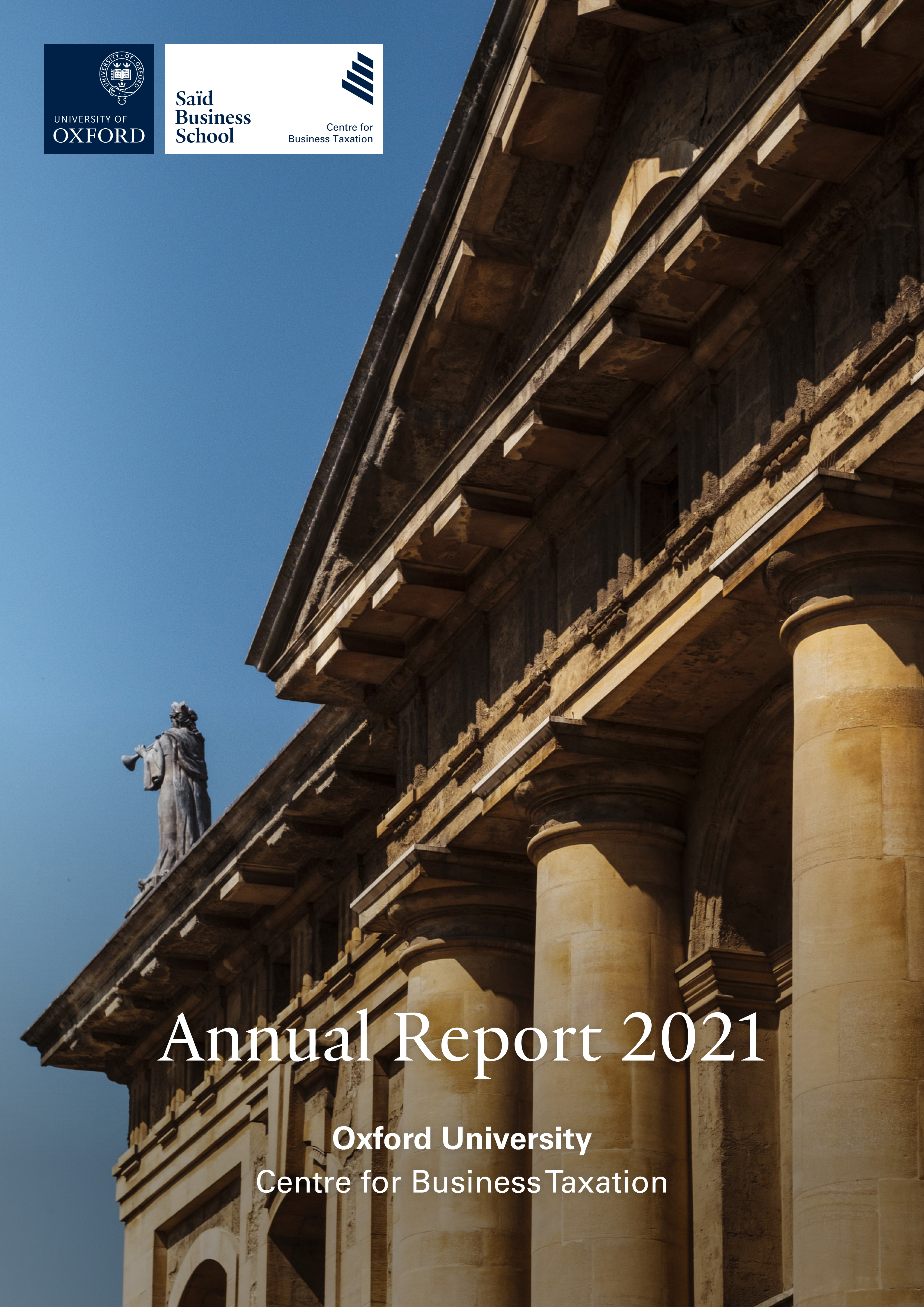


UNIVERSITY OF OXFORD

Saïd Business School

Centre for Business Taxation

Annual Report 2021

Oxford University

Centre for Business Taxation

Contents

Introduction

Despite the ongoing pandemic, the world of international tax has witnessed a momentous development: in July 2021, over 130 members of the OECD Inclusive Framework agreed a two-pillar approach for reform. The hype around the announcement was striking. The German Finance Minister described it as 'an agreement which will really change the world'. The British Chancellor of the Exchequer claimed that this 'historic agreement' creates 'a fairer tax system fit for the 21st century.'

We will see in due course whether such claims are justified, and I can promise that the Centre for Business Taxation will evaluate what happens next. Will this reform lead to a good tax system? Will the tax system be 'fit for the 21st century'? (The Chancellor's comment echoes the title of a paper on the international tax system that John Vella and I published in 2014.)

The CBT now has a 16-year history of undertaking research and policy analysis on many issues relating to business taxation; but in particular, at every step along the way, we have analysed and contributed to the developments in international tax reform. That has continued this year: we have written several publications on these issues and convened online conferences with leading speakers that attracted over 1,000 registered participants.

Our highlight publication of the year was a book, published by Oxford University Press, titled *Taxing Profit in a Global Economy*. That was the product of the Oxford International Tax Group, which I set up in 2013 and subsequently chaired – a group including some of the world's leading thinkers from economics and law on international taxation. The book steps back from the current political debates and instead starts from first principles to ask how we should evaluate a tax on business profit – and whether there is any good rationale for such a tax in the first place. It then goes on to evaluate the existing system and a number of alternatives. The key conclusion from the analysis is that there would be significant gains from a reform that moved the system towards taxing profit in the country in which a business made its sales to third parties. I have argued for such a move for nearly two decades and I am therefore pleased to see that Pillar 1 moves in this direction – even if, as other CBT research has recently analysed in detail – the actual Pillar 1 proposal will affect only a handful of major companies. Another recent CBT paper on taxing in the market country compares alternative approaches in some detail.

Despite continuing his work for the OECD, Richard Collier, an Associate Fellow of the Centre, also published a major OUP book this year: *Banking on Failure: Cum-Ex and Why and How Banks Game the System*. The book describes one of the biggest and most complex tax scandals – the 'cum-ex' scandal – in which a very large number of banks and funds from across the globe participated in the raid on the public exchequers of a number of countries, with losses in the tens of billions of euros. The book draws on the significance of this case study to ask why and how banks 'game the system'. More specifically, its objective is to account for why banks are so often involved in cases of misconduct and why those cases often involve the exploitation of tax systems.

Other CBT research and policy analysis also continues. We have published papers in major academic journals, written policy pieces and blogs, and engaged closely with policy makers and other interested parties on many aspects of taxation relevant to business. Examples of our research include: the impact of tax incentives, especially in periods of uncertainty; the impact of UK business rates on occupancy of business properties; whether digital service taxes are compatible with WTO law; the impact of international tax law on environmental protection; the importance of local knowledge spillovers of R&D; and voluntary registration for VAT.

The CBT continues to be heavily involved in teaching the MSc in Taxation in collaboration with the Law Faculty. And we have continued to convene our usual annual academic conferences; holding them online was an advantage for participation from around the world, although the benefits of meeting in person were missed.

Another function of the CBT is to train researchers who go on to undertake teaching and research at other institutions. We have an outstanding record of doing so, as the section on Research Alumni reports. Recently, three Research Fellows moved on to permanent posts: Eddy Tam to a Lectureship at King's College London, Irem Güçeri to an Associate Professorship at the Blavatnik School of Government in Oxford, and Sarah Clifford to an Associate Professorship at the Economics Department in Oxford. We wish them well and hope they will continue to be involved in the CBT's work.

Finally, I would like to thank those businesses that stepped in during the year to provide short-term support for the Centre; that support is much appreciated and is vital in maintaining the scale of the CBT's activities.

Michael Devereux
Director, Oxford University Centre for Business Taxation

Research Highlights

The Mythology of Value Creation

One does not have to travel very far into the literature on the subject of value creation before encountering lofty claims as to its status in the international tax firmament. To take just one example: 'Today, the core principle of the international tax system is taxation of profits in the place where value is created. The discipline of transfer pricing was developed to assess the key value factors in the value creation chain of a transnational corporation and to attribute this figure to location.'[1]

This paper explores whether the elevation of value creation into a core principle of the international tax system is warranted. It addresses three questions: (1) What does the term value creation actually mean or refer to? (2) Does the notion of value creation have a firm basis as a principle in the international tax system? (3) Is it helpful to posit value creation as a paradigm or principle for interpreting or applying the arm's length principle (ALP)?

A preliminary question concerns whether value creation is regarded as foundational to the international tax system in its entirety, or as a concept that is primarily relevant to the topic of income allocation – and specifically Articles 7 and 9 of the OECD Model Tax Treaty. Claims that it is foundational to the entire international tax system seem to be evidently at variance with the use and intended meaning of the term when it was first introduced in the BEPS project. So claims that it is, or should be, a guiding principle for the purposes of the income allocation rules seem somewhat stronger. The paper therefore considers the merits of these lesser claims.

Even then, however, the conclusion reached is that value creation is neither apt to describe the existing transfer pricing system nor appropriate or useful as a normative concept that represents some paradigm or principle to be aspired to. It follows that, if the descriptive and normative claims of value creation fail where they are strongest, then the case in support of a more expansive relevance of value creation falls away.

Richard S. Collier (2021) 'The Value Creation Mythology', in: W. Haslehner & M. Lamensch (eds), *Taxation and Value creation*, EATLP International Tax Series, Amsterdam: IBFD, Chapter 6, Volume 19.

[1] Olga Solovyova, 'Introduction', Transfer Pricing and Value Creation eds. Rafaelle Petruzzi and Romero Tavaresto, Linde Verlag, 2019.

Are Digital Services Taxes Incompatible with International Trade Law?

Between 2019 and 2021, the United States initiated investigations into several digital services taxes (DSTs) and published observations on the DSTs adopted by Austria, France, Italy, India, Spain, Turkey and the United Kingdom. In addition to the argument that these taxes violate international tax principles, the US considers them to be discriminatory. According to the US, three main aspects of the DSTs make them discriminatory against US companies: (1) the choice of revenue thresholds, which distinguish between small and big companies; (2) the selection of services covered; and (3) the intent of the governments that adopted DSTs, which – according to the US – was to target US companies.

