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# OXFORD UNIVERSITY CENTRE FOR BUSINESS TAXATION

ANNUAL REPORT 2006/07  
01 AUG 2006–31 JUL 2007





# OXFORD UNIVERSITY CENTRE FOR BUSINESS TAXATION

This is the second annual report of the Oxford University Centre for Business Taxation, which summarises the Centre's activities between August 2006 and July 2007.

The Autumn of 2006 saw the establishment of the research activities of the Centre. I became the Centre's first director in September 2006. In Autumn 2006, a number of other research appointments were also made. Professor Judith Freedman became the Director of Legal Research and Professors Wiji Arulampalam, Stephen Bond and David Ulph were appointed as Programme Directors. These are part-time positions. In addition, the first three full-time Research Fellows of the Centre were appointed: Simon Loretz, Socrates Mokkalas and Giorgia Maffini. The Centre is also supporting one DPhil student, Geoffrey Loomer, and has hosted a number of visiting researchers. Brief profiles of all our research staff are included in this report.

In early 2007, the Centre also appointed over 40 of the world's leading researchers in business taxation to be International Research Fellows of the Centre. These include professors of economics, law and accounting from many of the world's leading universities. The appointment of these fellows signals that the Centre has already become a focal point for research in business taxation around the world.

The research output of the Centre has been published in a range of new Centre publications, including policy reports and academic working papers. Output has also been published elsewhere, including in academic journals, and in media such as the Financial Times.

A number of seminars and conferences were organised during the year. These include joint seminar series with the law faculty and economics department of the University of Oxford. A three-day academic symposium was held in June 2007, which was attended by most of the International Research Fellows as well as other invited academics. Two more general policy conferences, in December 2006 and June 2007, attracted significant participation from government, business and the professions as well as from academia.

The Centre's aim remains the promotion of effective policies for business taxation, in the UK and around the world. While the research activities of the Centre are broad-ranging, they are informed by, and aim to inform, the policy debate.

This report contains brief details of the activities of the Centre, including a summary of the main research undertaken, and the research output. More information is available on the Centre's website, at [www.sbs.ox.ac/tax](http://www.sbs.ox.ac/tax)

**Michael Devereux**  
Director



Professor Michael Devereux

# CONTENTS

## 06 STAFF

- a. Director
- b. Director of Legal Research
- c. Programme Directors
- d. Research Fellows
- e. DPhil Researcher
- f. Administration
- g. Visitors
- h. International Research Fellows
- i. Steering Committee and Advisory Board
- j. Newly appointed staff

## 14 RESEARCH ACTIVITIES

- a. Research Projects
- b. Reports
- c. Working Papers
- d. Academic Publications
- e. External Conference and Seminar Presentations
- f. Research Grants

“The University of Oxford is proving that business taxation is a more interesting subject than it may initially sound. The University has persuaded 40 world specialists in the subject to sign up as international research fellows at the University’s Centre for Business Taxation.”  
**Financial Times**, 21 May 2007

## 26

### CONFERENCES AND OTHER EVENTS

- a. Workshop on Deductibility of Financing Costs for Corporation Tax
- b. Academic Symposium
- c. Conference on Corporation Tax: Battling with the Boundaries
- d. Academic Seminar Series

## 30

### COMMUNICATION

- a. Media Coverage
- b. Policy Articles and Other Contributions

# STAFF

In July 2007, the Centre's staff comprised the Director, the Director of Legal Research, three Programme Directors, three full-time Research Fellows, a DPhil researcher, an administrator and part-time secretary. Brief profiles of the staff are presented here. Several other researchers have also visited during the year. The Centre has also appointed 40 International Research Fellows, many of whom have visited the Centre during the year.



#### DIRECTOR

**Professor Michael P Devereux** is the Director of the Oxford University Centre for Business Taxation, Professor of Business Taxation of the University of Oxford and a Professorial Fellow of Oriel College. He is also Research Director of the European Tax Policy Forum, and Research Fellow of the Institute for Fiscal Studies, CESifo and CEPR. He is an elected Board Member of the International Institute for Public Finance. He is a member of the CESifo European Economic Advisory Group. He is Editor-in-Chief of International Tax and Public Finance and Associate Editor of Economics Bulletin. He gained his PhD in Economics at University College London. Previously, he was Professor and Chair of the Economics Departments at the universities of Warwick and Keele. He has been closely involved in international tax policy issues in Europe and elsewhere, working with the OECD's Committee of Fiscal Affairs, the European Commission and the IMF. He has published widely in academic journals and elsewhere.



#### DIRECTOR OF LEGAL RESEARCH

**Professor Judith Freedman** is Director of Legal Research of the Centre and has been KPMG Professor of Taxation Law of the University of Oxford since 2001. She was instrumental in setting up the Oxford University Centre for Business Taxation. After obtaining her law degree at Oxford University she trained as a solicitor and worked in the corporate tax department at Freshfields. From 1982, she taught tax and company law at the London School of Economics, with a three-year secondment to the Institute of Advanced Legal Studies where she worked with the Law Society Company Law Committee and took part in an ESRC interdisciplinary empirical research initiative on small businesses. She is joint editor of The British Tax Review and has published widely, with a recent focus on small businesses; the relationship between tax and accounting and tax avoidance and corporate social responsibility. Professor Freedman is a member of the IFS Council and Executive and of the IFS Tax Law Review Committee.



#### PROGRAMME DIRECTOR

**Professor Wiji Arulampalam** is Professor of Economics at the University of Warwick. She is a member of the Econometric Society, the Royal Economic Society (and an elected Member of Council between 2000 and 2004) and the Society of Labor Economists. She is a Research Fellow at IZA, Institute for the Study of Labor, Bonn, Germany, and a member of the steering group of the Works, Pensions, and Labour Economics Study Group. She is a member of the editorial board of *Foundations and Trends in Econometrics* and a past associate editor of *Labour Economics: an International Journal*. Her main research interests are Econometrics and Labour and Population Economics. She has published widely in economics and econometrics journals.



#### PROGRAMME DIRECTOR

**Professor Steve Bond** is Senior Research Fellow at Nuffield College and a Visiting Research Fellow in the department of economics, University of Oxford. He has undertaken research in various capacities at the Institute for Fiscal Studies (IFS), London, since the mid-1980s and from September 2007 is a Research Fellow of the IFS. His research centres on tax policy, and the investment and financial behaviour of firms, including the effects of uncertainty and financing constraints on company investment, and the effects of taxation on company dividend policies. Other areas of interest include the relationship between investment and economic growth, and the econometrics of panel data.



#### PROGRAMME DIRECTOR

**Professor David Ulph** is Professor of Economics and Head of the School of Economics and Finance at the University of St Andrews. He has previously been Professor of Economics and Head of the Department of Economics at the University of Bristol and University College London. From 2001-2006 he was Director of Analysis and Research at the Inland Revenue (subsequently HM Revenue and Customs) where he led a team of around 320 analysts advising the Chancellor, Ministers, HM Treasury and HMRC on all aspects of tax policy and tax administration. He has a wide range of research interests in economics, but the main areas of current research are: taxation, particularly the issues of tax avoidance and tax policy; economics of innovation, and the role of knowledge and information sharing; and environmental economics, particularly climate change.



#### RESEARCH FELLOW

**Dr Simon Loretz** joined the Centre from the Institute for Public Finance at the University of Innsbruck in November 2006. He holds a PhD in economics from the University of Innsbruck on the subject of Taxation and the Location Decisions of Multinational Companies. From 2004 to 2006 he worked as a project assistant at the Institute for Public Finance. His current research interests include the measurement of the business tax burden, international tax competition and the location and production decisions of companies. At the Centre, Dr Loretz has worked on the revenue and incentive effects of potential EU formula apportionment and on the measurement of the effective tax rates.



