Research on Strategies to Deal With Tax Base Erosion and Profit Transfer of Multinational Enterprises: Analysis of Tax Avoidance based on Complex Structure

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Abstract: with the in-depth development of economic globalization, the problem of tax base erosion and profit transfer (BEPS) by multinational enterprises using the differences of tax systems and loopholes in tax rules in various countries is becoming increasingly serious. This paper analyzes the causes and main forms of BEPS in detail, and systematically sorts out the measures taken by the international community to deal with BEPS. The study puts forward comprehensive strategies such as improving the domestic tax system, strengthening international cooperation and optimizing tax collection and management, which provides a theoretical basis and practical guidance for effectively coping with the tax avoidance problem of multinational enterprises.

Keywords: Tax Base Erosion; Profit Transfer; BEPS; Multinational Enterprises; International Taxation

1. Introduction

With the rapid development of economic globalization and digital economy, the problem of tax base erosion and profit transfer by multinational enterprises using complex structure has become increasingly serious. BEPS' behavior not only leads to a large loss of taxes in various countries, but also distorts the flow of international investment, undermines the fair competition environment, and poses a severe challenge to global economic governance. Multinational enterprises transfer profits to low tax or tax-free regions through complex group structure and transaction arrangements, resulting in a serious disconnection between taxable profits and actual economic activities. This behavior not only caused a large loss of taxes in various countries, but also distorted the flow of international investment, destroyed the fair competition environment, and posed a serious challenge to global economic governance. The purpose of this study is to deeply analyze the causes and main forms of BEPS, as well as the measures taken by the international community to deal with BEPS. On this basis, from the aspects of improving the domestic tax system, strengthening international tax cooperation, optimizing tax collection and management, this paper puts forward comprehensive strategies to deal with the tax avoidance problem of multinational enterprises. The research results are of great significance to safeguard the national tax rights and interests and promote the fairness and rationality of the international tax system.

2. Analysis on the Causes and Current Situation of BEPS

2.1 Causes of BEPS Problems

2.1.1 The rapid development of economic globalization and digital economy provides convenient conditions for multinational enterprises to carry out tax planning

Globalization makes the business activities of multinational enterprises no longer limited to a single country or region. Enterprises can flexibly choose regions with less tax burden for profit transfer by arranging production and sales networks around the world. For example, multinational enterprises can set up subsidiaries in low tax rate countries and transfer the profits of high tax rate countries to these subsidiaries through internal transactions, thus reducing the overall tax burden.

The rise of digital economy has further aggravated the BEPS problem. The characteristics of digital economy enable enterprises to carry out business worldwide with little physical presence. For example, Internet companies can transfer profits to these regions by setting up servers or data centers in low tax countries. In addition, the value of intangible assets (such as patents, trademarks, software, etc.) in the digital economy is difficult to accurately assess, which provides convenience for multinational enterprises to transfer profits through transfer pricing[1].

2.1.2 The differences in tax systems and the imperfections of tax rules in various countries have created opportunities for BEPS' behavior

The differences in tax rates, tax bases and preferential tax policies among countries provide space for multinational enterprises' tax planning. For example, in order to attract foreign investment, some countries have set up low corporate income tax rates or provided preferential tax policies. Multinational enterprises can transfer profits to these regions by setting up subsidiaries or branches in these countries, so as to reduce the overall tax burden. There are loopholes in the tax rules of some countries in defining resident enterprises, permanent institutions, related party transactions and so on. Multinational enterprises can use these loopholes for tax planning.

2.1.3 International tax rules lag behind the innovation of business model, and it is difficult to effectively deal with new tax avoidance measures

With the continuous innovation of business model, the traditional tax rules are unable to cope with the new transaction mode and business model. For example, new business models such as platform economy and sharing economy in the digital economy make it difficult to apply the traditional concept of permanent establishment and profit distribution rules. Multinational enterprises can transfer profits and erode the tax base through these new business models.

2.2 Status Analysis of BEPS

The first is universality. The BEPS problem is widespread all over the world. Almost all multinational enterprises have participated in the behavior of tax base erosion and profit transfer to varying degrees. According to the estimation of the organization for economic cooperation and development (OECD), BEPS' behavior causes global tax losses of up to 100billion to 240billion US dollars every year. This figure not only reflects the seriousness of BEPS problem, but also shows its universality in the world.