In this paper, we explain how the different aspects of these arguments would be analysed under the General Agreement on Trade in Services (GATS) and show why it is far from clear that DSTs would violate GATS' non-discrimination principles. First, regarding the distinction between small and big companies, our analysis suggests that a tax imposed differently on companies depending on their size, their turnover or their profitability is not – as such – discriminatory under the GATS. Second, we argue that in-scope and out-of-scope activities (for example, digital and non-digital advertisement services) are not in a competitive relationship, which – under the GATS – means that these services do not need to be subject to the same tax treatment. Third, we discuss whether the legislative intent underlying the adoption of DSTs can be given some weight for their analysis under WTO law and argue that the political statements mentioned by the US in its investigations are unlikely to serve as evidence of DSTs' discriminatory character under the GATS.

While recognising that there may be good tax policy reasons to oppose DSTs, we conclude that arguments based on WTO law provide, if at all, a weak justification to oppose such taxes.

Alice Pirlot and Henri Culot (2021) 'When Trade Law Meets Tax Policy: The Example of Digital Service Taxes', (forthcoming) *Journal of World Trade*, 55(6).

Comparing Proposals to Tax Some Profit in the Market Country

Several proposals have recently been made to include the 'market' country in the allocation of the rights to tax international profit. This paper sets out to compare and contrast three specific proposals: OECD Pillar 1; Article 12B of the UN tax treaty; and the Residual Profit Allocation by Income proposed by Devereux et al (2021). We define the 'market' country broadly as the location of either the direct or indirect purchaser of a good or service, or the user of certain digital platforms.

While the proposals are broadly similar in what they seek to achieve, they differ in how they seek to achieve it. They differ significantly in their interaction with the existing system and their implementation. The proposals may be thought of as alternative attempts to address a number of issues that must be considered in any such proposal: the scoping of any proposed tax (that is, which businesses would be liable to the tax); the mechanism by which the tax base is identified and allocated to a market state; the nature of the tax base (for example, whether it is based on gross revenue or net profit); the method by which tax is collected; the country, if any, in which adjustments are made to alleviate perceived double taxation; and whether that country offers credit against all taxes on profit, or only taxes on residual profit.

Examining these proposals side-by-side helps to identify their similarities and differences, and their consequent strengths and weaknesses. The merits of each of the proposals rests on the different ways in which they address these issues. The paper distinguishes between features that are inherent, or not inherent, to each proposal. The approach taken promotes the possibility that elements from the different proposals could also be combined in a new way.

The paper highlights some specific issues. First, a comparison between unilateral, bilateral and multilateral approaches reflects a trade-off between ease of implementation and the extent of ambition. Second, layering the new allocation on top of the existing ALP-based income allocation system (as in Pillar 1 and Article 12B proposals) raises several issues avoided by a more fundamental and coherent package (such as the RPAI proposal). Third, even if we remain rooted in the existing ALP-based system, improvements might be made if traditional approaches (eg. to the use of the tax credit mechanism) are re-appraised at a fundamental level, opening up possible new directions.

Richard S. Collier, Michael P. Devereux, and John Vella (2021) 'Comparing Proposals to Tax Some Profit in the Market Country', (forthcoming) *World Tax Journal*.

Who Will Pay Amount A?

On July 1, 2021, the OECD's Inclusive Framework agreed the outline of two fundamental reforms to the international tax system. One of these, Pillar 1, will allocate part of the profit of very large and profitable multinational companies – with sales of over €20 billion and that have pre-tax profits exceeding 10% of revenue – to countries in which they make sales. This allocation is known as Amount A.

In this research, we use three different datasets, to explore which companies will be liable to Pillar 1, and the amounts of profit involved. The key results are as follows:

- Only 78 of the world's 500 largest companies will be affected. If the proportion of profit above the 10% threshold is set to 20% (from the range 20% to 30%) then the total allocation of Amount A for these companies would be $87 billion.
- Around 64% of this total ($56 billion) would be generated by US-headquartered companies.
- Around 45% of this total ($39 billion) would be generated by technology companies, and around $28 billion would be generated from the largest 5 technology US companies (Apple, Microsoft, Alphabet, Intel and Facebook).
- Reducing the revenue threshold from €20 billion to €750 million (alongside Pillar 2) would double the aggregate Amount A but would increase the number of companies affected by a factor of 13. The relative gain of reducing the threshold below $5 billion is small relative to the increase in the number of companies involved.
- Reducing the revenue threshold would have a less significant impact on companies in the automated digital services (ADS) and consumer facing business (CFB) sectors (the sectors that had been targeted in earlier proposals) than on companies outside those sectors.
- The sectoral composition of companies subject to Pillar 1 is strongly affected by the definition of profitability – pre-tax profits as a proportion of revenues. Among European firms with revenues above $20 billion, there are almost twice as many companies that have a return on equity above 10% compared to those that have a return on revenue above 10%.

Michael P. Devereux and Martin Simmler (2021) 'Who Will Pay Amount A?', *EconPol Policy Brief*, 3 July 2021.

The Virus in the ALP

It is now six years since the delivery of the BEPS Final Reports containing a range of transfer pricing measures designed to deliver a realignment of the international income allocation system. What lessons are available from practical experience over this period?

This paper focuses on the new transfer pricing measures in so far as they concern risk and capital. These were core elements of the transfer pricing changes introduced by the BEPS project, introducing extensive and fundamental changes relating to the way risk is required to be dealt. The central approach is to require that an entity treated as bearing risk for transfer pricing purposes should both control that risk and have the financial capacity to assume the risk.

The guidance assumes that economically significant risks can always be identified and always be controlled. Yet some significant risks cannot be identified in advance; and even those that are cannot necessarily be meaningfully controlled. For the control of risk requirement to be consistent with the ALP, third parties must always control the risks they bear. We are sceptical that this is the case.

The approach to risk seems to have been designed to nullify the more extreme case of a cash-box entity with no or little substance. In that case, the approach arguably works in a less problematic way, with the problems arising in the event of a loss being less acute. However, a number of problems stem from seeking to apply an approach designed on anti-avoidance lines as a routine feature of the transfer pricing exercise. The most immediate is that the risk framework does not lend itself to being applied as a matter of routine – it is just too complex.

The problems raised by risk and capital are some of the most intensely difficult issues under the existing income allocation system based on the ALP. The task of finding appropriate solutions is highly challenging. Nonetheless, based on its detailed survey of the practical application of the new rules, the paper considers a number of areas in which modifications to the existing guidance might be considered.

Richard S. Collier and Ian Dykes (2020) 'The Virus in the ALP, Critique of the Transfer Pricing Guidance on Risk and Capital in the light of the covid-19 pandemic', *Bulletin for International Taxation*, 74(12).

The EU-UK Trade and Cooperation Agreement: Its Tax Implications

With the end of the Brexit transition period, one might think that the UK is no longer required to align its domestic tax policy to EU (tax) law requirements. This strong statement should, however, be nuanced. The EU–UK Trade and Cooperation Agreement ('EU-UK TCA'), which the EU and the UK concluded at the end of December 2020, include several tax-related provisions. These provisions can be divided into two main categories. First, the EU-UK TCA includes the 'traditional' tax-related provisions that are usually part of trade agreements, such as the provisions on customs duties, internal taxes, export duties and the carve-out provisions for double tax treaties and tax exceptions. Second, the agreement includes 'new' tax-related provisions on good tax governance, the use of fiscal subsidies, sector-specific tax exemptions (e.g. for the aviation sector), carbon pricing and administrative co-operation.

All these provisions will have an impact on the future of tax policy in the UK, even though their impact will certainly be more limited than the effect that EU law has on EU Member States' tax policy. We anticipate that the effects of 'traditional' tax-related provisions included in the EU–UK TCA will not differ from the impact of similar provisions included in other trade agreements concluded by the EU or the UK with third countries. However, only time will allow us to define the precise nature and extent of the future effects of the 'new' tax provisions included in the EU-UK TCA, such as the 'taxation chapter' and the 'subsidy chapter', which are truly unique.

Alice Pirlot (2021) 'Some observations on the tax-related provisions in the Draft EU – UK Trade and Cooperation Agreement', *British Tax Review*, 1, pp. 1-14.

International Tax Law: Ally or Enemy of Environmental Protection?

Scholars have paid little attention to the effects – positive or negative – that international tax law can have on environmental policies and, more generally, on the protection of the environment. Research on the links between environmental protection and tax law has mostly focused on how domestic – rather than international – tax law can integrate environmental considerations, for example in relation to the introduction of environmental tax measures or the role of environmentally harmful tax subsidies.

However, international tax law can in principle also have positive and negative effects on the protection of the environment. First, international taxation would have a positive effect on environmental protection if global environmental taxes were to be introduced. Although no such taxes have yet been adopted, proposals for such taxes have been discussed both in the academic literature and, to a more limited extent, in various recommendations issued by international organizations. Global environmental tax measures are often seen as a better option for tackling global environmental problems, such as climate change, than domestic instruments which can lead to perverse environmental effects (such as carbon leakage) as well as a loss of competitiveness for domestic enterprises.

Second, international tax law can in principle also have a negative impact on environmental protection. This can be illustrated by means of three concrete examples. First, the international tax provisions that apply to the taxation of the aviation sector provide an example of how a country's tax system can be disconnected from - or inconsistent with - its environmental policy agenda. By putting limits on the adoption of taxes on aviation fuels, tax provisions in international aviation agreements prevent countries from using their domestic tax systems to internalize some of the environmental costs generated by the aviation sector. Second, tax-related provisions in international trade agreements are sometimes used as an argument against the adoption of innovative domestic or regional environmental measures, such as border carbon adjustment measures. Third, double tax treaties might, in some cases, limit the effectiveness of market-based environmental provisions, such as emissions trading schemes.

Because of these potential positive and negative effects, the interactions between international tax law and environmental protection need to be better acknowledged. Coordination is key to ensure that international tax law does not undermine the legislators' efforts to protect the environment.

