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FOREIGN EXPERIENCE OF TAXING FOREIGN COMPANIES

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A R T I C L E I N F O.

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Abstract

The subject of this research is the rules of corporate income taxation foreign countries existing in foreign countries, the experience of implementation of which is valuable for further development of the Russian legislation. The current state of tax systems is viewed from the perspective of implementation of the baisc tax functions: fiscal and regulatory. The importance of corporate profit taxation in formation of the income base of the budgets of the budgetary system of the Russian Federation justifies special attention to the existing mechanisms for distinguishing tax revenues between budgets of bot different levels and same level. In the context of state regulation of the economy, analysis is conducted on the tax incentive instruments and preferential tax conditions intended for stimulating innovative activity of the companies. The scientific novelty lies in summarizing the experience of foreign countries in corporate income taxation, determining the leading practices, and formulating recommendations for their implementation in Russia. The conducted research reveals the trends in reforming tax legislation of the developed countries aimed at stimulation of entrepreneurial activity. Sustained reduction in corporate income tax rates, shift away from progressive scale, and implementation of new tax incentives contribute to lowering of fiscal burden on businesses and create favorable conditions for the economic development. The author develops recommendations for the improvement of corporate profit taxation in the Russian Federation: 1) For increasing the validity of division of tax revenues between regional budgets, it is suggested to change the procedure for calculating the tax payable by separate banks units. In calculation of the share of taxable profit for each bank unit, it is recommended to take into account labor costs, amount of loans issued and deposits raised. 2) The comparative analysis of the Russian and foreign experience of tax incentives demonstrated the shortage of instruments intended for commercialization of innovations in the Russian Federation, which substantiates the need for implementation of preferential taxation of income from use of the objects of intellectual property.

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Introduction

Since the emergence of the state as a socio-political institution, tax payments have been an integral element of social relations, creating a financial basis for the fulfillment of its functions. In modern

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conditions, the functioning of the tax system has a significant impact not only on the formation of budget revenues, but also on the state of the economy as a whole. Acting as effective tools for influencing the activities of business entities, taxes allow the state to indirectly regulate financial and economic processes aimed at achieving current and strategic goals. A special place in the Russian system of tax-budgetary relations belongs to the corporate income tax, since its mechanism involves the widespread use of regulatory potential along with the implementation of the fiscal function. Remaining one of the most important revenue items, this tax contributes to filling budgets at different levels and, accordingly, affects the interbudgetary distribution of revenues. The high costs of most organizations to fulfill their income tax obligations make them susceptible to any reforms in the relevant area. In this regard, the possibility of regulating entrepreneurial activity using the tools built into the profit taxation system is beyond doubt. Corporate income taxation is widely practiced in the modern world, with the extent to which the two main functions of tax - fiscal and regulatory - being used varies from country to country. The observed transformation of tax systems occurs under the influence of changing conditions of socio-economic development, expansion of integration processes and increased international tax competition. An important role in modern conditions is played by international organizations and economic and political associations of countries that develop uniform requirements and standards, including in the field of taxes. The ongoing reforms are gradually bringing corporate taxation systems closer together, however, most countries have their own characteristics, determined by the specifics of the national economy and the goals facing the state.

Analysis and results

Taxing foreign companies is a complex and dynamic aspect of international taxation. The global nature of business and increasing cross-border trade and investment have led to the development of various strategies and systems for taxing foreign companies. This thesis explores the different approaches and challenges faced by countries worldwide in taxing foreign companies, including methods, effectiveness, and implications for domestic economies and international relations.

Taxing foreign companies can be approached in various ways depending on a country's tax policy and the structure of its taxation system. There are three primary systems used worldwide:

Territorial Taxation - Under territorial taxation, only income earned within a country's borders is subject to taxation. This system is advantageous for foreign companies as it provides clarity on tax obligations and often minimizes the risk of double taxation. It encourages multinational corporations (MNCs) to establish business operations within the host country, as their income earned abroad is generally not taxed by the host country.

Worldwide Taxation - In worldwide taxation systems, a country taxes its residents and domestic companies on their global income, regardless of where it is earned. This system can lead to complexities, as companies must navigate different tax codes and reporting requirements across various jurisdictions. Foreign companies operating under worldwide taxation may face higher compliance costs and potentially higher tax liabilities due to the inclusion of their global income.

Hybrid Taxation - Hybrid taxation combines elements of territorial and worldwide taxation systems. Under hybrid systems, a country may tax some forms of foreign income (e.g., passive income) while exempting others (e.g., active business income). This approach can offer a middle ground, providing greater flexibility and potentially reducing the risk of tax avoidance strategies.

Countries may adjust their taxation systems based on their economic goals, trade relationships, and competitiveness in attracting foreign investment. Additionally, they may consider international best practices and recommendations, such as those from the Organization for Economic Cooperation and Development (OECD), when designing their taxation systems for foreign companies.

