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# A Theoretical Review on Global Trends of Company Income Taxes and Alternatives of Tax Reforms

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**Abstract:** There are issues challenging the validity of existing company tax regimes to better serve the principle of effective, efficiency, fairness and accountability of public interest. This has in turn lead to an initiative of company tax reform seeking new way to design a system that is promoting competitiveness and generating steady stream of tax revenues flow. Therefore, this study aimed to provide brief reviews of literatures in which discuss the emerging trends of company income tax in global and possible tax reforms. A comprehensive review of company tax bases and rates are then employed. Data that is depicting the trends of company tax rates across these years are then being overviewed, compared, and evaluated. The importance of company's taxation, concept of company tax base and rates, trends and comparison of global income Tax, tax competition and tax reforms are reviewed. It can be concluded from the literature review that most of the trends in jurisdictions are reducing tax rates to demonstrate their competitive. Also, the global trade tax circumstances have varied radically over past few decades and impair the effectiveness of company taxation administration policies nowadays to remain competitive and generate sufficient incomes without disrupted by aggressive profit shifting. Therefore, future studies should explore areas like tax transparency and country to country reporting, unitary tax system and tax cooperation in order to ensure effective and efficient tax reforms.

**Keywords:** Global trends; Income tax; Tax reforms; Tax competition; global company

## 1. INTRODUCTION

At present, the significance of the company taxation contribution as a federal source of income in global has reduced gradually (Auerbach, 2006). A diminished trend in company tax incomes is the combination of lessening tax rates levied and growing share of pass through firm's economies activities and incomes being exodus, by shifting it out to other low tax jurisdiction such as tax haven (Clausing, 2007). Explicitly, the emerging forces of global mobilization of economic resources or capital market, cross-border competitive tax rates pressures, growing prevalent of aggressive tax avoidance have triggered waves of rapid change the nature of international company taxation and notably shape the manner in which global tax regimes operate. These issues challenge the validity of existing company tax regimes to better serve the principle of effective, efficiency, fairness and accountability of public interest. This fact, in turn lead to an initiative of company tax reform seeking new way to design a system that is promoting competitiveness and generating steady stream of tax revenues flow (Nicholas et al., 2011).Other aim of policymakers may also need to consider what form of tax reforms are capable to mitigate the hostility of abusive profit shifting and selecting policies that promote foster of transparency and fair tax environment (Paeralta et al., 2006). The main aim of this paper is strive to provide brief reviews of literatures in which discuss the emerging trends of company income tax in global and possible tax reforms. Initially, this paper first overview the issues in company tax reform and examine the traditional rationales of company income taxes. A simple review of company tax bases and rates is offered. Data that is depicting the trends of company tax rates across these years are then being overviewed, compared, and evaluated. A key factor of these growing trends in global company taxes explicitly, tax competition is then discussed. From it, the paper is devoted to the concern of this study: a range of possible tax reforms in company income taxes. Finally, a short discussion and comparison among suggested reform alternatives is then compared again two focused goals. Last but not least, simple conclusion providing the implications and some limitations are stated in the last part. Benefit of the paper is supposed to seize academic insights regarding recent trends and debates of tax reforms in company income taxes context.

## 2. LITERATURE REVIEW

The concern of company income tax continuously in the glare of recent global discusses on the subject of global market and tax reform. Most of academics and policymakers assert emerging transform in the global company income tax regimes is much necessitate. Numerous of traditionalists are advocate a fair regime by means of lower tax rates is needed to attract domestic inward investment, social welfare, political representation and fiscal growth (Auerbach, 2006).

Some propose that novel reform is crucial to cure leakages of income mobilizations and confine shifting chains to tax havens as both of these issues are assumed disrupt the value of competitive tax regime creating steady income flow (Paeralta et al., 2006).

As probing the alternatives of fundamental tax reform, this paper in basis is delineated into two types of goals. The first reform goal denotes the traditional goals of levy an efficient tax on level of company earnings. Basically this conventional objectives deal with the need of reduce tax rate to shape a competitive tax regime can collect taxable company revenues at the most efficiently manner, which is to attract investment and curtails exodus of mobility resources due to decision of discrete location and investment, the resources and utilize of funding, and the dictate option of economic substances (Bretschger, 2002). Still, there is second form of goals in novel tax reform. Paeralta et al. (2006) asserts some of these concerns also been the subject of curtailing loophole of current tax regimes to beat any distortions and aggressive profit shifting to tax haven in global.

Often, a prevalent means of policymakers to achieve the first reform goal is to levy reduced company tax rates over the income to economy activities sited in their territory. Kanawo et al. (2015) and Slemrod (2004) assert that most of these nations assume the investment is attracted utterly based on tax rates, disregard of tax bases applied. However, Zodrow et al. (2003) claims the assumption of first reform concern may not entirely hold in multilateral economies since most of the cross border enterprises (MNEs) have relatively broad latitude to select where to place their operations in prefect capital mobility market. Given the existence of tax haven which is extremely low or even zero rated, the policymakers in open global economy often engaged in harsh capital fight among one another in cut their tax rates to encourage inward of mobile factors. But there have no absolute evidences indicate a certainty benefit from reduce tax rates. Such deliberate political purpose raise a concerns of company tax rates to be hold in downward waves, or “race to the bottom”, caused by intensifying globalisation (Michela et al.,2008).

Thus, a number of perspectives have been declared in support of company tax reform on the ground of seeking innovative approach to design fair and transparency tax environment to foster a healthy climate in encouraging investment flow, combat profit shifting and fair competition (Ndikumana, 2014). But it does not come at vacuum. Overall, there are no effortless prefect treatments in tax reform of company taxation to address all concerns.

**2.1 Important of Company Taxation**

A multiplicity of rationales has been proposed to defend the imposition of company income tax. In some suppositions include Nicodeme (2009) explains, the mobility of capital particularly in economic theories which typical assert that tax rate at the level of optimal capital within emerging economy is often assumed to be zero. Consequently, this assumption is challenging the feasibility hypothesis of company taxes is a creditable practice. In contrast, the policymakers accepted the reasonable justification of company tax and ruled that corporation are ought to contribute their fair faction of tax. Legislation can be listed to thousands of pages with evidenced by legal judgements to hold up the legitimacy of company income tax. In the following part, we examine the traditional incentives for upholding company level of tax on profit.

**2.1.1 Fairness and Equity**

Perhaps, one of the foremost beliefs supporting the validity of company income tax is derived from the principle of fairness and equity (Gravelle, 2012). A forceful company tax is an essential tax fairness tool. From legal viewpoint, company are lawfully deemed as independent entity. Given its personifications form, companies are entitled to array of privileges and rights comparable to an ordinary person. Some propositions suggest that the perpetuity life and limited liability status fared by companies are the legal privileges called for the levy of compensatory tax. Such privileged-oriented rationale asserts that it is reasonable to tax companies for the compensation of public goods consumed as a productive resident do. Furthermore, it is parallel to deep-pocket concept wherein the companies that yield most of the money in economy shall in a relatively good position to assume most of the tax burden. Hence, the companies are ought to contribute their fair faction of taxes on the earnings realized. If the fewer amount of taxes that profitable companies paid, the more burdens of tax are fallen on working persons to sustain tax revenue in overall. It implies the company income tax is crucial for its role donates to the progressivity of overall tax regime and avoids distortion in fairness of taxation.