Alice Pirlot (2020) 'International Taxation & Environmental Protection', in: Yariv Brauner (ed), *Handbook on International Tax Law*, Cheltenham, UK: Edward Elgar Publishing, pp. 258-277

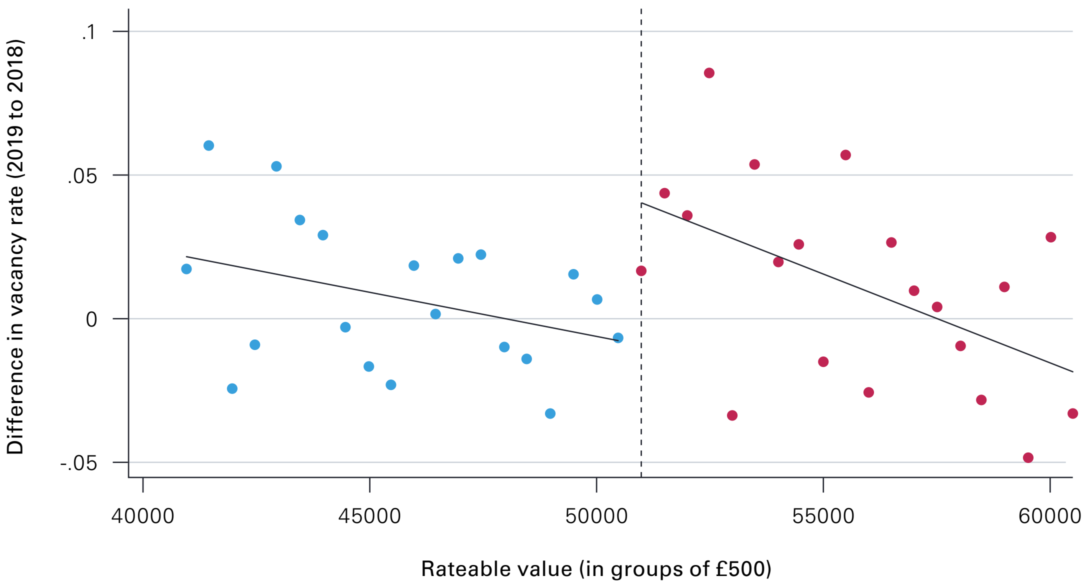
Business Rates and the High Street

UK town centres are widely perceived to be in decline. As The Times recently observed: 'More empty shops, fewer pubs, more fast-food restaurants and fewer shoppers. After COVID lockdowns, restrictions and changing customer behaviour, the future of the high street looks more uncertain than ever.' Why is this happening? Part of the explanation is undoubtedly the rise of online shopping. However, another major factor may be business rates. The British Retail Consortium has called on the government to reduce rates, following a finding that one in seven shops across the UK are vacant.

In our research, we study the effect of business rates on the utilization of business properties in the UK, using property relief schemes to identify the effect of the tax. For example, Retail Relief was announced in 2018 to give a one third reduction from April 2019 in business rates for occupied retail properties with a rateable value below a threshold of £51,000 (properties around the threshold would be large shops, such as department stores or units in shopping centres). The figure shows how the vacancy rate changed for qualifying properties just below and above the threshold following its introduction. Properties unaffected by the change, just above the threshold, saw their vacancy rate rise by around 4 to 5 percentage points on average. However, properties affected by the change, just below the threshold, had almost no change in their vacancy rates. As the vacancy rate above the threshold is around 10%, this means the retail relief reduces the vacancy rate of retail properties below the threshold by almost 50%.

Similar results for the link between business rates and vacancy rates emerge for the other relief schemes studied. This suggests that business rate reliefs and exemptions are an effective policy tool to stimulate economic activity. If the policy objective is to mitigate the decline of the UK High Street, our work supports the expansion of the retail relief scheme (once the temporary relief due to COVID-19 is reversed).

Retail relief and vacancy rates



Ben Lockwood, Martin Simmler, and Eddy Tam, *Tax and Occupancy of Business Properties: Theory and Evidence from UK Business Rates*, Centre for Business Taxation Working Paper 21/10.

Stimulating Firm Innovation and R&D: Public Institutions or Tax Credits?

A growing number of studies document that R&D tax credits are an effective policy tool to stimulate firm innovation and R&D. However, in aggregate R&D spending in the business sector in the UK – which has a generous R&D tax credit – was only 1.19% of GDP, whereas the comparable figure in Germany – which introduced an R&D tax credit only very recently – was 2.19%.

In our research, we study whether the higher R&D intensity of German firms results from more public R&D in Germany, undertaken by universities and research institutions. Public R&D accounts for 1% of GDP in Germany but only for 0.5% in the UK. To answer our research question, we examine the relationship between private and public R&D at the county level in Germany using patent application data. We find that one additional patent from publicly-financed R&D in a county triggers the development of almost three additional patents from private business. Relating the additional firm patents to the cost of public R&D suggests that public R&D is more cost-effective in stimulating firm innovation and R&D than R&D tax credits.

We also demonstrate that this relationship is unlikely to change soon – even if travel and communication costs continue to fall. The reason is that the impact of public R&D on private R&D is largely unrelated to the actual innovation but instead comes from the knowledge about the underlying process of the innovation, e.g., the knowledge of what does not work, what approaches have been tried, and what led to dead ends. Since this knowledge is not documented systematically and thus cannot be transferred in written form, the substantial local knowledge spillovers of public R&D will continue to exist.

Martin Simmler and Leonie Koch (2020) 'How important are local knowledge spillovers of public R&D and what drives them?', *Research Policy*, 49(7).

Events

Over the past 12 months the Centre convened two major policy conferences, three book launches, and two academic conferences, as well as a regular academic seminar series. Due to the pandemic, all events were online. Hosting events online has seen attendance increase; the most recent policy event in May had over 1,100 registrants, and so far well over 1,000 views of the recording on YouTube. Also, the size of the CBT's main mailing list has doubled in the past year as a result, to over 3,000.











Policy Conferences

Pillars 1 & 2: Are We Close to a Deal?

23 November 2020

In October 2020, the OECD/G20 Inclusive Framework published the latest version of its proposals for fundamental reform of the international tax system for business profit. A consultation period closed on 14 December. This conference was convened on 23 November.

The proposed reforms are even more significant than those emerging from the OECD/G20 BEPS project. The BEPS project essentially aimed to reduce profit shifting opportunities. Pillars 1 and 2 go beyond that. Pillar 1 seeks a reallocation of taxing rights among countries; rights will be taken from some countries and allocated to market countries. Pillar 2 does seek to address remaining profit shifting opportunities, but it also seeks to ensure that multinationals pay a minimum level of tax. These proposals thus go significantly beyond BEPS because they seek to affect fundamental and structural change to the international tax system.

Whilst the published reports reflect considerable efforts on the part of the Inclusive Framework and the OECD secretariat, many questions remain, which were addressed by conference speakers. For example, what aspects of the proposals are generally agreed both from a technical and a political perspective? Where is more work required? Will there ever be a consensus in favour of either, or both, pillars? What is likely to happen if no consensus is reached? What role will the new US administration play?

Pascal Saint-Amans and Achim Pross from the OECD set out the current state of play and the challenges still to be faced. They were followed by four members of the Inclusive Framework, who reflected on some of the differing views around the table. There was then commentary and discussion from business and academia. This conference aimed at shedding light on where we are and where we are likely to go, at what is clearly one of the critical junctures in the history of the international tax system.

Speakers

- Pascal Saint-Amans, Director Centre for Tax Policy and Administration, OECD
- Achim Pross, Head of the International Co-operation and Tax Administration Division, Centre for Tax Policy and Administration, OECD
- Rasmi Ranjan Das, IRS, Joint Secretary (FT&TR-I), Ministry of Finance, India
- Marlene Parker, Chief Tax Counsel, Tax Administration, Jamaica
- Gaël Perraud, Deputy Director, International Taxation and European Affairs, Ministry of Economy and Finance, France
- Mike Williams, Director, Business and International Tax, HM Treasury, UK
- Amy Roberti, Head of US Federal Government Relations, Procter and Gamble
- Glenn Price, Deputy Group Tax Director, Vodafone
- Michael Devereux, Director, Oxford University Centre for Business Taxation
- Richard Collier, Associate Fellow, Oxford University Centre for Business Taxation
- John Vella, Assistant Director, Oxford University Centre for Business Taxation

Reigniting Pillars 1 & 2: Prospects for Reform

5 May 2021

Revised proposals from the new US Biden administration reignited moves towards finalising the Pillar 1 and Pillar 2 proposals, ahead of the reforms due to be announced in July 2021. The Centre convened a conference in May 2021 to discuss progress. At the time, great uncertainty remained. Some of the issues are questions discussed at the conference were as follows.

Pillar 1 allocates some taxing rights to the market country. Other proposals have taken a similar approach – including digital service taxes, the UN's Article 12B proposal and the RPAI proposal from the Oxford International Tax Group. With much negotiation ahead, what are the benefits of Pillar 1 over these other approaches? Would a modification in any of these directions help reach a negotiated agreement? And are the benefits of a coordinated agreement over an uncoordinated introduction of DSTs overstated?

The US approach seems to push the Pillar 2 proposals in a new direction. The October Blueprint included a substance-based carve-out which primarily directed the proposal towards combating profit shifting. But the US aimed to target tax competition itself, by introducing some form of minimum tax for all profit, whether or not the location of the profit is justified by the presence of economic substance. Will other countries agree to this change of emphasis? What would it take to persuade them?

And more fundamentally, are we reaching the endgame of multilateral international tax reform? Or have the current negotiations let the genie out of the bottle, paving the way for even more fundamental reform in the future?

The conference began with Pascal Saint-Amans and Mike Williams introducing their perspectives on the progress of the negotiations. This was followed by two sessions, one on Pillar 1 and one on Pillar 2. Achim Pross introduced the state of negotiations for both Pillars. Other speakers reflected a variety of views from business, international institutions, and academia.

Speakers

- Pascal Saint-Amans, Director, Centre for Tax Policy and Administration, OECD
- Michael Devereux, Director, Oxford University Centre for Business Taxation
- Mike Williams, Director, Business and International Tax, HM Treasury UK
- Achim Pross, Head of International Co-operation and Tax Administration Division, Centre for Tax Policy and Administration, OECD
- Michael Lennard, Chief, International Tax Co-operation and Trade, Financing for Development Office, UN
- Richard Collier, Associate Fellow, Oxford University Centre for Business Taxation
- Sophie Chatel, Head of Tax Treaty Unit, Centre for Tax Policy and Administration, OECD
- Tim McDonald, VP Global Taxes, Procter and Gamble
- John Vella, Assistant Director, Oxford University Centre for Business Taxation
- Victoria Perry, Deputy Director, Fiscal Affairs Department, IMF
- Mindy Herzfeld, Professor of Tax Law, University of Florida
- Danny McCoy, CEO, IBEC, Ireland

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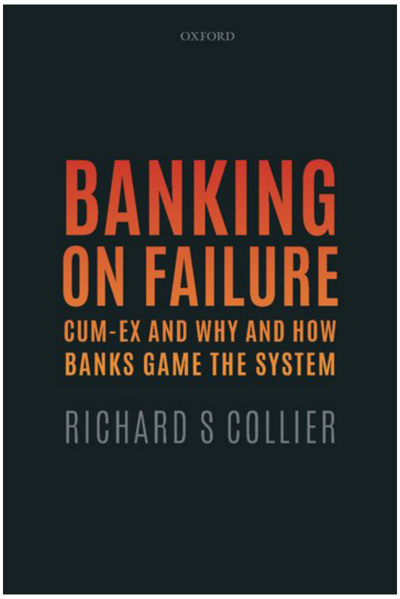
Book launches



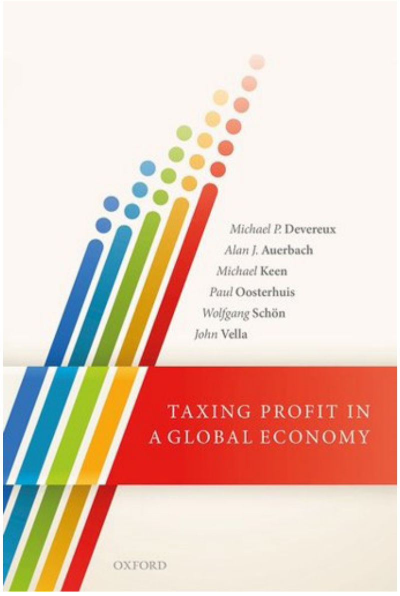
Banking on Failure: Cum-Ex and Why and How Banks Game the System

30 October 2020

In October 2020 Richard Collier published a major new book, *Banking on Failure: Cum-Ex and Why and How Banks Game the System*, which reveals the very significant role that the exploitation of tax systems has played in the development of modern banking. The book, published by Oxford University Press, is a pathbreaking study that not only identifies the weaknesses of tax systems but identifies how banks gaming these systems has fed the development of financial products and markets.