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Taxing foreign companies presents several challenges and has far-reaching implications for both the host country and the companies involved. These include:

Tax Avoidance and Evasion - Foreign companies may engage in tax avoidance strategies such as transfer pricing, where profits are shifted to low-tax jurisdictions to minimize tax liabilities. Base erosion and profit shifting (BEPS) strategies may result in reduced tax revenues for host countries and distortions in competition.

Compliance and Enforcement - Varying tax laws, regulations, and reporting requirements across jurisdictions can complicate compliance for foreign companies. Enforcing tax laws across borders can be challenging, as companies may operate in multiple countries with different legal systems and enforcement capabilities.

Double Taxation - Without proper international agreements, foreign companies may face double taxation on their income, both in the host country and their home country. This can create financial burdens and disincentives for foreign investment.

Economic Impact - The choice of taxation system can significantly impact foreign direct investment (FDI) and the decision-making processes of multinational corporations. High tax rates or complex tax systems may discourage foreign companies from investing in a country, while lenient tax policies may attract them.

International Relations - Taxation policies and practices can affect a country's international relations and trade partnerships. Disputes over taxation can lead to diplomatic tensions or trade conflicts between countries.

Tax Competition and Race to the Bottom - Countries may engage in tax competition by offering lower tax rates or favorable tax treatment to attract foreign companies. This can lead to a "race to the bottom," where tax rates are progressively reduced to unsustainable levels, impacting the ability of countries to fund public services and infrastructure.

Digital Economy and Taxation - The rise of the digital economy presents new challenges in taxing foreign companies, particularly those providing digital services without a physical presence in the host country. This has prompted discussions on digital services taxes (DSTs) and other measures to ensure fair taxation of digital businesses.

International agreements and cooperation play a crucial role in managing the challenges and complexities associated with taxing foreign companies. These mechanisms aim to promote fair taxation, prevent tax avoidance and evasion, and foster international economic relations. Key aspects of international agreements and cooperation include:

Double Taxation Agreements (DTAs) - DTAs, also known as tax treaties, are agreements between two countries designed to prevent the same income from being taxed twice. These agreements establish rules on how different types of income (e.g., dividends, interest, royalties) should be taxed, providing clarity and reducing tax disputes for foreign companies. DTAs may also include provisions for the exchange of information between tax authorities to improve compliance and enforcement.

Base Erosion and Profit Shifting (BEPS) - The OECD's BEPS project is a global initiative to address tax avoidance strategies that exploit gaps and mismatches in international tax rules. BEPS provides recommendations and best practices for countries to adopt in their domestic tax policies, such as limiting interest deductions and tackling harmful tax practices. Countries can implement BEPS measures to enhance their ability to tax foreign companies fairly and effectively.

Mutual Agreement Procedures (MAPs) - MAPs are a dispute resolution mechanism outlined in DTAs that allow tax authorities from different countries to resolve disputes regarding the application of the treaty. This process provides a structured way for foreign companies to seek relief from double taxation and other cross-border tax disputes.

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Exchange of Information - International cooperation involves sharing tax information between countries to improve compliance and enforcement. Mechanisms such as the OECD's Common Reporting Standard (CRS) facilitate the exchange of financial account information, enabling countries to track the offshore activities of foreign companies.

Joint Initiatives and Forums - Collaborative efforts such as the Inclusive Framework on BEPS bring together countries worldwide to discuss and implement international tax standards. Forums such as the United Nations Committee of Experts on International Cooperation in Tax Matters provide guidance on international tax issues and encourage dialogue among countries.

Digital Economy Agreements - As the digital economy presents unique challenges, countries may cooperate on initiatives like the OECD/G20 Inclusive Framework on BEPS to address the taxation of digital services. Developing global standards for taxing digital services can help ensure fair and consistent taxation across jurisdictions.

By participating in international agreements and cooperating on tax matters, countries can create a more equitable and efficient global taxation system. These efforts contribute to better compliance, reduced tax avoidance, and a more stable international economic environment.

Conclusion

Taxing foreign companies presents both challenges and opportunities for countries worldwide. As the global economy continues to evolve and multinational corporations expand their operations across borders, the need for effective and fair taxation systems becomes increasingly important.

Countries must strike a delicate balance between attracting foreign investment and ensuring that foreign companies contribute fairly to the host country's tax base. Various approaches, such as territorial, worldwide, and hybrid taxation, offer different advantages and challenges, influencing multinational corporations' decisions on where to locate their business activities.

International agreements and cooperation are essential to address the complexities of taxing foreign companies. Double taxation agreements, the OECD's BEPS project, and mutual agreement procedures help countries navigate tax disputes, prevent tax avoidance, and promote international collaboration.

Moreover, as the digital economy grows, new approaches and agreements are needed to ensure fair taxation of digital services. This requires continuous adaptation and cooperation among countries to address emerging challenges and create a sustainable, equitable global tax system.

In summary, effective taxation of foreign companies is a collaborative effort that involves balancing domestic policies with international standards and agreements. By adopting best practices and fostering international cooperation, countries can create a tax environment that supports economic growth while ensuring fairness and compliance for all parties involved.

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