**2.1.2 Backstop to Personal Income Tax**

The company income tax is also deemed critical to act as crucial backstop meant for personal income tax (Nicodeme, 2009). Fraction of the concerns on previous study of tax in company income are depict to the connection exist among company and personal levels. A company, innately is artificial form consists of individuals be bound with the said company and have foreseeable claims on the profits retained. Such structure impose some barriers cause difficulty of administrate a tax on retained profit or capital gain accumulating to an individual account. Likewise, it is not feasible to tax capital income on accrual base. If there is no corporate income tax levied, these issues will give rise to likelihood of tax avoidance via transferring profit among company and personal basic. Accordingly, an individual might take advantage on the leakage to reduce tax liability by classify income received as company level instead of personal. Thus, it in turn results in lots of wealthier individual incomes going to be untaxed. To preserve the trailing tax incomes, company income tax is served as fair substitute to personal income tax.

### 2.1.3 Essential Tax Tools

Another common argument delineates the core rational of policymaker maintaining company income tax is deriving from its function as essential tax tools. An old adage states: "Old tax is a good tax". The company tax is well notably as the most progressive taxes among options that offered to tax judiciary. In the light of insecurity and pro-cyclicality nature underlying the financial aid flows critically undermine its commendable, this fact keynote address renovate focus of policymaker seeking new reliable source of fund financing nation's development. Arguably, the most promising and ultimately the only durable option of potential fund available to a nation is the company direct tax. Cobham (2005) suggest sustainable growth entails a nation to seize fiscal self-sufficient. The company income tax has been proven on its ability as pillar to furnish sustainable footing of rising source for budget deficits. In this context, direct company taxation is the most political compelling option particularly to developing nations as approaching favourable position in array of targeted aims such as financial self-reliance, income inequity and political representation (Cobham, 2005)

### 2.1.4 Tax Exporting

A more refined account of motives to justify rationality of company income tax on political ground is it allows exercise of tax exporting. Part of the particular concerns pertinent to open economy is multinational enterprise (MNE) in innately comprise of shareholders across nations. Given the underlying assumption, a company merely invented form in fact cannot assume tax; the effective burden of tax is ultimately falling on holder of capital. In a fair case, the bulk of company tax imposed may probable to efficiently charge on any rents attributing to foreign tax resident. The compelling capability of company income tax to export certain share of tax burden is seize remarkable political appeal to legislator. Nicodeme (2009) claim that perhaps, the company income tax is only alternative to tax those investors out of territory but benefit from public goods offered. In fact, some European studies found that there is positive relationship among company tax incident and ownership pertaining to non-tax resident. Hence, imposition of company taxes aid the effective tax on non-resident will not diminishes due to capital mobility.

### 2.1.5 Automatic Stabilizer

Last but not least, one more rationale of traditional motives promoting company income tax is deriving from economic viewpoint which perceives it as automatic stabilizer. The core premise of company income tax is type of progressive direct tax derived from taxable profit defined in tax ruling (Nicodeme, 2009). In recession, low tax eventually will be paid as profit realized is fall down. Hence, the company income tax is following the pace of economy. It is operated via progressive effect in attempt to trim down tax incidence of taxpayer with lesser capability to pay, by itself effectively transfer burden of tax escalating to individuals have relatively fine position to pay. Thus, we can assume it as effective automatic stabilizers tools to ease possible fluctuation in closed market due to volatility of aggressive economy conditions if it is defined properly.

## 2.2 Concept of Company Tax Base and Rates

A tax on company level of income is particularly multifaceted. Generally defined, company tax rates in the behaviour are identical on a variety of type of progressive income tax. At principle, company level of tax is designed at a rate levied on taxable profit, which is the tax base. All enterprises are subject to certain level of rates for company taxes. The defined statutory tax rates are pure direct measure of common tax bases. We proceed to unite these ideas led to current general applied measures of effective tax rates, which are average and marginal. Both of these notions are reply on the tax rates and tax bases available. Thus, the next sections will overview basic concepts to offer bases as considering the trends of these notions in economy reality.

### 2.2.1 Tax Bases

In every nation, delimitation in the scope of company tax base is particularly complex. Broadly, it is assessed as a portion of company profit subject to taxation. The tax bases are arrived after deduction of allowable expenses in generating the company tax income.Often, it is concerning a broad array of tax statute containing all forms of tax expenditures: from provisions for capital expenses, allowance of contributions in retirement reserves, the assessment of properties, to the level such expenditures is deductable in tax law. Asides, the company income tax also permit to numerous of unique deductions, tax preferences and tax credit to serve for legislative goal in particular tax jurisdiction. Thus, it is unfeasible to design a measure which is capable to reveals all of these facets. Kawano et al. (2015) explain if a direct income tax is described have a little level of deductions and, hence, as broad tax base. A high rate will not certainly entail high tax obligations, since a final sum rely on the defined tax base too. In some way, Viard (2009) suggests the policymakers still can attain revenue neutrality to obtain same tax incomes as cutting the company tax rates and compensated by expanding tax bases. But, as discussed foregoing, the company tax rate perhaps notable at its very own right.

### 2.2.2 Types of Tax Rates

There are three main types of tax rates stated namely the statutory tax rate, the effective tax rate, and the marginal effective tax rate.

a) **2.2.2.1 The statutory rate**

The statutory rate is the legitimate tax rate legally imposed in the Statute or law. It is equal to receipts less payments and is enforced on assessable income of companies. This tax rate is important in the determination of tax due in a nation, but also the tax base is important, for

example the United States statutory tax rate is 35%. The tax base in this instance refers to the value of financial streams and assets on which tax can be imposed; therefore a high statutory tax rate may not necessarily result in high tax revenue if there are generous adjustments resulting in a smaller tax base. For instance, the United States fared the highest statutory tax rate at top tax rate of 35% and this may likely make companies to turn a profit by changing the methods of acquiring funds, transfer of assets and products at prices which are not at arm's length. (Djurović, 2009). Still, multinational companies in United States are entitled to the production subsidy, which in turn reduces the rate from 35% rate to 31.85%.

b) **2.2.2.2 The Effective Tax Rate**

The effective tax rate also called as average tax rate refers to the rate at which pre-tax profits are taxed. It is the actual taxes due based on tax statements. The Effective tax rate discharges numerous subsidies and benefits by reducing the amount of tax paid on profits in dollars. These processes make some regions with larger statutory rates to be formed similarly with nations with lesser tax rates with a wide base. This form of tax rates cannot offer an image of the effects of timing differences like (depreciation) and mostly relies on measuring of accounting profit, which may vary in most countries(Brill & Hassett, 2007). For example, if a firm pays taxes of $25000 and has earnings before tax of $100 000, then the effective tax rate or the same, will be 25%.Therefore, since there is a difference between pre-tax income on financial statements and taxable income on tax returns, then effective tax rate can differ from marginal tax rate.

c) **2.2.2.3 The Marginal Tax Rates**

The marginal tax rate is a rate that will be applied to the next incremental amount of income. It is called marginal because as the company income increases they move up tax brackets and the marginal income is what is taxed at the next highest bracket. In other words, this rate is the rate at which the company's last dollar of taxable income is taxed. The marginal effective tax rates are ideally, the appropriate measures for controlling the impact of the tax rates on investment irregularities. Marginal tax rates also rely on the estimates made on depreciation, projected inflation and returns on investment. (Gravelle, 2014).There is also a little argument on shaping the average effective tax rate. The impact of these tax rates which are; effective marginal and join statutory rates were not clear as said by Gravelle (2014).

