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CORPORATE TAX AVOIDANCE PRACTICES OF MULTINATIONALS AND COUNTRY RESPONSES TO IMPROVE QUALITY OF COMPLIANCE

Abstract: *The aim of this systematic review was to review the methods adopted by corporates to avoid corporate tax, factors related to it and responses of countries to improve their compliance. Using Google Scholar with the topic as the search terms and different overlapping timeframes, the search yielded 68 papers. These were listed and briefly described. The common factors in these studies were tabulated for easy reference. It was a revelation in the way the corporates adopted methods to avoid sales tax. Papers dealing with policies, strategies and impact of sales tax on these corporates were in majority. Economic growth variables and their linkage to sales tax were the basis of study of some papers. Corporate social responsibility is an essential part of corporate finance and an attempt to link it with their tax compliance practice was the subject in some. Studies also covered the role of civic and interest groups in preventing evasion of tax as detrimental to society at large. An important aspect which came to light was that as long as there is competition among countries on tax matters and the existence of tax havens, a defiance of the tax laws and the tendency to avoid tax was noticed. Only a thorough reform of the tax laws in the countries will check these large scale evasions and bring more revenue where it is required. The need of the hour is a vigilant civil rights and interest group which can add pressure on the corporates to behave responsibly and ethically towards tax compliance. The implications that these changes will bring is huge as it prevents leakage of income which is rightly due to the governments. This study will help in plugging the loop holes and ensuring stricter compliance with the laws of the land.*

Keywords: *Corporate tax; Multinationals; Compliance quality improvement; Systematic review.*

1. Introduction

Many countries charge corporate taxes on business organisation in different manner and rates. Obviously, businesses would not like to be taxed at all. However, they are willing to tolerate a minimum tax. But they react when they are charged at higher than what they perceive as reasonable. Whatever is the rate, they have clever ways of accounting (accounting engineering) to minimise taxes paid to the country. The slogan “You cannot evade tax, but you can

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avoid it", is cleverly used by them. On the other hand, they express their eagerness to project as an organisation compliant with the laws of the country they operate in many ways.

All the above statements are generally about any type of taxes. But corporate tax has its own characteristics. The definition for Corporate Tax given in the Economic Times (The Economic Times, 2020) is, "Corporation tax is a tax imposed on the net income of the company." Sometimes a surcharge is levied based on net income slabs as in the case of India.

The definition and a brief description of corporate tax in Investopedia is, "A corporate tax is a levy placed on a firm's profit by the government. The money collected from corporate taxes is used for a nation's source of income. A firm's operating earnings are calculated by deducting expenses including the cost of goods sold (COGS) and depreciation from revenues. Then, tax rates are applied to generate a legal obligation the business owes the government. Rules surrounding corporate taxation vary greatly worldwide, but they must be voted upon and approved by a country's government to be enacted."

The global trend of corporate tax (CT) rates (CTR) collected from 176 countries was evaluated by Elke (2019). The author observed that in 1980, the global average CTR was 40.38 and was 46.67 when weighted for GDP. As countries realised the negative impact of high CTR on business and thus on national economic growth, these taxes have been brought down gradually in many countries. Now, most countries have their CTR below 30%. Highest CPR ranged 33 to 55% in 21 states. The lowest CPR ranged 5.5% TO 12.5% in 21 countries. There were no CTR in 13 countries. The wide range of variations among countries may prompt businesses to locate their tax-positive operations in least CTR countries.

The aim of this systematic review is to examine how these differences in CTR impacts corporates operating in different countries. Stress is on the same corporates operating in different countries.

2. Methodology

Five pages each of Google Scholar was searched for different overlapping timeframes up to 2019 using the topic of this review as the search term. The search yielded 68 usable papers. These are listed, briefly described, extracted trends and discussed them to reach the final conclusions in the following sections.

3. Result

3.1 List of papers with brief descriptions

1. Desai M. (2012) noted that high CTR leads to flight of capital from the country, reduce investments which would have enhanced the productivity of the workers, increasing real wages. Thus, the ultimate impact of high CTR is on workers. Characteristics like high CTR with narrow base, rapid increase of non-corporate income, which means high CTR has shifted even internal investments from corporate to non-corporate sectors within the country and globalisation of business enabling corporates to shift crucial operations from high CTR to low CTR countries and thus change their national identity. For US based corporates, foreign income is taxed both in its host country and in USA when repatriated after deducting the tax already paid in the host country. Such taxing systems prompt the companies to retain their income in the home country. Contrary to the belief that investments abroad are losses of the same investment in the home country, the firms expanding markets outside to become more efficient leading to more investment at home. The current trend is that corporates announce big profits in the media, but their books no taxable income. This doublespeak confuses shareholders, potential investors

and customers. The trust of the public on the company is eroded when high profits are reported, but no tax is paid. The complexity of the CT system and the variety of methods available to corporates makes them easy to avoid taxes and still remain within the laws. They cover up these tactics by projecting their Corporate Social Responsibility (CSR) programmes. The author makes these observations and suggests solutions of tax reforms to address these undesirable trends for US context, but may be applicable to other countries in a similar situation.

2. The host country CTR structure has significant influence on size of FDI inflows into it, according to the results of a study by Simmons (2003). The author used a tax attractiveness index prepared on the basis of discussions with investors and taxation experts for this work.

3. Slemrod (2004) saw clear evidence for the independence of CTR from the revenue needs of any country. Also, no relationship of expenditure–GDP ratio with the statutory CTR was found. The evidence for a positive association with the average rate was weak. Distinctive influence of international competitive pressures was visible on CTR. Measures of openness were negatively associated with CTR, but not with revenues collected as a fraction of GDP. Larger, more trade-intensive countries collected more CTR, probably due to these countries being more attractive to investments. These findings are in apparent contradiction with many of the strongly held concepts.

4. In the US context, many corporate inversions have taken place recently. The US multinational corporations joined with foreign companies to locate their joint corporate structure in a foreign country with an attractive CTR rate and policies. A high statutory tax rate, a global system of taxation and limits on income shifting in the US system are acting as incentives for such inversions. Corporate inversions permits more flexible access to foreign funds and makes it easier to shift income out of the US tax base. The recent large scale inversions might have happened due to the large accumulation of unrepatriated foreign cash. Pessimism about the prospect of policy changes for reduction in the US tax rates on repatriated incomes also has contributed to these inversions. If left uncontrolled, corporate inversions are may shrink the US tax base. This justifies quick policy interventions in a targeted manner (Clausing & UBTP, 2014).

