 DOI: https://doij.org/10.10000/IJLMH.114027

INTERNATIONAL JOURNAL OF LAW MANAGEMENT & HUMANITIES

[ISSN 2581-5369]

Volume 6 | Issue 1

2023

Tax Avoidance by Multinational Companies: An Analysis of Various Techniques Adopted

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ABSTRACT

Global trade has flourished since industrialization, and as a result, multinational companies have begun operating in several nations with country-specific taxes laws and rates. Transactions between such related or affiliated companies have also expanded under conditions that differ from those encountered by independent enterprises. Due to the transaction by the companies existing in different countries, the tax obligation imposed upon them will be substantially higher. Tax avoidance has always been a threat to an efficient functioning economy, and many companies, mainly Multinational Companies use various techniques to avoid tax obligations imposed by their resident country. Multinational companies can use several techniques to artificially transfer profits from high-tax to low-tax nations, such as altering the prices of related firm transactions and relocating debt to high-tax countries. Tax avoidance affects global operations, the supply chain, and the economic balance of the country as this phenomenon results in companies avoiding hundreds of billions. This article outlines several tax avoidance techniques adopted by Multinational companies for tax evasion.

Keywords: *Multinational Companies, Tax avoidance, Tax haven, Sharing, High tax-low tax.*

I. INTRODUCTION

"Tax evasion and tax avoidance result in the reduction of government revenues."

Tax avoidance is a lawful method that many people can apply to avoid paying taxes or, at the very least, reduce their tax liabilities. In truth, millions of people and organisations adopt tax avoidance techniques to reduce the amount they legally and properly owe to the Internal Revenue Service (IRS). Tax avoidance is sometimes referred to as a tax shelter in this context.[3]

Global taxation is a broad topic for many individuals, including academics and executives. However, it is fundamental to global decision-making because tax considerations significantly

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[3] Intuit Turbo Tax. "Tax Avoidance, Tax Evasion and Tax Sheltering: How They Differ, https://turbotax.intuit.com/tax-tips/tax-payments/tax-avoidance-tax-evasion-and-tax-sheltering-how-they-differ/L0C16irkA

impact many FDIs and international operations. The statistics are astounding. For instance, given that $10 trillion of global commerce is intrafirm and a similar amount is intermediate, multinational corporations have the authority to determine how to value a shipment and what unit price to enter on an export invoice.[4]

The shareholders of multinational corporations, who are often more affluent than ordinary people, are ultimately responsible for paying taxes on the revenues of these corporations. The total cost of taxes tends to shift from relatively wealthy owners to ordinary people as the tax burden on corporate revenue has declined.[5]

Companies with the highest market influence typically adopt tax avoidance techniques. Since they take advantage of the laws and loopholes provided by the various countries, most of what they do is legal. Multinational companies have both financial and accurate responses to corporate income taxation. Financial responses include initiatives to move revenue to regions with lower tax burdens. For instance, multinational companies may alter the transfer prices assigned to international trade, the structure of affiliate finance, or the location of royalties or intangibles. Accurate responses include locating more assets, employment, and economic activity in low-tax countries. These financial and real responses have unique policy implications and are likely to influence government revenues.[6]

II. TAX HAVEN AND TAX AVOIDANCE

Tax havens are nations with low tax rates that offer people and businesses options for tax evasion or avoidance. Currently, there are about 45 tax havens worldwide. These tax havens tend to be wealthy and small, making up around 2.3 percent of global income and 0.8 percent of the world's population.[7] These disproportionate figures justify the global attention tax havens have been receiving lately.