**2.3 Trends and Comparison of Global Company Income Tax**

As observed by Kawano et al. (2015) the company level of tax is levied on profit of firms in worldwide. In reality, computing these taxes is far to be simple issue and regularly it is multifaceted, distinct between nations, varies across periods with broad array of tax rates adopted. These changes are predictably trend emerging nearly all of the jurisdictions over past few decades. Yet, the sheer amount of these trends are prompted with continuing abreast of rising issues, prospects and threats that shape the company tax rules and policies across territories. In this section, it will be motivating to overview and compare the trends of company taxes in global.

**2.3.1 Reducing Statutory Tax Rates**

In recent decades, a remarkable feature of trends has observed in company income taxes are the continuing downward trend emerged in general statutory rates. In the studies of PWC (2012), almost half of the 183 nations in global still aggressively reduce their statutory tax rates in past seven years as of previous study in 2006. From it, 14% of the engaged nations were observed have cut the tax rates even more than once. In certain cases, the drop has been sizeable. The table in below depict average statutory tax rates for several region; the overall trends was indicated general downward for all regions of these years but the rates in 2015 exhibit fairly stable.

**Table 1** (Adoption from Corporate Tax Rates Table by KPMG, accessed May 2016)

| Region | 2007(%) | 2008(%) | 2009(%) | 2010(%) | 2011(%) | 2012(%) | 2013(%) | 2014(%) | 2015(%) |
|---|---|---|---|---|---|---|---|---|---|
| Africa | 30.56 | 28.65 | 28.75 | 28.38 | 28.55 | 29.02 | 28.29 | 27.85 | 27.92 |
| America | 29.27 | 28.84 | 28.82 | 28.28 | 29.28 | 28.67 | 28.35 | 27.96 | 27.35 |
| Asia | 28.46 | 27.99 | 25.73 | 23.96 | 23.10 | 22.89 | 22.05 | 21.91 | 22.59 |
| Europe | 22.99 | 21.95 | 21.64 | 21.46 | 20.81 | 20.42 | 20.60 | 19.68 | 20.12 |
| Latin American | 28.30 | 27.96 | 27.96 | 27.52 | 28.83 | 28.30 | 27.96 | 27.52 | 26.85 |
| EU | 23.97 | 23.17 | 23.11 | 22.93 | 22.70 | 22.51 | 22.75 | 21.34 | 22.25 |
| OECD | 27.00 | 25.99 | 25.64 | 25.70 | 25.40 | 25.15 | 25.32 | 24.11 | 24.86 |
| Global | 26.95 | 26.10 | 25.38 | 24.69 | 24.50 | 24.4 | 23.71 | 23.64 | 23.87 |

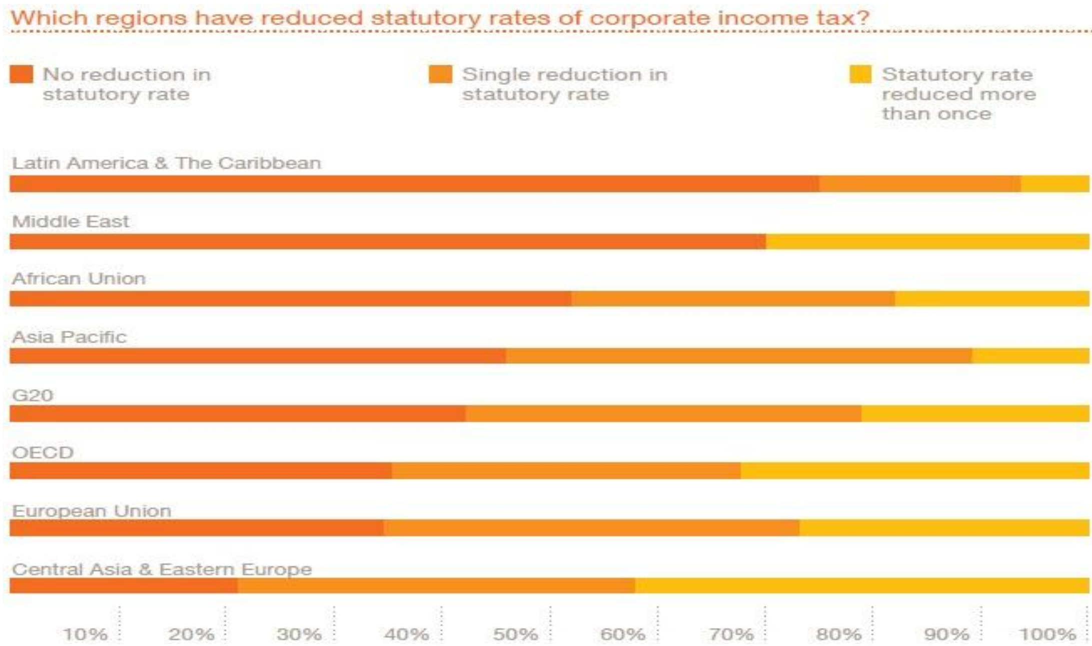


**Chart 1** (Source: "Corporate Tax Income Tax- a Global Analysis" PWC, 2012)

Explicitly, territories in Central Asia, Eastern Europe, European Nation and OECD fared the utmost incidence of decreasing statutory tax rates these years. Whereas Latin American, Middle east and African Union were revealed low engagement in tax reduction. From the table, it is not surprising to witness the average statutory tax rate in aggressive incident regions like Central Asia and European were occupied lower rates than global rate, but most of the nations especially OECD have evidently reduced from around 27% to nearly 24.50% in these years. A more shocked magnitude is found on parallel study of statutory tax rates in Asian region were significantly reduced from 29% to 23% in 2012 and continue drop to 22% in 2015 (KPMG, 2016). Overall, the worldwide statutory rate these years was fallen by a bit excess than 3% to 23.87% in 2015. These patterns suggest the fall in statutory tax rates is reasonably persists and still pronounced in recent. However, it is observed the slope is being tightened up and generally slow particularly in 2015. It may denote global tax jurisdictions regularly break to reduce tax rate.

