The Evolution of Tax

A fifty-year perspective

2014

RSM International

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1964 - 2014

Contents

Foreword

The global tax system was built for an industrial age dominated by western powers. However, it is no longer fit for an economy driven increasingly by the internet, which is changing commerce, public service and lives across the world in ways never imagined even a decade ago.

In September, the OECD announced the next phase of its recommendations for transforming the global tax infrastructure, aimed at targeting avoidance by multinational enterprises, with a particular focus on companies which move profits to taxpayer-friendly jurisdictions and those that exploit international tax treaties. It wants to create a single set of international tax rules, very much embracing the developing world, and enforced by local governments, that will ensure businesses are paying fair rates of tax in the jurisdictions in which they operate. In the United States, the Obama administration is trying to halt tax ‘inversions’, which enable big companies to relocate headquarters abroad to cut their tax burden.

There is no doubt that 2014 is a watershed year for global tax. It’s a milestone for RSM, too, as we are proud to celebrate our 50th anniversary. As the seventh largest global network of audit, tax and advisory firms – and the sixth leading tax service provider – with members in over 110 countries, the RSM International network advises companies across the world. We are investing considerable time in helping our clients understand the implications of this potential game-changing tax infrastructure, whether they are high-growth start-ups, domestically-focused players or global leaders.

We interviewed over 50 of our tax partners across the world about how they think the tax landscape will evolve in the next few years and benchmarked those views against tax trends in 20 of the largest economies over the last half century. The analysis is highly informative and engaging and I hope that you find this paper an interesting read.

Jean Stephens
Chief Executive Officer
RSM International

RSM Audit • Tax • Advisory Celebrating 50 years 1964 - 2014

2014 marks an exceptional year for RSM as we celebrate 50 years of global connections.

Introduction

International tax is in a process of revolution that will bring many changes over the next few years. At a practical level, countries, administrators, businesses and advisers will face the challenges of dealing with major tax changes that seek to manage the global economy and digitisation far more effectively. Tax has a key role in assisting economic growth, and it will be critical that whilst working to shape a new global tax infrastructure, governments don't remove incentives to innovate, invest and grow business.

At RSM, we are delighted to present the views of our leading advisors on how these challenges will play out, and what we can learn from 50 years of tax history. Over the last 50 years the economy has become increasingly global, cross-border business is now the norm, and so no single country can build its own national tax structure without taking an international view. Transfer pricing, increased information sharing between countries and a revision of the tax treaty framework are just three of the main areas where major changes are likely. While the focus of international tax authorities is currently on multi-national corporations, businesses of all sizes will need to plan their strategies accordingly.

Rob Mander
International Tax Leadership Group
RSM International

Methodology

This report consists of two elements of analysis:

The first is a review of taxation rates across 20 of the world's largest economies from 1965 to 2011, based on the World Bank's record of GDP, 2013. The data consists of extracts from the OECD's Revenue Statistics 2013 report, and from the official tax bodies of non-OECD countries.[1] The countries listed below are reviewed.

OECD, in order of GDP:

United States, Japan, Germany, France, UK, Italy, Canada, Spain, Australia, Mexico, South Korea, Netherlands, Turkey.

Non-OECD, in order of GDP:

China, Brazil, Russia, India, Indonesia, Hong Kong, Singapore.

The second input into the report is a series of interviews with tax partners from 55 of RSM's member firms around the world, conducted in August 2014. The survey consisted of seven closed and four open questions. Below is a list of countries which contributed:

Asia Pacific: Australia, China, Hong Kong, India, Japan, South Korea, Malaysia, New Zealand, Taiwan.

Europe: Bulgaria, Croatia, Denmark, Finland, France, Germany, Greece, Italy, Latvia, Luxembourg, Macedonia, Malta, Netherlands, Poland, Portugal, Russia, Spain, Sweden, Switzerland, Turkey, Ukraine, UK.

Latin America: Argentina, Brazil, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Uruguay, Venezuela.

Middle East and North Africa: Egypt, Kuwait, Morocco, Saudi Arabia, Tunisia, Yemen.

North America: United States, Mexico.

Sub-Saharan Africa: Kenya, Nigeria, Tanzania.

[1] OECD (2013), Tax Revenue Trends, 1965-2012. http://www.oecd-ilibrary.org/taxation/revenue-statistics-2013/tax-revenue-trends-1965-2012_rev_stats-2013-4-en-fr

Executive summary

In spite of global tax reform, corporate tax rates will see little change in the next few years

The reform of corporate tax, which historically has constituted a high proportion of GDP, is the number one item on the agenda of global tax advisers. A third of RSM's tax partners across the world ranked this as their number one priority over the next three years. However, respondents do not expect the OECD proposals to result in a marked increase in corporate tax rates. In fact, 72% of advisers expect rates to remain relatively static in their own country over the next three years, and only a fifth (21%) expect to see a decline in rates.

Historically, the long-term trend has been for corporate tax rates to decrease over time. The average rate globally in 1982 was over 40%. By 2013, the average had dropped to between 20% and 30%, with France and Belgium the only European countries to display rates of over 30%.

Multinationals will face increased tax disclosure

However, advisers expect multinational companies will be required to disclose more information on their tax affairs over the next three years and this is the direction of the OECD's latest proposals. Nearly 90% of RSM tax partners across the world are expecting this extra level of compliance for multinationals; this view is particularly strong in MENA (Middle East and North Africa), Sub-Saharan Africa and the Asia Pacific region.

The digital economy will be addressed as part of a broader structural tax reform

The digital economy will not have its own set of tax rules in the new order. Instead, RSM's tax partners fully anticipate changes to the taxation of the digital economy to be part of an overall package of reform. Nearly three quarters (70%) of the tax partners agreed with this statement.

There will be major challenges to overcome in implementing the OECD's tax proposals

There is concern across the world about the practicalities of implementing change. Tax advisers recognise the challenge that exists for governments because tax policy is a key component of economic management, yet the OECD's proposals involve, to some extent at least, giving up some of that national control in favour of a more global policy outcome.

A third of tax experts expect no change to double tax treaties

Recognising the difficulty of negotiating both bilateral and multinational agreements, a third of international tax experts expect there to be no change to double tax agreements in their respective countries in the coming years. This forecast comes mostly from countries in MENA and Latin America, and also from the United States.

Experts anticipate minimal change to upper income tax bands

Historic data show there have been substantial changes in the top marginal income tax rates in the last 50 years. In 1975, the respective top rates in Australia, Germany, the UK and the United States were 65%, 56%, 83% and 70%. By 2013 those rates had dropped to 46.5%, 54.5%, 45% and 46.3%.

Despite this shift, tax experts do not expect income tax rates to change substantially over the next three years. Over two thirds (68%) of them expect the highest rates of income tax to remain relatively static in their country, while only 13% of tax partners expect an increase over that period.

Increase in government tax take most likely via consumption tax

Tax advisers across the world expect a proportionate increase in consumption tax to be the most likely change in tax take in the next few years. This was the view of over 37% of respondents, although only a slightly smaller proportion forecast little movement on the current split of tax types.

VAT is one of the most common forms of consumption tax and its contribution to governments has been substantial: in 2007 the International Monetary Fund (IMF) reported that approximately 20% of worldwide tax revenue came from VAT. In Europe, rates are typically at least 20%, while those in the Asia Pacific region tend to be much lower, ranging between approximately 7% and 17%.

Revolution in motion - the future tax landscape

Corporate tax reform is the number one item on the global tax agenda

Corporate tax reform is at the top of the global tax agenda, as governments continue to crack down on tax avoidance and the OECD's Base Erosion and Profit Shifting Project Report ("BEPS report") proposals for bringing the tax infrastructure into the internet age are digested by stakeholders across the world.