#### RESEARCH FELLOW

**Giorgia Maffini** is currently completing a PhD in economics at the University of Warwick. She received a BSc in Economics and Social Sciences from Bocconi University, Milan (summa cum laude) and a Master's in Economics from University College, London. She has worked as an economist for the Centre for Tax Policy and Administration (CTPA) at the OECD in Paris (2004 to 2005). Her current research interests include the welfare effects of corporate income tax and wage differentials between domestic and multinational companies. At the Centre, Ms Maffini has worked on the incidence of corporate tax on wages and on the productivity of domestic and multinational companies.



#### RESEARCH FELLOW

**Socrates Mokkalas** is currently completing a PhD in economics at the University of Oxford. He was awarded a Diploma in Mechanical Engineering from the National Technical University of Athens in 1999 and an MSc in Management from London School of Economics in 2000. He was an EFG Bank Scholar at St Antony's College, Oxford University, where he received an MPhil in Economics. His research interests focus on the capital structure of multinational firms across countries and how this structure is affected by the taxation. At the Centre, he is currently researching on how multinationals allocate debt across subsidiaries and affiliates that domicile in different countries.





#### **DPHIL RESEARCHER**

**Geoffrey Loomer** studied both economics and law in Canada and obtained a BCL from Oxford University in 2005. He worked as a barrister in the tax department of McCarthy Tetrault LLP from 2000 to 2006. He was awarded a studentship by the Centre in 2006 to pursue doctoral research on corporate residence and the taxation of multinational enterprises. He also worked on the pilot survey of stakeholder groups on tax avoidance issues, which was the subject of the Centre report "Moving Beyond Avoidance? Tax Risk and the Relationship between Large Business and HMRC: Report of a preliminary survey".



#### **ADMINISTRATION**

**Dr Deborah Graham-Vernon** was appointed as Administrator of the Centre in 2006. She holds a PhD in History of Art from the University of Warwick. She was formerly Research Editor for Art and Architecture at the Oxford Dictionary of National Biography, and, most recently, the Academic Administrator at Lady Margaret Hall, University of Oxford. Deborah is on maternity leave from January 2007 to January 2008.

**Christine Seal** has taken over as Administrator while Deborah is on maternity leave. She has been at the Saïd Business School since 2004 as Administrator of the Finance Symposium and in other roles. She is currently undertaking a part-time PhD in history at the University of Leicester.

**Jennifer Fielding** was appointed as part-time secretary in June 2007.

“The 14 multinationals surveyed were opposed to simply reducing the rate of tax relief on interest from 30% to 15%. They said it would impose extra costs and reduce the attractiveness of the UK.”

**Financial Times**, 12 Dec 2006, referring to the Centre’s Report on Interest Deductibility for UK Corporation Tax

## VISITORS

**Professor Norman Gemmell**, a Professorial Fellow of the University of Nottingham, spent six months at the Centre between February and July 2007. Prior to joining the Centre, he was Assistant Director of the HMRC Analysis Division where, among other projects, he led research into the forecasting of corporation tax revenues. On ending his visit to the Centre, he took up a position at the New Zealand Treasury. As well as his work on business tax, Professor Gemmell has research interests in the fields of economic development, economic growth and other issues in public finance, including modelling demands for public expenditure and redistribution. Whilst at the Centre, Professor Gemmell worked primarily on the responses of the corporation tax revenues to corporate profits and on the properties of the corporation tax system.

**Professor John Creedy** of the University of Melbourne spent two months visiting the Centre in May 2007. His main research interests are in the fields of public economics and labour economics. Prof. Creedy also worked at the New Zealand Treasury between 2001 and 2004. Whilst at the Centre, Professor Creedy primarily collaborated with Professor Gemmell.

**Professor Chris Evans** is Professor of Taxation at the Australian School of Taxation (ATAX), which is based at the University of New South Wales. Professor Evans visited the Centre in June 2007. He has wide research interests, including in capital and wealth taxation, compliance costs, the taxation of small businesses, tax accounting, international taxation and personal tax reform. Whilst at the Centre, Professor Evans primarily worked on a paper on experiences with statutory avoidance and disclosure rules, which he presented at the Centre’s conference in June 2007.

**Padraig J Moore** spent a month working at the Centre in February 2007. He was in the process of writing several papers to include in his PhD thesis at Trinity College Dublin, entitled “Tax planning by firms and tax competition by governments”. He has now joined Deutsche Bank, London.

**Peter Wharrad** visited the Centre in Autumn of 2006. Prior to arriving at the Centre, he was Group Tax Executive at Vodafone. Subsequently, he joined HM Revenue and Customs as Assistant Director of the Business Customer Unit. While at the Centre, Peter devised and carried out interviews with tax directors on the role of tax relief for interest. The results of these interviews were included as part of the Centre report “Interest Deductibility for UK Corporation Tax” presented at our December 2006 Conference.

**James Pennock** is a Senior Manager at PricewaterhouseCoopers, who joined the Centre on secondment for two months in October and November 2006. He joined PwC after graduating from Oxford University. Together with Peter Wharrad, he carried out interviews with tax directors as part of the work for the Centre report “Interest Deductibility for UK Corporation Tax”.

**Dr John Vella** is Norton Rose Career Development Fellow in Company Law at the University of Oxford. He holds a BA and an LL.D. from the University of Malta and an LL.M. and a PhD from the University of Cambridge, and has been admitted to the Maltese bar. His main research interests are in corporate finance and tax law, particularly avoidance and innovation. He worked with Judith Freedman and Geoffrey Loomer on the Centre report “Moving Beyond Avoidance? Tax Risk and the Relationship between Large Business and HMRC: Report of a Preliminary Survey”.

“Oxford University’s Centre for Business Taxation has appointed over 40 international research fellows. These are not your dime-a-dozen academics. They comprise some of the world’s most outstanding researchers in business taxation, from places such as Harvard.”  
**The Guardian**, 05 June, 2007

## INTERNATIONAL RESEARCH FELLOWS

The Centre has appointed over 40 of the world’s most outstanding researchers in business taxation as International Research Fellows. The new fellows are all leading academics, from around the world, with research expertise in economics, law and accounting.