The following criteria can be used to check whether a country is a tax haven or not;

1. The populations of tax haven nations are often under 1 million, making them relatively tiny in size. Smaller nations tend to be price takers in the global economy, which is why. They cannot pass on their tax burden to foreigners as a

[4] Farok J. Contractor (2016, September). Tax Avoidance by Multinational Companies: Methods, Policies, and Ethics. Available at https://rbr.business.rutgers.edu/sites/default/files/documents/rbr-010102.pdf
[5] Economic Times (2021, June 5). Curbing tax avoidance by multinational companies. Available at https://m.economictimes.com/news/international/business/curbing-tax-avoidance-by-multinational-companies/how-can-govts-keep-mncs-from-avoiding-taxes/slideshow/83259354.cms
[6] ibid
[7] Hines, James Rodger, Corporate Taxation and International Competition (July 2005). Ross School of Business Paper No. 1026,

result. Furthermore, due to ineffective taxing, the high corporation tax rate may result in lower wages, lower land prices, and deadweight losses that would further impact domestic factors.

2. Tax havens are frequently found in affluent nations. According to its GDP per capita, a nation's affluence is determined. Other factors being equal, more affluent nations (higher GDP per capita) are more likely to be tax havens than nations that are less affluent.
3. Better-governed nations are more likely to be tax havens. The average government index for tax haven nations is 0.73, significantly higher than for non-tax haven nations (mean government index of 0.13). This is so that countries with good governance can benefit more from becoming tax havens. One of the most fundamental requirements to be met by a tax haven country is the reduction of taxes in well-governed nations due to substantial foreign investment and the economic growth it provides.[8]

Thus, it can be inferred that any nation that meets the following criteria will be considered a tax haven: (a) small; (b) affluent; (c) excellent quality of governance; (d) open to international trade; and (e) receiving a sizable quantity of investment from a particular nation will be considered as a tax haven for that nation. Since these four determinants are tough to quantify, an alternative criterion is used, i.e., If a nation is listed as a tax haven by the OECD (2009) and TJN (2007) tax haven list, this is because inclusion on both lists ensures that a country will meet the above mentioned four requirements that have been proved by Dhammika Dharmapala & James R. Hines Jr.

The MNCs incorporate shell companies in the tax haven in zero- or low-tax nations, which serve two purposes.

1. They may possess the patent and brand rights of the MNC.
2. They can also function as the licensor for collecting royalties owed to other affiliates worldwide.

Because each MNC affiliate or parent corporation that pays the royalty subsequently claims a deduction in their home country for the royalties paid, and because the royalties are received and collected tax-free in the tax haven shell business, this lowers taxes at each MNC affiliate or

[8] Dhammika Dharmapala & Hines Jr., James R., 2009. "Which countries become tax havens?," Journal of Public Economics, Elsevier, vol. 93(9-10), pages 1058-1068, October.

parent corporation that pays the royalty.

Tax Haven helps in Tax Avoidance in two ways: Evading Currency Convertibility Restrictions and "Round-Tripping":

1. Evading Currency Convertibility Restrictions - this can be best understood using an example. In USA residency, international taxation systems are used in which the taxation on foreign income is postponed until the money is returned to the company's home country. In such situations, MNCs choose to keep the overseas income in their affiliates located in tax havens or invest it through these affiliates to avoid paying taxes in their home countries. The tax burden in tax havens is either minimal or non-existent. Thus, by keeping the profits outside of the USA, the additional US tax duty on the money is postponed indefinitely.

This loophole significantly impacts the cumulative profits of US MNCs' overseas operations that have not yet been returned home and are estimated to be between $2.1 and $3 trillion. By keeping the profits outside the US, the additional US tax liability on the money is deferred indefinitely, as we saw above. So impactful is this loophole that US MNCs' foreign subsidiaries' accumulated profits, which are not yet repatriated back home, are estimated to total between $2.1 and $3 trillion.[9]

2. Round Tripping - Round-trip trading, also known as "round-tripping," is the unethical activity of repeatedly buying and selling shares of the same securities to deceive spectators into thinking the security is more in demand than it is.