A third of RSM tax partners classed corporate tax reform as the number one priority for their country over the next three years. Tax avoidance and the cash economy was close behind, with 29% of the votes, while 24% cited transfer pricing as the main priority in their country.

This focus is most apparent in MENA where half the respondents said that corporate tax reform is the number one issue. Europe clearly ranked tax avoidance and the cash economy in pole position, followed by corporate tax reform and transfer pricing. In Asia Pacific, respondents attributed equal importance to corporate tax reform and transfer pricing.

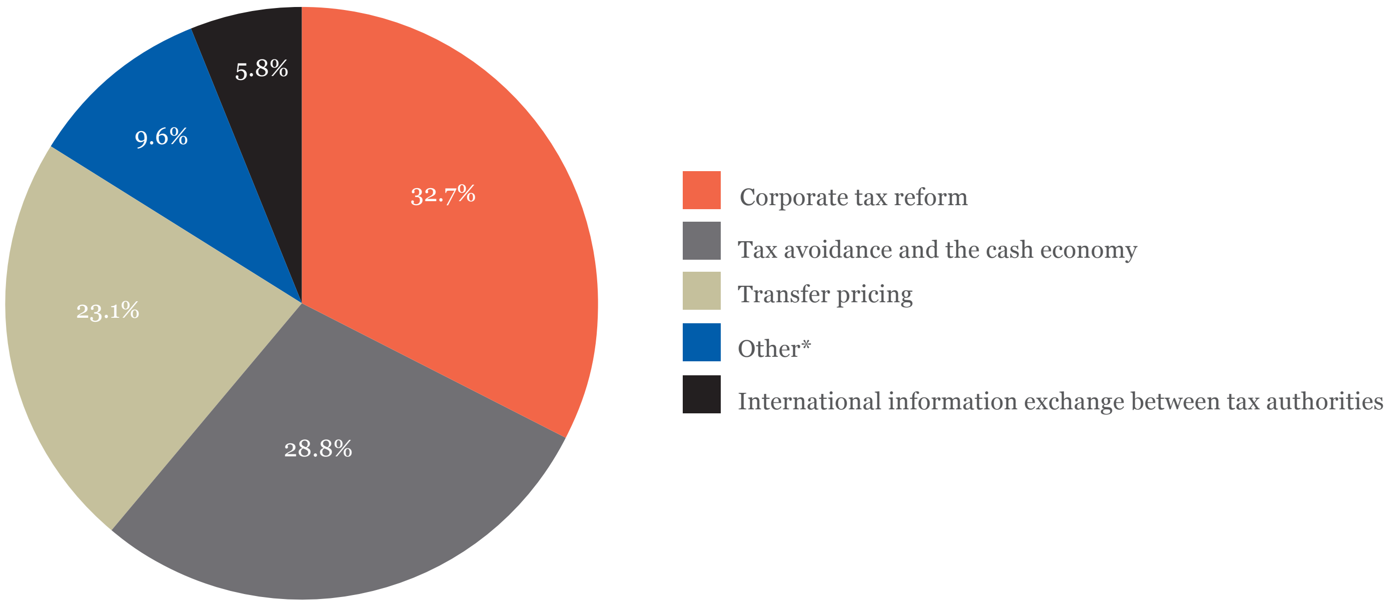
In the G7[2] economies, corporate tax reform is the number one priority for the United States, while Japan, Germany, France and Italy prioritised international information exchange agreements between tax authorities, transfer pricing, tax avoidance and the cash economy.

There is variation between the rapidly developing BRIC economies. Transfer pricing is the number one concern for both China and India, Brazil is prioritising corporate tax reform and Russia is preoccupied with tax avoidance and the cash economy.

Flame Zheng, Partner at Ruihua CPAs, RSM's member firm in China, said: "Chinese tax authorities are increasing their scrutiny of cross-border transactions. The main focuses include transfer pricing, withholding taxes on overseas payments made by Chinese companies, and cross-border M&A activity. Multinational companies operating in China face greater tax disclosure as a result of this."

[2] Canada not included as RSM does not currently have a member firm in the country.

Figure 1: Tax issues ranked as 'highest priority' by RSM tax leaders, over the next three years



*Those that picked "Other" as the highest priority's answers included:

- Tax reform on property tax
- Personal income tax
- Goods and service tax
- Increase revenues via increase of VAT rate
- Tax reform

But corporate tax rates are unlikely to see much change

Corporate tax rates are core to the debate. The incentives available as a result of lower rates in certain jurisdictions are, in one respect, encouragement to locate new businesses, develop new products and generate employment. In another respect, they are an opportunity to minimise tax contributions and, some might argue, develop 'unfair' corporate competitive advantage. The issues are very complex and, as our analysis shows, are unlikely to be solved in the short term.

However, in spite of the focused discussion on corporate tax rates, nearly three quarters (72%) of RSM partners expect little change in their country's rates over the next three years (see *Figure 2*). Only a fifth (21%) of advisers expect a reduction by 1-5 percentage points, and just 8% expect to see an increase of the same amount.

Advisers in Latin America, MENA and Sub-Saharan Africa expect the least change, with at least 80% of respondents in these regions predicting minimal adjustments to their corporate tax rates over the next three years. Asia Pacific and Europe were also split between the two, with a slightly higher proportion of tax advisers (approximately 60%) expecting corporate rates to remain largely unchanged.

Within the G7, the United States, Japan and Italy all expect their corporate tax rates to reduce between 1 and 5 percentage points in the next three years, whereas experts in Germany, France and the UK anticipate their tax rates to remain about the same.

Advisers in the BRIC economies all expect their corporate rates to remain the same over the period.

Figure 3: What do you expect in the next 3 years in relation to your country's company tax rate?

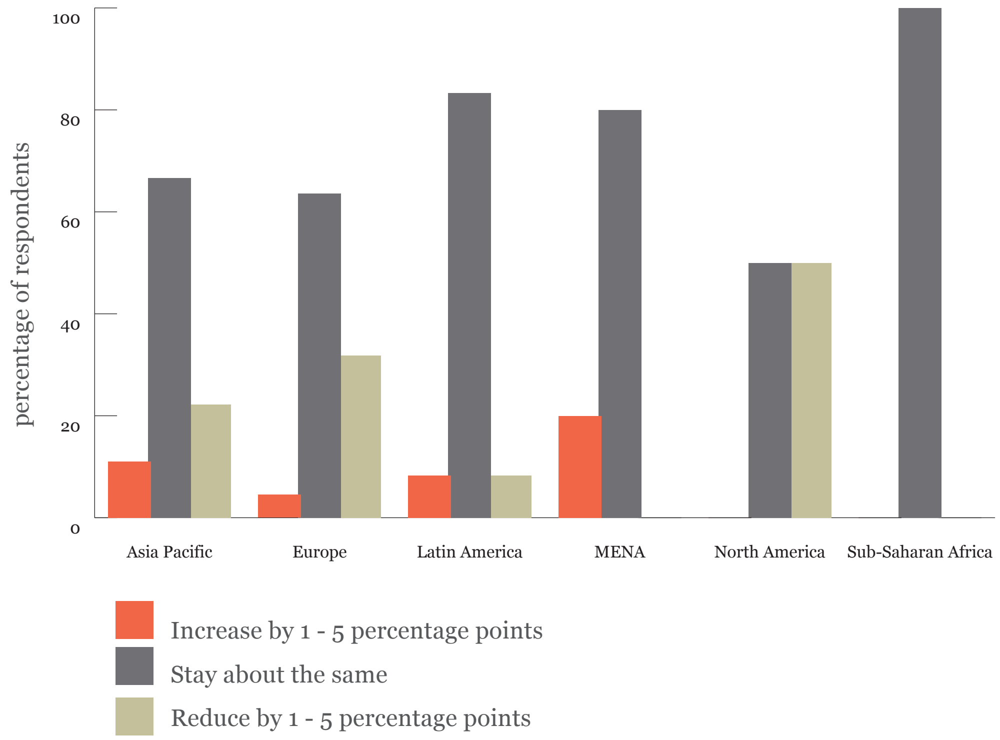


Figure 2:

	Corporate Tax Rate 2014 (%)	Expectation for corporate tax rate over next three years
G7 Countries		
United States	40.00	Reduce by 1-5 percentage points
Japan	35.64	Reduce by 1-5 percentage points
Germany	29.58	Stay about the same
France	33.33	Stay about the same
UK	21.00	Stay about the same
Italy	31.40	Reduce by 1-5 percentage points
BRIC Countries		
China	25.00	Stay about the same
Brazil	25.00	Stay about the same
Russian Federation	20.00	Stay about the same
India	33.99	Stay about the same

However, increased tax disclosure is expected for multinational corporations in the next three years

Nevertheless, tax advisers are planning for change on a very big scale for global companies: 87% of respondents across the world expect that multinationals will have to make greater disclosure of information regarding their tax payments in the next three years. Those most confident of greater disclosure requirements are in Sub-Saharan Africa (all respondents ranked it as very likely), MENA (60%) and Asia Pacific (56%), while Europe and Latin America predicted a positive but slightly less strong chance of greater disclosure.

A number of countries, including Brazil, have taken measures to increase transparency in the last few years. Marcelo Oliveira, Partner at RSM Brasil, said: "Brazilian tax authorities have implemented new tax rules in recent years, reducing the possibility of certain tax planning measures for companies operating in the country, as well as improving controls over international transactions."

Companies are expected to be more transparent on transfer pricing information

In its September 2014 BEPS report, the OECD agreed to aim for "improved and better coordinated transfer pricing documentation...that will increase the quality of information provided to tax administrations and limit the compliance burden on businesses". This will require master and local files to be provided by multinational companies as well as agreement by the OECD on a template for country-by-country reporting to tax administrations. The template "will provide a clear overview of where profits, sales, employees and assets are located and where taxes are paid and accrued".

Transfer pricing ranks highly on tax experts' agendas in the world's most advanced economies, particularly in Europe and North America.

James Meakin, Partner at Baker Tilly, RSM's UK member firm, said: "The main issue we expect to arise when the OECD proposals are implemented is an increased compliance burden for companies to disclose their transfer pricing policies in far greater detail."RSM France's Bernard Hinfray, Partner, believes that the issue is fundamental for multinational corporations operating in France. He said: "The requirements will be a central part of the tax audit for any French subsidiary of a foreign group."

In Germany, experts believe that increased reporting requirements could present challenges in the form of increased red tape for companies.

Thomas Lübbehüsen, Partner at RSM Germany, said: "Measures such as proposed country-by-country reporting will require excessive changes to legislation in countries such as Germany, where subsidiaries currently struggle to obtain information from parent companies."

The BRIC economies have been some of the key regions of development for multinational companies in recent years and have adapted quickly to the direction of international tax reform. Respondents in Brazil, India and China all stated that current transfer pricing requirements are extensive and that they expect minimal changes in their legislation over the next few years.

Marcelo Oliveira in Brazil said: "Brazil's requirements are extensive, requiring companies to file all accounting entries, invoices, contracts and calculations of transfer pricing taxable adjustments. We do not expect significant changes in the coming years."

In contrast, countries in the MENA region (with the exception of Kuwait) have little or no requirements in place for companies to disclose the nature of their transfer pricing and expect that this will have to change.

Cherif Hammouda, Partner at RSM Egypt, said: "We anticipate the introduction of new requirements regarding the nature and scope of transfer pricing documentation."

A third of tax experts expect no change to double tax agreements in their country

In an effort to encourage international commerce, the OECD is seeking to reduce the impact on multinational corporations of operating within multiple tax jurisdictions. One way it is doing this is by encouraging double tax treaties – agreements between jurisdictions which enable companies to avoid being taxed twice when operating outside their main domicile.

Despite this, almost one third of respondents, mostly in MENA and Latin America, expect there to be no significant change in relation to their country's double tax agreements in the coming years. This view is supported by the United States, where there have been few new tax treaties signed in recent years.

European tax experts tend to take a different view, with most expecting the number of treaties agreed between themselves and other countries to increase in coming years. Those in Germany and the UK expect these to be supported by new contract clauses in line with the BEPS proposals.

Thomas Lübbehüsen, Partner at RSM Germany, said: "We expect Germany's double tax agreements to include 'subject to tax' clauses going forward, as well as the insertion of specific rules for real estate-owning companies."

James Meakin, Partner at Baker Tilly, said: "We expect revisions [to double tax agreements] to reflect the limitation of benefits provision as a consequence of the BEPS initiative."

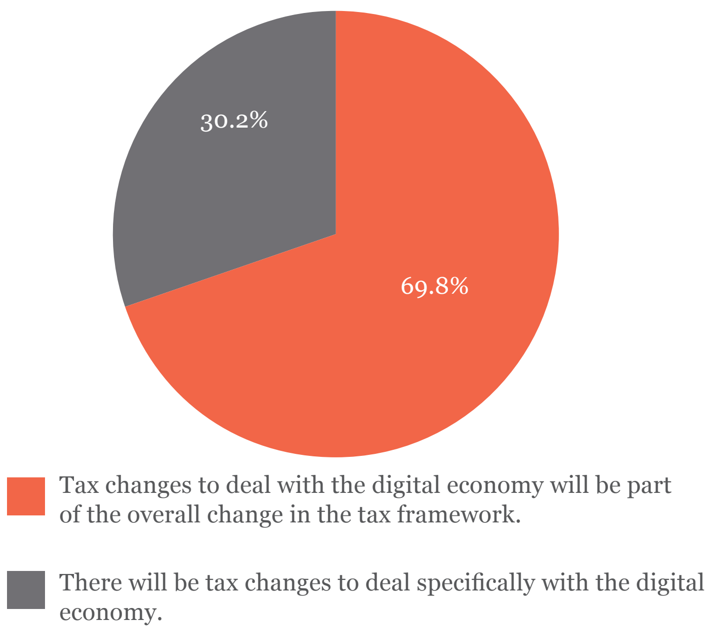
Of the BRIC economies, experts in China and India anticipate more treaties to be signed over the coming years. Lokesh Mudaliar, Partner at RSM Astute Consulting (India), said: "More tax information agreements are likely to be entered into with other countries."

The OECD has stated that in its view legally binding multilateral agreements to achieve action on BEPS are feasible and can be developed to update existing double tax treaties. However, the range of different views from around the world (plus different legal and administrative systems) is a clear indication of how difficult this will be when the detailed negotiations take place between countries.

Reform of taxing 'digital' to be integrated within overall updated tax infrastructure

Much of the global tax debate has been about how to tax the ever-pervasive digital economy appropriately. The current system is simply not fit-for-purpose with its roots developed way before the creation of the internet. Major change is coming here, too, and tax advisers expect that digital tax reform will be incorporated within the framework of broader tax infrastructure development. The vast majority (70%) of respondents expect this. Indeed the OECD's own Task Force on the Digital Economy concluded that "the digital economy is increasingly becoming the economy itself, so that it would be difficult, if not impossible, to ring fence the digital economy from the rest of the economy for tax purposes".