The second is complexity. The complexity of BEPS is mainly reflected in the complexity of tax avoidance means and structure adopted by multinational enterprises. Multinational enterprises transfer profits to low tax or tax-free regions through complex group structures and transaction arrangements. These complex tax avoidance measures and structures not only increase the difficulty of the tax authorities' supervision, but also make the BEPS problem more difficult to solve. In addition, the complexity of BEPS is also reflected in its close relationship with new business models such as digital economy and financial innovation.

Finally, the concealment of BEPS is reflected in the fuzzy boundary between BEPS and legal tax planning. Multinational enterprises often carry out profit transfer and tax base erosion through legal tax planning methods. These acts are ostensibly in line with the provisions of the tax law, but in fact, they have seriously eroded the tax base of various countries. Tax authorities need a high degree of professional knowledge and skills to effectively distinguish between legal tax planning and illegal tax avoidance.

3. The Main Forms of Tax Avoidance by Multinational Enterprises Using Complex Structure

3.1 Transfer Pricing

Transfer pricing is one of the most commonly used tax avoidance means for multinational enterprises, which transfers profits to low tax areas by manipulating the transaction prices between affiliated enterprises. The core of transfer pricing is that multinational enterprises transfer the profits of high tax rate countries to low tax rate countries through internal transactions, so as to reduce the overall tax burden.

3.2 Abuse of Tax Treaties

The abuse of tax treaties means that multinational enterprises improperly enjoy the preferential treatment of tax treaties by establishing intermediate entities. Tax treaty is an agreement signed between countries to avoid double taxation and prevent tax evasion.

It usually includes preferential clauses such as reducing withholding tax rate and exempting some taxes.

3.3 Use of Tax Havens

The use of tax havens means that multinational enterprises set up shell companies in low tax or tax-free regions and transfer profits to these regions to achieve the purpose of tax avoidance. Tax havens are usually characterized by low tax rates, loose tax rules and strict bank secrecy laws, which attract a large number of multinational enterprises to set up shell companies here. For example, a multinational enterprise may set up an intellectual property holding company in a tax haven to transfer intangible assets to the company, and then transfer profits to the tax haven by charging high royalties. Such shell companies often do not have actual economic activities, but only serve as a tool for profit transfer[5].

4. Measures Taken by the International Community to Deal with BEPS

Facing the severe challenge of BEPS, the international community, especially OECD and G20, actively promoted the formulation and implementation of BEPS action plan. The BEPS action plan includes 15 specific actions, covering digital economy, mixed mismatch, controlled foreign company rules, interest deduction, harmful tax practices, abuse of tax treaties, permanent institutions, intangible assets, risk and capital, other high-risk transactions, data collection, mandatory disclosure rules, transfer pricing documents, dispute settlement and multilateral tools[2].

The formulation and implementation of these action plans marked an important step for the international community in dealing with the BEPS issue. The BEPS action plan not only provides specific guidelines for action, but also promotes the coordination and consistency of national tax systems and reduces the space for multinational enterprises to use tax system differences for tax avoidance.

4.1 Improve the Coordination and Consistency of International Tax Rules

By formulating and implementing unified tax rules, the international community can effectively prevent multinational enterprises from using tax system differences to transfer profits and erode the tax base. For example, the "mixed mismatch" action in the BEPS action plan aims to prevent multinational enterprises from using the differences of tax systems in different countries to avoid tax through mixed financial instruments and entities. By formulating uniform mixed mismatch rules, the international community can effectively prevent multinational enterprises from using tax system differences to avoid tax.

4.2 Enhance Tax Transparency

By requiring multinational enterprises to disclose more information, it is convenient for tax authorities to conduct risk assessment and audit. By enhancing tax transparency, the international community can effectively prevent multinational enterprises from transferring profits and eroding the tax base through complex tax avoidance structures. For example, the "data collection" action in the BEPS action plan requires multinational enterprises to disclose more financial and tax information to facilitate risk assessment and audit by tax authorities. By collecting and analyzing these data, tax authorities can find abnormal transaction patterns of multinational enterprises and identify potential tax avoidance behaviors.