5. Hines Jr (2005) observed that tax havens offer low CTR to foreign investors with other tax features, specifically aimed at designed to attract investment and thus enhance economic activity in the country. However, the global impact of these tax havens is significant in many ways. With less than 1 percent of the world's population (outside the United States) and only 2.3 percent share of world GDP, they are able to attract 5.7 percent of the foreign employment and 8.4 percent of foreign property, plant, and equipment of the US business. Per capita real GDP of tax havens grew at an average annual rate of 3.3 percent during 1982-1999, compared to only 1.4% as the global average. The governments in tax havens procure adequate funds. The average 25% ratio of government to GDP is higher than 20% ratio reported for the whole world, although the small populations and relative affluence of these countries are frequently associated with even larger governments. It is not clear whether the economic prosperity of tax havens comes at the expense of higher tax countries. But there is recent evidence that tax haven activity stimulates investment in nearby high-tax countries.

6. According to the analysis of data on corporate tax rates and foreign direct investment (FDI) in 19 OECD countries for the period of 1980-2000 by Jensen (2012) corporate tax rates were not associated with FDI. This means, multinationals may not always opt to invest in countries with low corporate tax rates.

7. Based on the analysis of the survey data of Bureau of Economic Analysis on U.S. multinational corporations for the period 1983 to 2012, Clausing K. A. (2016) noted that there is substantial loss to US tax base due to profit shifting by US multinationals and the loss is increasing. The finding indicate booking of large amount of profits in tax havens. Erosion of corporate tax base erosion is more likely in the case of countries where the rates are higher.

8. In a report, Cobham and Loretz (2014) reiterated that misalignment of profits and real economic activity occur under the current system of separate accounting due to tax-motivated international profit shifting. The current system of separate accounting facilitates taxation of profits of multinational companies in the respective countries in which they are earned. Corporate taxation is done by treating the subsidiaries of these companies as individual firms for calculation of taxable profits. With the wide disparities in corporate tax rates, multinational companies earn incentives by misallocating their taxable income to reduce their overall tax burden. Thus, international profit shifting by multinationals occur in response to tax differentials in an economically significant manner affecting the corporate tax bases of many EU and OECD countries. In the case of developing countries, due to absence of balance sheet data, trade data are used by researchers. Abnormal pricing may reflect tax outflows in this case. However, attributing multinational tax practices poses problems here. To restrict tax-reducing relocation of corporate profits, complex procedures are adopted in various countries like transfer pricing, thin capitalisation, permanent residence and related issues. EU and OECD, instead of examining the system itself, are examining only the system of separate accounting. However, such actions limited to the current international tax structure may not be effective in addressing the problem. Organisation for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting (BEPS) initiative wanted to measure and reduce this. But any significant progress is possible only if formulary apportionment methods or any other method outside the current international tax structures are implemented. The authors used the database of balance sheets of leading global companies for analysis. It was observed that if actual economic activity is used for apportioning profit, it would result in a major redistribution of the tax base at the expense of some specific jurisdictions. In most cases, this shift is towards the lower-income countries. If a global switch to unitary international taxation through loss consolidation is done, it would reduce the overall tax base by around 12 per cent.

9. Cobham and Janský (2018) compared IMF estimates with Global Revenue Data (GRD) estimates and reported lower annual global revenue losses of around US $500 billion, with the greatest intensity in low income and lower middle income countries, especially from sub-Saharan African, Latin American, the Caribbean and South Asian regions.

10. According to an assessment of current US foreign income taxation rules using a simple framework done by Desai and Hines Jr (2004) the US tax burden on foreign income was about $50 billion a year. Such a heavy tax burden on foreign investment incomes is not favourable for promoting efficient ownership of capital assets from a national or global perspective. Therefore, high potential exists for welfare gains by reducing the US foreign income taxation through positive tax reforms. This means ending the comfortable but misplaced arguments for using similar systems of taxation of both foreign and domestic incomes.

11. Christensen and Murphy (2004) showed that majority of multinational businesses are being purposefully structured to facilitate tax avoidance in every country they operate. Some social activists strongly advocate for policy measures to remove the distortions

due to nationally based tax regimes made to struggle by globalised firms. There is urgent need for including full compliance with tax laws without tax avoidance measures in the Corporate Social Responsibility statements. They should also publish all necessary accounting information to prove that they have bot resorted to unfair tax avoidance practices.

12. While switching operations and incomes across nations bestow tax avoidance advantage to multinational corporations, coordination costs can override this benefit fully or partially. With increasing expansion of international operations, risks first increase and then decrease. The risk is influenced by the cultural distance of the firm's home country and host country. These conclusions were reported by Tong and Reuer (2007).

13. Various types of domestic and international distortions and their estimates have been reported by many researchers. Nicodème (2008) found that the most significant or common types of them are distortions due to income shifting between capital and labour sources, profit shifting across countries, the effects of taxation on business location and foreign direct investment.

14. Desai M. A. (2009) provided many examples of corporate manipulations of internationalising locations and operations. Earlier, corporates retained their home nation identity even if they operated in different countries. Globalisation universalised them beyond national boundaries. Such location manipulations served the purposes of market access, valuation enhancement, avail multiple investment opportunities and not affecting simultaneous tax benefits from home countries. During the 1950's to 1960's, firms self-replicated in different locations in the form of horizontal FDI to surmount high tariffs and transportation costs by nearer to their customers. But unless capital investment can overcome the transportation costs and tariffs, such self-replication was not worthwhile, Decreasing costs made these practices obsolete. By 1990's, off-shoring certain activities to cheaper locations became the practice leading to production chains being fragmented across the world. Headquarters retained the core activities and controls. Now unbundling of even headquarters functions started which blurred their national identities. Firms also relocate their financial home to places where they can save financial costs and investor protection rules are strong. Taxation regulations on home income and away income may also determine how the company divides its operations across the world.

15. Desai and Dharmapala (2009) pointed out that increasing incidents of corporate tax avoidance shows the non-existence of a pure compliance function from corporations and their managers. Tax avoidance may be the most serious compliance issue for the American tax system. It is not a simple transfer of value from the state to shareholders. Tax avoidance reflects in difference between income reported to tax authorities and capital markets, decreasing effective tax rates in public financial statements and the increasing number of firms with no tax liability. The authors analysed the situation utilising the agency framework stressing on the role of managers in tax avoidance. Tax shelters substitute debt for financing the business through saving on tax. However, tax shelters only serve the purpose of tax avoidance and nothing else. Managers whose interests are akin to those of shareholders are more likely to practise tax avoidance in the interest of shareholders. Possibly, incentive compensation for managers may be related to the extent of tax saving gained by earnings management by managers. On the other hand, in the case of managers unwilling to practise tax avoidance, principal-agent problem may operate. Obscuring the intent of a financial transaction, often using tax shelters, may be an efficient way of tax avoidance by managers, sometimes independent of the

interests of shareholders. However, many factors complicate the sheltering and diversion options. Technology of either is one factor. Enron's extensive use of tax shelters to achieve set goals of tax savings of its tax department is an example. Agency view of corporate tax avoidance seems to have merit. Thus, objectives of financial reporting becomes important in this respect. Legitimate tax avoidance for some non-tax purpose or not in conflict with shareholder value may be valid.