Figure 4: Do you anticipate tax changes to deal specifically with the digital economy or do you see these as part of an overall change in the tax framework?



The OECD’s BEPS proposals will be difficult to implement

The current tax debate is without precedent and tax advisers in many countries expect significant challenges in the implementation of the OECD’s BEPS proposals.

Daniel M. Berman, Partner at McGladrey, RSM’s member firm in the US, expects some political opposition. He said: “The US participates heavily in the BEPS project with the OECD, but that participation involves only the Department of the Treasury, not the frequently sceptical Congress. Congressional endorsement of BEPS may be difficult to accomplish.”

In the Asia Pacific region, tax partners are keen for the BEPS proposals to be implemented, but in China and Japan they are concerned about whether the international regulations will complement domestic laws. Flame Zheng, Partner at RSM’s member firm in China, Ruihua CPAs, said: “Local tax officials have a different level of knowledge, experience and interpretation of the national law, and we expect this to present issues when the BEPS proposals come into force.”

Aki Murayama, Partner at RSM Japan, said: “We are keen to see the BEPS measures implemented in Japan and further cooperation from multinational companies, but I question whether the international measures will be reflected in Japan’s domestic laws.”

The proposals to neutralise the consequences of hybrid tax mismatch arrangements (where, for example, double deductions are obtained for the same amount) are likely to require detailed cross-border understanding and agreement at a local level as to the required tax outcomes. This will test the resources of already stretched tax administrations.

Income unlikely to be a primary focus for tax take in the foreseeable future

While governments are placing similarly high levels of scrutiny on tax avoidance among the wealthy, the upper bands of income tax do not appear to be a key area of focus for RSM's tax leaders around the world. Just 13% of respondents expect there to be an increase in the upper bracket of income tax of 1-5 percentage points in their country over the next three years, while 19% anticipate a reduction of the same proportion during the period.

The majority of tax leaders (68%) expect income tax rates for the wealthy to remain about the same over the period. With the exception of Germany, which expects an increase in tax for high earners, advisers in the G7 and BRIC economies anticipate little change.

Flame Zheng, Partner at Ruihua CPAs, RSM’s member firm in China, said: “We expect individual income tax (“IIT”) to remain static in the near future. In the long term, the IIT system may be reformed to be made more comprehensive, which is likely to include a removal of preferential IIT treatments for foreign workers.”

Government tax take increase is most likely to be in the form of consumption tax

As historic OECD data show, consumption tax forms a high proportion of GDP. However, the implementation of VAT, one of the more common consumption tax types, has made what should be a simple tax a complex one for business. The complexity ranges from administrative costs for business through to managing exceptions, exclusions and special rules. Despite such difficulties, the United States is the only major developed economy without a federal VAT system. Instead it has remained reliant on its traditional sales taxes administered through state and local tax systems.

Nevertheless, looking to the future mix of tax sources for governments, consumption tax is the most likely to increase; this is the prevailing view of 37% of global respondents, although only a slightly smaller proportion expect to see minimal change from the current spread of tax types. Advisers in the Asia Pacific and Latin American regions both rank an increased reliance on consumption tax ahead of other forms of taxation by some margin.

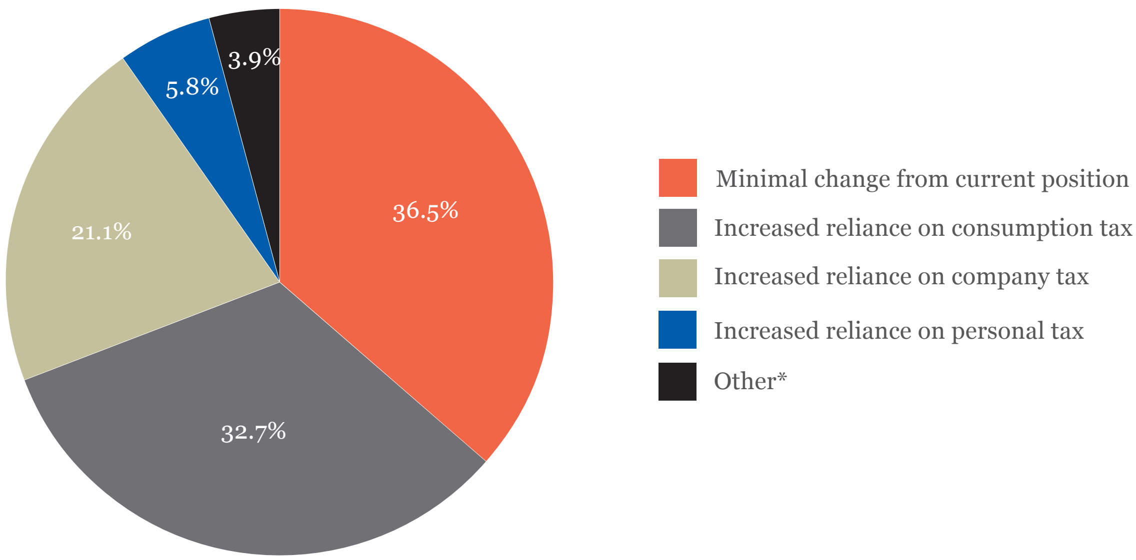
That said, nearly a quarter (23%) of global advisers expect to see corporate tax as a greater source of revenue, with 50% of the MENA region ranking this as the number one likelihood, while just 6% of the global sample expect personal tax to be a more significant contributor.

In terms of actual increases in consumption taxation rates, on a global basis, more than half of respondents (57%) expect the levels of VAT, GST or similar, to remain at near current levels in their country over the next three years, although nearly a third (32%) anticipate an increase. Europe and Latin America are the regions where the greatest proportion of advisers expect a hike of 1-5% in consumption tax in that time period (36% and 42%).

Both the G7 and BRIC economies are torn in their predictions for consumption tax. The United States, UK and Italy expect no change of rate in the next three years, while France, Germany and Japan anticipate an increase. Within BRIC, China and India are preparing for a reduction, whereas Brazil and Russia do not think there will be much change.

Aki Murayama, Managing Partner at RSM Japan, said: “Consumption tax was introduced in Japan in 1989 in order to cope with social welfare in the ageing society. However, it has become a major tax regime in Japan. The rate was 3% but increased to 5% in 1997, and was just raised to 8% in April 2014. An increase to 10% is expected in 2015.”

Figure 5: Tax scenarios over next three years ranked as 'most likely' by RSM tax leaders.



*Those that picked "Other" as the most likely's answers included:

- Reduction of company tax
- Government's reliance on unified (simplified) tax for legal entities and private individuals

Improvements in local tax systems

Tax advisers around the world were asked which one improvement they would make to their country's tax system, if given the choice.

Responses were varied, from a demand for paperless tax reporting in China (for reasons of efficiency and environmental impact) to the successful combatting of corruption in Ukraine.

Approximately 20% of international tax advisers would like to see greater simplicity in the tax laws and regulations that govern their respective countries. Of these, over half are in Europe.

Of the BRIC economies, Brazil and India also called for simplification, and for lower taxes in areas such as consumption. Marcelo Oliveira said: "I'd like to see a reduction in the number of taxes in Brazil, and in the rates of tax, particularly on food and services. The complexity of tax rules is also a key issue."

"I would like to see simplification of the UK [tax] system to eliminate the distortive effects of [its] huge complexity on British business."

James Meakin, Tax Partner at Baker Tilly

"Simplification of the tax system is one of the main objectives of German tax policy for both personal and corporate income. Unfortunately past efforts have had little effect so far."

Thomas Lübbehüsen, Partner at RSM Germany

Taxation rates 1965-2011

A retrospective analysis of the international tax environment over the last 50 years shows a substantial shift in tax trends over the period, with particular differences between the world's most advanced economies, the G7, and the developing BRIC nations.