4.3 Improve Transfer Pricing Rules

By improving the transfer pricing rules, the international community can effectively prevent multinational enterprises from transferring profits and eroding the tax base by manipulating the transaction prices among affiliated enterprises. For example, the "transfer pricing document" action in the BEPS action plan requires multinational enterprises to provide detailed transfer pricing documents for the tax authorities to audit and investigate. By analyzing these documents, tax authorities can find abnormal transaction prices of multinational enterprises and identify potential tax avoidance behaviors.

4.4 Establishing a More Effective International Tax Dispute Settlement Mechanism

By establishing a more effective dispute settlement mechanism, the international community can effectively prevent multinational enterprises from facing the risk of double taxation due to tax disputes. For example, the "multilateral instrument" action in the BEPS action plan aims to coordinate the tax systems of various countries through multilateral instruments and reduce the risk of double taxation faced by multinational enterprises due to differences in tax systems. Through multilateral instruments, the international community can effectively coordinate the tax systems of various countries and reduce the risk of double taxation faced by multinational enterprises due to differences in tax systems[3].

5. Comprehensive Strategies for Tax Avoidance of Multinational Enterprises

5.1 Improve the Domestic Tax System

First, introduce the controlled foreign company rule (CFC rule) to prevent multinational enterprises from transferring profits to these companies to avoid tax by establishing controlled foreign companies in low tax or tax-free regions. Through this rule, the tax authorities can include the profits of controlled foreign companies into their domestic tax base, so as to effectively curb the transfer of profits. Secondly, strengthen the restriction of interest deduction, which is an important means to prevent multinational enterprises from transferring profits to low tax areas through high interest payments. By strengthening this restriction, the tax authorities can effectively prevent multinational enterprises from transferring profits and eroding the tax base through debt financing. Finally, we should improve the transfer pricing rules, such as stipulating that the internal transaction price of multinational enterprises should conform to the principle of independent transaction, that is, the transaction price between affiliated enterprises should be consistent with that between non affiliated enterprises. Tax authorities can ensure that the internal transaction prices of multinational enterprises comply with the principle of independent transaction through detailed transfer pricing documents and audits, so as to further prevent profit transfer and tax base erosion. These measures together constitute a comprehensive anti tax avoidance framework, which helps to maintain the integrity and fairness of tax bases in various countries.

5.2 Strengthening International Tax Cooperation

Actively participate in the implementation of BEPS action plan, promote the coordination of international tax rules, and reduce the space for multinational enterprises to use tax system differences for tax avoidance. At the same time, by actively participating in the tax policy discussions of OECD and G20, countries should promote the reform and improvement of international tax rules in the fields of digital economy, transfer of intangible assets, financial instruments and so on. The formulation and implementation of uniform international tax rules can effectively prevent multinational enterprises from using loopholes in the rules to transfer profits and erode the tax base, so as to maintain global tax fairness and the integrity of the tax base of various countries.

5.3 Optimize Tax Collection and Management

Through the use of advanced technologies such as big data and artificial intelligence, the tax authorities can significantly improve the ability of tax supervision. Big data analysis can help identify abnormal transaction patterns of multinational enterprises, so as to find potential tax avoidance behavior; At the same time, artificial intelligence technology can automatically process massive tax data and greatly improve the efficiency of audit and investigation. In addition, tax authorities can accurately assess the tax risk of multinational enterprises by establishing a risk assessment model to identify high-risk multinational enterprises. For these high-risk enterprises, the tax authorities should carry out detailed audits and investigations to ensure their tax compliance[4]. These measures have jointly built a more efficient and accurate tax regulatory system, which helps effectively curb tax avoidance by multinational enterprises and maintain tax fairness.

6. Conclusion

To sum up, BEPS is a major challenge in the field of international taxation under the background of economic globalization. In the future, with the rapid development of the digital economy and the continuous innovation of business models, BEPS problems may take on new forms and characteristics. By improving the domestic tax system, strengthening international tax cooperation, optimizing tax collection and management and other comprehensive strategies, countries can effectively deal with the problem of tax avoidance by multinational enterprises using complex structures, safeguard tax rights and interests, and promote the fairness and rationality of the international tax system. At the same time, this transformation will also bring new opportunities and challenges, which requires the joint efforts of the government, enterprises and academia to promote the healthy development of AI in the field of Taxation and realize the balance between technological innovation and social benefits.

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