IIIS Discussion Paper

No.442/ February 2014

PwC/World Bank Report 'Paying Taxes 2014': An Assessment

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Summary

The PwC/World Bank 'Paying Taxes 2014' shows cross country comparisons of various aspects of the tax system as they affect companies, for example ease of compliance. In Ireland this Report is frequently cited in media coverage to the effect that reported effective profits tax rates in Ireland (shown as 12.3% in the Report published in 2013) are higher than those in France (8.3%) and other countries. The Report is based on a hypothetical (fictional) company which is small, domestically owned, has no imports or exports and produces and sells ceramic flower pots. These and other assumptions automatically rule out many tax minimisation strategies. This note assesses the claim that this report shows effective tax rates in Ireland are close to or above those in other countries such as France. It is argued data from the US Bureau of Economic Analysis gives a more accurate estimate of effective tax rates for US subsidiaries operating in Ireland and elsewhere. This data shows that for 2011, US subsidiaries operating in Ireland have the lowest effective tax rate in the EU at 2.2%. This tax rate is not that dissimilar to effective tax rates in countries generally regarded as tax havens such as Bermuda at 0.4%.

Key words

Effective tax rates in Ireland; w/ World Bank Report; US Bureau of Economic Analysis data.

PwC/World Bank Report Paying Taxes 2014: An Assessment*

The publication of the PwC/World Bank Report in 2013 (Paying Taxes 2014), resulted in extensive media and other coverage citing this report to the effect that reported effective tax rates in Ireland at 12.3% are higher than those in France (8.3%) and other countries[1]. The implication is that countries who criticise Irelands low tax rates such as the former French President Sarkozy[2] are being hypocritical. Ireland is no worse an 'offender' and indeed less of an offender than many other countries. Reports for earlier years have led to similar news coverage[3].

PwC/World Bank Reports published in 2012 and 2011 have also been cited on a number of occasions by the Taoiseach (Dail Debates 9th July) and Minister for Finance to defend the corporate tax regime in Ireland. The Minister for Finance stated in a Dail Debate (5th July 2011) that the effective rate of tax in Ireland was 11.9% and went on to comment that in France the "effective rate stands at 8.1% even though it is making considerable noise about our effective rate of 11.9%. Contrary to the conventional wisdom, we are mid-table in Europe and are not at the bottom of the table by any means" and he further stated "The survey [PwC/World Bank Report] investigated nominal rates and effective rates throughout the European Union and we circulated the results widely through the diplomatic service to ensure the debate is conducted on the real figures".

There have been several other references to the PwC/World Bank Report, by for example An Taoiseach "21st May 2013 ("PwC and the World Bank point out the headline rate of 12.5% is very close to the effective rate of 11.9%"), and the Minister for Finance (24th September, 2013), who stated in a written reply:- "I have previously referred to an estimate from a report produced by the World Bank and PricewaterhouseCoopers which put the effective rate in Ireland at 11.9% (Paying Taxes, 2013)".

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* The author would like to thank Louis Brennan, Rafique Mottiar and Paul Sweeney for helpful comments.

[1] The 2013 report is cited by 'Cantillon' in the Irish Times with a subheading "Report finds Irish corporate pay an average effective tax rate of 12.3%", Irish Times, November 23, 2013. Colm Keena writing in the Irish Times states "On corporation tax, the study found that Ireland has an effective corporation tax rate of 12.4 per cent, very close to its statutory rate of 12.5%", Irish Times November 22, 2013. These comments broadly follow a press release issued by PWC Ireland which states "It is interesting to note that for many European countries there is a substantial difference between the statutory corporate headline tax rate and the effective tax rate. However, this is not the case for Ireland with an effective corporate tax rate of 12.5% compared to our statutory corporate tax rate of 12.5%", Source: PWC press release 25th November 2013. A note from Public Policy citing this Report states that "the effective tax rate paid by an Irish company is 12.3 per cent" and that Ireland ranks 16th of 32 countries within the EU/EFTA. Public Policy comment that these results are prepared on an "internationally comparable basis" and are "surprising". Public Policy, "Effective Rates of Corporation Tax", 5 December 2013, available at http://www.publicpolicy.ie

[2] 'France resists Ireland's low corporate tax", Financial Times May 10, 2011.