The book explains why banks design and use structured products to exploit tax systems. It describes one of the biggest and most complex cases – the 'cum-ex' scandal – in which a very large number of banks and funds from across the globe participated in the raid on the public exchequers of a number of countries, with losses in the tens of billions of euros. The book then draws on the significance of this case study in exploring what this tells us about modern banks and tax systems, as well as about the way banks interact with tax systems. *Banking on Failure* demonstrates why the exploitation of tax systems by banks is an inevitable feature of the financial markets landscape, and why the nature of tax systems actually facilitates the process. Some possible policy responses to the current position are suggested.

At this event author **Richard Collier** presented the major themes of the book in conversation with **Philip Baker QC** (Field Court Tax Chambers) and **Christoph Spengel** (University of Mannheim). The discussion was chaired by **Jenny Strasburg** (Wall Street Journal).



Taxing Profit in a Global Economy

1 February 2021

February saw the launch of an exciting new book *Taxing Profit in a Global Economy* by The Oxford International Tax Group, chaired by Michael Devereux. The group - the other members are Alan Auerbach, Michael Keen, Paul Oosterhuis, Wolfgang Schön, and John Vella – has been meeting for some years to evaluate the existing system and identify potential reforms. This book is the outcome of that process.

The book undertakes a fundamental review of the existing international system for taxing business profit. It steps back from the current debates on how to combat profit shifting and how taxing rights over the profits of the digitalized economy should be allocated. Instead, it starts from first principles to ask how we should evaluate a tax on business profit – and whether there is any good rationale for such a tax in the first place. It then goes on to evaluate the existing system and a number of alternatives that have been proposed. It argues that the existing system is fundamentally flawed, and that there is a need for radical reform. A key conclusion from the analysis is that there would be significant gains from a reform that moved the system towards taxing profit in the country in which a business made its sales to third parties.

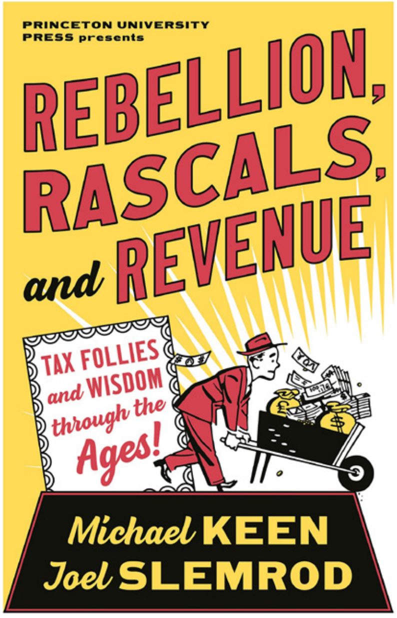
The book launch was chaired by Evan Davis, and the book was presented by Michael Devereux, before being discussed by an eminent panel.

Chair: **Evan Davis,** BBC

Presenter: **Michael Devereux**, Oxford University Centre for Business Taxation

Panel

- **Lilian Faulhaber**, Georgetown University
- **Clemens Fuest**, ifo Institute, Munich
- **Michelle Hanlon**, MIT
- **Paul Oosterhuis**, Skadden Arps
- **Pascal Saint-Amans**, OECD



Rebellion, Rascals, and Revenue

9 June 2021

In June, the Centre hosted a launch of a book, published by Princeton University Press, by two of its most well-known International Research Fellows, Michael Keen and Joel Slemrod: *Rebellion, Rascals, and Revenue: Tax Follies and Wisdom through the Ages*. Keen and Slemrod are giants of the public finance world: Keen has recently stepped down as Deputy Director of the Fiscal Affairs Department of the IMF – a position he held whilst making numerous pathbreaking academic contributions – and Slemrod is Paul W. McCracken Collegiate Professor of Business Economics and Public Policy, Professor of Economics, and Director of the Office of Tax Policy Research, at the University of Michigan.

This entertaining book provides a fascinating and informative tour through a huge range of episodes in tax history, both preposterous and dramatic - from the plundering described by Herodotus and an Incan tax payable in lice to the (misremembered) Boston Tea Party and the scandals of the Panama Papers. Along the way, readers meet a colourful cast of tax rascals, and even a few tax heroes. While it is hard to fathom the inspiration behind taxes such as one on ships that tended to make them sink, Keen and Slemrod show that yesterday's tax systems have more in common with ours than we may think. Georgian England's window tax now seems quaint but was an ingenious way of judging wealth unobtrusively. And Tsar Peter the Great's tax on beards aimed to induce the nobility to shave, much like today's carbon taxes aim to slow global warming.

Rebellion, Rascals, and Revenue is a surprising and one-of-a-kind account of how history illuminates the perennial challenges and timeless principles of taxation – and how the past holds clues to solving the tax problems of today.

The event started with a presentation by the authors, **Michael Keen** and **Joel Slemrod**, followed by questions and comments from the participants, chaired by **Michael Devereux**.

Academic conferences

Annual Doctoral Conference

7-8 September 2020

CBT hosts an annual Doctoral Conference, now in its 10th year, where presenters, usually current PhD students, but also early careers researchers within three years of completing their PhD, are offered the opportunity to present their research and receive feedback in a friendly environment. The Best Paper Award 2020 went to Michael Love for his paper *The Lasting Effects of the 2003 Dividend Tax Cut*.

Presenting authors, and their papers, were:

- **Barbara Stage** (University of Mannheim/ZEW) *Qualitative Information Disclosure and Tax Aggressiveness: Is Mandating Additional Information Disclosure Useful?*
- **Yuchen Wu** (Vienna University of Economics and Business) *Information Asymmetry in the Tax System: Can Mandatory and Voluntary Tax Disclosure Bridge the Information Gap?*
- **Sarah Alsultan** (University of Virginia) *The Gulf Cooperation Council (GCC) States: New Players in the International Tax Competition Game*
- **Shay Moyal** (University of Michigan) *Don't Stop the BEAT*
- **Hayley Pallan** (The Graduate Institute, Geneva) *Spillover Effects of Corporate Taxation*
- **Karl Schulz** (University of Mannheim) *A Theory of Economic Disintegration*
- **Michael Love** (University of California, Berkeley) *The Lasting Effects of the 2003 Dividend Tax Cut*
- **Gabriella Massenz** (Tilburg University) *Bunching by Owners of Small Corporations: Targeted Tax Incentives and Firm Heterogeneity*

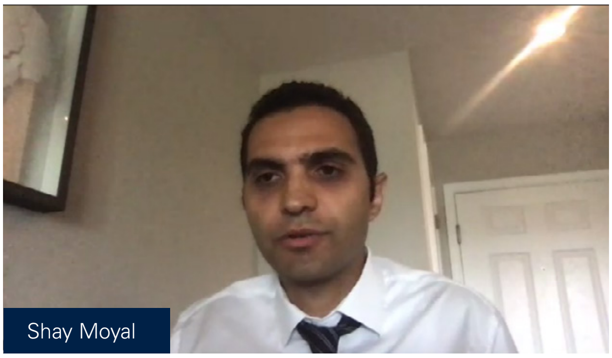
Discussants:

Sarah Clifford (CBT), **Martin Simmler** (CBT), **Tsilly Dagan** (University of Oxford), **John Vella** (CBT), **Michael Devereux** (CBT), **Ben Lockwood** (University of Warwick), **Irem Güçeri** (CBT), **Eddy Tam** (CBT)

Prize winner Michael Love with Michael Devereux

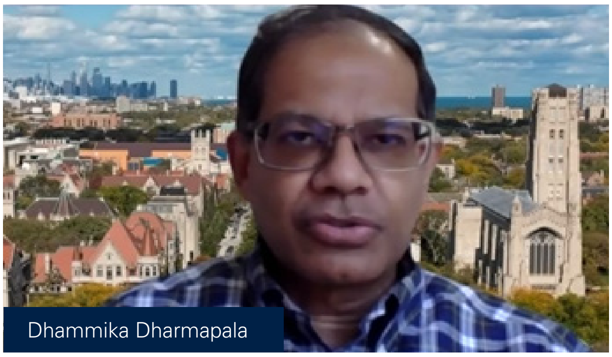

Sarah Alsultan


Alice Pirlot


Shay Moyal


UNIVERSITY OF
OXFORD
Saïd
Business
School
Irem Güçeri


Gabriella Massenz


Dhammika Dharmapala


Karl Schulz


Mike Williams


Martin Simmler


Susan Morse

Annual Academic Symposium

5-6 July 2021

This year the 15th Annual Academic Symposium was held online due to the COVID-19 crisis. The event normally attracts over 40 of the leading academics in business taxation from around the world to present and discuss the latest cutting-edge research in business taxation from economics, law and accounting. As the event was held online this year, we reduced the size of the programme. However, that allowed for a much larger number of participants: around 200 delegates joined us for two afternoons of illuminating research presentations and discussion.