Tax as a proportion of economic output 2011

The most up-to-date globally comparable figures from the OECD are for 2011. That year, total tax revenue in the top OECD economies constituted on average 32% of GDP.

Within the OECD, G7 tax revenues made up a slightly higher proportion of GDP, averaging 35%. France was the highest of these, at 44%, with Italy close behind at 43%. The United States' total tax revenue constituted just 24% of GDP and Canada's was 30%.

Social security also contributes a high proportion of tax revenue, although it is recorded differently in many economies and not at all in some. *Figure 6* shows that, for the G7 economies, total tax revenue (minus social security) has constituted a relatively consistent proportion of GDP since 1975. However, there are anomalies, with Italy experiencing a steep upward curve between 1975 and 1995, and France a gradual rise from 1975-2011.

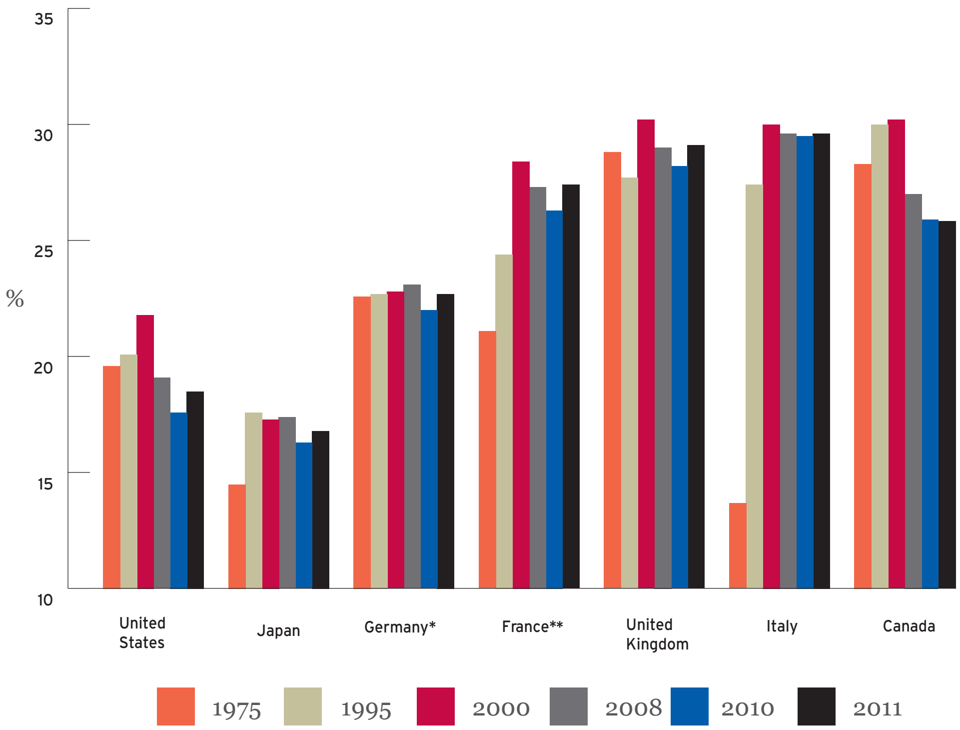
In Australia, total tax revenue increased gradually as a percentage of GDP in the 35 years to 2000, but has fallen significantly since.

Rob Mander, Director of Tax Services for RSM Bird Cameron, said: "Tax revenues have fallen following the impact of the global financial crisis in the late 2000's and the subsequent challenge for the government has been to find new sources of tax revenue to fund its expenditure requirements."

In the non-OECD countries, the period 1995-2011 saw substantial increases in the proportion of tax (excluding social security) to GDP in the Asia Pacific economies, with China's proportion rising from 10% to 19% and Hong Kong moving from 9% to 13%. Meanwhile, the situation in Brazil and India remained relatively stable throughout the period, with Brazil experiencing an increase of 4 percentage points, and India just half of a percentage point.

China's tax revenue (excluding social security) has seen an average annual growth rate of approximately 15% since 1985. From 1985 to 2011, the yearly tax revenue has accounted for an average of approximately 17% of GDP.

Figure 6: Total tax revenue (excluding social security) as a percentage of GDP - G7 (in order of GDP in US$, 2011)



* From 1991, the figures relate to united Germany

** The Total Tax Revenue has been reduced by the amount of any capital transfer that represents uncollected taxes. The capital transfer has been allocated between tax headings in proportion to the reported tax revenue.

Sources of tax revenue 2011

Figure 7 exhibits the main sources of tax revenue for governments in the G7 economies (2011), and highlights some key regional differences. For the North American economies of the US and Canada, income and profit taxes constitute a substantial majority, with both countries reporting a 47% contribution. The UK also ranks highly in this regard, at 37%, while the other European economies of Italy (32%), Germany (30%) and France (23%) rely slightly less on this form of taxation.

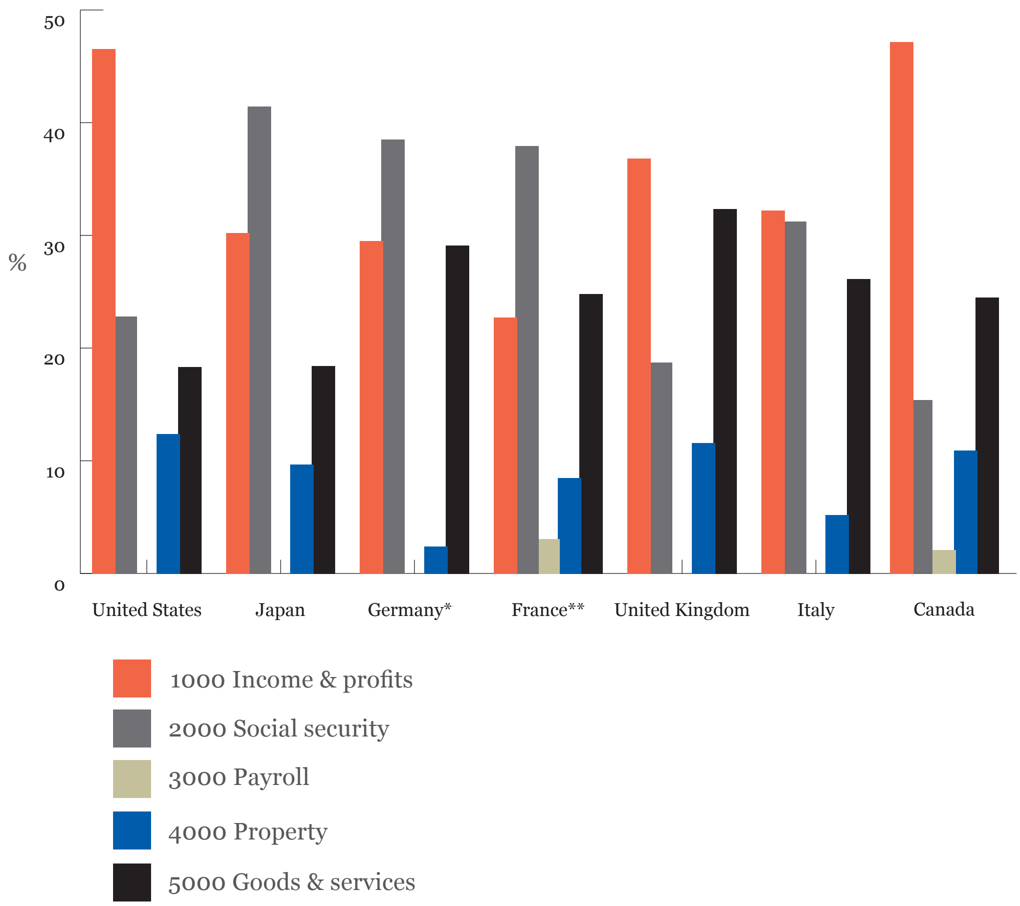
Social security constitutes the second largest proportion of tax income for the G7 economies overall, but ranks first in Japan (41%), Germany (39%) and France (38%). The UK, United States and Canada rely substantially less on this form of taxation, with an average contribution of 19%. Italy is the only European outlier in this regard, with social security revenue about level with its reliance on income and profits at approximately 30% of total taxation.