[3] Vincent Ryan, writing in the Examiner states "In France the statutory corporate tax rate is 33.3% while the actual effective tax rate is lower than Ireland's at 8.2%", 'France has lower effective tax rate than Ireland: study', Irish Examiner April 4, 2013. Sarah McCabe writing in the Irish Independent states "The latest research shows that Ireland's statutory rate of 12.5 pc tax on profits from trading is closer to the effective rate of 11.9pc than anywhere else in Europe", 'Our 12.5pc tax rate isn't the golden goose of Europe', Irish Independent 6 April 2013. Colm Keena citing this report writes "The Irish effective rate at 11.9% is very close to its actual rate", 'Corporation tax: unraveling the myths', Irish Times, 11 February, 2011. Peter Sutherland states "we should note that in a World Bank-PwC Report it has been established that the actual rate of tax paid, for example, in France is 8.2% and is even lower elsewhere", 'The EU must rethink Ireland's deal', Financial Times, March 8, 2011.

1. The PwC/World Bank Study

This study is primarily a study of tax systems as they impact on companies. A press release issued by the World Bank in conjunction with the 2012 report cites a main conclusion as[4]:-

> "over the last several years there has been a gradual reduction in the number of payments and in the number of hours spent by a medium-sized company to comply with its tax obligations".

The PwC/World Bank report states it provides: (1) data on 189 tax systems around the world with the stated intention that changes can be monitored, and (2) costs identified under three headings:- The total tax rate; the time needed to comply with the major taxes; and the number of tax payments. All three measures are estimated using what is described as a "case study scenario" (PwC/World Bank Report, 2013, p. 7), using a set of hypothetical financial statements and assumptions and based on what are described as 'standardised case study facts' and "considers all of the taxes and contributions that a case study company (a small to medium sized domestic company) pays and generates".

The Total Tax Rate.

The Report produces what is referred to as a "total tax rate" which is measured as the "amount of taxes and mandatory contributions borne by the "case study company", as a percentage of commercial profit, and commercial profit is "essentially net profit before all taxes borne" (Report, 2013, footnote 3, p. 8). Taxes include:- "corporate income tax, employment taxes, mandatory contributions, indirect taxes, property taxes and a whole variety of smaller taxes including environmental taxes". The Report states that paying taxes measures "all taxes that are government mandated (at any level – federal, state or local) and that apply to the standardised business and have an impact in its financial statements. So that "government mandated employer contributions" to a social insurance fund or to a "private pension fund" are included (Report, 2013, p. 139). Hence employer contributions to pensions are included in the case of Canada (p. 125), and Australia (p. 139). Taxes regarded as being paid by the company have been extended since the original publication. The Report published in 2006 states taxes included are as follows:-

> "profit or corporate income tax, social security contributions and other Labour taxes paid by the employer, property taxes, turnover taxes and other small taxes (such as municipal fees and vehicle and fuel taxes)". PwC/World Bank Report, 2006, p. 35).

The 'Total Tax Rate' is not a measure of taxes paid on profits, as it includes for example, employer social security contributions. The 'Total Tax Rate' is subdivided into three components 'profit tax total tax rate', 'labour tax total tax rate', and 'other taxes total tax rate'. The component 'profit tax total tax rate' purports to be a measure of taxes paid on corporate profits. This is the measure that receives considerable publicity within Ireland, and in the most recent report (2013), this rate is shown as 12.3% for Ireland and as noted in media reports, 8.7% for France (PwC/World Bank 2013, Table 4, p. 174).

