

'Anti-Avoidance Legislation and the Location Choice of Multinational Firms' - Discussion

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Shock to the system?

- Transfer Pricing and Thin Capitalisation are part of the basic architecture
- Prevalence increasing – basic protection against erosion
- Report gives evidence of reduced probability of FDI company formations –
 - From harsher thin cap ratios
 - From TP documentation rules

Policy response

- Take account of potential impact on investment
- Need for balance in BEPS process noted
 - Developing countries - need to balance FDI and DRM
 - UK principles – sustainability of tax revenues and UK growth and competitiveness

Issues for governments

- Investment impact
- Protect own tax regime
 - FDI without tax revenue ?
 - Morale impact as well as cost
- Fairness between domestic and MNE taxpayers
- International position / nature of competition

Way forward ?

- Arm's length rules fundamental to current international tax system
- Report implies need for coordinated action
 - so TP and thin cap rules are not matters of competition
- Rules to be no harsher than required