**2.3.2 Reducing Marginal Tax Rates**

Declining in company statutory tax rates in the past decades was prevalent across in global which trimming down noticeably the worldwide statutory tax rate. However, the top marginal tax rates of company in average observed were fallen in varies extent. The reason is mostly owing to the relative proposition of each economies contribute to worldwide GDP and the magnitude of tax rates change over time. Nevertheless, the worldwide average marginal company tax rates across 10 years in overall had continues fallen from around 30% to only 22.90 % by end of 2015. If weighted by gross domestic product, the global average marginal tax rate weighted by GDP inevitably also hold falling trend from 35.5% to 29.8% in last decade.

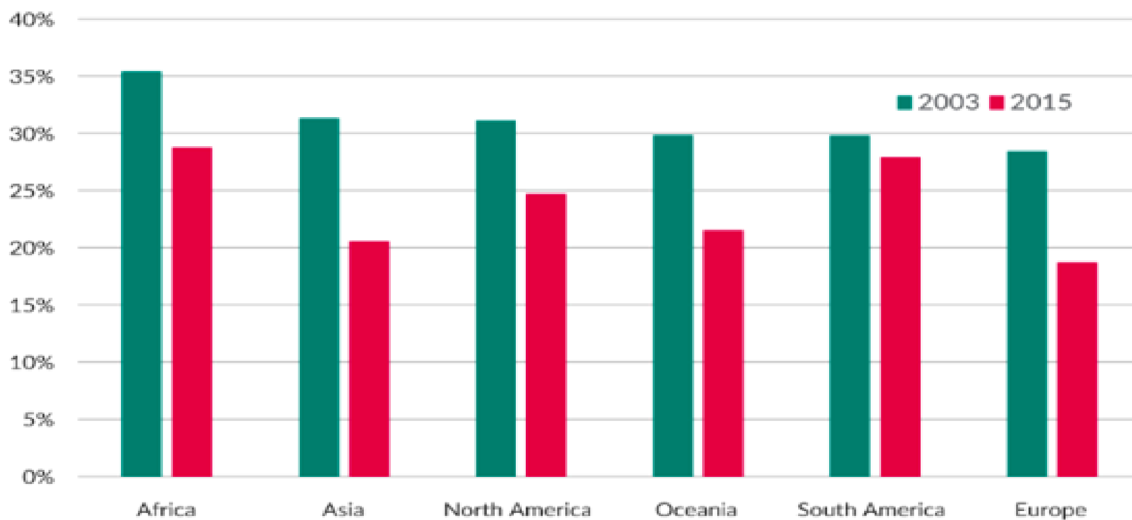


**Chart 2** (Source: Tax Foundation adoption with data from KPMG, accessed May 2016)

In overall, a downward pattern is valid across the entire regions at worldwide. The graph in above reveal marginal company tax rates has commonly fallen over the past decade. Not surprisingly, significant drop of average marginal rates is expected in Asia nations. The average marginal rates of Asia had reduced from 31% in 2003 to around 20.60% in 2015, which amount about fallen of 10%. The same fact is true for European nations. South American nations is the region fallen the least extent which is from 29.90% to 27.92%. It is probably due to most of the South American nations having great market power on mobile factors and engaged low extent in cutting company tax rates. Until 2015, African region have the highest top marginal rates in worldwide that is around 28.8%. The European region adopt lowest marginal company tax rate which is only 18.8%. This result suggests that European nations have high incident in reducing tax rates.

However, the result will be some difference if weighted by gross domestic product (GDP). North American region appeared as highest GDP weighted marginal rates which is 37%. This is owing to United States which contributed to largest GDP in region have high marginal company tax rate that is 39%. Still, European nations fared the lowest weighted marginal tax rates, only 26.1%.

### 2.3.3 Narrowing the Range of Statutory Tax Rates

An equivalent move in consistent with the downward trends of statutory tax rates is the range of company taxes is being narrowed as compared to previous years. The causal effect of reducing statutory tax rates has result in the shift of worldwide tax rates now levied is falling inside a relatively tighten length. As at 2012, in excess of half in all jurisdictions across the world were adopted statutory tax rates within the range of 15% to 30% (PWC, 2012). This trends however is observed will continue to be persist in recent years but there is getting less scope to move down the range in future. Given the pace of shift is likely to be halted and it is relatively stable after 2014. This signal may suggest that the fall is getting less pronounced.

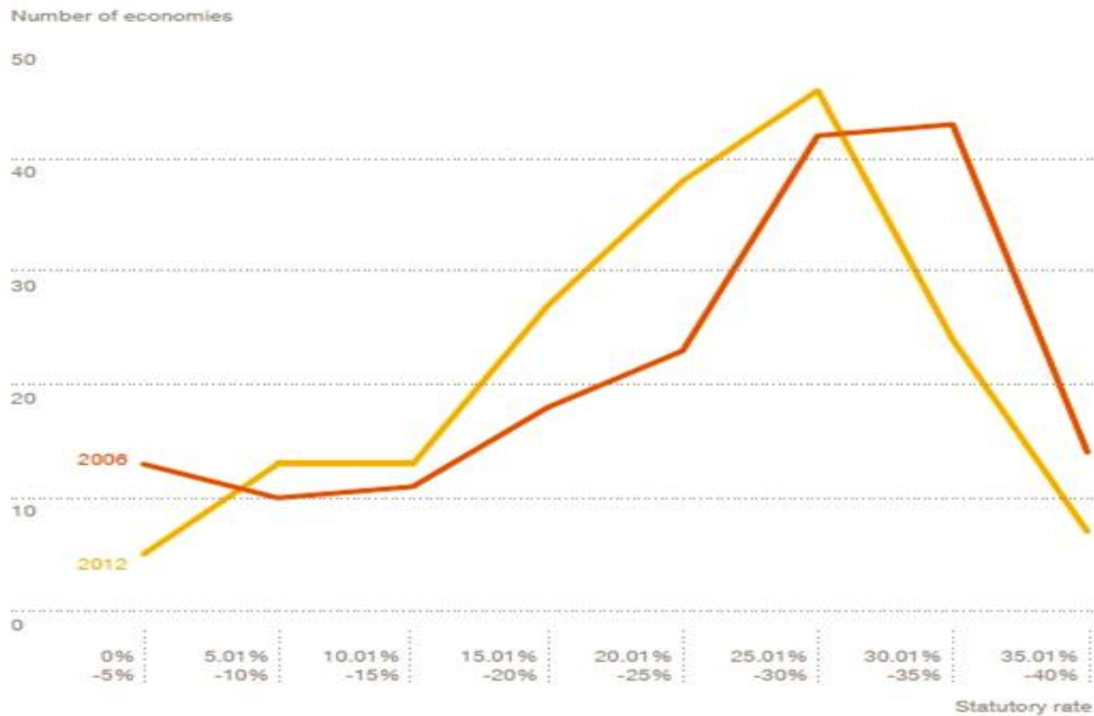


**Chart 3** (Source: “Corporate Tax Income Tax- a Global Analysis” PWC, 2012)

In nation context, the statutory rates levied across worldwide are ranged from 0% up to 50%. Explicitly, it was observed the general statutory tax rates are shifted to lower range in 2012 as compared to 2006. From the study, around 64% of jurisdictions tax rates were fall within range 15% to 30%; but barely 42% of jurisdictions at 2006 have the tax rates in a same range with most of the rates were fall under higher level. Overall, the drift of statutory tax rates over these years suggests the scope of company tax rates is being narrowed with a hub is centralized on range 15% to 30%. It is evidenced by the amount of economies with tax rates within the range of 15% to 30% in 2006 is only 83 nations; but the amount grow to 111 nations in 2012. It is reasonably predictable there is getting more countries will fall in same rates in near future.