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[4] World Bank Group Press Release "Tax Reforms Continue Worldwide Despite Economic Turmoil, Electronic Filing Increasing Especially", 21, November, 2012

The time needed to comply with the major taxes;

The PwC/World Bank Report also gives considerable space to estimating the time need to comply with various taxes. This aspect of the Report is of value because administrative and compliance costs are of considerable interest both to companies and to revenue authorities. The time indicator is an estimate of the number of hours required to pay and file tax returns, and is subdivided into corporate income tax time, Labour tax time and Consumption tax time. In addition to producing estimates of time to comply the report also comments on significant changes in individual countries. For example the Report states (p. 56) that:-

> "The time to comply for Pakistan increased by 17 hours in 2012 as more details had to be included in VAT returns"

Costs in relation to the collection and payment of value added taxes and excise duties are also included. In addition companies collect taxes from employees (PAYE, PRSI and USC) on behalf of the State. Thus the corporate sector acting as a tax collecting intermediary is responsible for the bulk of tax collection in developed economies.

The number of tax payments

The Report also presents detailed evidence in relation to the frequency of tax payments made. In addition to corporate income and other taxes levied directly on corporations, taxes collected on behalf of the State are included in the number of tax payments, such as value added taxes, in the number of tax payments. The number of tax payments is shown for Profit tax payments, Labour tax payments and Other taxes payments.

It is interesting to note that while the bulk of the report is concerned with measuring administrative aspects of various tax systems such as the time taken to comply with tax payments, media and other discussion of the PwC/World Bank Report focus exclusively on the what the Report refers to as "profit tax total tax rate". A PwC (Ireland) press release describes this measure as 'effective corporate tax' rates. However the phrase 'effective corporate tax rate' is not used in either of the reports published in 2012 or 2013. Rather the widely cited measures comparing Ireland with France are described as 'profit tax total Tax Rates' (PwC/World Bank, 2013, pp. 173-175). For reasons discussed in the next section this measure is not an indicator of effective tax rates.

2. **Methodology Used**

The Report makes several references to estimating the 'total tax rate', compliance costs and number of tax payments using a "case study" (Forward, p. 2, 7, 8, 16, 21, 24, 26, 36). This is described as "a small to medium sized domestic company" (p. 7)[5]. The Report states:-

> "Paying Taxes uses a case study scenario to measure the taxes and contributions paid by a standardized business and the complexity of an economy's tax compliance system. This case study scenario uses a set of financial statements and assumptions about transactions made

[5] For Canada the standardized case study company is described as "a privately owned small manufacturing business operating within the city of Toronto", (PWC/World Bank Report, p. 14)

over the year. Tax experts from a number of different firms in each economy (including PwC) compute the tax and mandatory contributions due in their jurisdiction based on the standardised case study facts".

What is described in the Report as the 'Total Tax Rate' and 'Profit Tax Total Tax Rate' is calculated on the basis of a standardised, hypothetical (fictional) company with the following assumptions (PwC/World Bank Report, 2013, p. 140):-

(1) It is entirely domestically owned;
(2) It has no imports or exports;
(3) The assumed case study firm is small. It has total capital of 102 times income per capita in 2011. For Ireland this implies total capital of €2.941 Million and sales of 1050 income per capita or €30.2 million. The firm is assumed to have total employees of 60;
(4) The firm has a gross margin of 20% of sales, with "detailed assumptions about expenses and transactions";
(5) The firms is assumed to produce "ceramic flowerpots and sell[s] them at retail" PwC/World Bank, 2013, p. 140).

Most controversy and interest on measuring effective tax rates on profits focuses on corporate income taxes, that is taxes that are levied on corporate profits solely[6]. A widely used measure of effective tax rates is defined as cash tax paid (shown in the cash flow statement) as the numerator and pre-tax profits as the denominator (Stewart, 2013). The denominator may be adjusted in various ways, by for example adding back the charge for accounting depreciation as accounting depreciation is not a tax deductible expense[7]. In contrast company accounts show what is described as 'effective tax rates' measured as the tax charge in the profit and loss account divided by pretax profits. It should be noted that for most companies the corporate profits tax charge shown in the Profit and Loss statement in company accounts, is far larger than corporate profits cash tax payments.