Taxes on goods and services make up the third highest proportion of total revenue across the G7 economies, at an average of 25%. Taxes gleaned from property and payroll constitute a substantially lower proportion of revenue, at an average of 9% and 3% respectively.

For the non-OECD economies, more stark differences are notable in sources of tax revenue. 2011 figures depict a reliance on income and profits for countries such as Hong Kong (71%), India (55%) and Russia (44%). China and Brazil rank considerably lower in this regard, at 20% and 19% respectively, and rely more heavily upon goods and services as a source of tax income.

Like the more developed economies, property forms a minimal percentage of total revenue for the non-OECD countries, yet income from payroll constitutes 21% and 15% for Russia and Singapore, respectively.

Figure 7: Tax revenue of main headings as percentage of total taxation, 2011 -G7



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Taxes on corporate income

Company tax rates can be difficult to compare due to the variation in methods of reporting local and regional taxes on corporations. However, historic tax data show a general decline in rates across the world. In 1982 the average global company tax rate was over 40%, but by 2013 it had dropped to between 20% and 30%. In Europe, Ireland and Slovenia displayed relatively low rates of 12.5% and 17% respectively in 2013, while France and Belgium were the only European economies with rates of over 30%.

Among the G7 countries, *Figure 8* shows that the heavily industrialised economy of Japan, which has one of the highest corporate tax rates in the world, took the largest proportion of corporate taxation to total taxation between 1995 and 2011. However, whilst corporate tax contributed an average of approximately 13% of government tax revenue in Japan over the period, it saw a decline to 12% in 2011.

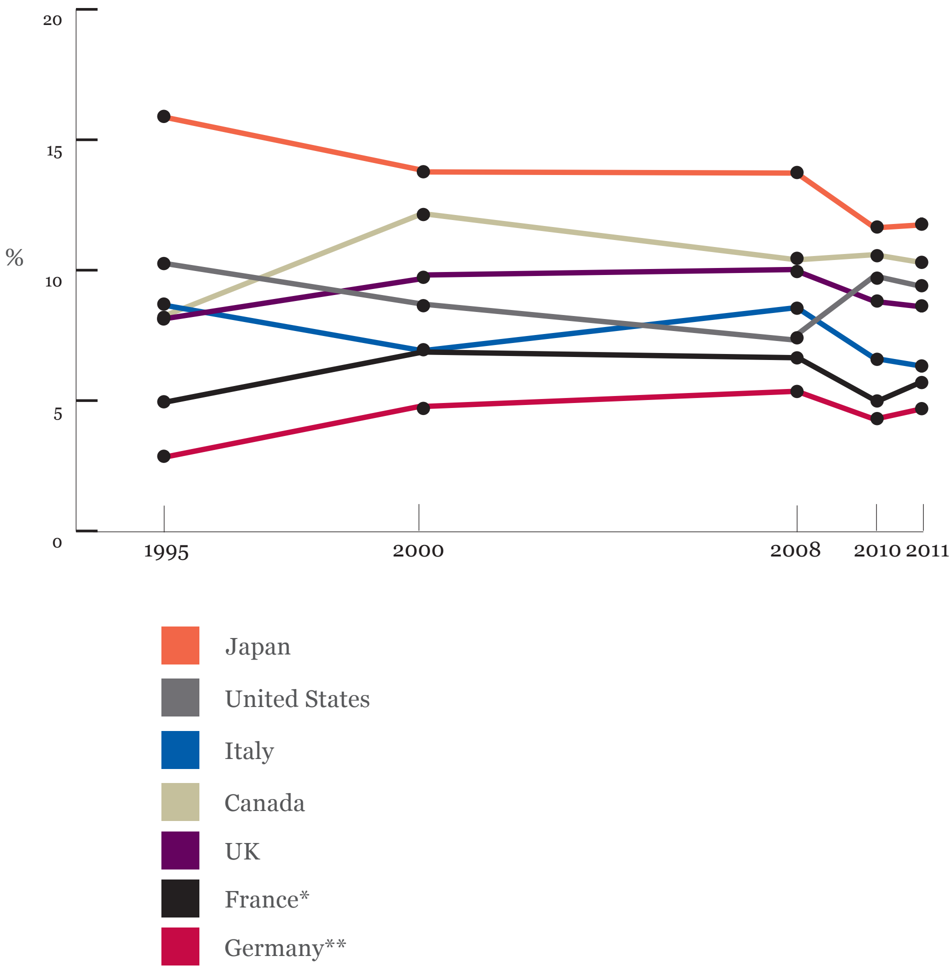
By comparison, Germany experienced the lowest average contribution of corporate tax at just 4% of total tax take over the same period, mainly due to the relatively low rate of corporate taxation in the country.

Overall, the G7 economies' corporate tax income to total tax ratios were mostly flat from 1995 to 2011. Italy was the only European country to rely less on corporate income tax over the period, falling from 9% to 6%.

In the non-OECD economies, many of which industrialised significantly between 1995 and 2011, corporate income tax generally constituted a higher proportion of total tax revenue than in the G7 countries. There was also greater variation in the corporate tax contributions for non-OECD economies during the period.

This is particularly apparent for India, whose proportion of corporate tax intake increased from 15% of total tax revenue to 36% over the period. Hong Kong posted the highest average proportion, which remained relatively flat for the period at approximately 45%. With the exception of Brazil, China exhibited the lowest dependency on corporate tax income: despite enormous export growth over the period, its corporate tax income as a percentage of total tax revenue remained relatively flat, at an average of approximately 13%.

Figure 8: Taxes on corporate income (1200) as percentage of total taxation - G7



* The Total Tax Revenue has been reduced by the amount of any capital transfer that represents uncollected taxes. The capital transfer has been allocated between tax headings in proportion to the reported tax revenue.

** From 1991, the figures relate to united Germany

Taxes on personal income

Personal income tax rates vary significantly among the world's developed economies, with upper bands currently ranging between 75% in France and 45% in Italy and Germany. In the main, these rates have decreased substantially over the last 50 years. For example, in 1975 the respective rates in Australia, Germany, the UK and the United States were 65%, 56%, 83% and 70%. By 2013 those rates had declined to 46.5%, 54.5%, 45% and 46.3%, with only Germany maintaining a broadly similar rate. Of the OECD economies in 2013, only Denmark had a top marginal tax rate that exceeded 60%, whereas in 1975, there were 15 OECD countries with such a rate.

There are a number of reasons for these shifts. There has been an increase in global mobility of labour meaning that attracting top talent and entrepreneurship has become a target for many governments. There also appears to be changing global and regional sentiment as to the role of government versus that of individuals in terms of tax contributions, so tax rates which were present in the 1970s are unlikely to return in the near future.