16. According to Wilson (2009) firms, which actively engaged in tax sheltering, show higher ex post book-tax differences and resort to more aggressive financial reporting practices. Positive abnormal returns are reported by active tax shelter firms with strong corporate governance. Thus, tax sheltering is used to create wealth in well-governed firms.

17. The same conclusion as that of Wilson (2009) was reached by Desai and Dharmapala (2009) using OLS estimates of unexplained differences between income reported to capital markets and to tax authorities.

18. In a review study of effect of tax policies on the financial and non-financial behaviour of corporates, Hines Jr (1996) observed that taxation significantly influenced FDI, corporate borrowing, transfer pricing, dividend, royalty payments, R&D activity, exports, bribe payments, and location choices.

19. US firms need to pay taxes on income earned both inside and outside the country. However, there are incentives created by the US tax system to avoid double tax payments for the incomes earned outside. Using data on 1986 corporate tax returns, Altshuler and Newlon (1991) studied on the extent of structuring and coordinating remittances of income by US firms from their foreign subsidiaries to reduce their US and foreign tax liabilities. The ability to use foreign tax credits generated from one source of foreign income to offset the US tax liability generated by other sources of foreign income, withholding tax rates on income remittances, variations in source country corporate income tax systems and dynamic aspects of the US tax system were considered. American multinationals were able to take advantage of the US tax system to avoid paying high amounts of tax on their foreign source income.

20. Apart from the usual reasons for taxation, corporate tax has the additional rationale of regulating managerial and corporate power. This rationale justifies the need to fight the threats of tax shelters and tax competition. On the other hand, although the state wields enormous power through taxation, its ability to use this power is limited by the possibility of destroying or unduly damaging institutions which are required for the welfare of the citizens. Corporate taxation is an important regulatory method to manage the delicate balance between corporations, society and the state. To some extent any taxation is harmful to some or other components of the three partners of the system (Avi-Yonah, 2004).

21. Tax competition in EU has resulted in high levels of reduction in tax rates, policies of broadening tax bases and possibility of distortions in firm decisions. Although more research has been done on tax on profits, non-profit taxes have become important in the context of recent global economic crisis burdening firms on overall tax payable. Consequently, tax regimes are characterised by rules restricting capitalization to thin levels, tightening of loss offset rules or a high proportion of non-profit taxes in the overall tax mix. These, in turn, contributed further to economic downturn. These conclusions were reported by Spengel and Zinn (2011).

22. Sørensen (2003) observed that international tax competition shifts the tax burden from mobile capital onto unemployment-ridden labour. Therefore, improved co-ordination of capital taxation within the EU was advocated by EC to

prevent further shifts of the tax burden to the disadvantage of labour. However, some degree of healthy taxation competition may be favourable to strengthen fiscal discipline leading to control of public expenditure, thus permitting reduction of tax burden eventually.

23. In an estimation of tax avoidance using tax havens, Zucman (2014) found that about 20% of the profits of US corporations are held in in tax havens. This is an increase by 10 times since 1980. Thus, over the past 15 years, the effective tax rates of these corporates decreased from 30 to 20. About two-thirds of this decrease was due to increased international tax avoidance. About 8% of the global financial wealth is parked off-shore causing a loss of $200 billion to governments every year. Such off-shoring of profits continue and increase despite tightening of policies of various governments. The authors propose creation of a world financial registry to address this issue. The author noted that three principles of corporate taxing agreed at League of Nations in 1920 and in operation till 1947 were source-based taxation, arm's length pricing and bilateral agreements. But inconsistencies among nations regarding bilateral agreements provided fertile ground for multinationals for treaty shopping by branching out their governance mechanisms at different locations cleverly to take advantage of weaknesses of both states in bilateral agreements. The author gives the example of how Google used these inconsistencies cleverly to avoid tax in Europe as well as USA. To surmount US corporate tax laws on foreign incomes including tax credits, tax inversion is practised by corporates like Apple, Microsoft etc. Profit shifting is done through intragroup loans. Subsidiaries in low tax countries loan to subsidiaries in high tax countries. Another more recent method is to manipulate transfer prices, which are the prices charged for internal transfer of goods and services. It is not possible for tax authorities to check whether these internal sales were done at market prices as per taxation rules. In many cases, there are no relevant fair market prices. Such internal pricings are rising. The flaws of arm's length pricing are used in such cases. Taxing in source countries present two types of problems. Firstly, there is wasteful expenditure of resources by multinational companies. They spend huge amounts for exploring and executing treaty shopping and transfer pricing opportunities. When tax authorities try to control avoidance practices, this triggers higher corporate expenses. This ends up in non-tax-haven countries having lower tax revenues and welfare. Another practice is to move core operations of profit to low tax countries. Costs of tax competition for real investment are high. But artificial profit-shifting is more effective in reducing corporate tax payments. With increasing tax havens as a share of foreign profits to almost 55 percent, foreign profits also rose as a share of total US corporate profits to about 35%. The share of tax havens in total US corporate profits reached 18 percent, which is 55% of the 35% recently. The high level of tax-haven profits is significant considering that many US-owned companies do not have any overseas activity. During the recent financial crisis, there was rapid increase of off-shore profits leading to the collapse of domestic profits. Typically, if a US firm has an affiliate in France owned through an Irish holding, in the US balance of payments, a lot of the income generated in France will go to Ireland. This happens due to disregarding the French affiliate for US tax purposes under the "check the box" rules. An Irish intermediary facilitates avoiding French taxes and deferral of US taxes. This type of multiple locations and affiliations have been practised by many famous US corporates to reduce their corporate tax burden. Occasionally, firms return a fraction of their overseas profits into USA. Some others might do it afterwards. But such repatriations from low-tax jurisdictions are not appreciable and may not increase

substantially in the near future due to the current law. Even declaration of tax holidays for foreign-earned profits do not have much impact. The attempt to unify nominal and effective corporate tax rates in the US Tax Reform Act of 1986 worked well initially. However, since the 1990's, the effective tax rate paid by US-owned firms declined from 30 to 20 percent. This would have added $200 billion to US tax collection. Changes in US laws indirectly reduced effective tax rates further. There had also been decline in capital gains of corporates and increase in bad debt costs, causing reduction in taxable profits. Carry forward of tax loss during 2008-2009 crisis was also observed. Even years after this recession, the effective tax rate remains unchanged around 20%. The profits of zero taxed S corporations are also rising steadily from zero in 1980 to about 15% of total US corporate profits for some years now. This accounts for about 2% fall in effective tax rate. Declining foreign tax rates may not impact the effective tax rate in US.