Authors presenting their papers were:

- **Martin Simmler** (CBT) *Tax and Occupancy of Business Properties: Theory and Evidence From UK Business Rates*
- **Daniel Garrett** (University of Pennsylvania) *Effects of International Tax Provisions on Domestic Labor Markets*
- **Anne Brockmeyer** (IFS, UCL, World Bank) *Electronic Payment Technology and Tax Compliance: Evidence from Uruguay's Financial Inclusion Reform*
- **Andreas Haufler** (University of Munich) *Attracting Profit Shifting or Fostering Innovation? On Patent Boxes and R&D Subsidies*
- **Barbara Bratta** (Italian Ministry of Economy and Finance) *Assessing Profit Shifting Using Country-by-Country Reports a Non-Linear Response to Tax Rate Differentials*
- **James Omartian** (University of Michigan) *Consumer Response to Sales Tax Changes: Evidence from Mobility Data*
- **Ashley Craig** (University of Michigan) *Tax Knowledge and Tax Manipulation: A Unifying Model*

There was a special session on Global Minimum Taxation, with presentations of four papers by:

- **Susan Morse** (University of Texas) T*he Quasi-Global GILTI Tax*
- **Lilian Faulhaber** (Georgetown University) *Lost in Translation: Excess Returns and the Search for Substantial Activities*
- **Moritz Scherleitner** (Aalto University, Finland) *Should the EU Implement A Minimum Corporate Taxation Directive?*
- **Petr Janský** (Charles University, Prague) *A Practical Proposal to End Corporate Tax Abuse: METR, a Minimum Effective Tax Rate for Multinationals*

Each paper had a formal discussant. They were:

Jing Xing (Shanghai Jiao Tong University), **Steve Bond** (University of Oxford), **Michael Keen** (IMF), **Eckhard Janeba** (University of Mannheim), **Sarah Clifford** (CBT), **Craig Eliffe** (University of Auckland), **Michael Devereux** (CBT), **Ben Lockwood** (University of Warwick), **Kai Konrad** (Max Planck Institute, Munich)

Engagement

CBT researchers have engaged with policy makers and businesses through formal and informal meetings, in many countries and on many different issues. Formal presentations at events organised by national and international public bodies, as well as business and industry associations included the following.

Michael Devereux

- CBI Tax Committee, presentation, 9 October 2020
- World Bank and IMF Annual Meetings, 'Tax Sunday' event, 18 October 2020
- Tax Foundation / European Tax Policy Forum, 'The State of Uncertainty: Reflections on BEPS and the OECD's Two-Pillar Approach', 2 November 2020
- IFA Spain, 7th International Tax Summit, 'Taxing Profit in a Global Economy', 8 April 2021
- Bank of Italy, 'Taxing Profit in a Global Economy', 26 April 2021
- International Tax Policy Forum Meeting, 6 May 2021
- IFA UK Branch, 'Tax Certainty - Session One: Exploration of the drivers of tax (un)certainty', 13 May 2021
- Digital Tax Study Group (US multinational companies), presentations on international tax, 23 October 2020 and 21 May 2021
- Bloomberg Leadership Forum, 'Taxing the Digital Economy', 24 June 2021
- City of London, webinar 'Emerging Trends in Tax Policy for the Recovery – An International Perspective', 23 July 2021

John Vella

- Finance Malta's 13th Annual Conference, session on International Tax Reform, 'Innovation in Financial Services: gearing up for the new post COVID-19 era', 14 October 2020
- European Parliament's FISC Subcommittee on Tax Matters, gave evidence during a public hearing on 'The impact on Brexit on the level playing field in the area of taxation', 26 January 2021
- Moore Kingston Smith, presentation (with Michael Devereux), 'Taxing Profit in a Global Economy', 14 July 2021
- Tax Academy of Singapore's Signature Conference 2021 Taxes and Investments in the Post-Pandemic World, presentation, 'Sustainable Tax System For A More Digitalised Economy', 3 September 2021

Judith Freedman

- Treasury Select Committee in 'Tax After Coronavirus' Inquiry, 29 October 2020
- McKenzie Annual Tax Conference - Future of Tax, panellist, 8 December 2020
- ACCA Accounting for the Future, panellist 'What makes a good tax system?', 1-3 December 2020
- European Parliament's FISC Subcommittee on Tax Matters, gave evidence during a public hearing on 'The impact on Brexit on the level playing field in the area of taxation', 26 January 2021
- The International Fiscal Association South Africa Branch, presented 'South Africa's general anti-avoidance rule: Policy and Design Reviewed', 25 May 2021
- InspireTax (Nigeria), presented 'The Future of Tax – Women and Tax', 12 July 2021

Irem Güçeri

- Tax Foundation and ETPF Forum, panellist, 'The State of Uncertainty: Reflections on BEPS and the OECD's Two-Pillar Approach', 2 November 2020
- 2021 Joint IMF/WBG Spring Meetings Conference on Taxation – 'Minimum and Digital Taxation: Consensus or Divide?', panellist, 17-19 April 2021.

- R&D Consultation: Economic Roundtable Discussion by HMRC and HM Treasury, 11 May 2021
- Letter to FT titled 'Just look at the evidence on R&D tax credits' published 31 May 2021
- EC-OECD webinar 'EC-OECD webinar on 'The impact of R&D tax incentives: new evidence and implications', 14 October 2020

Alice Pirlot

- Centre d'Information et d'Education Populaire de Wallonie picarde, workshop on Green Taxation, 4 June 2021
- European Parliament's FISC Subcommittee, gave evidence during a public hearing on Green Taxation, 12 July 2021
- IFA YIN Americas, 'YIN goes green', keynote speech on environmental taxation, 16 July 2021

Martin Simmler

- Digital Tax Study Group (DTSG) Meeting, presented 'Who will pay Amount A?', 16 July 2021

Eddy Tam

- British Property Federation, participant in discussion on business rates research, 9 April 2021
- ONS subnational analysis team, participant in discussion on business rates research (with Ben Lockwood and Martin Simmler), 13 May 2021

John Vella appeared on Bloomberg TV, discussing international tax reform

Researchers also presented at many academic seminars and conferences, including the following presentations.

Michael Devereux

- TaxDev Mini Research Workshop, 'Alternatives to Income-based Taxes for Mining', with Alexandra Readhead, 9 September 2020
- Mannheim conference, policy panel, 10 September 2020
- National Tax Association annual conference, 'The fixed costs of profit shifting', 18 November 2020
- University of Kentucky, 'Taxing Profit in a Global Economy', 29 January 2021
- Workshop on International Tax Governance and Justice, 'Taxing Profit in a Global Economy', 2 March 2021
- Royal Economic Society annual conference, 'Fixed costs of profit shifting', 13 April 2021
- Institute for Fiscal Studies, 'Taxing Profit in a Global Economy', 26 April 2021
- NBER, 'Tax competition', 20 May 2021
- Leeds-Indiana online seminar: 'The GloBE proposal', 16 July 2021

John Vella

- International Symposium on Globalization, Digitalization and International Tax Challenges organised by the Central University of Finance and Economics, Beijing, presented 'International corporation tax: the case for fundamental reform and some options', 28 November 2020
- International Tax Governance and Justice Workshop, presented (with Michael Devereux) 'Taxing Profit in a Global Economy', 2 March 2021
- Vienna University of Economics and Business, presented 'Taxing Profit in a Global Economy', 22 March 2021
- University of São Paulo, presented 'Some thoughts on international profit shifting', 23 April 2021

Judith Freedman

- Society of Legal Scholars Tax Section, presented 'Tax Avoidance – Then and Now', 2 September 2020
- TARC 8th Annual Conference of the Tax Administration Research Centre, presented 'Administrative shaping of substantive law: designing taxes for new ways of working', 15-17 December 2020
- Osgoode Hall Law School, Policy and Tax Colloquium, presented 'Formulation of GAARs', 3 February 2021
- University of São Paulo, presented 'The UK GAAR', 11 June 2021

Ben Lockwood

- Osaka University, Symposium of Public Economics, March 2021
- University of York, 'The Effects of Social Capital on Government Performance and Turnover: Theory and Evidence from Italian Municipalities', 12 May 2021
- CBT Annual Academic Symposium, discussant, 5 July 2021

Sarah Clifford

- University of Reading, 'Tax enforcement using a hybrid between self- and third-party reporting', 7 October 2020

Richard Collier

- Hansuke Tax Conference, roundtable on Digitalization Challenges, 19 November 2020
- System PwC Tax Conference, 'Challenges to the OECD Process for Reform of the International Tax', 20 November 2020
- University of Lausanne conference, 'Future Outlook for MNE Profit Allocation: Addressing Strategic Issues with the Income Allocation Rules', 22 January 2021

Irem Güçeri

- International Institute for Public Finance, presented two papers: (1) 'Heterogeneous Responses to the Introduction of a Dividend Tax'; (2) 'Investing in Tax Avoidance', 18-19 August 2021
- International Institute for Public Finance Annual Congress, Scientific Committee Member, Awards Committee Member, 18-20 August 2021
- Tax Administration Research Centre (TARC), invited academic research seminar speaker, 11 November 2020.
- National Tax Association Annual Conference, presentation, 20 November 2020.

Alice Pirlot

- Global Conference on Environmental Taxation, gave a keynote speech, 24 September 2020
- Lisbon Webinar on Environmental Taxation, 25-26 March 2021
- Oxford, Melbourne and Florida Tax, Development and Global Justice Workshop, presented an input statement on carbon taxation and climate justice, 7 June 2021
- Oxford CBT Tax Symposium, chaired a panel on BEPS, 5 July 2021
- Oxford Law & plastics roundtable, presented a paper on the UK plastic packaging tax, 15 July 2021
- Critical Tax Conference, Monash University, discussed J. Englisch & T. Falcao's paper, 15 July 2021
- Presented a paper on 'Carbon Border Adjustment Measures' at
    - CBS Interdisciplinary Research Group on Taxation and Fiscal Policy, 31 March 2021
    - WU Colloquium Series 'Current Developments in European and International Tax Law', 3 May 2021
    - Cambridge Tax Discussion Group, 13 May 2021
    - 17th Dubrovnik Jean Monnet Seminar 'Advanced Issues of European Law', 14 May 2021

Martin Simmler

- Annual Congress of the IIPF, presented 'Public good provision and local employment: Evidence from grammar school closures in East Germany', 19 August 2020
- European Meeting of the Urban Economics Associations, presented 'Tax and occupancy of business properties: Theory and evidence from UK business rates', 29 April 2021
- Presented 'Tax and occupancy of business properties: Theory and evidence from UK business rates' at
    - ZEW Public Finance Conference Mannheim, 6 May 2021
    - Oxford University Centre for Business Taxation Annual Symposium, 5 July 2021
    - Annual Congress of the IIPF, 18 August 2021

Eddy Tam

- International Institute of Public Finance Annual Conference, presentation, 19-21 August 2020
- CESifo Area Conference on Public Economics, presentation, 8-9 December 2020