The major difference between Round-trip trading and legitimate trading practices are-

" Legitimate trading practices are required to adhere to minimal requirements, such as maintaining at least $25,000 in account equity before engaging in these transactions and declaring their net earnings or losses as income rather than passing off gains as investments and losses as expenses." [10]

To transfer billions of dollars in profits from the United States and into Ireland, where Apple Inc. appears to have secured a special corporate tax arrangement of less than 2%, the US business has used a variety of offshore entities, agreements, and transactions. Even Though reporting a net income of $30 billion over the four years from 2009 to 2012,

AOI [Apple Operations International] paid no corporate income taxes to any national

[9] Rutgers Business Review (2016). Vol. 1, No. 1, pp. 27-43
[10] US Securities and Exchange Commission (2015). "Margin Rules for Day Trading."

government during that period. Similarly, Apple Sales International [ASI], a second Irish affiliate, is the repository for Apple's offshore intellectual property rights and the recipient of substantial income related to Apple's worldwide sales, yet claims to be a tax resident nowhere and may be causing that income to go untaxed AOI [Apple Operations International] did not pay any corporate income taxes to any national government during the four years 2009 to 2012 despite earning $30 billion.[11]

III. Profit Shifting

Profit shifting occurs when multinational corporations decrease their tax burden by transferring earnings from high-tax to low-tax jurisdictions and tax havens. Multinational companies can shift profits out of nations with high taxes using three primary methods: debt shifting, registering intangible assets in tax havens, such as copyright or trademarks, and a method called "strategic transfer pricing."[12]

Consider a multinational made of two firms, one in a high-tax jurisdiction such as Australia (company A) and one in a low-tax country such as Bermuda (company B) (company B). Company B is a holding company that owns 100% of Company A.

While both firms must pay taxes on their earnings in their home countries, one of the three routes is used to move profits from the high-tax nation (Australia in our example, having a corporate income tax rate of 30%) to the low-tax country (Bermuda in our example, having a corporate income tax rate of 0%). The multinational save 30 cents on every dollar transferred in this manner.

Debt-shifting occurs when business A borrows money from company B (even if it does not have to) and pays interest on this loan to company B. Company A incurs interest payments, which are tax-deductible in Australia. As a result, they effectively cut the profit recorded by firm A in Australia while raising the profit reported in Bermuda.

In the second channel, the multinational Companies transfer their intangible assets (such as trademarks or copyright) to business B, and company A then pays royalties to company B to utilise these assets. Royalties are a cost to business A that unfairly reduces its profit while raising company B's less-taxed earnings.

In the third channel, strategic transfer pricing can be applied when business A deals with firm B. Most countries currently use what is known as the "arm's length principle" to establish trade

[11] Verschoor, 2013, p. 13
[12] Petr Janský & Miroslav Palanský (2019, June 10). Estimating the scale of profit shifting and tax revenue losses related to foreign direct investment. Available at https://link.springer.com/article/10.1007/s10797-019-095478

pricing. This means that prices should be determined in the same way that they would be if two unrelated companies traded with one another.[13]

Debt interest is deductible from the corporate income tax base. Through the use of related party financing transactions and altering the debt-to-equity balance across subsidiaries in different countries while maintaining a desirable global portfolio composition, multinational firms transfer the loan cost to the high corporate tax rate Country. A more aggressive method would be to set an exceedingly high internal rate for the high-tax nation, which would be compensated by higher income in the Rev term of the low-tax country.[14]

Competition for funds and shareholders is a significant driver of MNC profit shifting. Individual MNCs are competitive in the global market for loan and equity financing needed to finance investment. In selecting portfolio mixes that include various MNCs, shareholders and debt fund providers want better after-tax returns. Competitive demands to get financing to require each MNC to continually enhance the customer appeal of the items it offers, as well as lower manufacturing costs and corporation tax paid. Furthermore, management bonuses are frequently influenced in part by after-tax corporate profitability. As a result, competitive pressures for access to investment funds force individual MNCs to actively adopt a profit-shifting strategy.[15]