In addition the assumed firm for which the 'Profit Tax Total Tax Rate' is calculated is a small indigenously owned manufacturing firm. The assumption that it is domestically owned means that no inferences can be made in relation to the effective tax rates of subsidiaries of MNCs operating in Ireland; The assumption of no foreign trading, that is importing or exporting, limits the possibilities of tax minimisation strategies by switching profits to firms affiliated with the owners in lower tax jurisdictions. The assumption of a small single product firm limits tax strategies dependent on exploiting different tax reliefs for different sectors. Tax minimisation strategies may also be limited for firms that produce a single product compared with a variety of products within a sector.

[6] There are references in the PwC/World Bank Report to measuring the 'profit tax total tax rate' as 'corporate income tax on PBT (profits before tax) after necessary adjustments'. These adjustments are not specified. Numerical examples are given for the Russian Federation (Report 2013, p. 141), and Chile (Report 2012, p. 142). For the Russian Federation the 'profit tax total tax rate' appears to be calculated by dividing 'corporate income tax on PBT after necessary adjustments' by ''profit before all taxes borne/commercial profit', (RUR 699,000/ RUR 8,740,000). This measure is reported on a country by country basis, in Table (4) in the annual survey. The Report does not make clear the differences between this measure of tax paid on profits and any measure derived from published company accounts.

[7] See for example, Markle and Shackelford, who produce measures of effective tax rates using profits before tax as shown in company accounts, plus depreciation and research and development expenses (Markle and Shackelford, 2012, footnote 7). See also US Government Accountability Office (2013) footnote 7 for a further discussion of this issue.

In addition because many countries have lower nominal tax rates for small enterprises, nominal tax rates applicable to small enterprises may not reflect median corporate tax rates[8].

For these reasons the tax rates on profits reported for Ireland in the PwC/World Bank Report for 2013 of 12.3% are not indicative of either average or median effective corporate tax rates on profits in Ireland.

The report also notes (PwC/World Bank Report, 2011, p. 82):-

> "Doing Business assumes that entrepreneurs are knowledgeable about all regulations in place and comply with them. In practice, entrepreneurs may spend considerable time finding out where to go and what documents to submit. Or they may avoid legally required procedures altogether – by not registering for social security, for example".

It is also interesting to note the reported 'profit tax total tax rates' are the same at 8.2% for France and 12.3% for Ireland for the years 2009-2012 (Table 1), even though there were changes in tax allowances in both countries during this period.

Since the study was first published (2006), the nature of taxes regarded as paid by the firm has changed. But other changes have also been made. For example reducing the assumed number of employees from 201 to 60 (PwC/World Bank, Paying Taxes, 2010, p. 110). The Report for the same year also states (p. 210):-

> "The methodology has undergone continual improvement over the years. Changes have been made mainly in response to country suggestions".

Both of these factors caution against using the PwC/World Banks estimates of compliance time/tax rates to examine trends through time.

For comparative purposes Table (1) below shows PwC/World Bank estimates of the 'profit tax total tax rate' for Germany, Luxembourg and the Netherlands. Table (1) also shows the statutory tax rate for the same countries. The measured tax rate for Luxembourg is shown as 4.1%, the lowest of all EU countries, with the exception of Croatia where it is estimated at 0%. In addition to France and Luxembourg there are nine other EU members whose tax rate is shown as being less than that in Ireland (Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Latvia, Lithuania and the Slovak Republic). In all but two of these 11 countries (Cyprus and Bulgaria), statutory corporate tax rates are higher than those in Ireland[9]. This gives some indication of the complexities involving in estimating the relationship between nominal corporate tax rates and effective corporate tax rates using a standardised hypothetical case study model.

[8] For example the 2009 Budget for Ireland included a provision which exempted 'new start companies' from corporation tax and capital gains tax, provided their liability does not exceed €40,000 . France has a small business tax rate of 15% applicable to profits of less that €38,100 (source: OECD Tax Data Base, Small Business Tax Rates, Table 11.2). This compares with a "standard corporate tax rate" of 33.3%.