### **Professor Rosanne Altshuler**

Rutgers University

### **Dr Julian Alworth**

European and Global Investments,  
 Dublin

### **Professor Alan Auerbach**

University of California, Berkeley

### **Professor Reuven Avi-Yonah**

University of Michigan

### **Professor Peter Birch Sørensen**

University of Copenhagen

### **Professor Søren Bo Nielsen**

University of Copenhagen

### **Professor Thiess Buettner**

University of Munich

### **Professor Ron Davies**

University of Oregon

### **Professor Ruud de Mooij**

Netherlands Bureau of Economic  
 Policy Analysis

### **Professor Mihir Desai**

Harvard Business School

### **Professor David Duff**

University of Toronto

### **Professor Peter Egger**

University of Munich

### **Professor Chris Evans**

ATAx, University of New South Wales

### **Professor Clemens Fuest**

University of Cologne

### **Professor Roger Gordon**

University of California, San Diego

### **Dr Harry Grubert**

US Treasury

### **Professor Daniel Gutman**

University Paris-1 Pantheon-Sorbonne

### **Professor Andreas Haufler**

University of Munich

### **Professor Jim Hines**

University of Michigan

### **Professor Harry Huizinga**

Tilburg University

### **Professor Eckhard Janeba**

University of Mannheim

### **Professor Christian Keuschnigg**

University of St Gallen

### **Professor Rick Kreyer**

Monash University

### **Professor Michael Lang**

University of Vienna

### **Professor Ben Lockwood**

University of Warwick

### **Professor Jack Mintz**

University of Toronto

### **Professor Michael Pfaffermayr**

University of Innsbruck

### **Professor Jim Poterba**

MIT

### **Professor Guttorm Schjelderup**

University of Bergen

### **Professor Wolfgang Schön**

Max Planck Institute

### **Professor Douglas A Shackleford**

University of North Carolina

### **Professor Hans-Werner Sinn**

Ifo Institute for Economic Research

### **Professor Joel Slemrod**

University of Michigan

### **Professor Christoph Spengel**

ZEW, University of Mannheim

### **Professor Miranda Stewart**

University of Melbourne

### **Professor Richard Vann**

University of Sydney

### **Professor Alfons Weichenrieder**

University of Frankfurt

### **Professor David Weisbach**

University of Chicago

### **Professor David Wildasin**

University of Kentucky

### **Professor Jay Wilson**

Michigan State University

### **Professor Hannes Winner**

University of Innsbruck

### **Professor George Zodrow**

Rice University, Houston

## STEERING COMMITTEE AND ADVISORY BOARD



Jon Symonds and Dave Hartnett

### MEMBERS OF THE STEERING COMMITTEE 2006/07:

**Richard Briant**

Saïd Business School

**Professor Steve Bond**

Economics department

**Professor Michael Devereux**

Centre for Business Taxation

**Andrew Dilnot**

Principal, St Hugh's College

**Professor Judith Freedman**

Law faculty

**Professor Colin Mayer**

Chair; Saïd Business School

**Professor Iain McLean**

Politics department

**Edwin Simpson**

Law faculty

**Dr Dimitrios Tsomocos**

Saïd Business School

### MEMBERS OF THE ADVISORY BOARD 2006/07:

**Philip Broadley**

CFO, Prudential

**Professor Michael Devereux**

Centre for Business Taxation

**Professor Judith Freedman**

Law faculty

**Dave Hartnett**

Director General, HMRC

**Professor Colin Mayer**

Saïd Business School

**Sir Derek Morris**

Chair; Provost, Oriel College

**Professor Joel Slemrod**

University of Michigan

**Professor Peter Birch Sorensen**

University of Copenhagen

**Jon Symonds**

CFO, AstraZeneca (subsequently Goldman Sachs)

**Professor David Ulph**

University of St Andrews

**Dr Chris Wales**

MD, Lucida Plc

During the year, the Steering Committee met three times, and the Advisory Board met twice.

## NEWLY APPOINTED STAFF

One Programme Director and two full-time research fellows were appointed during the year and commence work at the Centre in Autumn of 2007. In addition, one doctoral studentship has also been awarded.

**Professor Ben Lockwood**, Professor of Economics at the University of Warwick, has been appointed as Programme Director. His research interests are principally in the area of public economics and political economy. He has published extensively on tax competition, both in indirect and capital taxes, on fiscal decentralisation, soft budget constraints in federations, the theory of political business cycles, and aspects of the theory of voting and policy choice. Current projects include: (i) an empirical study of the determinants and implications of the international spread of the VAT, joint with Michael Keen at the IMF; (ii) an empirical analysis of the effects of the UK business tax on firm location and economic growth; (iii) theoretical and empirical work on fiscal decentralisation and government service delivery. He is a CEPR and CESifo Fellow, and on the editorial boards of *Finanzarchiv*, *International Tax and Public Finance*, and the *Journal of Macroeconomics*. He has also acted as a consultant on fiscal issues for the IMF and the Peruvian government.

**Dr Rita de la Feria** has been appointed as full-time Research Fellow. She received her law degree from the University of Lisbon, having specialised in Tax Law and Economic Law. She then began her professional career as a tax consultant with Arthur Andersen, working in both their Lisbon and Dublin offices. In 2006, she completed her PhD on EU VAT harmonisation at the Law School of the University of Dublin, Trinity College. She has held lecturing positions on Tax Law and EU Law at both the University of Dublin, Trinity College and Queen's University Belfast. She has published widely on EU VAT issues and presented to academic, practitioner and tax administration audiences, the latter within the framework of the European Commission's *Fiscalis* Programme. She is a member of both the Irish Centre for European Law and the Tax Research Network. Her current research interests are mainly within European tax law and policy and VAT.

**Johannes Voget** has been appointed as full-time Research Fellow. He is currently completing a PhD in Economics at Tilburg University in the Netherlands. He received an MSc in Econometrics from the University of Maastricht and he has also worked for the Economic Research Centre of the German Central Bank. His main research interests are tax competition and location of multinationals headquarters.

**Tom Karkinsky** was awarded a studentship for the 2007/08 academic year, having recently completed an MPhil in Economics and Finance at Cambridge University. He will commence study towards a doctorate in finance under the supervision of Dr Oren Sussman and Professor Michael Devereux. He will be a member of Templeton College.

# RESEARCH ACTIVITIES

The Centre has developed several areas of research activity. Here we provide a brief summary of some of its main research projects.

## RESEARCH PROJECTS

### TAX ADMINISTRATION AND DESIGN

The broad aim of this project is to establish more precisely where common understanding of the nature of tax avoidance exists and where it does not, what creates differences in views and what might be the barriers to achieving agreement. This broad aim links closely to concerns about the relationship between large businesses and HMRC which led to the government's 2006 Review of Links with Large Business (the Varney Report) and the papers that followed it in March 2007 (the Varney Delivery Plan).

As part of our research in this area, we conducted a pilot project to survey various stakeholder groups. To make progress in identifying 'avoidance', or 'acceptable' or 'unacceptable' behaviour, interviewees were presented with detailed examples of various types of arrangement ranging from the purely circular to those facilitating the efficient conduct of purely commercial transactions. Interviewees were questioned about the decisions and recommendations they would make about these transactions. HMRC officials were asked about their response to such arrangements.

A majority of our interviewees raised serious questions about the detail and practical operation of the Varney Delivery Plan, and especially the element of risk rating.

*Moving Beyond Avoidance? Tax Risk and the Relationship Between Large Business and HMRC*, Judith Freedman, Geoffrey Loomer and John Vella, Centre Report 2.

### THE EFFECTIVE INCIDENCE OF CORPORATION TAX

Who would be worse off if the rate of corporation tax was raised? Some argue that the tax falls on 'business', but any reduction in the value of a business due to tax must ultimately be borne by an individual. So would it be the shareholders, or would they be able to pass on the tax to others?

Economic theory makes a remarkable proposition about who bears corporation tax. It says that in a small open economy, with mobile capital, the owners of capital cannot bear the burden of the tax. The reason is that any investor can allocate his investments around the world, and will not be prepared to accept a lower post-tax rate of return in one country than is available elsewhere. Any tax in that country must therefore increase the pre-tax rate of return, leaving the post-tax rate of return equal to that available elsewhere. But if this is true, then the owners of capital will not bear the tax levied on capital located within a country. Instead, the tax must be passed onto immobile factors – such as the labour force or other supplies – or in prices.

Until recently, this important proposition had not been subject to rigorous empirical testing. We test this using firm-level accounting data from France, Italy, Spain, and the UK. Specifically, we test whether the average wage rate paid by a firm is affected by the firm's tax liability.

Our results are consistent with economic theory. We find that in the long run, a £1 increase in tax reduces wages by around £1. In short, our results support economic theory in suggesting that employees tend to bear the corporation tax burden.

*The incidence of corporate income tax*, Wiji Arulampalam, Michael Devereux and Giorgia Maffini, Working Paper 07/07. It has also been published as a working paper of the European Tax Policy Forum.

### HOW SHOULD CORPORATE INCOME BE TAXED?

As part of the Mirrlees review of the tax system, initiated by the Institute for Fiscal Studies, researchers in the Centre have considered fundamental questions surrounding the taxation of corporate income. We identify changes both in economic theory and analysis and in real economies since the IFS's Meade Committee made its proposals in 1978. We identify a number of problems related to both existing corporation tax systems and to the Meade Committee's proposals. Central to these problems is the increasing importance of multinational companies in a globalised world, and the increasing difficulty in identifying differences between various forms of financial flows. We consider a number of fundamental reforms to the tax systems, distinguishing them in two main dimensions: the definition of what is to be taxed, and where it is to be taxed.