Currently, there are only few nations across worldwide have statutory rate exceed 35%. As updated in 2015, the distribution of company tax rates between 183 tax jurisdictions amount a major of 43 nations have tax rates fall within 25% to 30%. However, 22 nations indicate tax rates in group of 30% to 35%. 114 nations have tax rates within 0% and 25%. Only 4 nations have tax rates higher than 35% (Pomerleau, 2015).

**2.4 Tax Competition**

One of the key determinants to explain most of the continuous downward of statutory tax rates in global is on the account of tax competition. Wilson (1986) asserts that tax competition at its origin is deliberately action of policymakers continually put their tax rates favourably down to promote the inflow of desired factors and resist leak out of such factors. By way of the advancing drift towards fiscal globalisation, it is expected to witness that the worldwide statutory rates levied on company income are compiling as rivalry war to attract capital and resource flows aggravated. Simmons (2006) further argued intensive competition in global for inward investment force policymakers to cut statutory tax rates and raise concession to foreign investors. Thus, the tax rates imposed by each tax jurisdiction are restrained by global competition.

Numerous of evidences in previous studies are amount to verify the idea asserts that: the policymakers do consider statutory tax rates of other jurisdictions in determine their statutory rates. In a early tax competition model initiated by Wilson (1986) and Zodrow and Mieszokski (1986), all nations is assumed to be the price takers to compete in prefect capital mobility economy and each of them is mutually affected by behaviour of others. The significant of the study reveal that the tax rates will eventually compete down to zero, which is known as “race to the bottom”. The same idea is applicable on the downward trends observed in global statutory tax rates recently.

In economy reality, the existence of zero rate nations or tax haven even prompts series of harmful tax competition across worldwide (Bretschger et al., 2002). Such competition pressures are continuing trim down the statutory tax rates with no halted. Small amount of nations like United States still able to maintain statutory tax rates at high level as these economies entitled a market power to set tax rates in mobile resources. But some of these nations including Japan inevitably have taken a further step to cut down their tax rates recently. It is sensibly to predict United States is considering doing so in future.

According to Simmons (2006), there is not information available to provide apparent evidence that reveal there is possible benefit from competition. The descending trends indicate it has continous over several times but the slope is being moderate in these two years. Such tendency may suggest the scope to reduce statutory rates is being tighted and possible the tax reform efforts are getting effective. It will be appealing to observe the way company income tax regime of worldwide will go on in future and how policymakers cope with prioritizing the will to exhibit the nation tax regime is competitive, and the call of obtaining the utterly requisited revenue for public expenditures in near future.

**2.5 Tax Reform**

From the foregoing discussions, the focus of this paper will shift to review the alternative proposals which are meant for company tax reform to delineate the concern of policymakers. For the ease of examining the options of elemental reform, we hereby depict two points of concerns: firstly, the way of company tax is restructured to furnish the ground in favour of direct investment; and second, the manner it is reformed to seize for the emerging mobility of taxable earnings and capital. The foremost concern as stressed by Bretschger et al. (2002) is deal with traditional targets of taxation on company income. Basically the traditional goals seek to propose a competitive tax structure which extracts income to the greater extent of efficiency – explicitly, which mitigates any possible distortions pertaining the decision of investment and location site, the funding and holding of assets, and the selection of legitimate form. Meanwhile, the concern of second goals has a focus on the theme of study regarding the prospect of profit transferring among territories (Paeralta et al., 2006).

**2.5.1 Lowering Tax Rate and Bordering Tax Base**

One of the prominent and chronic proposals as Viard (2009) proposes that is regularly suggested in traditional company tax reform is to lowering tax rate and broadening the tax base. This proposal is consistent with the first concern of fundamental tax reform in above. It addresses striking demands of policymakers in identify key measure serve to design competitive tax system for tax purposes: that is to shape environment that provoking investment behaviour and in chorus it is perceived capable to yield stable stream of revenue flows to finance public expenditures. .

**2.5.1.1 Rational ofLower Tax Rate Broader Tax Base**

Traditionally, a tax reform is concern of tax rates and tax bases. Kawano et al. (2015) address a common practice to approach these bidirectional goals is decreasing the top tax rate and compensating the tax revenue losses via raising the amount of company level of income available to tax. The underlying premise of this idea is to preserve "revenue neutrality” of taxing procedure that permitting policymaker ultimately remains access to same tax revenue amount without distorted by revision of tax rules (Gravelle, 2012). For instance, one of the conditions is referring to desired shift through decrease tax revenue collected from particular tax groups in align with commensurate increasing of tax incidence or removing tax treaties in other groups. This practice is concerning the fairness and efficiency metrics of tax system as attracting investment while at the same time, generating same tax revenue.

**2.5.1.2 Implementation of Lower Tax Rate Broader Tax Base**

If revenue neutrality is the defined target thus the capability of policymakers to trim down company tax rate is restrained to the extent of how many the tax base is available to be extended rules (Kawano et al., 2015). One of the propositions asserts that this concern is utterly count on the removing of corporate tax expenditure. Certain tax treaties

such as capital allowance provision are the areas often subject to the means of lengthening the tax bases. A statutory company income tax rate can even be bargained to an added lower level if it is compensated with the change in other taxing procedures instead of company tax expenditures. An instance of such alternatives may perhaps limit or remove non-tax expenditure includes interest allowable and housing tax credit. As result, supplementary tax income will be rise in non-corporate tax system to hold up company taxes diminution. The non-corporate level substitute sources may comprise of personal tax income, capital gain tax and consumption tax (Gravelle, 2012).

#### 2.5.1.3 Pro of Lower Tax Rate Broader Tax Base

A foremost assertion in favour of this option is it will raise company income taxes via effectively expanding the tax bases (Nicholas et.al, 2011). Collectively, if the revenue-neutral reform policy is reply on non-corporate fields to compensate the reduction of company income tax, certain economy activities possibly will shift back to company sector. Hence, this exercises are extending the company taxes base. Moreover, the non-corporate tax reform may enact on the tax impose on revenue of resident MNEs operating in other jurisdictions. If such reforms are capable to constraint the profit transferring exercises across territory, it eventually will broaden domestic company tax base in overall.