[9] Source KPMG, Corporate Tax rates Table, available at:- http://www.kpmg.com/global/en/services/tax/tax-tools-and-resources/pages/corporate-tax-rates-table.aspx.

Table (1)
'Profit Tax Total Tax rate' and Statutory Tax Rate for Ireland and other countries

Year	Ireland PwC/ World Bank	Ireland Statutory	France PwC/ World Bank	France Statutory	Germany PwC/ World Bank	Germany Statutory	Luxemb. PwC/ World Bank	Luxemb. Statutory	Nethe-Lands World Bank/ PwC	Nether-lands Statutory
2013	12.3	12.5	8.7	34.4	23.0	30.2	4.1	29.2	20.8	25.0
2012	11.9	12.5	8.2	34.4	19.0	30.2	4.1	28.8	20.6	25.0
2011	11.9	12.5	8.2	34.4	19.0	30.2	4.1	28.8	20.9	25.0
2010	11.9	12.5	8.2	34.4	22.9	30.2	4.1	28.6	20.9	25.5
2009	11.9	12.5	8.2	34.4	17.4	30.2	4.1	28.6	20.7	25.5
2008	14.2	12.5	8.3	34.4	22.7	30.2	4.1	29.6	21.8	25.5
2007	14.2	12.5	8.3	34.4	21.6	38.9	16.7	29.6	26.0	25.5
2006	12.4	12.5	8.6	34.4	24.7	38.9	N.A.	29.6	26.6	29.6
2005	12.4	12.5	8.6	35.0	24.7	38.9	N.A.	30.4	N.A.	31.5

Source: PwC/World Paying Taxes, various issues, OECD, Taxation of Corporate and Capital Income, Table ll.1, combined corporate income tax rate.

4. Other Studies

Measures of tax rates for firms based on a hypothetical model (a fictional firm) are necessarily a function of the various assumptions used, for example, the size of the business, sector of operations, and appropriate nominal tax rates. Hence using other assumptions will result in different tax rates. For example a study by KPMG (KPMG, 2012, p. 1) assumes :-

> "a number of model business operations to assess the average annual tax costs faced by these businesses during their first 10 years of operation. The model businesses are assumed to be foreign-owned and newly located in each jurisdiction, giving rise to potential incentives for investment and/or new job creation. Incentives based on generally available incentive programs in each jurisdiction are included in this study".

Companies are also assumed "to have a standard level of net income before income tax, in US dollars, in all locations" (KPMG, 2012, p. 1).

The KPMG study focuses on 14 large countries, including France but excluding Ireland, and not surprisingly given different assumption, different measures of tax rates on profits are found. So that for corporate services the tax rate on profits for France is reported at 32.9% (ranked 4th highest), and for manufacturing 20.9 % 8th highest (Appendix A, KPMG, 2012).

5. The US Bureau of Economic Analysis Data

Publicly available empirical data which show corporate tax payments (cash payments to the State) and corporate profits on a consistent basis across countries are not widely available. However one such data source is the US Bureau of Economic Analysis (BEA), which produces empirical data showing profits and corporate tax payments on a consistent basis for US firms operating abroad, for 56 countries. This data shows a very different picture from that in the previously discussed PWC/World Bank Report. Table (2) shows a measure of effective tax rates defined as tax paid/net income. The data refers to aggregate taxes paid and aggregate profits. The data is based on income declared in each country, so that for Luxembourg and the Netherlands, most income relates to investment income. Table (3) shows effective tax rates for 2011 of 2.2% in Ireland compared with 35.9% in France. This compares with a nominal corporation tax rate of 33.3% in France. Table (2) shows that in contrast to previous years the tax rate for US firms operating in Ireland is lower than that in the Netherlands (3.4%) and Luxembourg (2.4%). Table (2) also shows that Ireland is unique amongst the nine countries shown in Table (2) in that effective tax rates for US firms have fallen continuously over the past five years.