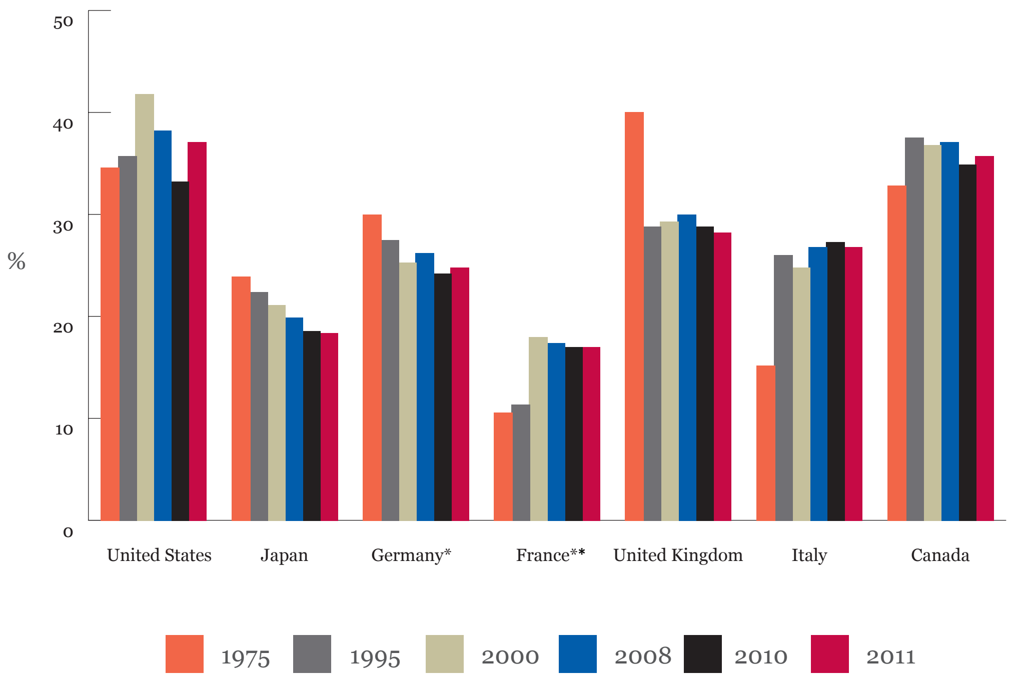
Regional differences in countries' reliance on personal income as a contributor to total taxation are reflected in *Figure 9*, which exhibits taxes on personal income as a percentage of tax revenue between 1975 and 2011.

The most notable difference is between the North American economies, whose rates remained steady at approximately 35% for the period, and France, which averaged approximately 15%. The most significant changes for the period were in Japan and Germany, where personal income constituted 24% and 30% respectively in 1975, before decreasing steadily to 18% and 25% in 2011. The UK saw a substantial decrease in reliance on personal income, falling from 40% to 29% from 1975-1995, before stabilising. The opposite was true of Italy, whose percentage increased from 15% in 1975 to 26% in 1995, before stabilising at that level.

Among the non-OECD economies, Hong Kong and India exhibited substantially higher proportions of personal income to total taxation between 1995 and 2011, at an average 17% and 24% respectively. Proportions in China and Brazil were considerably lower, averaging just 4% and 7%.

Overall, non-OECD economies exhibit a lower reliance on personal income as a percentage of total taxation compared to the G7 economies.

Figure 9: Taxes on personal income (1100) as percentage of total taxation - G7 (in order of GDP in US$, 2011)



* From 1991, the figures relate to united Germany

** The Total Tax Revenue has been reduced by the amount of any capital transfer that represents uncollected taxes. The capital transfer has been allocated between tax headings in proportion to the reported tax revenue.

Consumption tax

The origin of consumption tax – generally referred to as value added tax (VAT) or goods and services tax (GST) – is traced to Europe, and to some extent Latin America in the 1960s and 1970s. Since then, the growth of VAT as a contributor to global tax income has been substantial. IMF data indicate that in 2007 approximately 20% of worldwide tax revenue came from VAT. In Europe, consumption taxes now constitute approximately 20% of total tax and, supported by EU directives, there is some consistency around the VAT framework across the European Union.

By contrast, in the Asia Pacific region, the rates in Australia, China, Indonesia and Singapore are 10%, 17%, 10% and 7% respectively. Many Asian VAT systems were introduced in the 1980s; if trends in Europe are a guide to the future, it is possible that increases will follow in this region.

Figure 10 displays the G7 economies' proportion of consumption tax to total revenue between 1975 and 2011. Four of the G7 countries exhibited a broadly similar ratio for the period – Canada, France, Germany and Italy all displayed an average of between 23% and 27%. However, all of those countries, aside from Germany, showed gradual declines in the contribution of consumption tax.

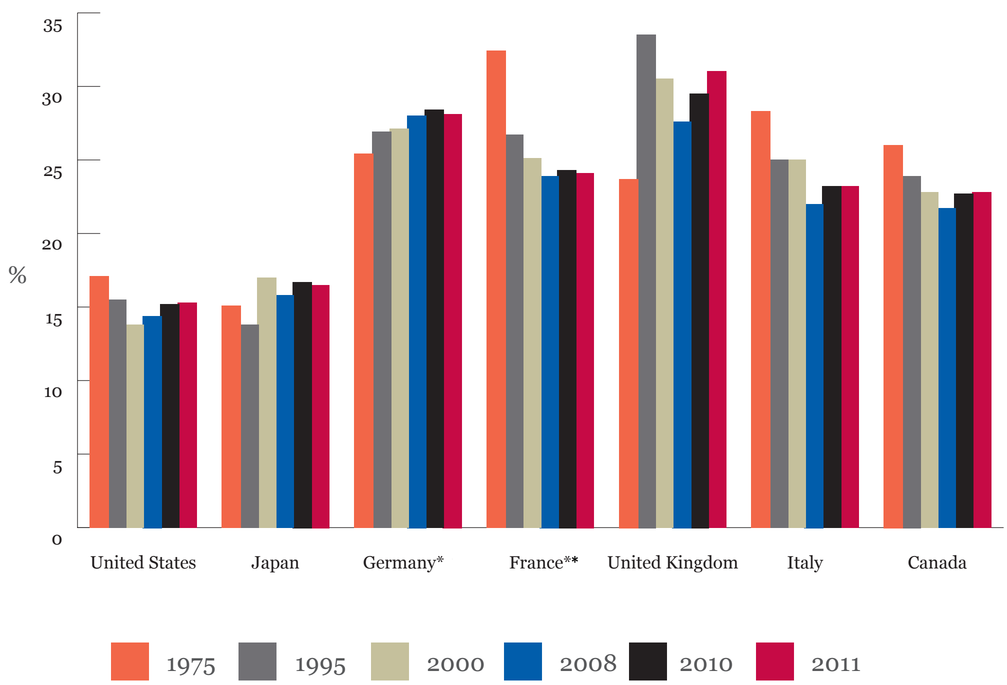
In Germany, reliance on consumption rose slowly from 25% of total tax intake in 1975, to 28% in 2011. RSM Germany's Thomas Lübbehüsen said: "The German tax base is quite wide in comparison with other countries and more and more of the total tax revenue is collected via VAT as a tax on consumption."

The world's two largest economies (by GDP in 2011), the USA and Japan, exhibited considerably lower proportions of consumption tax to total revenue between 1975 and 2011, each remaining relatively flat for the period and averaging approximately 15%.

The UK's proportion of consumption tax to total tax revenue grew substantially from 24% to 34% between 1975 and 1995 and has remained at approximately that level since. Ken Almand, Tax Partner at Baker Tilly, said: "Consumption tax rates have doubled since 1979 but the percentage of total tax has been relatively consistent. Consumption revenues are subject to the profitability of certain sectors, notably oil and gas. Consumption taxes are also frequently used as a means of implementing government social policies."