24. Based on the results of logit regression on 16 tax-aggressive and 16 non-tax aggressive Australian corporations, Lanis and Richardson (2011) concluded that a higher proportion of outside members on the board of directors reduced the likelihood of tax aggressiveness. This result was confirmed using OLS on 401 corporates. The types of tax aggressiveness identified by the authors are: deductibility of interest expenses, transfer of tax losses, capital gains tax through corporate restructuring, deductibility of costs related to rents and leases, sale and lease back transactions, capital gains tax losses claims, R & D expenses deductibility, off-shore expenses exemptions, forward sale of shares and share warrants, trading stock manipulations. The first five of these were more frequent practices. Total assets, total sales and market value were higher for tax-aggressive firms and effective tax rates was higher (23%) for non-tax aggressive firms compared to non-aggressive firms (19%). The authors, in a later paper Lanis and Richardson (2013) analysed the data on 20 tax-aggressive and 20 aggressive Australian corporations, to show that tax-aggressive firms disclose more corporate social responsibility activities.

25. The worldwide tax liability of multinationals is strongly determined by their domiciliary location. The effective tax rate (ETR) is the highest in the case of Japanese multinationals, followed by American multinationals. Multinationals in tax havens have the lowest ETRs. Multinationals and domestic-only firms face similar ETRs. ETRs declined worldwide over the last two decades; however, the ordinal rank from high-tax countries to low-tax countries remained remarkably constant. ETRs vary considerably across industries. The evidence mostly shows that the location of its foreign subsidiaries affects a multinational's worldwide ETR. Japan and UK have now resorted to territorial taxation leaving USA as the highest ETR country. US multinationals are now converging towards territorial taxation since expenses related to foreign-source income can be deducted against US income. However, if territorial taxation leads to lower ETR in countries like Japan and UK, USA may be forced to reduce its taxes. In spite of lowering taxes over the last two decades, the high tax and low tax disparities still continue. Globalization, in addition to contributing to these tax reforms, produces a herding effect. This is due to tax changes in one country driving other countries to follow the suit across the world. These observations were made by Markle and Shackelford (2011) based on financial statements of 11,602 public corporations from 82 countries for the period of 1988 to 2009 facilitating country-level estimation of effective tax rates.

26. From a survey of conducted jointly with PricewaterhouseCoopers in 85 countries, Djankov, Ganser, McLiesh, Ramalho, and Shleifer (2010) obtained significant negative effect of effective corporate tax rate on aggregate investment, FDI, and

entrepreneurial activity. Corporate tax rates were associated with investment in manufacturing but not in services and with the size of the informal economy.

27. Companies promise responsible and ethical behaviour to legitimise their social credentials. But organisational culture and practices may not match the publicly championed claims. The gaps between corporate talk, decisions and action constitute organised hypocrisy. Many major companies promise responsible conduct. But they indulge in tax avoidance and evasion. Exposure of contradictions between talk and action yields negative outcomes (Sikka, 2010).

28. The extent of capital mobility and its effect on inter-country tax competition were discussed through review of literature and future directions of research were identified by Zodrow (2010).

29. DeBacker, Heim, and Tran (2015) used confidential Internal Revenue Service (IRS) audit data and found that if corporations are owned by individuals from countries with higher corruption norms are more likely to evade more tax in the US. This effect increased with the size of the firm, strongest being in the case of small firms. Implementation of enforcement measures by United States in 2000s had little effective in reducing tax evasion by corporations with owners from corrupt countries.

30. The term ‘transfer pricing’ is a method of optimal allocation of costs and revenues among divisions, subsidiaries and joint ventures within a group of related entities. It aids in wealth retentiveness within companies to avoid taxes and to facilitate the flight of capital. In the modern globalisation era, transfer pricing is practised to enhancing private gains and by avoiding the payment of public taxes, it impacts negatively on social welfare. This was shown by Sikka and Willmott (2010) who examined some of the transfer price practices used by corporations to avoid taxes in both developing and developed countries.

31. Overesch and Wamser (2010) found that German thin capitalisation rules were effective in controlling use of tax planning by inter-company financing to avoid corporate tax. Legal amendments were used as natural experiments in this respect. Analysis of German inbound investment data showed close relationship between tax rate differentials and use of inter-company debt.

32. Prompt corporate tax payment is an easily measurable socially responsible behaviour of corporates. On the other hand, the payment of corporate tax can be legally avoided. This factor sets a boundary condition for CSR. The question, then arises, if many successful companies actively avoid the social obligation of paying their share of tax despite law and CSR requiring it, will it be social irresponsibility? This question was raided by Dowling (2014) and discussed many issues connected with credible definitions of CSR justifying or not justifying tax avoidance in various contexts.

33. The size of shadow economy and tax frauds in 28 EU countries and 31 European countries for the period of 2003-2014 were investigated by Schneider, Raczkowski, and Mróz (2015) using MIMIC method. Average size of the shadow economy in the 28 EU countries decreased from 22.6% in 2003 and to 18.6% of official GDP in 2014. The main drivers of shadow economy were 14.6 per cent unemployment and self-employment, followed by tax morale with 14.5 per cent and GDP growth with 14.3 per cent. The proportion of tax evasion (accounting for indirect taxation and self-employment activities) was on average 4.2 per cent (of official GDP) in Poland, 1.9 per cent in Germany and 2.9 per cent in the Czech Republic.

34. Considering the impact of separate effects of host and additional parent country taxation on the location decisions of multinational firms, Barrios, Huizinga, Laeven, and Nicodème (2012) used international firm level data to conclude that both taxes had negative effects on location

decisions. However, international double taxation by the parent country, even with the general possibility of deferral of taxation until income repatriation, seemed a major factor in determining the multinational enterprise structure.