IV. ALLOCATION OF DEBT AND EARNINGS STRIPPING

One strategy for moving earnings from a high-tax country to a low-tax jurisdiction is to borrow more in the high-tax jurisdiction and less in the low-tax jurisdiction. This debt transfer can be accomplished without affecting the firm's overall debt exposure. Earnings stripping is a more specific technique in which debt is connected with related companies or unrelated debt is not subject to tax by the recipient. A foreign parent may lend to its U.S. subsidiary as an example of the former profits-stripping strategy. Alternatively, an unrelated foreign borrower who is not taxed on US interest income might lend to a US company.[16]

The possibility of earnings stripping gained attention when several U.S. corporations inverted; that is, arranged for their parent firm's activities in the United States to become a subsidiary of that parent. The American Jobs Creation Act of 2004 (AJCA; P.L. 108-357) addressed the broader issue of inversion by classifying corporations that later inverted as U.S. enterprises if

[13] Idim

[14] Hall, Mikael; Wood, Stuart (2016, October). Base Erosion and Profit Shifting and Business Restructurings. Available at https://heinonline.org/HOL/LuceneSearch?terms=profit+shifting+&collection=all&searchtype=advanced&typea=text&tabfrom=&submit=Go&sendit=&all=true

[15] Zucman, fn 1, p 127 adds treaty shopping as another profit shifting strategy. Treaty shopping involves moving income and expenses across countries with different interpretations of what is taxable and deductible.

[16] Jane G. Gravelle (2022, January 6). Tax Havens: International Tax Avoidance and Evasion. Available at https://sgp.fas.org/crs/misc/R40623.pdf

the former U.S. owners held at least 80% of the new firm. A tax on the transfer of funds would be charged if US shareholders held 60% to 80% of the company. During the legislative process, there were additional proposals for greater earnings stripping limitations as a solution to this problem, which would have lowered the excess interest deductions. This plan for widespread earnings stripping was not approved. The AJCA, on the other hand, required a Treasury Department investigation on these and other concerns; that research concentrated on US subsidiaries of foreign parents and was unable to discover conclusive evidence on the extent.[17]

V. TRANSFER PRICING

Another, and possibly the most important, a technique for companies to move profits from high-tax to low-tax countries is through the pricing of assets, products, and services sold between affiliates. To appropriately reflect income, the prices of assets, products, and services offered by associated entities should be the same as the prices paid by unrelated parties. Income can be moved by decreasing the price of assets, products, and services sold by parents and affiliates in high-tax countries while boosting the price of acquisitions.[18]

Transfers of intellectual property rights, or intangibles, are a significant and developing issue in transfer pricing. If a US patent is sold or licensed to an affiliate in a low-tax nation, revenue will be moved if the royalty or other payment is less than the genuine worth of the license. Similar items are offered for various things, and different approaches (such as cost plus a markup) can be used to establish whether prices are set adequately.[19]

Intangibles, such as new ideas or pharmaceuticals, are difficult to compare, and determining the royalty that would be paid in arms-length pricing is challenging. As a result, intangibles pose unique challenges for transfer price enforcement.[20]

VI. CORPORATE INVERSION

An inversion often happens when a multinational corporation (MNC) established in the United States (or any other nation) purchases a smaller firm based in a foreign country—usually one with a low tax rate—and then relocates the combined company's residency to the low tax country to restrict tax responsibilities.[21] By shifting the corporation's residency, or to put it

[17] U.S. Department of Treasury, Report to Congress on Earnings Stripping, Transfer Pricing and U.S. Income Tax Treaties, November 2007.
[18] 1 The Treasury Department issued new proposed regulations relating to cost sharing arrangements. See Treasury Decision 9441, Federal Register, vol. 74, No. 2, January 5, 2009, pp. 340 -39, http://www.transferpricing.com/pdf/
[19] 2 Michael McDonald, "Income Shifting from Transfer Pricing: Further Evidence from Tax Return Data ," U.S. Department of the Treasury, Office of Tax Analysis, OTA Technical Working Paper 2, July 2008.
[20] Ibid
[21] Seth Hanlon (2017). The Corporate Inversions Tax Loophole: What You Need To Know, THE WHITE HOUSE

another way, by "inverting" the functions within the corporate group, MNCs in international countries can also escape repatriation taxes.

