ACTION 11: MEASURING AND MONITORING BEPS

GROUP OF EXPERTS ON NATIONAL ACCOUNTS

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The OECD/G20 BEPS Project

• In September 2013, OECD and G20 countries adopted a 15-point Action Plan to address base erosion and profit shifting (BEPS)

• A major effort by OECD and G20 countries working together on an equal footing with participation of many developing countries

• First seven reports presented to G20 Leaders at the Brisbane Summit in November 2014

• All of the 15 Action Plan Reports will be delivered to the G20 leaders at the Peru Finance Ministers’ Meeting in November 2015
## The BEPS Action Plan - Timeline

<table>
<thead>
<tr>
<th>2014 deliverables</th>
<th>2015 deliverables</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A1:</strong> Digital economy</td>
<td><strong>A3:</strong> CFCs</td>
</tr>
<tr>
<td><strong>A2:</strong> Hybrid mismatches</td>
<td><strong>A4:</strong> Interest</td>
</tr>
<tr>
<td><strong>A6:</strong> Treaty abuse</td>
<td><strong>A7:</strong> PEs</td>
</tr>
<tr>
<td><strong>A13:</strong> TP documentation</td>
<td><strong>A9:</strong> TP: risks &amp; capital</td>
</tr>
<tr>
<td><strong>A5:</strong> Harmful tax practices</td>
<td><strong>A10:</strong> Other highrisk TP</td>
</tr>
<tr>
<td><strong>A8:</strong> Transfer pricing (TP): Intangibles</td>
<td><strong>A11:</strong> Analyse data</td>
</tr>
<tr>
<td><strong>A15:</strong> Multilateral instrument</td>
<td><strong>A12:</strong> Disclosure of aggressive tax planning</td>
</tr>
<tr>
<td></td>
<td><strong>A14:</strong> Dispute resolution</td>
</tr>
</tbody>
</table>

**2014 deliverables**
- A1: Digital economy
- A2: Hybrid mismatches
- A6: Treaty abuse
- A13: TP documentation

**2015 deliverables**
- A3: CFCs
- A4: Interest
- A7: PEs
- A9: TP: risks & capital
- A10: Other highrisk TP
- A11: Analyse data
- A12: Disclosure of aggressive tax planning
- A14: Dispute resolution
The BEPS Action Plan states that improving the availability and analysis of data on BEPS is critical, and included Action 11 to “Establish methodologies to collect and analyse data on BEPS and the actions to address it”

Action 11 includes:

- Assess currently available data (both micro and macro)
- Develop recommendations for indicators of scale (fiscal effects) and economic impact of BEPS
- Ensure tools are available for economic analysis of BEPS and impacts of actions to address it
- Identify new types of data that should be collected in the future to analyse BEPS and BEPS countermeasures
• Public Discussion Draft (PDD), BEPS Action 11: Improving the Analysis of BEPS was released on 16 April 2015

• PDD chapters included:
  – 1. Assessment of current data sources
  – 2. Discussion of potential BEPS indicators
  – 3. Economic analysis of BEPS

• Action 11 public consultation was held on 18 May 2015
PDD Chapter 1 concluded that existing data limitations severely restrict attempts to construct indicators or undertake economic analyses of the scale and impact of BEPS.

Both macro and micro data have significant limitations that hamper the analyses of the scale of BEPS and the impact of countermeasures.

Key challenge: disentangling BEPS from real economic effects and legislated tax incentives.
Many countries do not currently identify tax return information separately for MNEs.

Access to tax data and records is often restricted to protect confidentiality of taxpayer information.

Publicly available, firm-level financial data is incomplete in coverage, does not include actual taxes paid, only by country of incorporation.

Macro-economic measures are only indirectly related to BEPS.

National account, company financial account, and tax return data is “tainted” by BEPS.
Examples of data limitations for BEPS analysis

• Macro data
  – FDI data mixes real and financial transactions
  – Bilateral trade flow data is limited in coverage and detail (e.g., services)
  – Limited reporting of SPEs and other conduits
  – Limited information on bilateral income flows

• Publicly available firm-level data
  – Problems of country coverage and completeness of financial data
  – Accounting and tax concepts differ
Objective is development of a dashboard of indicators – measures of rough magnitudes of level and trends of BEPS

What is BEPS? Behaviours that artificially separate where income is reported from the activities that generate it

Indicators will evolve over time as better data and improved measures become available
Categories of BEPS Indicators

A. Disconnect between financial and real activity
   - FDI/GDP

B. Firm-level profit rate differentials for MNEs
   - Affiliate vs. worldwide group profit rates

C. Domestic vs. foreign profit rate differentials
   - Differential effective tax rates between MNE and domestic affiliates

D. Profit shifting through intangibles
   - Royalty payments/R&D expenditures

E. Profit shifting through debt leverage
   - Interest paid/income of MNE affiliates
Potential macro-economic indicators

FDI net stock (with OECD countries) to GDP ratio – top 15 vs. other countries

Royalties received to R&D expenditures – top 5 vs. other countries
Potential firm-level indicator: high profit rates of low-taxed affiliates

Data source: ORBIS affiliate and worldwide group financial information for 10,000 affiliates of 250 top global MNEs
What is the “counterfactual” for analysis?

Where are profits created by real economic activity?

– What activities generate profits and how should they be measured? – production factors, sales, public infrastructure, other?

– Where are the activities located geographically? – challenges related to intangible assets and income, measuring physical, labour, other factors
Fiscal effects of BEPS

- Over 100 studies find presence of BEPS but few estimates of global or individual country revenue impacts
- Fiscal (tax revenue) effects
  - Aggregate tax rate differential approach based on firm-level financial data
  - BEPS channels approach (e.g., transfer pricing, treaty shopping, excess interest)
- How widespread is BEPS among MNEs?
Economic effects of BEPS

• Economic effects
  – Economic incidence of BEPS
  – Competition among firms
  – Investment: total, distortions, growth
  – Location of real FDI and R&D
  – Leverage and corporate debt-bias
  – Spillover effects across countries

• Two dimensions: 1) current BEPS impacts and 2) impacts of multilateral adoption of BEPS countermeasures
The challenge of measuring and monitoring BEPS

- BEPS must be estimated: separated from real economic effects and legislated tax incentives
- Need better data: both macro statistics and micro statistics
- New data to be collected under other BEPS action items represent a significant improvement, but protection of taxpayer confidentiality remains an essential requirement
- Need better understanding of determinants of MNE profitability and relationships (e.g. special purpose entities)
- National Accounts statistics are and will be an important element of measuring and monitoring BEPS in the future