Also, some may propose reducing tax rates will effectively diminish possible tax effect on economic decisions. Neubig and Robert (2011) suggest the uneven tax treatment confronted due to difference in tax rates will form a bias deterring inward of mobility resources. Reducing tax rate will suggest ease the uneven treaties and thus attracting foreign direct investment.

#### 2.5.1.4 Cons of Lower Tax Rate Broader Tax Base

However, the setback of this option is it continuous put downward pressure on company taxes and finally leads to harmful tax competition. Cut throat fight to compete for inward investment put no halt in the race of setting a lower statutory rate until zero only trigger vicious cycle.

Also, particular viewport such as Viard (2009) questioning that it is getting lesser scale for policymaker to equalize diminutions in top company tax rate via extending taxes bases. Such constraint causes the capability of policymaker to sustain revenue neutral objective upon shrinking statutory rates is increasing inferior. Ultimately, Kawano et al. (2015) predicts this option will result in: whichever company tax revenues collected will be lessened given the incapable to raise any tax bases at low tax rates; or the offsetting distress as rising company tax revenue from this alternative will disrupt the diminution of top tax rates.

Nevertheless, both of these consequences suggest that the revenue neutral tax reform option do cost dearly price. Such costs will offset its benefits and make this option gradually less creditable.

### 2.5.2 Tax Transparency and Country to Country Reporting

Transparency and country to country report is topical drifts of tax reform. Company disclosure is an imperative means to policymaker often aimed for tax fairness purpose. In parallel, the company disclosure is relevant to the goal of fundamental tax reform concerning the possibility of profit shifting across nations.

#### 2.5.2.1 Rational of Tax Transparency and Country to Country Reporting

As regard to multinational companies, transparency concern has turn into significant as they are increasing subject into public scrutiny regarding the amount of tax they ought to pay and did they paying fair share of tax (Devereux, 2011). Transparency concerning the fair tax subject to a company will create fair tax climate and avoid profit shifting distortion due to discrete location choice. It is served as the core principle of Base Erosion and Profit Shifting (BEPS) plan debated with OECD (Owen, 2015). The fairness of company taxes at territory scale can be justified on country to country base. This fact is revealed via topical enacting of country to country reporting rulings by policymaker to assess the fair tax obligation for extractive industry and to all cross border firms in European Union.

From the outward, it was observed the MNEs structure shape unique troubles. Paeralta et al, (2006) propose that deliberately profit shifting among the MNCs divisions is internal in the group but it is externally appeared as a genius cross border trading in enforcer's sight. Even the transferred parts is traded at market based arm-length pricing, but still it is fiction amount and has no actual market prices can properly address the added value of their global synergy and benefits. Thus, an honest practice of MNE to be transparency in their disclosure is crucially needed. Such as, recent case evidenced by voluntary action initiated by Google in honest taxation liability declaration has denoted the vital of tax transparency (Jamie & Hooker, 2016).

#### 2.5.2.2 Implementation of Tax Transparency and Country to Country Reporting

Currently, the noteworthy reform in company taxation is shifting its focus to enhance tax transparency and tightening up rules for company tax disclosure. A recent reform initiated by OECD during 2013 in Base Erosion and Profit Shifting (BEPS) project is global tax transform map that obligating multinational enterprise with annual turnover exceed threshold to report their operation on country to country basic (Flamin et al., 2015). It is followed by equivalent reforms agenda in G20. An equivalent effort initiated by G20 via Global Forum also reinforces the annual exchange of information in global (Maria et al., 2014). Such transparency pressure is now challenging scrutinized entities to be more transparency their subsidiary disclosure, reduce tax avoidance, and diminish the use of income shifting to subsidiaries operated in Tax haven or low tax countries.

Consequently, each cross-border corporate is obligated to entails their relevant operating details to tax administrators of respective nation they are operated in.

**2.5.2.3 Pro of Tax Transparency and Country to Country Reporting**

One of the proponents of this option suppose that MNEs are obligated to contribute a fair faction of company tax in relative to operating activities located in respective nation (Devereux, 2011). The key values in this reform option is the disclosed filing information permits effective assessable of tax authorities to measure the relative fair amount of tax liability in multination enterprises (MNE) and their effective tax actually paid based on the profits yielded. Accordingly, a meaning comparison available in this information will furnish reliable variants that delineating possible transfer pricing risks, other base erosion and profit sharing risks, and potential noncompliance of MNE with applicable transfer pricing rules.

Benshalom (2011) also assert that country to country reporting help shape integration of economies. A managerial efficiency and enhanced transparency information can be assessable to all tax jurisdictions in lower transaction cost than self attainable. Such reporting standard also assume will disproportionally help less developing nations which have low political capability to obtain needed information and least technical capability to devote the resources and expertise.

**2.5.2.4 Cons of Tax Transparency and Country to Country Reporting**

However, perhaps the most detriment cost concerned according to Baker (2015) is the likely of new rules will be abuse use of private country to country reporting that may be misconduct as measure of tax unfairness, named the power of lobbying. Influential persuading brought to the OECD adopting its utterly forceful standard to serve self-interest can causes such reporting standard as inferior for accountability at the most. As it is OECD standard, the leeway to allow others parties to hold their accountability is limited. Explicitly, the decision was decided to use the information exclusively to OECD tax regimes will eliminate the whole accountability value to serve for global tax transparency and fairness.

A direct cost of implementing the tax transparency in country to country reporting is arise from adjustment of current system to fulfill requirement of transparency reporting (Devereux, 2011). Some such as Devereux (2011) assert even most of the present financial reporting structures are technically capable to transmit nation-related information; but the extent of preliminary costs and efforts must be devoted cannot be easily estimated and it is extended by other factors for instance the complication structure of global practices.

Also, the successful implementation of tax transparency and country to country reporting will obligated the expansion of resource-exhausting instruments and supplementary mechanisms as supplying shared information to other tax jurisdictions. It is supposed by Murphy et al. (2012) claim there is time consuming in the process of continuous dialogue and conversations among tax jurisdictions in identifying a range of measures to eliminate possible factors that probably will cause the loopholes to leak confidential data public or misuse it for non permitted tax approaches.

Implicit cost of tax transparency also derived from information disclosure will cause competitive disadvantage. In Maria et al. (2014) viewpoint, the competitive unfavourable might take place in the voluntary information disclosure of country to country format reporting. The transparency disclosure will considerably put them at hostile position as the rules are not applicable to all relevant MNEs to equally reveal this commercial confidential information. The overall result will lead to deteriorate effect instead of curb the worldwide unfairness of taxing rights.

**2.5.3 Unitary Tax Systems**

A progressive efforts initiated by international body OECD and UN has evaluated of current company tax practice to consider all type of tax reform alternatives, include unitary tax system. This option is corresponding with tax transparency and country to country reporting option to serve tax reform aim about profit shifting.