35. Both methods of using OLS and simultaneous equations by Davis, Guenther, Krull, and Williams (2016) proved negative relationship between CSR and five-year cash effective tax rates. The relationship between CSR and tax lobbying expenditures was positive. Thus, generally, CSR substitutes for tax payments and vice versa.

36. A novel data-driven approach was used by Garcia-Bernardo, Fichtner, Takes, and Heemskerk (2017) to identify off-shore financial centres (OFCs). The method used the global corporate ownership network. In this network over 98 million firms (nodes) were connected through 71 million ownership relations. This granular firm-level network data allowed identifying both sink-OFCs and conduit-OFCs. Sink-OFCs attracted and retained foreign capital. Conduit-OFCs acted as intermediate destinations for routing international investments to enable the transfer of capital without taxation. The authors identified 24 sink-OFCs. A small set of five countries consisting of the Netherlands, UK, Ireland, Singapore and Switzerland were involved in canalising most of the corporate offshore investment as conduit-OFCs. There is geographical area jurisdiction for each conduit and high degree of specialization for industrial sectors. Thus, sink and conduit OFCs are not exotic small islands beyond the scope of being regulated, but are located highly developed countries.

37. How corporate tax avoidance is affected by any of the three tax system characteristics, namely, required book-tax conformity, worldwide versus territorial approach and perceived strength of enforcement across countries. In the analysis by Atwood, Drake, Myers, and Myers (2012) firm-specific factors, which were previously found to be associated with tax avoidance namely performance, size, operating costs, leverage, growth, the presence of multinational operations, and industry, were controlled. Other cross-country factors, namely, statutory corporate tax rates, earnings volatility, and institutional factors, were also controlled. The analysis of data showed that generally, there was less likelihood of firms avoiding taxes, when there was higher requirement of book-tax conformity or a worldwide approach is used or when there was a perception of strong tax enforcement. On the other hand, all these relationships between tax avoidance and the three tax systems characteristics depended upon context and the extent of management compensation consisting of variable pay, bonuses, stock awards and options.

38. Taxes are important factor for location decisions and for multinationals shifting profits by transfer pricing. The US and Canada use the formula apportionment (FA) to tax corporate income. EU countries practise separate accounting. Nielsen, Raimondos-Møller, and Schjelderup (2010) examined how changes in tax rates affected capital formation, input choice and transfer pricing, spill-overs on tax revenue in other countries. A move from SA to FA was unable to eliminate the spill-over effect, but in specific cases, the shift from SA to FA aggravated them.

39. According to Devereux and Vella (2018) digitalization aggravates the problems of the current corporate taxing system in the international context. This is because, firms can use digitalisation technology to spread all aspects of the company around the world including shareholders, creditors, operations and its consumers. The existing system involves taxing companies based on where their mobile factors are located. A more direct and satisfactory method to solve this problem may be to move to a system of taxing at locations of immobile factors. Location of shareholders or of consumers is possible. Two specific issues related to

digital firms are the two sided markets and free usage.

40. Regression analysis of data on tax return form obtained from the Inland Revenue Board Malaysia (IRBM) was done by Mohd and Saad (2019) to model ETRs of the MNCs in Malaysia. The ETR data were used as a proxy of the tax avoidance. MNCs in Malaysia were found practising tax avoidance as their ETRs were lower than the statutory tax rates (STRs) as per the Income Tax Act 1967. Firm's size, profitability, extent of foreign operation, capital intensity and leverage were factors related to tax avoidance behaviour of MNCs in Malaysia. The policymakers can use high profitability, extensive foreign operation, capital intensity and high leverage as the selection criteria for audit cases of MNCs for tax avoidance.

41. USA is the only G7 country using worldwide taxation system. Deferring tax provision does not solve the problem. The ability to defer their tax obligation is used by as a means of incentivising by US firms to invest in projects overseas with lower pre-tax rates of return. This is distortionary and therefore bad economic policy. US multinationals with a lot of cash outside the US use them for investing in foreign mergers and acquisitions. Other methods of domestic investment like having a foreign affiliate lend earnings to the US parent, guarantee a bank loan to the US parent or invest directly in the US are deemed to be acts of repatriation. So, such types of investments would attract payment of the very taxes that US firms want to defer. Curiously, funds from the foreign affiliate can remain in a US bank; but the moment the US parent company uses it for productive purposes, it attracts repatriation tax. Most major US corporates have reinvested $50 to 125 billion indefinitely to escape repatriation tax. Due to these problems, there is lot of domestic borrowing among many US firms. Borrowing to fund domestic activities is cheaper than repatriating foreign earnings. Three-quarters of Apple's balance sheet is in cash and marketable securities. Even then, they opt to domestic borrowing to pay dividends. This is because it is cheaper to pay the interest rate for borrowing than to pay the repatriation tax. In effect, this means, US firms have done tax planning themselves into a territorial system to avoid the ill-effects of worldwide taxation system of USA. Using tax planning has led to strategies like Dutch Sandwich or Double Irish corporate structures. Apart from deferrals and the artificiality of moving and holding assets overseas, a state of "earnings lockout" also occurs. For financial reporting, accrual basis of accounting is practised in US. This enables firms to accrue the expense for estimated taxes from earnings they owe. These earnings can be indefinitely invested overseas to avoid making accruals for incremental US taxes becoming due when repatriated. Therefore, firms with indefinitely reinvested earnings can get the cash flow benefits of deferring the US tax on income earned overseas and also get the capital markets benefits. US companies over $2.5 trillion in such indefinite reinvestment earnings, thus leading to significant losses in the form of unrecognized tax liabilities (Blouin, 2019).

"Take Google, for example. The intellectual property rights that drive Google are held in Google Ireland Holdings (Bermuda). Google Ireland LTD, which collects the income from data and ad revenue generated by everyone Google-ing outside the United States. It then has a licensing agreement with Google Netherlands Holdings BV, a Dutch entity; Google Ireland LTD pays most of its income as a royalty payment to Google Netherlands Holdings. Google Netherlands Holdings, in turn, has a licensing agreement with Google Ireland Holdings (Bermuda) to pay 99.8% of royalty payment proceeds. The intermediary Dutch entity is key. Ireland's tax rate is around 15%. Withholding tax rates are imposed on royalties as flows of cash move between intermediaries. Transfers directly from Ireland to Bermuda, for instance, would be taxed at 20%. But with the Dutch intermediary, transfers from Ireland to the Netherlands are taxed at 0% because of EU trading agreements, and then transfers from the Netherlands to Bermuda are also 0%, as they are historically close trading partners. And Ireland, for its part, is satisfied with the income generated from taxing the personal income, assets, and economic activity indirectly derived from Google's operations located in Ireland. Such arrangements are facilitated by the "check-the-box" rule, which allows a US corporation to elect, by checking a box on their tax return, to have certain foreign subsidiaries treated as if they do not exist (or are disregarded) for purposes of US corporate income tax reporting. The US government recognizes only legal entities deemed to be corporations. This means there is no backstop to prevent the creation of such convoluted organizational structures to mitigate withholding taxes. Check-the-box also enables the practice of earnings stripping, a practice by which a firm makes a loan to a subsidiary for operational expenses, allowing the subsidiary to deduct interest payments related to this loan from its earnings, avoid US anti-abuse provisions and thus reduce the firm's overall tax liability." (p 4 of (Blouin, 2019).