Table (2)

Net Income and Tax Paid of US Companies in Ireland and Other Countries
$ Million[1]

	2006	2006	2007	2007	2008	2008	2009	2009	2010 (revised Data)	2010	2011[3]	2011
	Net Income	Tax Rate	Net Income	Tax Rate	Net Income	Tax Rate	Net Income	Tax Rate	Net Income	Tax Rate	Net Income	Tax Rate
Netherlands	89,680	4.4	106681	2.5	139,288	4.1	116,302	1.9	149,665	2.9	149,068	3.4
Luxembourg	56,840	1.0	60,561	0.8	86,632	0.4	66745	2.1	95084	2.1	76,108	2.4
Ireland	46,887	5.3	65,711	5.3	76,406	4.2	69580	3.4	95,344	3.3	143,871	2.2
Bermuda	52,232	1.2	70,499	0.5	61,150	0.6	64422	-0.1	81,778	0.3	72,555	0.4
Switzerland	44,460	3.5	48,856	3.4	54,500	3.5	56,951	3.8	55,339	4.3	56,318	6.68
UK Islands Caribbean	22,282	1.6	38,719	1.6	46,350	1.0	37,592	2.6	44,864	1.7	56,206	1.2
France	7,662	36.0	11,189	31.8	12,254	26.8	7,375	29.9	7,297	41.2	9,515	35.9
Germany	14,648	28.7	17,470	38.0	20,039	21.6	4,881	90.0	10,551	33.1	17,456	20.0
UK	55,807	30.3	24,553	54.3	844[2]		85,282	16.5	84,796	15.9	80,902	18.5
Total Worldwide	667,349	17.1	766,006	16.3	854,673	16.5	778,787	14.0	1,026,36	9.8	1115,185	14.8

Notes

(1). The data excludes banks for 2006-08, but banks are included for 2009-2010. Source: BEA USDIA, Majority-Owned Nonbank Foreign Affiliates of Nonbank U.S. Parents, Table III.E.1. and Majority-Owned Foreign Affiliates of Nonbank U.S. Parents, Table II.D.1. In Ireland for 2011, 639 affiliates were included, employing 98,400 (98,000 for 2010) (Table ll.G.1). IDA data (Annual Report 2011) shows that 515 US enterprises employed 106,797 for 2011. Differences between the two data sets may be explained because some US firms may be organised as a branch of a Dutch parent company and location has been assigned to the Netherlands in US data. An additional factor may be that US BEA data refers to affiliates with sales, assets or income greater than $25 million. There may also be differences resulting from differing treatment of agency/contract employees.

(2). After reporting capital losses of $21,693 million.

(3) Preliminary data.

An alternative measure of profits of for US Affiliates abroad is described as a "profit type measure" which excludes investment income (Table 3). The approximate same estimate of profit is obtained if income from equity investments is deducted from the estimate of net income shown in Table (2). Excluding investment income (as shown in Table 2) results in a higher effective tax rate, for example the effective tax rate for Ireland increases from 2.2% to 3.8% for 2011. The vast proportion of income of US companies reported in tax haven type countries is derived from income from equity investments. For 2011 this varies from 74% in the UK Caribbean Islands, to 94% for the Netherlands and over 100% for Luxembourg. In the case of income from equity investment, tax may already have been paid or the income is exempt from corporate tax. In contrast income from equity investments for US firms is far lower in Ireland (under 42%) and is similar as a proportion of net income to countries such as France and Germany.

This alternative measure of profits (excluding investment income) shown in Table (3), shows US affiliates earn more profits in absolute terms in Ireland than any other country in the world. The effective tax rate in Ireland is the lowest of all countries shown in Table (3) including Bermuda, and the Caribbean Islands. The effective tax rate for France is 42.8%. It is also interesting to note that this measure grossly understates the role of the Netherlands and Luxembourg as conduits for financial flows for US multinational companies because income from equity investment is excluded.