To put it more broadly, corporate inversions are a specific type of cross-border mergers and acquisitions (M&As) that are affected by tax considerations. The taxing of foreign passive income under CFC legislations and the global taxation of active foreign income are two main drivers for cross-border M&As, according to data on 278 cross-border M&As between 1997 and 2007.[22]

Corporate inversions can also occur when a local firm merges with an overseas company, making the previous domestic parent a subsidiary of the new overseas company (even though the stockholders of the original local firm may have more than Fifty percent of the company's shares in the new company)

The annual savings for huge international corporations can be in the billions of dollars, as demonstrated by the failed Pfizer (US)-Allergan (Ireland) merger in 2016; their proposed merger was abandoned after the US government took new steps to crack down on tax avoidance transactions, corporate taxes in Ireland are restricted at 12.5 percent, compared to a maximum tax rate of 35 percent in the United States. However, the United States would have lost billions in tax receipts due to this merger.[23] Some examples of inversion since 2012 are Burger King moving to Canada, Mylan moving to the Netherlands, and Medtronic to Ireland. All these nations have lower tax rates than the US.[24]

Politicians from all levels of government have labeled inversion as unpatriotic. The US President Barack Obama called inversions "insidious," adding that by abandoning the country to avoid paying taxes, [American MNCs] benefit from the American people's research, development, and patents. They gain from American labor, who are the finest on the planet. They do, however, effectively abandon their citizenship.[25] As long as MNCs perceive home nation taxes are higher than in other nations, inversions will continue in the future.

VII. EXEMPTION OF FOREIGN AFFILIATE INCOME

Most advanced nations impose taxation on their resident multinational companies but do not impose taxation on the profits of the company’s foreign subsidiaries.[26]

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[22] Voget, 2007; Huizinga and Voget, 2009
[23] Browning, L. (2016, February 25). Pfizer seen avoiding $35 billion in tax via Allergan Merger.
[24] Rutgers Business Review (2016). Vol. 1, No. 1, pp. 27-43
[25] Kevin McCoy (2017, July 17). USA TODAY: "Obama steps up criticism of tax inversions. Available at https://www.usatoday.com/story/money/business/2014/07/24/obama-tax-inversions-criticism/13120369/ (accessed on December 7, 2022)
[26] Humer, C., Pierson, R. (2016, April 6). Obama's inversion curbs kill Pfizer's $160 billion Allergan deal.

The United States imposes residence taxes on its own multinational companies. The United States government taxes its multinational corporations based on residency; therefore, these corporations must pay taxes on both their domestic and international revenue. This is commonly referred to as a credit system, as US corporations obtain a tax credit for taxes paid to foreign countries. The tax credit is restricted to the U.S. tax obligation that would have been imposed on such income in the absence of foreign taxes, however, firms may normally utilise excess credits from revenue made in high-tax countries to offset U.S. tax payable on income generated in low tax countries, a process known as cross-crediting. For instance, a U.S based multinational company is operating a subsidiary in Dublin, Ireland. The United States corporate income tax rate is 35 percent, compared to 12 percent in Ireland. Even while the Irish subsidiary generates revenue, it only repatriates a small portion of that money back to its American parent company. As a result, the Irish subsidiary taxes the Irish firm on its whole earnings. The company must pay U.S. tax on the income that is repatriated but is also entitled to a foreign tax credit that is equal to the sum of the Irish government's taxes paid and the proportion of the company's repatriated dividends to its overall after-tax profits. Before being repatriated, the remaining profits can grow tax-free abroad.[27]

VIII. NATIONAL CULTURE AND CORPORATE TAX AVOIDANCE

The impact of national culture on business tax evasion hasn't gotten as much attention as it has on how individuals avoid paying taxes. Tax evasion is measured using data provided by participating firms to the World Business Environment Survey (WBES). It is crucial to remember that this dependent variable, tax evasion, only represents a firm's chance of engaging in tax evasion, not the actual behaviour or effects of such behaviour. They adopt the four cultural elements identified by institutional anomie theory as independent variables: individualism, achievement, assertiveness, and humane orientation. They conclude from replies from several businesses in numerous nations that businesses in nations with high individualism, low success oriented, and low assertiveness are more prone to engage in aberrant behaviours like tax evasion.

