

Abstract for “Global Corporate Income”

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Recently there has been extensive discussion in the media about what taxes multinationals pay to the governments of the different economies in which they operate. The issue raises questions about what light the SNA can cast on the matter and whether some supplementary accounts might illuminate the subject further.

The first question is whether within the SNA the activities of multinationals can be separated from purely domestic enterprises. It is suggested that a modification of the sub-sectoring of the corporate sectors to align with the conventions used for the measurement of foreign direct investment allows this partition and gives a powerful integration with the concepts of the benchmark guidelines for measuring foreign direct investment (BD4) and data collected using it.

Leading on from this, an elaboration of the recording of reinvested earnings allows the calculation of aggregates of income generated within an economy and those attributed as earned by an economy on a corporate basis similar to the distinction between GDP and GNI for the economy as a whole. Tax ratios can be computed on both bases and the ratios compared for multinationals and domestic enterprises.

At an earlier stage in the computations, consideration needs to be paid to the treatment of cross-border transactions of multinationals as they affect the derivations of gross and net operating surplus. New guidelines of the recording of goods for processing are conceptually straightforward when the processor is unrelated to the unit owning the goods. When the processor is a subsidiary of the owner, however, is the guidance that the value of the transactions as the fee agreed sufficient or should there be some qualification on the valuation to be used that would parallel the long-standing replacement of transfer prices by arm's length prices for transactions in goods? Integral to this is the question of how and especially in which economy the benefits of R&D should be deemed to arise. For most tangible assets, the benefits arise in the economy where the asset is physically located; for intangible assets and in particular for R&D not only is this co-location unnecessary but the benefits of the same R&D asset may accrue simultaneously in several economies. What are the implications of the residence of the owner of the R&D asset on the productivity of economies where the asset is used?

Another particular issue concerns internet shopping across borders. If the administration of the retailer is in one economy but the inventories of products are held in and despatched from another, possibly to a third economy, how should the margin be apportioned between these economies? Is this a simple case of merchanting, a variation on it or a separate and important category of international trade for which guidance in the SNA and BPM would be useful? The paper will propose sets of tables addressing these problems to augment those already familiar in the SNA.