42. Tax Cuts and Jobs Act (TCJA) signed by US president Trump on 22 December 2017 contained many far-reaching revisions of the earlier Tax Reform Act of 1986. An important change in this law was the treatment of traditional "C" corporations (the corporations which are subject to a separate corporate income tax). As per this Act, 2018, the corporate tax rate fell from 35 percent to 21 percent ex 2108. Some investments qualified for immediate deduction as an expense. A significantly modified treatment was given to multinational firms for their activities. The law may increase US capital investment which will reflect in an increase in US wages. There were debates on the impact of the new Act on the extent of increase in wages. Within weeks of announcement of this Act, major corporates announced $1000 for their employees citing tax cuts as the reason. Other points discussed by Auerbach (2018) about tax rate fluctuations and their factors are similar to the points discussed by other authors cited above.

43. Lack of socially responsible behaviour of corporates by tax aggressiveness need not affect reputation according to the results of analysis of a number of known cases of US corporations by Baudot, Johnson, Roberts, and Roberts (2019).

44. A review of literature by Kovermann and Velte (2019) showed that corporate governance components like ownership structure, board composition, incentive alignment between management and shareholders, capital market monitoring, audit, enforcement and government relations, pressure from other stakeholders are strongly associated with corporate tax avoidance. Effective corporate governance mechanisms maintain tax avoidance at the optimum level required for the firm. It is shown that corporate governance institutions can potentially increase tax avoidance to make more profit. They can also control tax avoidance so that benefits are not overtaken by risks.

45. Data from Chile analysed by Bustos, Pomeranz, Vila-Belda, and Zucman (2019) showed that a large share of GDP of Chile comes from multinationals. In Chile, about 40 percent of sales come from the 2 percent of corporations that have affiliates in foreign countries. But they report lower profit and effective tax rates are less than local firms. Chile implemented a tax reform based on arm's length principle according to the OECD guidelines. A specialised unit was created to monitor transfer pricing. However, monitoring costs and compliance costs for firms increased. There was increased demand for tax consulting services. But the effect on tax collection is unknown yet.

46. Based on the data collected from various sources, Mueller (2016) noted that the US government will have to wait for some time

to completely eliminate corporate tax inversions practised by US firms. Both the firms and the government have their own justification for their actions. There is need to find a healthy balance between the two.

47. Based on their analysis, Boot, Logue, and Spatt (2017) recommended retention of worldwide tax system by USA. The authors also recommended elimination of the option of deferring tax payment on off-shore profits and reduce US tax rates. These suggestions seem to be the correct solutions to US tax problems.

48. In their article, Clausing K. A. (2018) stressed on the importance of tax revenue for a government. Hence it is necessary to protect the corporate tax to ensure an efficient and equitable tax system. International tax policy design should consider reforms to reduce the confusion on the issue of trade-off between competitiveness and corporate tax base protection. In this light, formulary apportionment, and destination-based taxation can be considered.

49. A study by Ito (2018) also showed that Japanese multinationals also determine their locations based on tax systems in the host country relative to that of home country.

50. Branston and Gilmore (2019) observed that in UK tobacco firms are paying very little tax on the huge profits earned by them. Considering the harmful health consequences of tobacco products, they need to be made to pay higher taxes. The authors suggested better reporting and standards of corporate taxation. Separate surcharge for tobacco companies and charging a tax when the companies restructure on corporate tax.

51. The main channels of tax avoidance by multinationals are transfer mispricing, international debt shifting, treaty shopping, tax deferral and corporate inversions. Metanalysis of results in literature by Beer, de Mooij, and Liu (2018) showed that for every 1 percentage-point decrease in corporate tax rate, there is an increase of before-tax income by 1%. This estimate is higher than what has been reported generally. This average trend seems to increase over time.

52. Businesses avoid corporate income tax to get more net profit. Evasion leads to economic stagnation. Results obtained by Bizņa, Jurušs, Laizāns, and Šnikvalds (2018) showed that capital structure of businesses will change, and sustainability of firms will improve by introducing appropriate tax reforms. Application of a model for to help government to select more effective tax reforms is also suggested.

53. In a French study, attempt was made by Depoers and Jérôme (2019) to relate level of disclosures with institutional pressures for 120 listed companies under high institutional setting. All three types of isomorphism (coercive, normative and mimetic) were found to be associated with widely varying levels of disclosures.

54. In a monograph chapter, Seabrooke and Wigan (2018) highlighted the rapidly developing politics of corporate taxation and the role played by civil societies like Tax Justice activists in determining the agenda for international tax and in influencing the tax practices of most powerful global corporations. This development has attained more importance since the recent global economic crisis. Various complex and multi-dimensional strategies are being used by activists to influence public opinion, formal regulation and corporate behaviour associated with international taxation.

55. Devereux and Vella (2018) disputed the descriptive view that current international taxation is based upon value creation principle and normative endorsement of this by policy makers. Examples of the confusion between demand side and supply side of value creation have been provided by the authors. Many other factors are also discussed.

56. Analysis of panel data of 60 nations by Anguelov (2017) showed that reduced corporate tax rates could increase FDI. But it decreased annual GDP growth. Thus, tax

policies competition can attract investments, but may not enhance economic growth unless value creation is derived from investments for the host country.

57. After defining and discussing some basic aspects related to corporate taxes and methods adopted by multinationals for tax avoidance, Jalan and Vaidyanathan (2017) recommended some policies. There should be unified increased attention and efforts by regulators and governments for complete eradication of banking and commercial secrecy globally. When opportunities to dodge taxes do not exist, firms will be compelled to be tax-compliant. Governments should require firms to report income earned by affiliates and details of number of employees, nature of activity undertaken, profits earned, and taxes paid in countries they operate. This will reduce transfer pricing problems, as it helps to understand the true nature of activities undertaken in the jurisdiction of their operations and details of payment of taxes. The level of discretions available to choose the 'most appropriate' method for determination of arm's length prices should be reduced. If there are too many convenient alternatives, it will defeat the purpose of the regulation. Guidelines to decide on transfer pricing disputes need to be established to control transfer price abuses. More attention needs to be paid to domestic transactions between affiliates in business groups irrespective of whether or not they are multinational. Such transactions may lead to shifting of large amounts of taxable income to loss making or tax-favoured affiliates.