One potential question that may arise is how country-level features affect the firm-level decision. Numerous studies reveal important connections between culture, auditor preference, and investment effectiveness. Because managers and workers are among the most crucial and

Retrieved from http://in.reuters.com/article/allergan-m-a-pfizeridINKCN0X30GL

[27] Kimberly A. Clausing (2009, December). Multinational Firm Tax Avoidance and Tax Policy. Available from https://www.jstor.org/stable/pdf/41790644.pdf?refreqid=excelsior%3Aea926a47496774147f35698a322e3245&ab_segments=0%2FSYC-6704_basic_search%2Fcontrol&origin=&acceptTC=1

valuable resources for businesses, their cultural backgrounds will have an impact on corporate culture and, as a result, the decisions made by the businesses. Numerous studies have established a connection between firm-level activities and culture.[28]

Bame-Aldred[29] et al. and the current study both focus on the impact of national culture on corporate tax evasion. The current study, however, is unique in several ways. First, rather than focusing on individual businesses, the current research addresses tax evasion by MNCs. It specifically aims to determine if the MNC group's tax evasion is impacted by the cultural characteristics of the parent nation and/or the countries of its subsidiaries. This study contributes by identifying the factors that influence MNCs' tax-avoidance behaviours given the relevance of the fast-rising tax aggressiveness of MNCs in recent years.[30]

Secondly, the present study uses worldwide GAAP ETR values calculated based on firms' actual financial performance to determine the level of tax avoidance. In comparison to other tax avoidance indicators, GAAP ETR often covers larger tax-avoidance actions of MNCs. The study's findings, therefore, demonstrate whether a country's cultural characteristics have an impact on how successfully multinational corporations (MNCs) can lessen their tax burden. Bame-Aldred et al., on the other hand, looked at whether a nation's cultural makeup affects the possibility of corporate tax evasion.[31]

Finally, the most recent financial data from MNCs for the years 2008 to 2015 was used in the current study. To address multinational corporations (MNCs) international tax evasion, the Organization for Economic Co-operation and Development (OECD) developed the Base Erosion and Profit Shifting (BEPS) programme in 2012. The OECD's BEPS action plan was introduced in 2012, and since then, there may have been significant changes in MNCs' tax evasion practices. To represent the most current developments in MNC tax evasion, it is crucial to include post-2012 financial data in the study.[32]

IX. Royalty payments

Royalties are payments made by individuals who use protected intellectual property (IP) in their commercial endeavours to the owners of such IP. Radio stations, for instance, are compelled by

[28] Id at 4

[29] Bame-Aldred, C.W.; Cullen, J.B.; Martin, K.D.; Parboteeah, K.P. (2011, August). National culture and firm-level tax evasion. J. Bus. Res. 2013, 66, 390–396. Available at https://www.sciencedirect.com/science/article/abs/pii/S0148296311002979?via%3Dihub

[30] Akhtar, S.; Akhtar, F.; John, K.; Wong, S.-W. Multinationals' tax evasion: A financial and governance perspective. J. Corp. Financ. 2019, 57, 35–62

[31] Alm, J.; Sanchez, I.; De Juan, A. Economic and noneconomic factors in tax compliance. Kyklos 1995, 48, 1–18.