Alan Auerbach

“Oxford University’s Centre for Business Taxation has run the numbers and found Britain and Estonia would both get higher tax revenues. They would gain at the expense of Germany—one of the keenest supporters of the proposals. Such figures are unlikely to sway opponents, and could unsettle some of the waverers. But harmonising tax bases no longer seems like reaching for the stars.”

**The Economist**, 03 March 2007, referring to the Centre’s research project on the implications of international loss consolidation and formula apportionment

We recommend that serious consideration, including further research, be given to the possibility of levying corporation tax on a ‘destination’ basis, along the lines of VAT, with imports taxed, but exports being tax-free. Since the tax would be levied only where the final sale takes place, there should in principle be no distortion to the location of economic activity or of profit.

*Taxing Corporate Income*, Alan Auerbach, Michael Devereux and Helen Simpson, Working Paper 07/05.

### THE IMPLICATIONS OF INTERNATIONAL LOSS CONSOLIDATION AND FORMULA APPORTIONMENT

Over several decades, the European Commission has proposed a variety of reforms to the European taxation of business. Its current proposal – the Common Consolidated Corporate Tax Base (CCCTB) – aims to address several problems, including the current absence of loss relief across member states, and more generally the difficulties involved in allocating profit between member states.

Our research has so far investigated two aspects of the proposals. Both projects use a large database of unconsolidated accounting data for several thousand companies. First, we address how tax revenues in member states would be affected by the proposals. Introducing formula apportionment on a compulsory basis may lead to higher aggregate tax revenues in the EU, though there would be gainers and los-

ers amongst both companies and revenue authorities. The precise effects depend crucially on the formula used to apportion EU-wide profits between member states.

To assess the impact of the CCCTB on incentives to locate investment in different member states, we examine the distribution of effective average tax rates under the proposed system compared to the existing system. This required a significant extension to existing methodologies of measuring effective tax rates, to allow for loss consolidation and differences across firms in where they locate. Differences in these effective tax rates indicate the degree of distortion created by the EU tax system as a whole. The results suggest that the new tax system would substantially reduce distortions to the location decisions of individual companies. However, substantial differences in effective tax rates across companies would remain, suggesting that there would remain significant distortions to the pattern of ownership of capital assets.

*The Effects of EU Formula Apportionment on Corporate Tax Revenues*, Michael Devereux and Simon Loretz, Working Paper 07/06.

### HOW DO TAXES AFFECT THE LOCATION OF DEBT AND PROFIT?

Differences in corporation tax rates between countries clearly create incentives for multinational companies to move taxable income to lower-taxed countries. But the economic significance of this is not well documented. This project attempts to quantify these effects using unconsolidated accounting data for a large number of companies for many countries. It investigates how the use of debt, and how rates of profit, depend on differences in tax rates and other factors.

A theoretical model predicts that if profit shifting is important, then post-tax profitability will be lower when the tax rate is higher. The prediction for pre-tax profitability is ambiguous, but if profit shifting is not too costly the same should also be true of pre-tax profit. We attempt to identify the effects of the host country tax rate on the pre- and post-tax profitability of foreign subsidiaries of French, German and British multinationals. Preliminary results suggest that a higher tax rate has a significantly negative effect on both the pre-tax and post-tax rates of profit.

The project is carried out by Stephen Bond, Michael Devereux and Socrates Mokkas.

“The Oxford University Centre for Business Taxation concluded, in a recent report on the issue, that reform of corporation tax would possibly improve the UK’s competitive position but warned that fundamental reform raises some risks. At best, many companies would find it costly to change that structure. At worst, simply removing interest deductibility may leave many companies unable to afford tax payments, and hence facing bankruptcy.”

*Financial Times*, 11 Feb 2007

## REPORTS

Reports can be downloaded from the Centre’s website: [www.sbs.ox.ac/tax](http://www.sbs.ox.ac/tax)

**INTEREST DEDUCTIBILITY FOR UK CORPORATION TAX**  
**Michael Devereux, Socrates Mokkas, James Pennock, Peter Wharrad**  
December 2006

This report discusses the treatment of the relief for interest payments against UK corporation tax. In particular, it addresses whether the existing treatment is in need of reform, and also considers whether some specific reforms would be beneficial. Relief for interest payments is a significant part of virtually all corporation taxes around the world. This stands in stark contrast to economics literature, which argues that there is no good economic rationale for treating debt differently from equity.

This report considers two sources of evidence on the impact of existing tax systems on the use of debt. First, using aggregate data and unconsolidated accounting data, it compares the use of debt across countries. As might be

expected, a higher tax rate is associated with a greater use of debt. Second, it presents evidence from a set of structured interviews held with the tax directors of 14 large multinational groups in the UK. The interviews covered two issues: how tax affects the existing financial structure of the groups, and how potential reforms to the UK corporation tax might affect decisions regarding financial structure. There was some agreement about the logic of introducing some form of interest apportionment to restrict relief to interest on borrowing to finance activity in the UK. However, a consensus view was that it would be impossible to introduce any form of apportionment in practice without creating considerable administrative and compliance cost, and uncertainty.





John Vella

“Judith Freedman of the Oxford University Centre for Business Taxation says: “The UK has done a lot more on this front than other European countries. But it is built more on belief than on evidence.” **Financial Times**, 10 June 2007, talking about the Centre’s report on tax avoidance

**MOVING BEYOND AVOIDANCE?  
TAX RISK AND THE RELATIONSHIP  
BETWEEN LARGE BUSINESS  
AND HMRC: REPORT OF A  
PRELIMINARY SURVEY**

**Judith Freedman, Geoffrey Loomer,  
John Vella**

June 2007

Concerns about the relationship between large businesses and HMRC have led to the government’s response in the 2006 Review of Links with Large Business (Varney Report) and the papers that followed it in March 2007, the Varney Delivery Plan.

The Varney Delivery Plan focuses on certainty, an efficient risk based approach, speedy resolution of issues, clarity through consultation and clear accountability for delivery.

This report summarises a preliminary survey which investigates attitudes and opinions regarding the Varney project, both of large businesses and HMRC representatives.

Under the Varney Delivery Plan, the volume of HMRC’s interventions in a company’s affairs depend on an HMRC risk rating. Whilst agreeing with this approach in principle, a majority of our interviewees raised serious questions about its detail and practical operation. There currently appears to be uncertainty as to what criteria HMRC employ in establishing a company’s risk assessment, their relative weight, and the benefits of being deemed low risk. If the Varney Delivery Plan represents a partnership or bargain between HMRC and large business, then the businesses we interviewed see their side of that relationship as a commitment to be open and transparent, not a commitment to curtail what they perceive to be perfectly legitimate tax planning.

## WORKING PAPERS

All working papers can be downloaded from the Centre's website: [www.sbs.ox.ac/tax](http://www.sbs.ox.ac/tax)

### **07/01 THE EFFECTS OF DIVIDEND TAXES ON EQUITY PRICES: A RE-EXAMINATION OF THE 1997 UK TAX REFORM**

**Stephen R Bond, Michael P Devereux, Alexander Klemm**

We examine the extent to which personal taxes on dividends affect share prices. We use data on UK firms from around the time of the 1997 UK dividend tax reform, which removed a significant tax credit for an important group of investors: UK pension funds. Theory suggests that the impact of the reform should depend on an average of dividend tax rates across all investors. Given that UK pension funds are small relative to the total size of the world capital market, this implies that the main effect of the reform would be to reduce UK pension funds' ownership of UK equities, with little impact on the price of UK equities. The results support these propositions.

### **07/02 THE IMPACT OF TAXATION ON THE LOCATION OF CAPITAL, FIRMS AND PROFIT: A SURVEY OF EMPIRICAL EVIDENCE**

**Michael P Devereux with Data Appendix by Giorgia Maffini**

This is a survey of existing research on the impact of taxation on the international allocation of capital, firms, financial activity and profit. The literature in this field has progressed rapidly recently, and is beginning to overcome two weaknesses that were especially apparent in the earlier literature. First, until recently, there has been a lack of detailed microeconomic data available; most researchers have been forced to use aggregate data, which cannot account for differences between companies, industries, or in some cases, countries. Second, there has been a lack of structural modelling. The literature has instead relied mostly on estimating reduced form models, using the most easily acquired data. More recent papers tend to use more structural models, and to test them using microeconomic data.