Table (3)
Profit and Tax Rates of US Companies in Ireland and Other Countries
$ Million[1]

	2006	2006	2007	2007	2008	2008	2009	2009	2010[2]	2010	2011[3]	2011
	Profit - Type Return	Tax Rate %	Profit – Type Return	Tax Rate %	Profit – Type Return	Tax Rate %	Profit – Type Return	Tax Rate %	Profit – Type Return	Tax Rate %	Profit – Type Return	Tax Rate %
Netherlands	8,430	47.3	8,651	30.5	9,763	30.4	6,500	34.7	3,796	114	15,203	33.1
Luxembourg	-2,168		-1,170		- 2,819		8,206	17.1	1,943	100.9	3,824	47.7
Ireland	37,885	6.6	47,320	7.4	46,077	7.3	44,177	5.3	51,391	6.0	83,415	3.8
Bermuda	10,471	5.8	10,471	3.7	11,651	3.4	9,469	-0.7	12,522	1.8	6,958	4.0
Switzerland	15,515	10.1	15,515	10.7	16,428	11.4	22,633	9.7	21,618	11.6	25,149	14.9
UK Islands Caribbean	7,511	4.7	7,511	9.0	7,750	6.2	9,060	1.1	8,924	7.3	10,909	5.9
France	9,042	30.8	9,042	39.3	8993	37	5,970	36.9	5,197	57.7	7,995	42.8
Germany	13,597	30.9	13,597	48.9	13449	32	9,473	46.8	11,307	32.3	14,566	33.1
UK	33,299	50.8	33,299	40.0	35,162	37.5	34,872	40.4	34,568	40.3	34,034	43.9
Total Worldwide	419,550	27.2	419,550	29.8	466970	30.8	398,679	27.4	460,173	28.3	587,612	28.1

Notes
(1) The data refers to majority owned non-bank affiliates of non-bank US parents for 2006-08, and majority owned affiliates for 2009-10. The data for profits is described as a 'profit-type return'. Source: US Bureau of Economic Analysis, U.S. Direct Investment Abroad, Table III.G.7 and Table II.F.7. various years.
(2) Revised Data
(3) Preliminary data.

Aggregate profits data, shown in Tables (2) and (3) and in measures of profits in National Income Accounts includes firms that report losses as well as profits, hence tax rates on profitable firms for any given year may be lower than those reported in Tables (2) and (3). Over a period of years losses may be offset against future taxable profits, or taxes may be reclaimed, reducing this distortion. An exception occurs in the case of continuing losses or where pretax losses are so large that they cannot be offset against taxable income[10].

6. Conclusion

Contrary to Government and other statements the PwC/World Bank study is not a measure of effective corporate tax rates for Ireland or for any other country. Rather this study is based on a hypothetical (fictional) company which is assumed to be small, domestically owned, with an assumed return on capital (a gross margin of 20% of sales), which produces and sells ceramic flower pots, and has no imports or exports. These assumptions automatically rule out tax planning

[10] AIB, for example, reported a 'loss before taxation from continuing operations' of €23.67 billion for the period 2009-2012, and Bank of Ireland reported a 'loss before taxation' of €4.59 billion for the same period.

strategies which are widely used by subsidiaries of MNCs. These assumptions also rule out tax reduction strategies that may be used by domestically owned firms. It is surprising that this study is frequently cited by Irish Government sources to the effect that effective tax rates in Ireland are not that different or even higher than in other EU countries. Critics of Irish tax policy in other countries are unlikely to be persuaded that their criticisms are unfounded on the basis of such flimsy evidence.

Data from the US Bureau of Economic Analysis gives a more accurate estimate of effective tax rates for US subsidiaries operating in 56 countries. This data shows that US subsidiaries operating in Ireland have the lowest effective tax rate in the EU at 2.2%. This tax rate is not that dissimilar to effective tax rates in countries generally regarded as tax havens such as Bermuda at 0.4%. Furthermore in contrast to eight other countries examined, effective tax rates in Ireland have fallen continuously over the past five years.

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