[32] Ji Seon Yoo and Ye Ji Lee (2019, December). National Culture and Tax Avoidance of Multinational Corporation. Available at https://www.mdpi.com/2071-1050/11/24/6946

law to compensate songwriters with copyright royalties when they play their music on the air. Royalties are especially pertinent to the taxation of tech companies because they are at the heart of tax avoidance.[33]

Tax avoidance through interfirm royalty payments occurs due to three salient facts:

1. MNCs frequently invest heavily in technology, and most of their worth is found in their unique technologies or intangible assets.
2. Current regulations permit the transfer of the patents or brands to a holding company or subsidiary company (in a low-tax country, like Ireland), or a shell company (in a zero-tax country, like Bermuda), which then assesses royalties to the headquarters and other affiliates, even if research and development (R&D) costs have been incurred by Firm A (let's say the home country of the MNC).
3. Even though the licensee is a member of the same Multinational Company, and no R&D has been done in the licensee's country, most countries allow deductions for royalty payments, which lowers the licensee's tax obligation.

X. INTRACORPORATE LOANS

Another benefit that governments provide to businesses is the ability to deduct interest payments on loans as an expenditure item. Certainly, the borrower/payer incurs costs while paying interest. Though the lender (source of money) and borrower are firms within the same MNC, even if they are situated in separate countries, the MNC has a clear path to paying less tax in high-tax jurisdictions. It can force its lower-taxed affiliates to extend loans to its affiliates in higher-tax jurisdictions and can then benefit from a more lucrative tax deduction on the interest payment.[34]

Three things constitute FDI flows: New Equity, Retained Earnings, and Net Intracorporate Loans. Despite the absence of detailed information about the size of the stock of intercorporate loans globally, they would very conservatively surpass three-quarters of a trillion dollars (UNCTAD, 2015). Clearly, the MNC has another tax-liability-transfer mechanism if the intracorporate interest rate it sets internally is greater or lower than the real cost of capital. Recent years have seen "...a number of countries establish limitations on the tax deductibility of interest"; nevertheless, the regulations are not consistently upheld, particularly in poorer

[33] A Question of Royalties-A practical solution to taxing tech companies. Available at https://www.taxwatch uk.org/taxing_uk_tech_royalties/
[34] Ibid

countries.[35] [36]

XI. Uncertainty Avoidance Index (UAI)

UAI measures how uncomfortable a society's citizens are with ambiguity and uncertainty. Hofstede[37] describes the degree to which individuals of a community experience discomfort in unusual, unanticipated, or startling events in order to illustrate how uncertainty avoidance varies from risk avoidance. People who live in communities with a high level of uncertainty avoidance prefer to decrease the likelihood of these events by adhering to rigid behavioural standards, regulations, and rules, disapproving of unconventional viewpoints, and believing in the ultimate truth. Hofstede gives several illustrations of how weak and powerful uncertainty avoidance differ from one another. Members of society with low uncertainty avoidance are accepting of deviant people and ideas, quite comfortable with ambiguity and disorder, hostile to laws, and considered as competent towards authority. People who live in a culture where there is a strong tendency to avoid uncertainty, on the other hand, are intolerant of unconventional behaviour and viewpoints, seek order and structure, have an emotional need for regulations, and are viewed as incompetent by authorities.[38]

Additionally, Hofstede's findings suggest that the tendency to avoid uncertainty is adversely connected with people's confidence in their nation's governmental institutions. In other words, people in low UAI nations are more likely to trust their country's institutions of government, whereas those in high UAI countries are more likely to feel cut off from the political structures that have an impact on their daily lives. Furthermore, people in high UA nations frequently believe that the judicial system is biased against them and do not hesitate to break "unjust" legislation. The conclusion that higher UAI nations have poorer economic freedom or greater taxation supports this viewpoint. People in a high UAI society can thus be expected to see tax evasion as a method of reducing ambiguity. For instance, a lack of confidence in its institutions promotes tax evasion to reduce the possibility that the government and its officials may misappropriate treasury funds. Tax evasion may make people more anxious because they are afraid of getting discovered, but this heightened anxiety should be countered by the knowledge that many people in the nation are doing the same thing, as well as by a perhaps stronger

[35] De Mooij, R. A. (2011, May 3). Tax biases to debt finance: Assessing the problem, finding solutions. IMF Staff Discussion Note. Retrieved from https://www.imf.org/external/pubs/ft/sdn/2011/sdn1111.pdf