### **07/03 TAXES IN THE EU NEW MEMBER STATES AND THE LOCATION OF CAPITAL AND PROFIT**

**Michael P Devereux**

This paper investigates corporation taxes in the new EU member states. The paper analyses the development of corporation taxes in the EU over the last ten years, making a comparison between the 15 countries who were members prior to 2004, and the 10 new member states joining in 2004. It also speculates on future developments, summarising evidence on whether there has been significant tax competition, and if so, where it is likely to lead. This leads to an analysis of policy implications in the light of the evidence.

“It is hoped [that the Centre’s Working Paper series] will become an important source for research on business taxation from around the world.”  
*Financial Times*, 21 May 2007

#### **07/04 DEVELOPMENTS IN THE TAXATION OF CORPORATE PROFIT IN THE OECD SINCE 1965: RATES, BASES AND REVENUES**

**Michael P Devereux**

This paper describes developments in corporation taxes in the OECD over the last 40 years. It pays particular attention to the apparent divergence in the trends of the average statutory corporation tax rate and the average ratio of corporation tax revenues to GDP: the former has declined over time, while the latter has risen. It develops a simple framework for assessing the expected effect of the tax rate on tax revenues, and estimates the relationship using a panel of aggregate data for 20 OECD countries from 1965 to 2004, controlling for a measure of the tax base and other factors. There is only weak evidence of any relationship between tax rates and tax revenues. Evidence which does support a relationship is consistent with the finding of Clausing (2006) that the relationship is nonlinear, and that the implied revenue-maximising tax rate is likely to be low.

#### **07/05 TAXING CORPORATE INCOME**

**Alan Auerbach, Michael P Devereux, Helen Simpson**

Beginning with the recommendations of the Meade Committee in 1978, this paper reconsiders fundamental questions in the design of taxes on corporate income. It outlines developments in economies and in economic thought over the last thirty years, and investigates how these developments should affect the design of taxes on corporate income. The paper considers a number of tax systems which have been proposed, distinguishing them in two main dimensions: the definition of what is to be taxed, and where it is to be taxed. The geographic dimension of the existing international tax system is particularly problematic. This paper explores broad alternatives, including a radical reform which would identify taxable income only where a sale to a final consumer takes place.

#### **07/06 THE EFFECTS OF EU FORMULA APPORTIONMENT ON CORPORATE TAX REVENUES**

**Michael P Devereux, Simon Loretz**

Inspired by the European Commission’s proposals for a Common Consolidated Corporate Tax Base (CCCTB), we investigate the impact of the hypothetical introduction of international loss consolidation and formula apportionment in the EU on tax revenues in member states. Using a large firm-level database we show that introducing formula apportionment on a compulsory basis may lead to an increase in corporate tax revenues. On the other hand, if corporations are allowed to opt into a system of international loss consolidation, corporate tax revenues fall moderately on average. In either case, there would be substantial redistribution of tax revenues between member states.

**07/07 THE INCIDENCE OF CORPORATE INCOME TAX ON WAGES****Wiji Arulampalam, Michael P Devereux, Giorgia Maffini**

This paper addresses the fundamental question of who bears the corporation tax. Using accounting data from France, Italy, Spain, and the UK, we provide rigorous empirical evidence that in open economies the tax is substantially passed on to the labour force in the form of lower wages. Suppose that two firms have the same pre-tax profit but a different tax burden (because of different use of debt, for example, or for other reasons). On average, the company facing a higher tax bill will pay lower wages to its employees. The results are striking: in the short-run a £1 increase in taxes is translated into a decrease in wages of about 50 pence. In the long-run, the wages fall by around £1, implying that the whole of the tax is passed on in lower wages.

**07/08 EXPORTS, FOREIGN DIRECT INVESTMENT AND THE COSTS OF CORPORATE TAXATION****Christian Keuschnigg**

This paper investigates how corporation tax distorts a firm's production location and the size of its capital stock. The firm's location decision responds to the effective average tax rate (EATR). The size of the firm's investment is instead influenced by the effective marginal tax rate (EMTR). The paper builds on the so-called new trade theory to derive the position for a monopolistically competitive industry. The social costs of distorting the two decisions depend on the magnitude of the EMTR and the EATR and on the elasticities of firm's decisions to these measures of taxation.

**07/09 TAX COMPETITION, TAX ARBITRAGE, AND THE INTERNATIONAL TAX REGIME****Reuven S Avi-Yonah**

This paper argues for the controversial thesis that a coherent international tax regime does exist, embodied in both the tax treaty network and in domestic laws, and that it forms a significant part of international law. The practical implication is that countries are not free to adopt any international tax rules they please, and although unilateral action is possible, countries are generally reluctant to take actions that violate the basic norms that underlie the regime. Those norms are the single tax principle (ie. that income should be taxed exactly once) and the benefits principle (ie. that active business income should be taxed primarily at source, and passive investment income primarily at residence).

**07/10 POPULATION AGING,  
FOREIGN DIRECT INVESTMENT,  
AND TAX COMPETITION****Ronald B Davies and Robert R Reed III**

This paper studies the impact of population aging on foreign direct investment and the strategic taxation of capital. The theoretical model predicts that population aging will be associated with a lower capital stock in the home country, though effects through the labor market will generate larger outbound capital flows. We quantify these effects using data on both US inbound and outbound FDI. The results conform quite closely to the predictions of our theory. In addition, we incorporate that old-age transfer programs into a theoretical tax competition model. This introduces new insights regarding the incentives for governments to restrict capital outflows since doing so increases the labor income tax base used for intergenerational transfers.

**07/11 TAX COMPETITION FOR  
INTERNATIONAL PRODUCERS  
AND THE MODE OF FOREIGN  
MARKET ENTRY****Ronald Davies, Hartmut Egger,  
Peter Egger**

This is a theoretical paper which studies how two countries can use their tax systems to attract headquarters of a multinational. The latter can enter a foreign market in two ways: by exporting or through a local subsidiary. This decision depends on the design of national tax systems, ie. on tax rates and the double taxation relief in the parent economy. In this framework, tax competition can be beneficial as it can change the mode of foreign market entry. With tax competition, the parent country's tax is pinned down, allowing the host country to use its tax rate to enforce exporting instead of FDI. This leads to an equilibrium in the tax setting game which is associated with higher world welfare. In the absence of tax competition, the international firm may choose FDI even though this has welfare costs from a global point of view.

**07/12 CORPORATION TAX  
BUOYANCY AND REVENUE  
ELASTICITY IN THE UK****John Creedy and Norman Gemmell**

The paper investigates the volatility in the growth of corporate tax revenues as a ratio of the growth in profits. This can be explained by “fiscal drag” – the way tax revenues grow relative to profits if the tax regime does not change in the light of economic circumstances. The paper finds relatively large changes in UK tax revenues relative to changes in profits. More specifically, deductions, and how they change as profits grow, play a crucial role in determining whether corporation tax revenues grow faster or slower than profits. Additionally for small firms, the nature of the corporate tax schedule — the tax rates and thresholds applied to net profits — can be important.

**07/13 CORPORATION TAX REVENUE GROWTH IN THE UK: A MICROSIMULATION ANALYSIS****John Creedy and Norman Gemmell**

This paper constructs a microsimulation model to provide numerical estimates of the effects described in paper 07/12. In the model, corporations use group relief, capital allowances and losses in a tax-minimising manner. The growth of aggregate corporation tax revenue in practice in the UK is highly volatile in relation to the growth of profits. This is especially true in economic downturns.