**2.5.3.1 Rational of Unitary tax systems**

Progressively, worldwide are going levied in a global tax scheme wherein overall fundamental structures were reforming across past decade. In unitary scheme, a tax will be exercised in multinational enterprise (MNE) not on the basic of the legitimate forms they are designed for, but in accordance to the valid economic presence of their operating activities and location operated (Murphy et al, 2015). Accordingly, a division in MNE is regarded as a subunit under whole group; rather than independent entity for tax treatment. Murphy et al. claim the entire profit earned in group is counted as partial of parent's earning. Thus, the profit of each subsidiary is accumulated in single entity approach and reported together and apportioned according to the genius economic presence in each jurisdiction. Ideally, a unitary system is perceived as more justifiable and simplified manner to be executed as compared to the existing structure. The current global tax system treats MNEs as if a bulk of separate units located in diverse states with slack compilations. Given the loose connection among tax regime in varies nations; such 'separate entity' manner eventually offers MNE's a notable capacity to commit in aggressive tax avoidance via transferring their profit across territories to adapt their tax matters.

In Paeralta et al. (2006) view, such tax avoidance practice in essentially entails two manners. In foremost way, MNEs are establishing subsidiary operation in convenient nations, typically levied by little or even no tax in company income to conduct economic activities or holding assets. By means

of accruing taxable profit in such nations, the overall tax liability of the said MNE‘s group can be minimized effectively, even if these subsidiaries often subsist only on paper, perhaps a shelter company with a name appeared in record. Second, a MNE be capable of distorts the pricing of transmitted parts across divisions in MNE’s group as of relatively high tax nations to low-tax nations. Such exercise is formally identified as “transfer pricing”. Given these setbacks posed in MNE’s complicated structure, some asserts that an emerging approach is needed to tax on their account in unified nature by following to the MNE’s integrated cross border operation.

**2.5.3.2 Implementation of Unitary tax systems**

An essential move proceeding was initiated in global as European Commission enacted novel scheme which designed in support of unitary taxation inside the jurisdiction of EU. In origin, the Commission strive to seek a further efficient base meant for company taxation in EU nations as EC adopted a Ruding Report in last two decades (Michaeal et al., 2011). An added progress is to suggest a step shifting to company taxation inside the EU on consolidated approach and in depth study was conducted in 2000s. At time reacting to financial crisis in European, advance attempt is exerted to `competitiveness pact’ to take into accounts a need for the establishment of common measurement bases for company taxation (European Commision, 2010). Come to 2012, the “Common Consolidated Corporate Tax Base” action plan is applicable to all nations operated in EU. Explicitly, universal set of rulings is enacted to all involving member jurisdictions in the computation of company tax basis on a unitary approach for all subsidiaries of the MNEs group. From it, an apportionment of the company income taxes is allocated following agreed formula among the involving nations. Nevertheless, this unitary tax rule also comprises common standards for tax interfaces with non member jurisdictions.

**2.5.3.3 Pro of Unitary tax systems**

As proposed by Michael et al.(2011), an innovative tax reform addressed in unitary tax system will significantly shrink possibility for cross-border tax avoidance in the account of earnings shifting and aggressive utilize of tax havens. The core premise of unitary taxation is to simplify tax procedures via treating all operations in MNE group as single entity. As streamlining the tax administrability, unitary taxation effectively minimise all possible compliance cost devoted and any inefficiencies that may lead to distortion of decision regarding location selection.

Simplified tax routes in unitary tax system are perceived deliver essential values in efficiency design of worldwide tax regimes (Murphy et al., 2011). Clearer tax procedures in gathering company taxes contribution to relevant authorities help ensure tax administrated fair and lucidity way. More crucial, a unitary system effectively reduces the administration cost of tax authorities.

To sum up, unitary taxation reform is justified on political grounds as it is capable to curb tax haven on fiscal confidentiality issues and lots of other concerns. Through lining up tax policy to be more corresponding with economic facts, unitary tax reform will enhance the transparency and fairness of company tax globally thus facilitate the forming level of ground for competitive international trading.

**2.5.3.4 Cons of Unitary tax systems**

However, deciding a proper weighting for the factors to be adopted in unitary formula possible is the trickiest issue in the global acceptance of unitary system (Benshalom et al., 2006). A concern regularly disputed as the unitary model is it possible a universal and fair formula valid to all sectors is available. Certain sectors have posed unique traits call for specific formula to entail its substance. Such as, weighting factor of transportation sectors is tricky given the assets is mobile.

Also, Benshalomet al. (2006) argued global agreement to the weighting of formula determinants maybe constrained by difference political wills of nations. Some nations such as United States with high productions in worldwide may prefer increase weighting to sales factor; however some may tend to boost weighting of payroll as the nations have high wages incomes. Eventually, the interest of developing nations with low political bargaining power may be disregard give rise to an issue. Thus, the unitary tax system is impossible without genius tax cooperation in global.

**2.5.4 Tax Cooperation**

Nevertheless, the company taxes reform proposal discussions have commonly shifted to tax cooperation direction, rather than emphasizing on the competition oriented in the past. This option is designed to actualize both goals in tax reform idea to promote inflow of mobile factors and offer a jointly course to defeat aggressive profit shifting practice.

**2.5.4.1 Rational of Tax Cooperation**

Recent developments trends in company direct taxes lead to concerns regarding a potential cost of detrimental tax competition, namely the “race to the bottom” (Michela et al., 2008). Also, In Flamin et al. (2015) viewpoint, the scarcity of active cooperation among of varies tax regime policies cause noteworthy losses due to aggressive profit shifting in MNE. Given of the implications, cross border capital mobility has reformed cooperation initiatives of tax policy in global to fight harmful competition and profit shifting (Owen, 2015).

Flamin et al. (2015) further assert at the root of issues as levying company income taxes in MNE is there a mismatch among the MNE’s ability to organise their tax affairs via international operation arrangement; and in contrast, the level of cooperation between tax authorities in global company income taxation. Company taxes are centrally levied in state with loose cooperation, but the planning of

MNC tax liabilities affairs is being conducted via sets of legitimate and administrative distribution which are designed with a well composition across nations. Without the brilliance cooperation among tax authorities in administration and enforcement, it will be a complex puzzle to defeat.

**2.5.4.2 Implementation of Tax Cooperation**

International cooperation reform on company tax issues is ought to obtain additional support than formerly been. The recognized official forms of international tax cooperation are tax treaties and standards among jurisdictions (Flamin et al., 2015). A fancy effort is initiated by OECD and related members in General Forum from 2000s work together to counter jeopardy in damaging preferential tax regimes. Identified that part of key features in harmful tax competition are less of transparency and exchanging of information, these members are consented to mutually apply information exchange and transparency standards in support of tax purpose (Maria et al., 2014). Via continuous peer review and opening dialogue with non-member jurisdictions, it is getting more support to promote international tax cooperation in tax treaties and standards. In future, jurisdictions are called for exhibit higher cooperation in the enacting and adoption of international standards, for instance the automatic exchange of tax information, addressing duties for MNE, transfer pricing rulings, recognition and remedy of stolen assets and establishment of common company tax base.