[36] . Faccio, M., Lang, L., & Young, L. (2010). Pyramiding vs leverage in corporate groups: International evidence. Journal of International Business Studies, 41(8), 88–104

[37] Hofstede, G. Dimensionalizing cultures: The Hofstede model in context. Online Read. Psychol. Cult. 2011, 2, 8. [CrossRef]

[38] Ji Seon Yoo and Ye Ji Lee (2019, December). National Culture and Tax Avoidance of Multinational Corporation. Available at https://www.mdpi.com/2071-1050/11/24/6946

perception of government financial mismanagement. In contrast, people in a low UAI society will be less likely to see tax evasion as a viable option since they will view institutions as being more trustworthy in such a society. Therefore, according to Vitell, Nwachukwu, and Barnes (1993) and Husted (2007), nations with high (low) UA scores should be more (less) tolerant of corrupt (and riskier) activities (1999)[39]. This leads to the following hypothesis: "The higher the UA in a country, the higher the level of tax evasion in that country."[40]

XII. Other Central MNC

It is an unavoidable reality of contemporary multinational business that significant costs, particularly those related to research and development, are borne by the MNC parent company in the home country. As a result, each of its foreign subsidiaries and affiliates must logically pay a portion of its central overheads[41]. For reasons, experts do not completely understand, why R&D expenditure of MNCs remains heavily concentrated in the parent company nation, or at least in far fewer nations than the number of territories from which the R&D is sourced.[42]

The parent company should not bear all the costs associated with other categories of overhead, such as those associated with maintaining brand equity, and other central administrative expenses at the headquarters, such as those associated with global information technology, supply-chain management, human resources, etc. Instead, they must be divided among the various foreign companies and subsidiaries that benefit from the MNC's central administrative overheads.[43]

In theory, this seems reasonable. However, how does the MNC divide up its central overheads pie and charge a piece of it to each overseas affiliate? It is challenging to even try to be internationally equal (and tax neutral), as the allocation or proportion will change based on the importance of each overseas activity (in the planetary total). The computation will change depending on whether the weighting for each country is based on assets, value added in the country, or a combination of these factors. Exchange rate fluctuations, which vary each affiliate's part of the global total pie from year to year, are a clear additional complexity.[44]

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[39] George T. Tsakumis, Anthony P. Curatola, Thomas M. Porcano. The relation between national cultural dimensions and tax evasion. Available at https://edisciplinas.usp.br/pluginfile.php/300870/mod_resource/content/1/George-main.pdf

[40] Ibid

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However, MNCs are certainly not neutral. They are inclined, ceteris paribus, to give operations in countries with higher taxes a bigger piece of the overhead pie, and vice versa. There is no established procedure. Since 2000, the EU has worked to develop relevant regulations for a future unitary (pan-European) system. Each method, however, has drawbacks and critics.[45] [46]

XIII. Conclusion

Nowadays, no decision in a major multinational corporation is taken without considering the tax ramifications. The enormity of the worldwide tax avoidance phenomenon—the extent to which tax concerns influence global operations, supply networks, and site decisions—places this issue at the core of the global strategy. Executives in major corporations evaluate tax implications concurrently with strategy, rather than as an afterthought. As a result, all business students and executives must be familiar with this subject.[47]

The taxation of corporate income internationally is the main cause of Avoidance of Tax Obligations. The foundation of the existing system was a strategy developed over a century ago, before the emergence of major multinationals as we know them today. Nowadays, the various parts of a multinational operate separate accounts as though they were distinct businesses. However, the multinational minimises its overall tax obligations[48].

Instead, we need to adopt a taxation system known as a unitary model. Instead of taxing profits where they are reported, the concept is to tax gains where the economic activity that produces them occurs. The multinational would provide information on both its overall worldwide profit and its operations in each of the nations in which it has operations. The governments of these nations would then be free to tax the multinational in line with its operations there.[49]

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