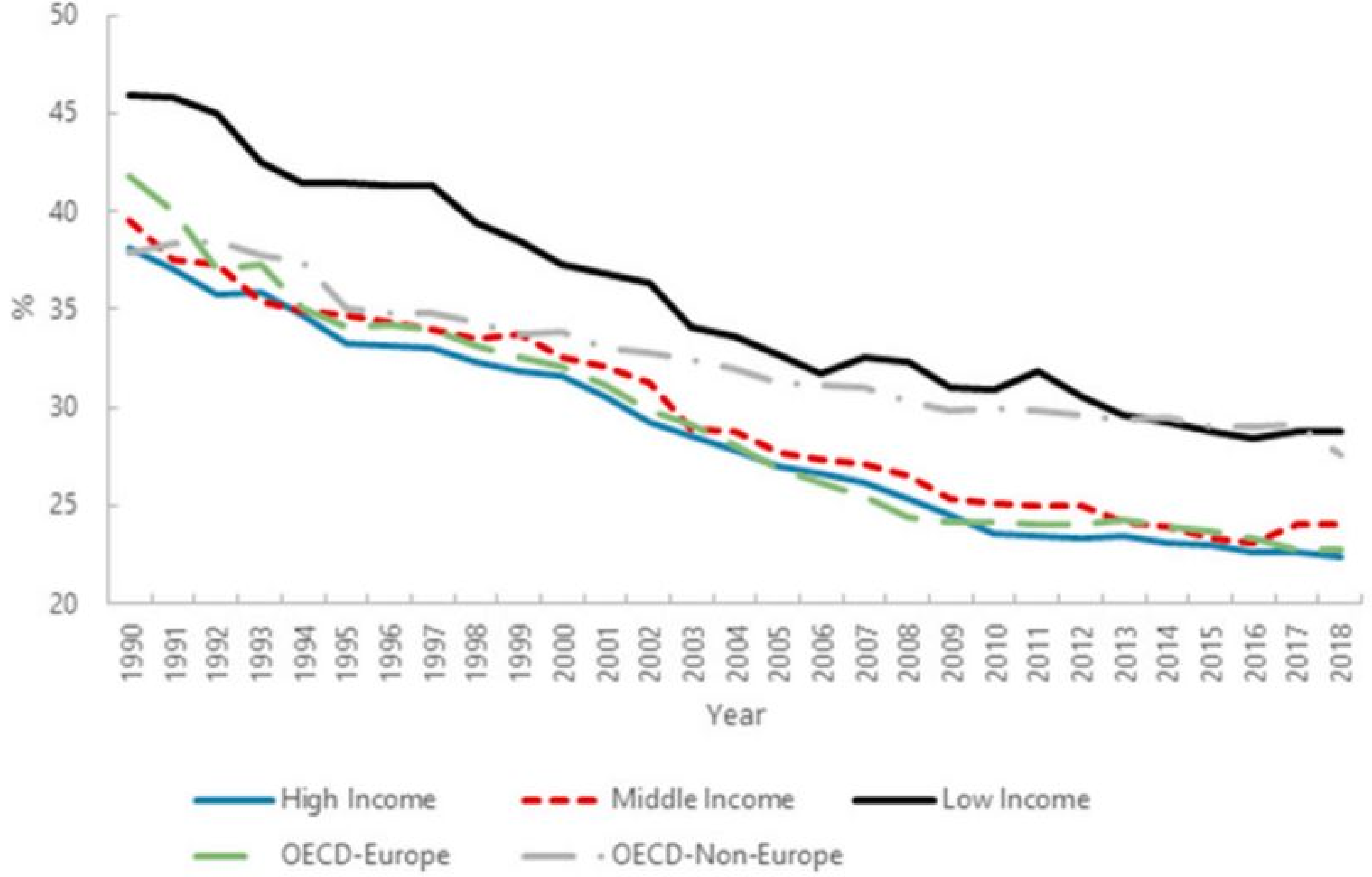
Is the Report Missing a Subtitle? "Save the Corporate Income Tax!"

- Economic analysis, not cited, persuasively demonstrates that the CIT ranks among the most distortive taxes known to man – welfare costs commonly approach, if not exceed, tax revenues.
- IMF authors offer the smallest genuflection to economic wisdom: "It is assumed that it is desired to retain a substantial role for business-level taxation; and that personal-level taxes can be used to achieve preferred outcomes in the final taxation of capital incomes. These are not trivial assumptions." (footnote 6)
- But hasty readers might think the IMF seeks to save the CIT from extinction. Fortunately the Report has hidden messages!