**07/14 EUROPE SLOWLY LURCHES TO A COMMON CONSOLIDATED CORPORATE TAX BASE: ISSUES AT STAKE****Jack M Mintz**

The paper reviews various issues surrounding the establishment of a common tax base in Europe. The rationalisation of business activity at the pan-European level and the challenges arising from European Court of Justice decisions have forced European governments to seek new approaches to corporate tax policy. Economic, compliance and administrative costs arising from separate taxes in each EU country are becoming a greater barrier to consolidation of the European corporate sector, ultimately leading to a need to integrate European corporate tax bases. Much work is left to do if the EU is to adopt a common consolidated company tax base. Many difficulties remain, especially in choosing the formula for dividing income among member states.

**07/15 SHOULD CAPITAL INCOME BE SUBJECT TO CONSUMPTION-BASED TAXATION?****George R Zodrow**

This paper provides an overview of what is the critical question in the fundamental tax reform debate – should capital income be subject to consumption-based rather than income-based taxation? Many models indicate that a reform to consumption-based taxation would generate impressive improvements in economic performance and gains in economic welfare, especially in the long run. But these gains are significantly lower if reform is accompanied by transition rules to protect old capital, and as the progressivity of the tax system increases. This suggests that transition relief should be kept to a minimum in implementing a consumption tax reform. In order to attain efficiency gains and achieve rough distributional neutrality, rates should be kept relatively low by eliminating business and individual tax reliefs.

**07/16 CORPORATE TAX POLICY  
AND INCORPORATION IN THE EU****Ruud A de Mooij, Gaëtan Nicodème**

In Europe, declining corporate tax rates have come along with rising tax-to-GDP ratios. This paper explores to what extent these diverging developments can be explained by income shifting from the personal to the corporate tax base. The paper exploits a panel of European data on the legal form of business to analyze incorporation decisions. The results suggest that the effect of the difference between personal and corporate tax rates on incorporation is significant and large. It implies that the revenue effects of lower corporate tax rates will partly show up in lower personal tax revenues rather than lower corporate tax revenues. Simulations suggest that between 12% and 21% of corporate tax revenue can be attributed to incorporation. Incorporation has raised the ratio of corporate tax revenues to GDP by 0.25 percentage points since the early 1990s.

**07/17 A COMMON CONSOLIDATED  
CORPORATE TAX BASE FOR  
MULTINATIONAL COMPANIES IN  
THE EUROPEAN UNION: SOME  
ISSUES AND OPTIONS****Christoph Spengel and Carsten Wendt**

The main goal of the European Commission's Common Consolidated Corporate Tax Base (CCCTB) proposal is the removal of existing tax obstacles to cross-border economic activity. This paper reviews the proposals and the underlying rationale. It addresses some of the key issues that arise when considering the design of the CCCTB. Among these issues are the definition of the consolidated group, the scope and technique of consolidation, the territorial scope of the consolidated tax base and the treatment of companies joining and leaving the CCCTB.

## ACADEMIC PUBLICATIONS

The Centre's staff and visitors published the following papers in academic journals during the year.

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**John Creedy and Norman Gemmell**

*Corporation tax buoyancy and revenue elasticity in the UK*, Economic Modelling, forthcoming, available on-line: July 2007.

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**John Creedy and Norman Gemmell**

*Tax revenues and fiscal drag: An introduction*, Australian Economic Review 40, 3, 323-338, 2007.

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**John Creedy and Norman Gemmell**

*Modelling tax revenue growth*, Cheltenham: Edward Elgar, 2006, pp.xiii + 225.

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**Michael Devereux, Rachel Griffith**

**and Helen Simpson**, *Firm location decisions, regional grants and agglomeration externalities*, Journal of Public Economics 91.3-4, 413-435, 2007.

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**Michael Devereux, Ben Lockwood**

**and Michela Redoano**, *Horizontal and vertical indirect tax competition: theory and some evidence from the USA*, Journal of Public Economics 91.3-4, 451-479, 2007.

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**Lars Calmfors, Giancarlo Corsetti,**

**Michael Devereux, Seppo Honkopenja, Gilles St Paul, Hans-Werner Sinn, Jan-Egbert Sturm, Xavier Vives**, *The European Economic Advisory Group Report on the European Economy, 2007*, CESifo, Munich.

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**Judith Freedman**, *The Tax Avoidance Culture: Who is responsible?*

*Governmental influences and Corporate social responsibility* in J Holder and C O'Connell (eds), 59 Current Legal Problems, 359, 2006.

**Judith Freedman**, *Interpreting Tax Statutes: Tax avoidance and the intention of parliament*, Law Quarterly Review 123, 53-90, 2007.

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**Norman Gemmell, R Kneller and**

**I Sanz** *Foreign investment, international trade and the size and structure of public expenditures*, European Journal of Political Economy, forthcoming, available on-line: June 2007.

**Simon Loretz**, *Determinants of bilateral effective tax rates: empirical evidence for OECD countries*, Fiscal Studies 28.2, 227-249, 2007.

**A Ulph and D Ulph**, *Climate change – environmental and technology policies in a strategic context* Environmental and Resource Economics, 37, 159-180, 2007.

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# EXTERNAL CONFERENCE AND SEMINAR PRESENTATIONS

## SEPTEMBER 2006

**Michael Devereux**, *Taxation of companies*, Institute for Fiscal Studies Mirrlees Review conference, London

**Michael Devereux**, *Tax competition: theory and empirical evidence*, Conference on Corporate Tax Competition and Coordination in Europe, European Commission, Brussels

**Judith Freedman**, *Tax accounting versus commercial accounting* International Fiscal Association Amsterdam Congress (Panel Chair)

**Judith Freedman**, *Globalisation and the case for a new international approach to the reform of business taxation*, International Tax Review Policy Round Table

## OCTOBER 2006

**Michael Devereux**, *Strains and pressures on national tax systems: corporate income taxation*, Conference on National Fiscal Sovereignty: Integration and Decentralization, Ravenna

**Michael Devereux**, *Making Europe competitive: the role of tax systems in supporting a competitive business environment in Europe*, International Tax Review, Tax Policy Roundtable, London

## NOVEMBER 2006

**Judith Freedman**, *Small Business Taxation – the indefinable in pursuit of the unachievable?* Hardman Lecture, Tax Faculty of the Institute of Chartered Accountants of England and Wales

## DECEMBER 2006

**Michael Devereux**, *Some economics of corporation tax*, HM Treasury, London

**Michael Devereux**, *Rethinking fundamental issues in taxing international capital income after Cadburys*, London School of Economics Taxation Seminar

**Judith Freedman**, *The interaction of financial and tax accounting: conformity, corporate governance and coherent tax principles*, Tax and Corporate Governance Conference, Max Planck Institute, Munich

## MARCH 2007

**Michael Devereux**, *Corporation tax changes in the budget*, Institute for Fiscal Studies Post-Budget conference, London

## APRIL 2007

**Michael Devereux**, *Taxing corporate income*, Institute for Fiscal Studies Mirrlees Review Conference, Cambridge

**Judith Freedman**, *Small Business Taxation*, Institute for Fiscal Studies Mirrlees Review Conference, Cambridge

**Michael Devereux**, *The incidence of corporate income tax*, European Tax Policy Forum conference, London

**Michael Devereux**, *Taxing corporate income*, CESifo Public Economics conference, Munich

**Judith Freedman**, *Innovation and interaction: small business legal structures and tax system design*, Anton Philips Visiting Professor at Tilburg University, Inaugural Lecture

**Simon Loretz**, *The effects of EU formula apportionment on corporate tax revenues*, European Tax Policy Forum conference, London

## MAY 2007

**Michael Devereux**, *Taxing corporate income*, Institute for Fiscal Studies Mirrlees Review Conference, Dublin

## JUNE 2007

**Michael Devereux**, *Corporate Tax Competition: issues faced by governments and business*, Chartered Institute of Taxation Commerce & Industry Annual Group Conference, London

**Michael Devereux**, *What do we know about tax competition?* Office of Tax Policy Research conference, Milan

**Judith Freedman**, *Accounting and taxation*, comment on lecture by Claes Norberg, Kari Tikka memorial lecture, European Association of Tax Law Professors, Annual Conference, Helsinki

**Simon Loretz**, *The Effects of EU formula apportionment on corporate tax revenues*, II Workshop on Fiscal Federalism, Seville

**Giorgia Maffini**, *The Incidence of corporation income tax on wages*, Labour Economics Seminar Series, University of Warwick

**Socrates Mokkas**, *Profit shifting: evidence from overseas subsidiaries of German, French, and British firms*, Gorman Workshop Series, department of economics, University of Oxford

## JULY 2007

**Michael Devereux**, *Generating revenues: future trends in taxation*, IMF conference, Paris

# CONFERENCES AND OTHER EVENTS

“The Oxford centre says modifying the rules on interest deductibility would be a plausible response to a defeat in the court case, but it would be a poorly targeted way of defending tax revenues.”