58. In a study involving interviews with various interest groups related to corporate taxes, Hillenbrand, Money, Brooks, and Tovstiga (2019) found reiteration of established narratives like the business groups viewing society as having unrealistic/ill-informed expectations and the community groups viewing business as ill-intentioned and too narrowly focused on profits. However, there was some appreciation of each other's situations like international pressure on companies or perceived unfairness in society associated with special tax treatments for firms. But none questioned the validity of their own narratives. The need for companies aligning expectations of the community was explained using a diagram. The need for stakeholders from different networks to communicate with each other through listening inclusive debate and transparency was stressed. Stakeholders want that companies rethink their actions and be aware of how the community groups perceive their motivations and intentions. Credible and meaningful exchanges with stakeholders need to happen.

59. The results obtained by Gokalp, Lee, and Peng (2017) suggest that formal firms resort to tax evasion or reduce compliance costs when they face competition from informal sector. Costs and benefits of staying within the formal sector moderates this relationship. Even if business-friendly institutions help formal firms tolerate competition from informal sector, complicated rules and regulations make this adjustment difficult. Threat from informal sector can be serious and can spread across countries.

60. A negative association between CSR performance and tax aggressiveness of 50 listed firms in Nigeria for the period of 2007-2013 was obtained by Mgbame, Chijoke-Mgbame, Yekini, and Yekini (2017). Firm size and tax aggressiveness were also correlated. Negative relationship between firm performance and tax aggressiveness was also noted. Therefore, it seems CSR standpoints and dimension and other corporate characteristics determine whether and how firms engage in tax aggressiveness.

61. After discussing the history of tax laws in Ireland and USA, Barry (2019) examined the new Tax Cuts and Jobs Act OF 2017 in USA. Shift to territorial system with tax rate decreased from 35% to 21% and one time toll charge for offshore profits were radically

new provisions in the new law. But the analysis showed that Ireland is not likely to be affected by the new US tax laws based on many arguments.

62. Seeing some negative effects of the new US tax laws of 2017, EU and OECD introduced some improvements in the current tax laws. Barry (2019) concluded that from the perspective of Germany as a high tax jurisdiction, Base Erosion and Profit Sharing (BEPS), Anti-tax Avoidance Directive (ATAD) and Country-by-Country Reporting (CbCR) do not answer the US tax reform. Instead, EU and Germany need to increase the international competitiveness of their tax systems.

63. In their article, Hanlon (2018) discussed the requirements of OECD/BEPS sponsored CbCR requirements. The author pointed out to the disconnect between country-by-country reporting data and current tax policy of the arm's length principle of transfer pricing. There are potential benefits of country-by-country data. There are also potential costs, which include costs of increased compliance, future controversies and the costs due to possible misinterpretations of the data. These considerations do have strong implications on country-by-country reporting and its impact on the international allocation of taxing rights.

64. Poole (2019) noted that corporate tax evasion and other aspects of economic globalization affect the prosperity of the middle class seriously. The substantial losses to the government tax revenues is obvious. Governments compensate for this by increased taxes upon the middle class. So, the defaulters enjoy at the cost of the vulnerable population. If tax revenues are inadequate, slashing of programs and state-sponsored benefits affect the middle class seriously. The author prescribes global tax reforms to liberalise the middle class population.

65. Decreasing corporate tax rate during 1987-2003 led to accelerated investments by foreign multinationals contributing to rapid increase in GDP in Ireland. For every one percent decrease in corporate tax rate, an increase in FDI of 4% has been demonstrated generally. The effect of reduced corporate tax rate in Ireland is obvious in this manner (Howard, 2019).

66. The Nigerian government reduced the company income tax rate from 45% to 30% gradually over the period of pre-1987 to date with the aim of stimulating investment. According to Olaleye, Riro, and Memba (2016) these reductions have helped the country to reduce tax avoidance and evasion. Nigeria was able to attract technology-related investments by reducing effective tax rate, tax holidays, tax free dividends, tax exemption from minimum tax levy, flat rate and relief for carry forward losses. The authors used questionnaire survey of 352 employees from three management levels from 32 manufacturing firms for this study.

67. The European Commission's tax reform proposal for a Common Consolidated Corporate Tax Base (CCCTB) is aimed to reduce the cost of doing business substantially by lowering tax compliance costs for cross border operations within the EU. Barrios, d'Andria, and Gesualdo (2019) analysed the recently released unique survey data to compare corporate tax compliance costs to evaluate the impact of the CCCTB. A general equilibrium modelling approach was used for this purpose. The results showed that reduction in tax compliance costs proposed by the CCCTB would increase economic efficiency, welfare and GDP. The benefit will be higher for member countries with the lowest compliance costs before the reform and having large stocks of foreign investments. Higher benefit for cross-border business operations from the CCCTB compared to domestic ones can also be expected. Non-EU countries will not be impacted by the CCCTB.

68. Methods of avoiding the current double taxing of corporates in USA were discussed by Burton (2017). The double taxation

occurs when corporate income is taxed first at the corporate level using a general taxation level and again when the income is distributed to shareholders as dividends or when a capital gain occurs due to sale of corporate stock. An integration of the three types was suggested to the Congress: imposing no entity-level tax, imposing no tax on shareholders for dividends or capital gains on corporate stock or providing credit to shareholders for the already paid entry level tax. Different methods of implementing the three ways are discussed in detail.

3.2 Notable trends

The trend of topics and findings in the selected papers have been tabulated in Table 1. The total is more than 67 because some papers discussed more than one topic and accordingly listed in both.