In the non-OECD economies, consumption taxes constituted varying proportions of total revenue for the period, reaching almost 80% in India in 1975, and as low as 4% in China in 2008. Between 1975 and 2008, India's proportion fell steadily before stabilising at around 45%, while Brazil's was stable at the same level for the period.

Figure 10: Consumption taxes (5100) as percentage of total taxation - G7 (in order of GDP in US$, 2011)



* From 1991, the figures relate to united Germany

** The Total Tax Revenue has been reduced by the amount of any capital transfer that represents uncollected taxes. The capital transfer has been allocated between tax headings in proportion to the reported tax revenue.

Additional comments
from RSM tax leaders

Asia Pacific

Australia	We'd like to see a Tax Ombudsman established, to take up the cause of taxpayers unable to get a "fair hearing" from tax authorities in relation to requests for the reduction of corporate tax instalments and invalid tax assessments driven by tax audit revenue-targets.
China	[With regard to the BEPS proposals] local tax officials have different levels of knowledge, experience and interpretation of the national law, which may present difficulties.
Hong Kong	In order to cope with Hong Kong's aging population, we believe widening the tax base and placing less dependency on economically sensitive tax income [e.g. profit and salaries tax] would create a more sustainable tax environment in the long-run.
India	[Referring to the BEPS proposals] transfer pricing provisions, permanent establishment of related taxation and treaty shopping will be the key issues for India in the context of the initiatives for Base Erosion and Profit Shifting.
Japan	We are keen to see BEPS measures implemented in Japan and expect cooperation from multi-national companies, but it will be interesting to see whether the international measures are reflected in Japan's domestic laws.
Korea	We expect more detailed documentation and information disclosure will be required with regard to transfer pricing.
Malaysia	Malaysia's tax system needs a total reform of its administrative measures to become more effective and efficient.
New Zealand	The concept of "operational substance" might be applied to overseas subsidiaries to avoid profit transfers to tax-haven subsidiaries which have no operational substance but earn profit.
Taiwan	We don't expect [changes in transfer pricing requirements] to be extensive. However, the current lack of documentation [relating specifically to transfer pricing] invites the Inland Revenue to make tax adjustments based on its own interpretation. Hence an improvement in documentation is very desirable.

Europe

Bulgaria	There are no strict requirements in relation to maintaining transfer pricing documentation. Companies must have such documentation for security purposes, but the requirements are unclear and too general. We expect changes to this legislation in the near future.
Croatia	We expect increased control of transfer pricing legislation in Croatia in the next few years.
Denmark	[With regard to transfer pricing requirements] we expect authorities to increase the number of tax audits required for smaller businesses.
France	[With regard to transfer pricing requirements] we don't expect to see extensive changes in the near future, except in the international transfer of tax information between countries, which we expect will increase.
Germany	[One improvement that could be made to the tax system] issuance of more and acceleration of advanced rulings.
Italy	[Improvements that could be made to the Italian tax system] the long term stability of fiscal rules. More simplicity and transparency, less bureaucracy. Better cooperation with tax authorities.
Latvia	Latvia has only a few successful businesses operating on a global basis. To this end it is not likely that OECD initiatives will be a priority for law makers and enforcers in the near future.
Luxembourg	[With regard to the BEPS proposals] Luxembourg is an international centre for holding companies, we expect bigger economies to put political pressure on Luxembourg to please their electorate.
Macedonia	Currently there is little focus on transfer prices by the public revenue office or by customs in Macedonia. There is substantial written regulation, but by-law documents have to be improved currently. There are few extensive requirements.
Netherlands	[With regard to the BEPS proposals] the key issue for the Netherlands will be avoiding hybrid mismatch arrangements.
Poland	Poland is renegotiating double tax treaties with a number of countries commonly used for tax purposes so as to close the loopholes, but also to incorporate the exchange of information rule.
Portugal	Transfer pricing legislation is extensive and detailed in Portugal. No significant changes to this are expected in the near future.
Russian Federation	Tax conditions which support investments and human capital development will be crucial to Russia's economic growth going forward.
Spain	We would like to see the abolition of withholding tax in Spain, so people know exactly how much tax they are required to pay.
Sweden	Transfer pricing documentation has not been at the top of Sweden's tax agenda for the past few years. However, Sweden is trying harder to protect its tax base and we expect the tax authority to become more active in this area.
Switzerland	[One improvement that could be made to the local tax system] is one single [low] standard tax rate for companies operating in Switzerland.
Ukraine	Combatting corruption is the crucial issue in improving Ukraine's tax system.
UK	[With regard to the BEPS proposals] we expect an increased compliance burden from a more stringent transfer pricing regime.

Latin America

Argentina	The Argentine government is committed to developing international information exchange agreements. The legal framework for the "digital economy" is one of the biggest challenges since Argentina's digital infrastructure is behind many countries in this field.
Brazil	[With regard to transfer pricing] we do not expect significant changes in the next few years. Brazilian tax authorities require companies to keep a record of all accounting entries, invoices, contracts and calculations of transfer pricing taxable adjustments.
Dominican Republic	We would like to see lower tax rates, particularly on consumption, corporations and personal income.
Ecuador	[With regard to the BEPS proposals] despite not being an OECD member, Ecuador has historically followed their lead in terms of tax legislation planning and we expect this to continue with the BEPS proposals over the next two to three years.
El Salvador	A new law has recently been passed and companies are now required to disclose all transfer pricing measures. The issue at the moment is that government is not yet sophisticated enough to accurately enforce the measures.
Guatemala	Guatemala could benefit from a shift in government reliance on income tax revenues towards a simpler consumption tax, such as GST.
Honduras	There will need to be major changes to legal and administrative frameworks in order for Honduras to comply with the OECD's BEPS proposals.
Panama	There is a high percentage of non-compliance in transfer pricing rules in Panama, which were only introduced in 2012.
Uruguay	We would like to see tax returns simplified for companies; and also that the tax system could allow deduction of expenses from personal income tax, this would improve conditions for employees in Uruguay.

Middle East and North Africa

Egypt	[With regard to double tax agreements] we expect that there will be amendments regarding withholding tax rates and procedures, and amendments to many of the double tax agreements to reflect the introduction of new tax regimes.
Morocco	[With regard to transfer pricing] we expect the current level of required documentation to remain the same for at least the next three years.
Saudi Arabia	There are no transfer pricing concepts in Saudi Arabia currently, however tax authorities are conducting studies on this subject, which may result in their implementation.
Tunisia	We would like to see tax treaties renewed with Maghreb countries [Libya, Algeria, Morocco and Mauritania] in order to facilitate transactions and to allow transparency in exchanges between these countries.

North America

Mexico	[One improvement that could be made to the local tax system] is a decrease in personal and corporate income tax [from 35% and 30% respectively] to a general rate of 20% to 25% and generalise [eliminate exemptions] VAT at a rate of 15%.
United States	[In an ideal world] the US Congress [would] move beyond the myth that consideration of a national consumption tax would be political suicide, and recognise that a policy implemented in the rest of the world might be worth considering.

Sub-Saharan Africa

Kenya	[With regard to the BEPS proposals] Kenya is to tighten tax compliance on cross border transactions with a focus on revising its current transfer pricing regulations, by strengthening its anti-avoidance provisions in the various tax acts, and through entering into information-sharing agreements with various countries.
Nigeria	A large percentage of day-to-day e-business transactions are now not invoiced or receipted. A unified digital control measure to track these would be a welcome solution in Nigeria's tax economy.
Tanzania	[One improvement that could be made to the local tax system] is a reduction in the corporate tax rate and an increase in compliance measures to allow the tax burden to be shared by all stakeholders in businesses operating in Tanzania.

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