Clapping Hands, Not Wringing Hands

IMF Figure 2: Trends in Statutory CIT Rates

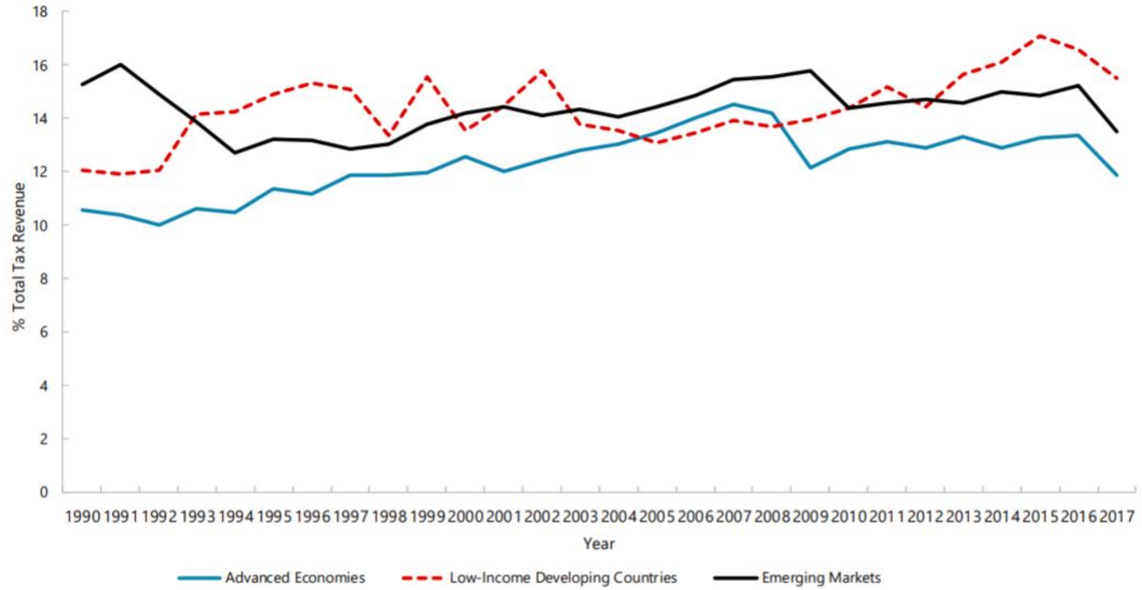


Why the Gradual Fade of the CIT?

- Tax competition, driven by profit and job shifting, inspires falling CIT rates and narrower tax bases.
- But surprise – CIT as a percent of total tax revenue has stayed about the same, as shown in IMF Figure 4.

Figure 4. Corporate Income Tax Revenue by WEO Income Group 1990-2017

(Excluding Resource-Rich Countries, and in percent of Total Tax Revenue)



Source: Revenue Longitudinal Database (WoRLD).

Two Bogus CIT Justifications; One Genuine Reason

- Bogus #1: “Tax the fellow behind the tree.” While politically appealing, high CIT rates spawn targeted deductions, credits, subsidies, plus passthrough entities, all to attract firms and create jobs – creating extra distortion.
- Bogues #2: “Tax the rich.” The way to tax the rich is through individual income and wealth taxes, not business taxes. Learn from Sweden!
- Genuine #1: Much easier to collect money from 10,000 firms than 10,000,000 households – hence tariffs and CIT hold special appeal for low-income countries. Gathering revenue from business rather than households makes administrative sense in advanced countries as well.

Bouquets for Messages Hidden in the IMF Report

- **Beware of Digital Tax Systems:** Digital taxation is spreading fast. The Report illuminates contradictions with international trade and tax rules and the chaos of digital taxation.
  - Thus a small bouquet for the Report's *Digitalization Debate*.
  - Fortunately the US Treasury has awakened to the threat.
- **Call for a more comprehensive multilateral framework:** The Report includes spillover effects on low income countries in the discussion, instead of focusing only on advanced economies.
  - Low income countries need to be heard when the OECD debates the international tax system. For this, the Report deserves another small bouquet.

Bouquets for Messages Hidden in the IMF Report (cont'd)

- **Two Ways to Euthanize the CIT:** Concealed but creative ways to euthanize the CIT are hallmarks of the Report. For this, the Report deserves a big bouquet.
  - Method #1: spread the adoption of minimum taxes.
  - Method #2: change name and structure from CIT to DBCFT.

Euthanasia Through Minimum Taxes

Low corporate rates (US 21%, UK 19%, Ireland 12.5%), plus minimum rates on mobile income booked abroad (GILTI) and on foreign firms doing business at home (BEAT).

- Advantage #1: fits within existing corporate tax structure.
- Advantage #2: politically acceptable alternative to targeted subsidies and passthrough entities.
- Advantage #3: discourages profit-shifting and tax competition.
- Big Disadvantage: countries must make up tax revenue through individual income taxes or VAT-family taxes (good economics, difficult politics).

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Euthanasia through DBCFT

- Destination based cash flow taxation (DBCFT) reaches domestic activity – no tax on exports, no deduction for imports.
- Essentially, DBCFT turns the CIT into a VAT with a wage subsidy – but keep it a secret!
- The DBCFT could raise serious revenue in future decades to pay for rising entitlements – IF the deduction for wages is eliminated – see Will Martin's paper.
- In this 86 page report, pages 25-31 on DBCFT make essential reading.
- IMF authors missed Hufbauer & Grieco, *Reforming the US Corporate Tax*, which laid out the case in 2005. Busy authors don't read ancient manuscripts!

Non-starters: Formula Apportionment, Sharing Residual Profits

- After decades, neither US states nor Canadian provinces can agree on common formulas within their national borders.
- What magic mushrooms make anyone think that formula apportionment will be agreed among sovereign nations?
- The prospect of sharing residual profits between sovereign nations requires a three-course meal of magic mushrooms. Imagine a conclave of finance ministers slogging through IMF Appendix X and reaching agreement!

Thank you!