*Financial Times*, 12 Dec 2006

The Centre hosted a number of events through the year, including three conferences:

**Workshop on Deductibility of Financing Costs for Corporation Tax**  
December 2006

**Academic Symposium**  
June 2007

**Conference on Corporation Tax: Battling with the Boundaries**  
June 2007

It also hosted two academic seminar series, one in association with the department of economics and one with the faculty of law, both at Oxford University.

## **WORKSHOP ON DEDUCTIBILITY OF FINANCING COSTS FOR CORPORATION TAX**

12 December 2006

This workshop discussed the potential reform of the UK's current rules for interest relief, especially in the light of the pressures on international aspects of the tax system given recent judgments of the European Court of Justice. Any revenue-neutral reform would create companies which gained or lost, depending on their operational and financial structure. Various ways of restricting interest relief were considered, but the general consensus was that any attempt to restrict relief according to whether borrowing was intended to support domestic or foreign operations would become extremely complex and would be very costly to administer.

Speakers at the workshop included:

Michael Devereux,  
*An economic perspective*

Peter Wharrad  
*Report on Interest Deductibility for UK Corporation Tax*

Chris Heady (OECD)  
*An international view of interest deductibility*

Joel Walters (Vodafone Group)  
*Tax policy considerations: a business perspective*

Wolfgang Schön (Max Planck Institute, Munich)  
*Interest deduction in German tax law – historic remarks and current trends*

Malcolm Gammie, QC (1 Essex Court)  
*Comments on today's European Court of Justice decisions*



“Michael Devereux, director of the Centre [said that] in bringing together this prestigious international group of academics, the Centre will benefit from their unique expertise and will welcome their involvement in our research activities and their contribution to policy debates.”  
*Financial Times*, 21 May 2007

Participants at the academic symposium

## ACADEMIC SYMPOSIUM

25–27 June 2007

The Centre's first academic symposium was an invited event with around forty academics taking part, mostly International Research Fellows of the Centre. The aim of the symposium was to gather together leading academics from around the world for both formal discussion of selected research papers, and informal discussion. The symposium was an interdisciplinary event; researchers with a background in economics, law and accounting took part. It is intended that the academic symposium should be an annual event, at which the world's leading research in business taxation is presented and discussed.

The papers presented were:

Peter Egger (Munich and IFO),  
 Wolfgang Eggert (Paderborn) and  
 Hannes Winner (Innsbruck)

*Saving taxes through plant ownership*

Jack Mintz (Toronto) and Alfons  
 Weichenrieder (Frankfurt)

*What determines the use of holding  
 companies and ownership claims?*

Martin Dietz and Roger Gordon  
 (San Diego)

*An agency-cost model of dividends,  
 repurchases and new equity issues*

Zhonglan Dai (Texas), Douglas  
 Shackelford (North Carolina) and  
 Harold Zhang (Texas)

*Capital gains taxes and stock  
 return volatility*

Rosanne Altshuler (Rutgers) and  
 Harry Grubert (US Treasury)

*Corporate taxes in the world  
 economy: reforming the taxation  
 of cross-border income*

Richard Vann (Sydney)

*Problems in international division  
 of the business income tax base*

Ron Davies (Oregon), Helmut Egger  
 (Zurich) and Peter Egger (Munich, IFO)  
*Tax competition for international  
 producers and the mode of foreign  
 market entry*

Johannes Becker and Clemens Fuest  
 (Cologne)

*Corporate tax policy and international  
 mergers and acquisitions – is the tax  
 exemption system superior?*

Friedrich Heinemann (ZEW  
 Mannheim) and Eckhard Janeba  
 (Mannheim)

*The globalisation of tax policy: what  
 German politicians believe*

Miranda Stewart (Melbourne)  
*Tax law and political institutions*

Rosanne Altshuler (Rutgers), Alan  
 Auerbach (UC Berkeley), Michael  
 Cooper and Matthew Knittel (US  
 Treasury)

*The sources of US corporate net  
 operating losses*

Ruud de Mooij (Eramus, Rotterdam  
 and CPB) and Gaetan Nicodème  
 (European Commission)

*Corporate tax policy, entrepreneurship  
 and incorporation in the EU*



“The centre recently ran a conference on corporation tax, concerned with “finding ways to deal with the uncertainties surrounding the boundaries of the law in terms of avoidance, tax planning and ‘acceptable’ and ‘unacceptable’ behaviour”. It asked: ‘should the UK continue to tax dividends received by UK companies from foreign subsidiaries?’”

*The Guardian*, 05 June 2007

Malcolm Gammie, Ian Brimicombe and Michael Devereux

### CONFERENCE ON CORPORATION TAX: BATTLING WITH THE BOUNDARIES

28–29 June 2007

This two-day conference explored two aspects of corporation tax that are of central importance in current policy debates in the UK and elsewhere.

The first is the regulation of the relationship between corporate taxpayers, government and other stakeholders through legislation, judicial developments, risk and relationship management. These topics were tackled from economic, legal, policy and business perspectives in the first part of the conference.

The second boundary is geographical: should the UK continue to tax dividends received by UK companies from foreign subsidiaries and seek to tax income of some subsidiaries even if not received in the UK? This was the topic of the second part of the conference.

The conference brought together around 130 experts from a variety of backgrounds, including academia, government, business and the professions. Speakers and panellists included leading international figures from all of these groups.

Speakers at the conference included:

#### Regulation of relationships between taxpayers, government and other stakeholders

Judith Freedman, Geoffrey Loomer and John Vella (Oxford University Law faculty and OUCBT), Dave Hartnett (HMRC), Jon Symonds (AstraZeneca) *Links between business and HMRC and managing uncertainty – Report on an OUCBT survey: Moving beyond avoidance? Tax risk and the relationship between large business and HMRC*

David Pickup (HMRC), Lisa Wise (HMRC), Ed Liptak (South African Revenue Service)

#### Drawing up legal boundaries: a comparative review

Frans Vanistendael (University of Leuven), Brian Arnold (Goodmans LLP, Toronto), Chris Evans (ATAX, University of New South Wales), Wolfgang Schön (Max Planck Institute, Munich), John Tiley (University of Cambridge), David Weisbach (University of Chicago) *Experiences with statutory avoidance and disclosure rules*

David Ulph (University of St Andrews), Mihir Desai (Harvard Business School), Michelle Hanlon (University of Michigan), Graeme McDonald (University of Kent)

#### Analyzing the impact of tax avoidance

Sandra Eden (University of Edinburgh), Chris Davidson (HMRC), Stephen Clayton (BT), Reuven Avi-Yonah (University of Michigan), Ross Fraser (Herbert Smith LLP), Richard Happe (Tilburg University), Heath Self (Grant Thornton UK LLP)

#### Beyond legal rules – tax risk, corporate governance and relationships with revenue authorities and intermediaries

Roger Emerson (GSK), Dave Hartnett (HMRC), Loughlin Hickey (KPMG), Rick Krever (Monash University), David Duff (University of Toronto) *Managing relationships and boundaries*