**2.5.4.3 Pro of Tax Cooperation**

As Owen (2015) proposed, the tax cooperation option is aimed to jointly create a level of playing fields that facilitating MNEs transaction and fair tax competition with more transparency and open. Even the relieve of this alternative toward company taxes reform is somewhat low, still it has evidenced valuable. International company tax administration and policy reform conducted via tax cooperation in global aid jointly strengthening measures vital to raise company tax incomes. In lots of nations, tax cooperation has effect on initiate progressive reform to harmonize company taxes standard and policy mutually. Unifying fair tax rates by way of healthier administration has result in sizeable increase in tax incomes.

Also, it had observed registering MNEs information in shared form is the key to rising company tax revenues collected (Ndikumana, 2014). In respective nations' findings, taxpayer registers mostly originally in weak form, by lots of taxpayers fall outside in the assessable scope. Centralized efforts and coordination among tax regimes in global help complete the taxpayer databases and recognize possible non-filers having essential and urgent effect on rising company tax revenues. All nations commit to devote defined attempts, with assistance support to raise their taxpayer bases at the foremost impact.

Nevertheless, Ndikumana (2014) in the report also suggests global tax cooperation has essential impact on developing nations. Developing nations depend more greatly on company income tax given for self-financing needs with intensive exposure to profit shifting and reducing base issues. The issues are addressed in the global cooperation initiatives such as the Global Forum via Transparency and Exchange of Information for Tax Purposes and BEPS scheme that offer instruments to reinforce global tax transparency and coordination. The results of the cooperation efforts suggest such progress foster right surroundings for developing nations in global company taxation issue. In 2015, the company tax incomes weighted by gross domestic product (GDP) in developing nations revealed noticeable resilience even at time of worldwide financial crisis.

**2.5.4.4 Cons of Tax Cooperation**

Cooperation of tax reform is not arriving with vacuum. Firstly, Devereux (2011) found it is crucially reliant on organized and proficient exchange of tax information across regimes. The values derived from coordination on the account of profits shifting is only validate if every nations be consent to exchange all information and thoroughly enforce an agreed regime for instance residence oriented taxation.

The effectiveness of tax cooperation also obliges responsive sovereign determinants at the issues of trade-offs among benefits of coordination and costs due to dissimilar policies (Owen, 2015). As determining such decisions, fiscal and economic concerns frequently are eliminated by political deliberations. This is the reason clarify restraints in design and implement of global company taxes standards.

In multilateral agendas, the execution of tax cooperation frameworks in defined areas such as company taxation is regularly trumped due to the short of willing to harmonization between policymakers to the conference or protocols and default of accountability instruments to punish negligence to contribute cooperation (Ndikumana, 2014).

## 3. DISCUSSION AND COMPARISON OF TAX REFORM ALTERNATIVES

From the foregoing parts, this paper is strive to offer a brief overview among a numerous of options in elemental company tax reform which are perceived recognizable in recent global tax agenda. In following section, we try to outline how these diverse reform options approaching the fundamental aims of policymakers, explicitly: the concern of how these reforms encourage investment inflow; and reduce distortion in profit shifting due to loophole of current regimes.

In basis, the traditional option of lowering tax rates and broadening base is well serving the first goal. As Viard (2009) and Kawano et al. (2015) had proposed, often, it is assume the benefit of reduce tax rates will overweight the cost of broadening the tax bases as make tax system remain competitive to attract investment flow. However, Simmons

(2006) and Michela et al.(2008) in the study observed vicious race to a lower tax rates in global create capital flight that spurs harsh competition. Also, Paeralta et al. (2006) seems it add no value or even intensify as deal with another tax reform goal to remedy loopholes and solve profit shifting crisis in source-based jurisdictions. Moreover, Gravelle (2012) and Kawano et al. (2015) found recently the offsetting distress arise as getting less scope for policymakers broadening the tax base to preserve revenue neutrality also questioning its commendable. Such dearly costs are likely put astop on this option.

The setbacks in lower rate and broader base is overcome together by emerging reforms including tax transparency addressed in country to country reporting alternative and unitary tax system. Given the gradually more constraints of policymakers to reduce company taxes in response to increasing intensive tax competition, Flamin et al. (2015) draw out the focus of tax reform now is shifting to emphasize on the goal of create healthy and fair climate to reduce profit shifting distortion and encourage the investment flow. Maria et.al (2014) agreed the efforts of OECD and G20 in global tax transparency will foster friendly environment to attract foreign investors and compelling MNEs geographically reconcile the taxes contributed is align with their real profits.

An innovative approach named unitary tax system is then adopted to accumulate all the profit of MNEs and apportioned on their actual economic substance using details gathered in shared information. However, Murphy et al. (2015) found these reform initiatives are far to be easily given the information exchange constraint, gap of diverse capability and collective political willing especially among developed and developing nations.

Hence, a new tax reform direction as observed by Owen (2015) is addressing the continuous cooperation initiative among tax authorities is urgently needed to conduct effective dialogue and having in-depth engagement from tax regimes in worldwide, and thus validates the effective launching of collective tax transformation. Rather than mutual compete in cutting tax rates, the focus of reform now shift to coordinate tax policy among tax regimes. Via mutually automatic exchange of information, enacting of common agreed standards and rulings, overview of possible loopholes in each tax regimes and expertise aids, Ndikumana (2014) in the report found it help foster level of playing fields for international business and cross border investment. Eventually, these efforts will encourage mobility resources inflow in transparency fair manner and overcome profit shifting issues. Still, it is not comes with no efforts in attaining global cooperation and mutual consensus. All the alternatives are fall under debates create complex matters and none of it is faultless

## 4. CONCLUSION

To sum with, the existing regimes for levying tax on company income is inferior and thus urgently necessitate of reform. The global trade tax circumstances have varied radically over past few decades and impair the effectiveness of company taxation administration policies nowadays to remain competitive and generate sufficient incomes without disrupted by aggressive profit shifting. As observed, most of the trends in jurisdictions are reducing tax rates to demonstrate their competitive. However, the traditional tax reform manner of expansion the tax base to compensate decline in company tax rates has restricted capacity. One of the concerns is harmful tax competition and interruption of absolutely low tax jurisdiction such as tax haven. Also, removing trade preferences to expand tax bases will not assure sufficient leeway to generating tax revenues in long term to offset continuous cutting in company tax rate. Therefore, it is recently asserted that the dearly costs of cutting the company tax rate entails the must to seek beyond for other approaches. Numerals of broader options are promising, including tax transparency and country to country reporting, unitary tax system and tax cooperation. Still, all the alternatives are fall under debates create complex matters and none of it is faultless. It has no easy treatments of company tax reforms is capable to entails all the concerns.

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