Mike Devereux, CBT Director

Media

Michael Devereux was interviewed on the Pat Kenny Show (Newstalk), on 3 September 2020 and 5 July 2021

Michael Devereux was interviewed with Stuart Gibson for IBFD, 'Tax takes', 7 December 2020

Michael Devereux and Martin Simmler's EconPol Policy Brief, 'Who Will Pay Amount A?' was quoted in a number of newspaper outlets, including

- 'Global tax deal faces challenges of detail, implementation and handouts', Financial Times, 2 July 2021
- 'The good, the bad and the ugly of the global tax reform deal', Financial Times, 4 July 2021
- 'Yellen warns Brussels to stop 'discriminatory' digital tax', The Daily Telegraph, 11 July 2021
- 'World Insights: Global corporate tax deal faces tough battle in US Congress', Xinhua, 17 July 2021
- 'International tax deal gives a free pass to big firms and polluters', The Independent (Ireland), 5 September 2021

Michael Devereux was cited on the OECD's Pillar 1 reforms in:

- 'US tech giants could face $28bn bill from global tax reforms', City A.M., 5 July 2021
- 'Fragile US-led G7 tax compromise threatened by search for exemptions', Financial Times, 10 June 2021
- 'Q & A: The scale of UK gains from the G& tax deal remains uncertain', Financial Times, 7 June 2021

Michael Devereux was quoted on the impact of a global minimum corporation tax in:

- 'Putting up corporation tax is a risk the chancellor may come to regret', The Times, 15 March 2021
- 'OECD's incoming chief confident of global deal on taxing multinational', Financial Times, 23 March 2021
- 'Is the global minimum corporate tax rate actually possible?', The Independent, 7 April 2021

Michael Devereux was cited discussing Britain's fiscal strategy after the pandemic in:

- 'Around the world, COVID prompts new look at company taxes', Reuters, 2 March 2021
- 'Boris Johnson's replacement in waiting in the wings', Bloomberg, 5 March 2021
- 'Sunak got it right, but the economy still needs fixing', The Sunday Times, 7 March 2021

Michael Devereux spoke on Bloomberg about the UK government's changes to corporation tax, recorded in 'Ireland sees $2.4 billion hit from a 4-letter word', 4 March 2021

Judith Freedman was interviewed on the G7 Global tax Agreement:

- Friday 4 June BBC Radio 4 PM
- Saturday 5 June BBC TV News Channel

Judith Freedman has been cited in various Tax Notes articles, including

- 'GE Allowed Access to HMRC documents in Major UK Tax Fraud Case', 7 January 2021
- 'Finance Bill Amendment Would Shift Burden of Proof, MPs Told', 22 April 2021

Judith Freedman's Twitter account was listed in the Forbes top 100 tax twitter accounts for 2021

A letter by Irem Güçeri was published in the Financial Times: 'Just look at the evidence of the R&D tax break', 31 May 2021

John Vella appeared on 'Bloomberg Markets: European Close' on Bloomberg TV, discussing international tax reform on 28 May and 4 June 2021.

Publications

Alice Pirlot (2021) 'Literature Review: Hope Ashiabor, Tax Expenditures and Environmental Policy (2020 Edward Elgar)', (forthcoming) *British Tax Review*.

Alice Pirlot (2021) 'Literature Review: Kasper Dziurdz, Non-Discrimination in Tax Treaty Law and World Trade Law (Kluwer 2019)', *Intertax*, 49(1), pp. 100-101.

Alice Pirlot (2021) 'Note on The UK Plastic Packaging Tax', (forthcoming) *British Tax Review*.

Alice Pirlot (2021) 'Some observations on the tax-related provisions in the Draft EU – UK Trade and Cooperation Agreement', *British Tax Review*, 1, pp. 1-14.

Alice Pirlot and Henri Culot (2021) 'When Trade Law Meets Tax Policy: The Example of Digital Service Taxes', (forthcoming) *Journal of World Trade*, 55(6).

Alice Pirlot (2020) 'International Taxation & Environmental Protection', in: Yariv Brauner (ed), *Handbook on International Tax Law*, Cheltenham, UK: Edward Elgar Publishing, pp. 258-277.

Alice Pirlot (2020) 'La dimension environnementale des accords de libre-échange', *Revue International de Droit Économique*, XXXIV(2), pp. 183-201.

Alice Pirlot (2020) 'Section 95 and Schedule 12: carbon emissions tax; Section 96: charge for allocating allowances under emissions reduction trading scheme', *British Tax Review*, 4, pp. 490-497.

Alice Pirlot (2020) 'Section 111: preparing for a new tax in respect of certain plastic packaging', *British Tax Review*, 4, pp. 534-536.

Ben Lockwood, Li Liu, Miguel Almunia, and Eddy Tam (2021) 'VAT Notches: Voluntary Registration, and Bunching: Theory and UK Evidence', *Review of Economics and Statistics*, 103, pp.151-164.

Ben Lockwood (2020) 'Malas Notches', *International Tax and Public Finance*, 27, pp.779-804.

Ben Lockwood and James Rockey (2020) 'Negative Voters? Electoral Competition with Loss-Aversion', *Economic Journal*, 632, pp.2619-2648.

Ben Lockwood, Miguel Almunia and Kim Scharf (2020) 'More Giving or More Givers? The Effects of Tax Incentives on Charitable Donations in the UK', *Journal of Public Economics*, 183, pp.104-114.

Hugh Collins and Judith Freedman (2020) 'Section 7 and Schedule 1 [Finance Act 2020]: workers' services provided through intermediaries', *British Tax Review*, pp. 394-407.

Irem Güçeri and Maciej Albinowski (2021) 'Investment responses to tax policy under uncertainty', *Journal of Financial Economics*, 4 May 2021.

John Vella (2020) 'The UK's Digital Services Tax', *British Tax Review*, 4, pp. 469.

John Vella (2020) 'Value creation and the allocation of profit under formulary apportionment' in: Richard Krever and François Vaillancourt (eds), *The Allocation of Multinational Business Income: Reassessing the Formula Apportionment Option*, The Netherlands: Kluwer Law International, Chapter 10.

John Vella, Alice Pirlot and Richard Collier (2020) 'Tax Policy and the COVID-19 Crisis', *Intertax*, 48(8/9) 794.

Judith Freedman (2021) 'Capital Gains Tax Reform Options: A UK Perspective', (forthcoming) *Perspectives on Tax Law & Policy*, Canadian Tax Foundation.

Judith Freedman (2021) 'Tax administration shaping tax reform: does employment status matter for tax?', *Tax Journal*, 18 Feb 2021, 8-9.

Judith Freedman (2021) 'Tax, Social Security and Employment Status-Removing the Distortions in the UK Classification System', *Canadian Tax Journal*, Vol 69, No 2, pp.545-557.

Judith Freedman (2021) 'The UK General Anti-Avoidance Rule: Transplants and Lessons', in: Mukesh Butani and Tarun Jain (eds), *General Anti-Avoidance Rules: The Final Tax Frontier*, Thomson Reuters (1162-1175) – reprinted from 2019 Bulletin for International Taxation June/July, IBFD.

Martin Simmler and Leonie Koch (2020) 'How important are local knowledge spillovers of public R&D and what drives them?', *Research Policy*, 49(7).

Martin Simmler and Nadine Riedel (2021) 'Large and influential: Firm size and governments' corporate tax rate choice', (forthcoming) *Canadian Journal of Economics*.

Martin Simmler, Nadine Riedel, and Christian Wittrock (2020) 'Do political parties matter? - Evidence from German municipalities', *German Economic Review*, 22(2), pp. 153-198.

Martin Simmler, Ronny Freier, and Christian Wittrock (2021) 'Public good provision and local employment: Evidence from grammar school closures in East Germany', *Regional Science and Urban Economics*, 88(C).

Michael P. Devereux (2021) 'What will the 2021 Budget do for corporate investment?', *British Tax Review*, 2, pp.121-124.

Michael P. Devereux and Martin Simmler (2021) 'Who Will Pay Amount A?, *EconPol Policy Brief*, 3 July 2021.

Michael P. Devereux, Alan Auerbach, Michael Keen, Paul Oosterhuis, Wolfgang Schön, and John Vella (2021) *Taxing Profit in a Global Economy*, Oxford, UK: Oxford University Press.

Richard S. Collier (2021) 'The Value Creation Mythology', in: W. Haslehner & M. Lamensch (eds), *Taxation and Value creation*, EATLP International Tax Series, Amsterdam: IBFD, Chapter 6, Volume 19.

Richard S. Collier, Michael P. Devereux, and John Vella (2021) 'Comparing Proposals to Tax Some Profit in the Market Country', (forthcoming) *World Tax Journal*.

Richard S. Collier (2020) *Banking on Failure. Cum-Ex and Why and How Banks Game the System*, Oxford, UK: Oxford University Press.

Richard S. Collier and Ian Dykes (2020) 'The Virus in the ALP, Critique of the Transfer Pricing Guidance on Risk and Capital in the light of the covid-19 pandemic', *Bulletin for International Taxation*, 74(12).

Sarah Clifford and Panos Mavrokonstantis (2021) 'Tax enforcement using a hybrid between self-and third-party reporting', (forthcoming) *Journal of Public Economics*.

Timo Gerres, Manuel Haussner, Karsten Neuhoff, and Alice Pirlot (2021) 'To ban or not to ban carbon-intensive materials: A legal and administrative assessment of product carbon requirements', *30 Review of European, Comparative and International Environmental Law*, pp. 249-262.

Oxford International Tax Group published Taxing Profit in a Global Economy in February

Blogs

CBT hosts a blog series aimed at highlighting relevant and newsworthy items on topics in business taxation. The aim is to produce regular blogs by academics and others with an interest in business taxation. To give a taste of CBT blogs, a blog written by Centre Director, Michael Devereux can be read below.

Michael Devereux, Centre Director

'Made in America' Tax Reform?

4 May 2021

President Biden has been credited with making proposals that can save the international system of taxing corporate profits. That would be a pretty significant achievement for any President, let alone one that has been in office for barely a hundred days. How valid are these claims? Are we on the point of a new, stable, and harmonious, international tax system, thanks to Biden?

To begin to answer this, let's first look at what has happened to the US position.

One characterisation of the aim of US international tax policy for the last couple of decades is that it has sought to create a competitive advantage for US-based multinationals, by making it easier for them to reduce their tax liabilities on foreign activities and foreign profit. The combination of the check-the-box rules and deferral of US tax on foreign income saw trillions of dollars pile up in tax havens, largely untaxed. The OECD BEPS initiative, and many unilateral measures by other countries, were largely taken to address these perceived problems.