#### Taxation of foreign profits

Michael Devereux (OUCBT), Jack Mintz (University of Toronto), Reuven Avi-Yonah (University of Michigan), Mike Williams (HM Treasury) *Principles for international corporate taxation*

Stephen Bond (OUCBT and Nuffield College, Oxford), Paul Farmer (European Commission), Philip Gillett (ICI)

#### European Dimensions: Implications of the European Court of Justice case law

Christoph Spengel (ZEW, University of Mannheim), Simon Loretz (OUCBT)

#### European Dimensions: The Common Consolidated Corporate Tax Base

Ian Brimicombe (AstraZeneca), Richard Vann (University of Sydney), Harry Grubert (US Treasury), Mary Walsh (PwC, Dublin)

#### Experiences and lessons on alternative tax systems

Ian Brimicombe (AstraZeneca), Malcolm Gammie, QC, Ian Menzies-Conacher (Barclays), Edward Troup (HM Treasury)

#### Panel on the UK Perspective

## ACADEMIC SEMINARS

**Joint Academic Seminars with Law**

November 07	<b>Professor David Duff</b> , (University of Toronto) <i>The distributive function of taxation</i>
February 06	<b>Emily Campbell</b> (barrister, Wilberforce Chambers) <i>Taxing gifts with reservation of benefit</i>
February 13	<b>Ben Staveley</b> (former partner, Freshfields Corporate Tax Dept) <i>Defining corporate residence for tax purposes</i>
February 20	<b>Professor Michael Devereux</b> , (Oxford University Centre for Business Taxation) <i>Economic principles for taxing multinational corporations</i>
March 06	<b>John Neighbour</b> (partner, KPMG, formerly Head of Tax Treaty, Transfer Pricing and Financial Transactions Division at the OECD) <i>Transfer pricing</i>
April 24	<b>James Bullock, Rupert Shiers</b> (McGrigors, solicitors) <i>Specific anti-avoidance provisions for business tax and disclosure</i>
May 01	<b>Malcolm Gammie QC</b> (One Essex Court, Research Director, Tax Law Review Committee and Deputy Special Commissioner of Taxes) <i>The ECJ and corporate tax – recent developments</i>

**Joint Academic Seminar Series with Economics  
(Public Economics Seminar series)**

January 31	<b>Professor Tim Besley</b> , (LSE) <i>The origins of state capacity: property rights, taxation and politics</i>
February 14	<b>Dr Oriana Bandiera</b> , (LSE) <i>How much public money is wasted, and why? Evidence from a change in procurement law</i>
February 28	<b>Professor Ron Davies</b> , (Oregon) <i>Cooperation in environmental policy: a spatial approach</i>
March 14	<b>Professor David Ulph</b> , (St Andrews) <i>Tax avoidance policies – a new conceptual framework</i>

# COMMUNICATION

“Michael Devereux, a leading tax economist and head of the Oxford University Centre for Business Taxation, doubts whether there is any level at which Europe’s corporate tax rates would stabilise. The eventual abolition of corporation tax is “quite likely” he says.”

*Financial Times*, 19 Jan 2007

## MEDIA COVERAGE

The activities of the Centre have generated considerable media attention.

Publication	Publication date	Headline	
<b>Accountancy Age</b>	12 December 2006	Think tank cautions against cutting tax relief on interest	
	14 December 2006	Interest relief tops business tax agenda	
	23 April 2007	Common tax base ‘would benefit Britain’	
<b>Evening Standard</b>	28 August 2007	Third of UK’s biggest firms pay no tax	
<b>Fast Moving Consumer Goods</b>	April/May 2007	Smoke and mirrors	
<b>Financial Times</b>	12 December 2006	UK loses case on taxing foreign dividends	
	12 December 2006	Study cautions against cutting tax relief on interest payments	
	19 January 2007	Europe’s tax rivalry keeps multinationals on the move	
	11 February 2007	Demands to cut UK corporate relief cause alarm	
	21 March 2007	Juicy dish goes as voters reach for knife and fork	
	22 March 2007	Budget 2007: Juicy dish of largesse risks leaving sour taste	
	24 March 2007	Benefit of rate cut to 28p challenged	
	25 April 2007	Scotland faces tough choices as oil cash falls	
	25 April 2007	SNP’s bid to create Celtic Tiger faces tough taxation hurdles	
	21 May 2007	Forty tax experts put their heads together	
	10 June 2007	Tax loopholes leave private equity investors to clean up	
	25 June 2007	National News: Foreign ownership of British groups up to 50%	
	28 August 2007	One-third of biggest businesses pays no tax	
	28 August 2007	Revenue’s uneven reach has its risks	
	<b>International Tax Review</b>	01 September 2006	Letter from the editor
		01 September 2006	Interview: Business steps up to support research
		01 November 2006	Global Tax Policy Roundtable: Agenda for cross-border change
20 December 2006		Report discusses changes to the UK interest deductibility rules	
December 2006/ January 2007		European Competitiveness Roundtable: Competition vies with common base	
01 March 2007		Debt relief questioned	
14 March 2007		UK corporate tax system faces more criticism	
01 April 2007		Blueprint for rule makers	
03 April 2007		UK Finance Bill released	

“But if the Treasury hoped that the Budget would silence any whisper of further criticism, it has been disappointed. Mike Devereux, director of the Oxford University Centre for Business Taxation, was sceptical about the impact of the cut on competitiveness. Depending on the Treasury’s expectations “the enhancement of competitiveness resulting from these reforms may be something of a mirage”, he argued.”

**Financial Times**, 21 March 2007

Publication	Publication date	Headline
<b>Tax Business</b>	September/October 2006	Moving up – appointment of Director CBT
<b>Tax Notes</b>	26 February 2007	Denmark, Germany to cut interest deductions
<b>Tax Notes International</b>	09 July 2007	Battling Tax Boundaries in the United Kingdom
<b>The Banker</b>	02 April 2007	Modern tax systems and monetary policy need to be debated
<b>The Economist</b>	03 May 2007	Harmony and discord
<b>The Finance Director</b>	01 January 2007	Can tax be simplified?
<b>The Guardian</b>	05 June 2007	Merger failure
	05 June 2007	Announcement of 40 international research fellows
<b>The Independent</b>	16 October 2007	Ex Pru-chief Bloomer plans City comeback
<b>The Telegraph</b>	30 October 2006	Oxford B-school on India trip
<b>The Times</b>	23 March 2007	Lowering of corporation tax will still fail to win over firms
	23 April 2007	UK set for corporation gain
	03 May 2007	Single European tax could cost UK business £4bn, academics warn
<b>The Sunday Times</b>	25 March 2007	Brown is sacrificing small firms in bid to woo the City
<b>Wall Street Journal</b>	17 April 2007	Europe competes for investment with lower corporate tax rates

## POLICY ARTICLES AND OTHER CONTRIBUTIONS

Publication	Publication date	Contributor	Headline
<b>Accountancy Age</b>	10 May 2007	Michael Devereux	Corporate taxation: paying the price
<b>BBC World Service</b>	5 April 2007	Michael Devereux	World Business Review
<b>Business Voice</b>	February 2007	Michael Devereux	Towards a 21st Century Corporation Tax
<b>Financial Times</b>	13 December 2006	Michael Devereux	Reforms with profound implications for UK tax
<b>National Post</b>	23 May 2007	Jack Mintz	A Plan for Flaherty
<b>Radio 4</b>	28 August 2007	Michael Devereux	World at One: One-third of biggest businesses pays no tax
<b>The Banker</b>	April 2007	Michael Devereux	Where will tax competition end?
<b>The Tax Journal</b>	29 January 2007	Michael Devereux	Deductibility of Interest for Corporation Tax
	11 June 2007	Michael Devereux and Simon Loretz	The revenue consequences of EU formula apportionment



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