Table 1. Trends of topics and findings in the reviewed works

Notable trends from the literature survey	Findings with references by the serial number in the text	No of papers
CTR policies and characteristics	Flight of capital, loss of tax revenue, labour productivity and wages, retention of income and investments in low CTR countries, corporate doublespeak (1), misallocation of profits due to separate accounting facilities (8), distortions in loss estimates due to income shifting between capital and labour, location and FDI (13), , tax liability, location and tax havens affecting tax liabilities of countries (25), tax avoidance exists in Malaysia (40),levels of disclosures related with the three isomorphisms (53), demand side and supply side value creation as a factor of CTR (55), some policies related to CTR and its implementation to prevent tax avoidance (57), effective steps of Nigerian government on CTR (66).	9
General decline CTR over the period.	ETR decrease in US over time and reasons (23)	1
Revenue losses due to tax avoidance	In US (7), $50 billion annual (10), Global $500 billion annual varying between country groups (9), coordination costs overriding tax avoidance benefits to multinationals (11), 20% held in tax havens in the case of US, country differences of ownership for corrupt practices (29), effective CG reduces tax avoidance (44), Protection of CT and attention to trade-off between competitiveness and tax base protection (48).	7
USA was the lone G7 country with highest CTR till 2017.	(41).	1
OECD/EU attempts to improve tax collections and reducing CTR	OECD examining only system of accounting instead of the system itself, BEPS (7), Tax reforms in Chile based on arm's length principle increased monitoring and compliance costs (45), EU/OECD improvements in current tax laws due to the threat of new US tax law 2017 (62), CbCR requirements for BEPS has disconnect between data reporting and arm's length principle of transfer pricing and other factors (63), reduction in tax compliance costs proposed by the CCCTB would increase economic efficiency, welfare and GDP, compliance cost is differentiates countries on efficiency impact (67).	5
Three types of CTR-international, territorial, book-tax conformity	Effect of the three types on tax avoidance tendency (37).	1

Table 1. Trends of topics and findings in the reviewed works (continued)

Notable trends from the literature survey	Findings with references by the serial number in the text	No of papers
Formula apportionment (US, Canada) separate accounting (EU)	Spill over effect not always affected by moving from SA to FA (38).	1
New US tax laws 2017	New law 2017 (42), merits and demerits of new US law, but no impact on Ireland (61), negative effects of new US law foreseen by EU and OECD (62).	3
Methods used by multinationals to avoid or minimise CT- Google example.	(14), (15), with Google example (23) and (41) location based on CTR in the case of Japanese firms also (49), (51).	6
International tax shifting/ tax sheltering/off-shoring	(16), (17), sink and conduit offshore financial centres (36).	3
Tax competitions	Non-profit taxes also important and economic crisis (21), shift of mobile capital to unemployed labour (22), effect of capital mobility on international tax competitions (28).	3
Tax havens	Positive for tax avoidance by multinationals and economic prosperity (5).	1
Tax aggressiveness/tax planning	Tax aggressiveness less with more independent members on boards (24), negative relationship of tax aggressiveness and firm factors with CSR performance in Nigeria (60).	2
Transfer pricing	(30).	1
Tax frauds, shadow economy, parallel economy,	(33) formal firms resort to tax evasion more when informal sector competition is high which can be real threat across countries (59).	2
Tax inversions	High in US due to high CTR and adverse tax policies (4), US need to wait for z long time to eliminate tax inversions (46).	2
Consequences of high CTR	Manipulations of foreign income in US (19), regulation of corporate power (20), tax avoidance for higher net profit (52).	3
Double taxing	Integrated approach for the three types of taxing to avoid double taxing in USA (68)	
Relationship of CTR with economic growth/GDP or FDI and other economic development indicators of countries	Host country CTR (2), None related with CTR (3), (6), CTR significantly influenced all variables (18), Negative relationship of ETR (26), every 1 percentage-point decrease in corporate tax rate, there is an increase of before-tax income by 1% (51), Reduced CTR can increase FDI, but decreased GDP growth if there is no value creation from investments (56), adverse effect of tax avoidance on middle class (64), decrease of CTR by 1% increased GDP by 4% in Ireland (65).	9
Reducing CTR	German thin capitalisation effective (31), USA must retain world tax system, reduce CTR, eliminate tax deferring options (47).	2
Digitalisation effects	Aggravates the problem (39).	1
Surcharges tobacco products	Moral taxing of tobacco industry (50).	1
Interest groups, civil societies	Influence of civil societies on determination of tax policies (54), miscommunication between interest groups and multinationals (58).	2
CSR, ethics	Window display (1), need for ethical tax practices stressed by social activists (11), doublespeak (27), prompt payment as responsible behaviour (32), negative relationship between CSR and cash effective rate (35), socially irresponsible tax avoidance and reputation (43).	6

The most researched topics were CTR policies, characteristics and impact on tax avoidance. Relationship of CTR with economic growth variables also received high importance. Six papers dealt with various methods used by multinationals in general. Another 13 papers dealt with specific methods like transfer pricing used for tax avoidance. So, totally, 22 papers dealt with methods used by multinationals for tax avoidance specifically. Many others contained these methods when discussing policies, impacts etc. Notably, relationship of tax avoidance with CSR and ethical claims and reputational aspects, what interest groups and civil societies can do about it were discussed by six plus two papers. Most papers dealt with many different aspects of CTR and interlinked them. So, admittedly, there is a lot of arbitrariness in categorising these papers.

4. Discussion

The wide variety of methods used by multinationals has been amply described and illustrated with examples of Google and Apple. The boxed description of Google above was intended to demonstrate how cleverly companies avoid paying any tax even when double tax system exists in countries like USA. Undoubtedly, high CTR and double taxation had been the driving factors of corporate misbehaviour in USA. The latest Trump revision in 2017 mitigates the main defects. Its effect on flight of capital and tax compliance need to be assessed in future. EU/OECD had been stubborn in not correcting the system itself, but are satisfied by patchworks when they see some problems. One such was the marginal improvement made in its tax laws when the new US policy 2017 threatened the tax base of EU and deprived their enjoyment of US tax flaws. Marginal policy improvements has contributed to wide differences in CTR policies and practices across EU members. Such variations have resulted in some countries benefitting and some not. Such discrepancies will prompt EU/OECD to keep on doing minor improvements.

The effect of tax avoidance is felt in almost all countries except the tax havens. It will be so as long as there are tax havens. Even many EU members serve as tax havens and thus predate upon the other EU countries. It is necessary for EU to address this problem.

5. Conclusion

It is a fact that multinationals resort to various methods of avoiding corporate taxes, especially in countries where the sales tax is high. The countries respond by devising and implementing a variety of policies and strategies. However, even as the sales tax rates are decreasing over the world, tax evasion by multinationals continue. International tax competition and tax havens are the main drivers for continued tax-negative behaviour of multinationals. It may be possible to bind their CSR through civil right activities and other interest groups to force the corporates to behave properly and ethically paying the taxes due from them to the countries where their activities create value for investments. Otherwise, there will be no end to the vicious circle of nations devising policies and laws for sales tax and multinationals finding new ways of breaking them.

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