A major change came from the 2017 US tax reform, which, among other things, introduced the GILTI provision, under which half of foreign income in excess of 10 percent of foreign tangible assets are included in US taxable income, with a credit for 80 percent of foreign taxes paid. But Biden wants to go further by: (a) raising the minimum tax rate on foreign income to 21%; (b) getting rid of the exemption for 10 percent of tangible assets; and (c) applying the minimum tax on a country-by-country basis instead of a worldwide basis. These measures would significantly increase the pressure on the offshore low-tax income of US MNEs.

There is a logic in these proposals. The Biden administration would like to raise far more revenue from corporation tax and proposes to raise the rate of tax on domestic profit back up to 28%. However, the plan would be vulnerable to offshoring if there continued to be a relatively low effective tax rate on foreign income, as US companies would be incentivised to undertake their productive activity elsewhere, moving 'American' jobs abroad: hence the 'Made in America' tax plan targets just this possibility.

As an aside, this concern doesn't seem very consistent with the argument, also made by the US administration, that the rise to 28% would not harm the level of investment in the US, on the grounds that there is no evidence that the tax rate cut from 35% to 21% in the 2017 reform stimulated investment. For the record, the consensus from academic research is that the location of investment is sensitive to differences in the level of taxation.

Under the Biden Plan, the concern with offshoring is to be addressed by raising the tax rate on profit earned by US multinationals abroad. This is the goal of the 21% minimum tax. This explains the extensions to the GILTI provision, including the abolition of the exemption for the return to tangible investment: it seems clear that the concern here is not about profit shifting, it is about moving jobs.

But the proposed minimum tax rate potentially creates another problem, which returns us to the earlier policy: perhaps this would create a competitive disadvantage to US-based multinationals relative to their non-US competitors who may not face such a high tax rate. To deal with that problem, the solution is clearly to try to persuade the rest of the world to do likewise and therefore have all states introduce minimum tax rates.

The logic explains why the US has now become an avid supporter of Pillar 2. It now seems less enthusiastic about Pillar 1; it appears willing to accept what would appear to be a reduced- in-scope version of Pillar 1 (which would apply only to a handful of companies), but only as a negotiating tactic as part of a reform package that dramatically strengthens Pillar 2 and delivers its adoption globally.

So that appears to be the strategy. The key question is whether it will deliver the desired aims for the US. And that depends on whether a sufficient part of the rest of the world can be persuaded to go along with the Biden proposal to strengthen Pillar 2 by removing the substance carve-out and raising the threshold rate of tax.

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The history of the last few decades does not offer much encouragement. There have been proposals for a harmonised minimum tax rate before, but they have never been agreed. That is because the calculation of at least some countries is that they would be better off undercutting other countries to attract more inward investment. This has been a pretty good policy for Ireland over the years. And in the absence of a consensus minimum rate, the result has been a steady fall in tax rates.

What is different now? Perhaps the fact of the strong US leadership of this proposal may make the difference. Perhaps other countries will now see more benefit from potentially higher revenues than from competing for inward investment. The pandemic has certainly increased the need for tax revenue – but it has also increased the need for investment.

What may also be different now is the threat of punishment. The undertaxed payments rule of Pillar 2, and the SHIELD provision of the Made in America tax plan, both propose that there should be restrictions on allowing costs to be deducted from tax, where those costs involve payments to related parties in countries that are not part of the minimum tax system. Of course, refusing a deduction also creates a disincentive to investment, so is not cost-free for the country implementing such a policy.

A second difference would arise if parent companies could be prevented from moving to countries not implementing Pillar 2 by the countries in which they are currently tax resident. In that event, the benefits to potential host countries would be much reduced. That brings us to the other element of the SHIELD provision, essentially designed to prevent such inversions (and proposing a residence rule based on 50% ownership). Legal arguments as to the extent to which this would be permitted in the EU may be important.

The jury is still out on whether these factors may induce the Inclusive Framework to agree to a Pillar 1 and 2 package this summer along the lines of the Biden proposal. But even if it does so, this framework may not offer a long-term stable solution. At some point, future governments are likely to reconsider the trade-off between revenue and investment, and some may be tempted to withdraw from any agreement. Just as with the current system, and as with all cartels that aim to keep prices high, there will always be some incentive for some countries to undercut their rivals.

The Biden administration has missed an opportunity to propose a system that could raise substantial revenue without this fundamental problem of incentives: a move in the other direction, towards taxing profit in the relatively immobile location of the customer. That still seems like a better longer-term approach.

Other blogs in the series include:

- Business Rates and the High Street
- A Historic Global Minimum Tax Has Been Agreed! But Has It?
- Who Will Pay Amount A?
- On Why it Really is Such a Big Deal
- Financial Services – In or Out?
- Are Investment Incentives Effective in Uncertain Times?
- The New Mortgage Guarantee Scheme: Launching the Government's Re-Election Campaign
- Why We Should All Worry About the Abolition of the Tampon Tax?
- Should Loss Carry-Back Provisions Be Extended?
- What Will the Budget do for Corporate Investment?
- The Business Rates Holiday Must Be Extended
- Be Cautious About Raising The Corporation Tax Rate
- In the Wake of the Cum-Ex Affair: Shouldn't we Stop Tax Systems Facilitating Their Own Exploitation?
- Public Policy and the Pandemic: What Trade-off Between Health and Economic Objectives?
- A European Green Tax Deal during the Pandemic: A New Start?
- The Job Support Scheme is a Huge Tax on Employment

To read the full blogs:
https://oxfordtax.sbs.ox.ac.uk/blogs

Working Papers

WP 21/13 Richard Collier, *The Value Creation Mythology*

WP 21/12 Richard Collier, Michael Devereux and John Vella, *Comparing Proposals to Tax Some Profit in the Market Country*

WP 21/11 Martin Simmler and Michael Devereux *Who Will Pay Amount A?*

WP 21/10 Ben Lockwood, Martin Simmler, and Eddy Tam, *Tax and Occupancy of Business Properties: Theory and Evidence from UK Business Rates*

WP 21/09 John W. Diamond, George R. Zodrow, *Macroeconomic effects of a 10-year tax-financed government investment plan*

WP 21/08 David Wildasin, *Open Economy Public Finance*

WP 21/07 Petr Janský, *A Practical Proposal to End Corporate Tax Abuse: METR, a Minimum Effective Tax Rate for Multinationals*

WP 21/06 Moritz Scherleitner, *Should the EU implement a minimum corporate taxation directive?*

WP 21/05 Lilian Faulhaber, *Lost in Translation: Excess Returns and the Search for Substantial Activities*

WP 21/04 Susan Morse, *The Quasi-Global GILTI Tax*

WP 21/03 Barbara Bratta, Vera Santomartino and Paolo Acciari, *Assessing profit shifting using Country-by-Country Reports a non-linear response to tax rate differentials*

WP 21/02 Andreas Haufler and Dirk Schindler, *Attracting profit shifting or fostering innovation? On patent boxes and R&D subsidies*

WP 21/01 Anne Brockmeyer and Magaly Sáenz Somarriba, *Electronic Payment Technology and Tax Compliance: Evidence from Uruguay's Financial Inclusion Reform*

The Centre's working papers are available at **https://oxfordtax.sbs.ox.ac.uk/publications**

MSc in Taxation

September 2021 saw the 6th intake of students on the University of Oxford MSc in Taxation. This cohort comprised 32 students from all over the world representing 17 nationalities, with 94% coming from work.

The MSc is a two-year part-time degree taught by the Faculty of Law in association with the CBT. Unusual among masters degrees in taxation, the MSc in Taxation was designed by a combination of lawyers and economists. The interdisciplinary nature of the degree ensures that students not only acquire a detailed understanding of technical law, but also the ability to think deeply about the underlying policy considerations.

Teaching on the MSc in Taxation is undertaken in Oxford in intensive periods, primarily during three residential weeks and in other short blocks of time at weekends. The flexibility of the course allows students to tailor their studies to their individual preferences which appeals to a range of students from a variety of disciplinary backgrounds. The degree aims to accommodate both those who are engaged in full-time careers and those who are taking a break but have other duties and responsibilities.

In addition to staff from the CBT (Michael Devereux, Richard Collier, Irem Güçeri, Alice Pirlot and Sarah Clifford) and the Law Faculty (Tsilly Dagan, Judith Freedman, Glen Loutzenhiser and John Vella), the degree is taught by Visiting Professors Philip Baker QC and Emma Chamberlain. Other visiting lecturers this year were CBT alumnus Anzhela Cédelle (OECD), Arun Advani (University of Warwick), Reuven Avi Yonah (University of Michigan), Yariv Brauner (University of Florida), Peter Harris (University of Cambridge), Susan Morse (University of Texas), Dan Shaviro (New York University), Stephen Shay (Boston College), and Linda Sugin (Fordham University).

Topics taught included Principles of International Taxation, Tax Treaties, Comparative Corporate Tax, EU Tax Law, Tax and Public Policy, Transfer Pricing, Rereading Classic Texts in Tax Law and Policy, UK Taxation of Global Wealth, Ethical Issues in Taxation, and US International Tax .

For further information about the MSc in Taxation see: **www.law.ox.ac.uk/msctax**

Researcher Alumni

Former Research Fellows at the CBT have gone on to academic jobs at universities around the world as well as supranational institutions and industry. They include:

Dr Katarzyna Anna Bilicka
Assistant Professor of Economics, Jon M Huntsman School of Business, Utah State University, USA

Professor Johannes Becker
Professor of Economics and Director of Institute of Public Finance, University of Münster, Germany

Dr Anzhela Cédelle (née Yevgenyeva)
Counsellor, Organisation for Economic Co-operation and Development

Professor Rita de la Feria
Professor of Tax Law, University of Leeds, UK

Professor Clemens Fuest
President, ifo Institute - Leibniz Institute for Economic Research at the University of Munich, Germany

Dr Li Liu
Economist, International Monetary Fund

Professor Geoffrey Loomer
Associate Professor of Law, University of Victoria, Canada

Dr Simon Loretz
Researcher, Austrian Institute of Economic Research, Vienna, Austria

Dr Giorgia Maffini
Special Adviser in Tax Policy, PwC, UK

Dr Socrates Mokkas
Director, Advanced Analytics and Quantitative Economics, Deloitte

Professor Nadine Riedel
Professor of Public Finance and Economic Policy, Ruhr-University Bochum, Germany

Dr Tim Schmidt-Eisenlohr
Principal Economist, International Finance Division, Federal Reserve Board, USA

Professor John Vella
Professor of Law, University of Oxford, UK

Professor Nicolas Serrano-Verlade
Associate Professor, Bocconi University, Italy

Professor Johannes Voget
Professor of Taxation and Finance, University of Mannheim, Germany

Professor Jing Xing
Associate Professor of Finance, Antai College of Economics and Management, Shanghai Jiao Tong University, China

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What is the Centre for Business Taxation?

The Centre for Business Taxation (CBT) is an independent multidisciplinary research centre which aims to promote effective policies for the taxation of business from its base in the Saïd Business School at the University of Oxford. The CBT also has close links to other university departments such as the Faculty of Economics, the Faculty of Law and the Blavatnik School of Government. The CBT undertakes and publishes research into the aims, practices and consequences of taxes which effect business.

The CBT is led by a Director, supported by an Assistant Director, and by programme directors who are professors from Oxford, Warwick and Munich. Its research team has experience in academic research and tax policy and are drawn from backgrounds in economics and law. The CBT's research programme is determined on the basis of academic merit and policy relevance. This is decided by the Director and its Steering Committee.

The CBT was formed in 2005 and was initially funded by substantial donations from a large number of members from the Hundred Group. A number of these companies and others continue to support the CBT. Donors during the year were:

- AstraZeneca
- GlaxoSmithKline Plc
- HSBC Bank Plc
- Lloyd's of London Insurance
- Lloyd's Banking
- Schroder Investment Mgt Ltd
- Shell International

The CBT has also received research grants from a number a number of organisations including the Economic and Social Research Council, the Nuffield Foundation, the British Academy, Tax Centre for Tax Analysis in Developing Countries - Institute for Fiscal Studies, and EconPol Europe – European Network for Economic and Fiscal Policy Research.

Who We Are

Director

Professor Michael Devereux is Professor of Business Taxation at the Said Business School in the University of Oxford, a professorial fellow of Oriel College Oxford, and a co-director of the MSc in Taxation in the Oxford Law Faculty. He has recently stepped down as Associate Dean of the School. He is an economist who previously held professorial positions at the Universities of Keele and Warwick and has also been a programme director at the Institute for Fiscal Studies. He was the President of the International Institute for Public Finance until 2015 and is currently an Honorary President. He is Research Director of the European Tax Policy Forum and a member of the Board of Advisors of the International Tax Policy Forum. He is also an Honorary Fellow of the Chartered Institute of Taxation and Research Fellow of IFS, CEPR and CESifo. He has written widely on business taxation in academic and professional journals and has edited *Fiscal Studies and International Tax and Public Finance*. He is currently ranked by REPEC as sixth in the world amongst economics researchers in the field of Public Finance, and first amongst researchers outside the United States.

Assistant Director

Professor John Vella is Professor of Law in the Faculty of Law at Oxford, a Fellow of Harris Manchester College, and a Co-Director of the MSc in Taxation. John plays a significant role in directing the CBT and its main events, including the annual summer conference and academic symposium. He studied law at the University of Malta (BA and LLD) and the University of Cambridge (LLM and PhD) and was previously Norton Rose Career Development Fellow in Company Law at Oxford and then Senior Research Fellow at the CBT. He has been a Visiting Scholar at the IMF, a Visiting Professor at Bocconi University, and a Visiting Researcher at New York, Georgetown and Sydney universities. John's recent research has focused on the taxation of multinationals, financial sector taxation, and tax compliance and administration. He has given evidence on these issues on a number of occasions both before UK Parliamentary Committees and Committees of the European Parliament.

Associate Fellows

Dr Richard Collier is a qualified lawyer and chartered accountant, and a former partner at PwC. He has been very closely involved with the work of the OECD since the late 1990s and was especially active in the BEPS project. In 2019 he was appointed on secondment as a senior tax adviser to the OECD to manage the work on Pillar 1 of the OECD's work on taxation of the digitalised economy. He has worked on a wide range of research projects for CBT, especially on tax treaties and transfer pricing, the implications of the BEPS project and more fundamental reform. In 2017 the Oxford University Press published his book, co-authored with Joe Andrus, *Transfer Pricing and the Arm's Length Principle After BEPS*. His most recent book, *Banking on Failure*, has just been published, again by Oxford University Press. Richard also teaches on the MSc in Taxation at the Oxford Law Faculty.

Professor Judith Freedman CBE is Pinsent Masons Professor of Taxation Law and Policy at the University of Oxford. From 2001 -2019 she was the inaugural statutory Professor of Taxation Law at Oxford University Law Faculty. She was one of the founders and Acting Directors of the CBT when the CBT was established in November 2005 and was one of the initial co-directors of the MSc in Taxation in the Oxford Law Faculty. She was a member of the Aaronson General Anti-Avoidance Rule Study Group and has served on many other policy committees. In 2020 she was appointed to the Board of the Office of Tax Simplification. She is a member of the Council of the Institute for Fiscal Studies (IFS) and Chair of the IFS Tax Law Review Committee. Judith is a visiting Adjunct Professor in the Australian School of Taxation and Business Law, University of New South Wales. She is general editor of the British Tax Review as well as being on the editorial boards of the e-Journal of Tax Research, the Australian Tax Review and Tax Journal.

Programme Directors

Professor Stephen Bond is Senior Research Fellow at Nuffield College and a Professor in the Department of Economics, University of Oxford. He was previously Deputy Director of the ESRC Centre for Public Policy at the Institute for Fiscal Studies and a member of the IFS Mirrlees Review editorial team.

Professor Clemens Fuest is President of the Ifo Institute in Munich. Prior to that he was President and Director of Science and Research of the Centre for European Economic Research (ZEW) in Mannheim, and Research Director of the CBT. He is a Research Fellow of CESifo and IZA and is a member of the Academic Advisory Board of the German Federal Ministry of Finance.

Professor Ben Lockwood is Professor of Economics at the University of Warwick. He is a Research Fellow of CEPR and CESifo and a member of the editorial boards of Social Choice and Welfare and the Journal of Macroeconomics. He is a member of the Board of Management of the International Institute of Public Finance and has acted as a consultant on tax policy for the IMF and PwC.

Research Fellows

Dr Sarah Clifford joined the CBT in 2018 having completed her PhD in Economics at the University of Copenhagen. Sarah also holds a BSc in Mathematics and Economics, a BSc in Actuarial Science and a MSc in Economics from the University of Copenhagen. Her current work focuses mainly on tax avoidance and evasion by multinational corporations as well as the effectiveness of enforcement policies in general.

Dr Irem Güçeri's current research focuses on productivity and corporate taxation in R&D-intensive sectors. She is a British Academy Postdoctoral Fellow and she holds a Junior Research Fellowship from St. Peter's College. Irem has a DPhil in Economics from the University of Oxford. She received her BA in Economics from Koc University in Istanbul and her MSc in Economics at LSE. She has previously worked as an economist at the World Bank in the Europe and Central Asia region, Financial and Private Sector Development unit.

Dr Alice Pirlot joined the CBT at the beginning of 2018. Previously, Alice was a research fellow of the National Belgian Fund for Scientific Research (F.N.R.S.) at the University of Louvain, where she completed her PhD in April 2016. Alice also studied law at the Universities of Namur, Antwerp and Louvain (Belgium), and holds a Master of Arts in European Interdisciplinary Studies from the College of Europe (Poland). She has been awarded various prizes and scholarships, including an Honourable Mention of the International Fiscal Association for her doctoral thesis. Alice's main expertise lies at the intersection between tax, environmental, EU and international trade law. Her publications cover a wide range of topics, including environmental border tax adjustments, the taxation of the energy sector, the interactions between tax policy and the UN Sustainable Development Goals as well as the WTO law compatibility of the Destination-Based Cash Flow Tax.

Dr Martin Simmler joined the CBT in 2014, having completed his DPhil in Economics at the Free University Berlin in 2013. His research interest is in public economics, and in particular the impact of taxes and public goods and service provision on firm decisions (location, finance, employment and investment decision). Martin is also a Research Fellow at the German Institute for Economic Research Berlin (DIW Berlin).

Dr Eddy Hiu Fung Tam joined the CBT in 2017 on completing his PhD in Economics at the London School of Economics, where he was also a Teaching Fellow and worked in The Suntory Toyota International Centre for Economics Related Discipline. Eddy completed his BSc in Economics from The Chinese University of Hong Kong, and MSc in Economics from the London School of Economics. His research interests include public economics and development economics.

Research Assistant

Heydon Wardell-Burrus joined the CBT when he commenced his DPhil in Law at Oxford University in 2020. He has law degrees from the University of Sydney and Harvard Law School where he was a Fulbright Scholar. He is a former Senior Tax Associate at Allens in Australia and has acted as an Assistant Commissioner of the Australian Taxation Office representing Australia in international tax negotiations conducted through the G20/OECD Inclusive Framework. His research primarily focuses on the design and implementation of global minimum taxes (Pillar Two).

Administrative Staff

Alison Meeson joined the CBT in 2019 as the Centre Administrative Assistant to assist with the administrative duties associated with the running of the Centre.

Jenny Winsland joined the CBT in 2020 as the Centre Manager. She is responsible for managing the administrative work associated with the Centre, its finances, and the logistical arrangements involved in running the Centre's events and conferences.

Oxford University Centre for Business Taxation

The Oxford University Centre for Business Taxation is an independent research centre which aims to promote effective policies for the taxation of business.

The Centre undertakes and publishes multidisciplinary research into the aims, practice and consequences of taxes which affect business. Although it engages in debate on specific policy issues, the main focus of the Centre's research is on long-term, fundamental issues in business taxation. Its findings are based on rigorous analysis, detailed empirical evidence and in-depth institutional knowledge.

The Centre provides analysis independent of government, political party or any other vested interest. The Centre has no corporate views: publications of the Centre are the responsibility of named authors. The Centre is not a consultancy: it reserves the right to publish the results of its research.

The Centre's research programme is determined on the basis of academic merit and policy relevance, and is the responsibility of the Director and the Centre's Steering Committee. Decisions on the Centre's research programme and the content of research are taken independently of the views of the Centre's donors and other funding agencies and comply with the University's Donor Charter. All research carried out at the Centre is undertaken with a view to publication.

The Centre complies with the University's policy on conflict of interest.

Saïd Business School

Saïd Business School at the University of Oxford blends the best of new and old. We are a vibrant and innovative business school, but yet deeply embedded in an 800-year-old world-class university. We create programmes and ideas that have global impact. We educate people for successful business careers, and as a community seek to tackle world-scale problems. We deliver cutting-edge programmes and ground-breaking research that transform individuals, organisations, business practice, and society. We seek to be a world-class community, embedded in a world-class university, tackling world-scale problems.

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