Referee report on "Tax Certainty: Proposals for the short term and the long term"

The authors deal with an important issue. It is highly plausible that due to the Globalization, the importance of MNEs and the ongoing digitalization taxation, especially the taxation of MNEs, is a high priority issue and should be looked at from an international perspective. The aspect this paper is about "tax certainty". Tax certainty can reduce risks for both sides, governments and enterprises. This can make tax revenues more stable and investment decisions less risky.

After the introduction the paper presents results from ISORA in section 2. In the third section proposals for the "short-run" are made, namely EEPs, more coordination and standardization for the process of drafting tax legislation, international convergence of domestic rules, making use of country-by-country reports (CbCR) to avoid base erosion and profit shifting (BEPS) and setting up investment incentives to attract MNEs. The authors advocate not to publish CbCRs but to circulate them among governments.

For the long run, the authors make proposals for reforming the international transfer pricing scheme and to tax the digital economy.

Overall comments

- The paper makes interesting and meaningful proposals in sections 3.1 and 3.2. I mainly agree with all the proposals. In my point of view, the weakness of this paper lies in another field:
- Many statements in the paper lack backing by arguments, empirical facts or findings from the literature. There is one major counterexample, namely the citation of the paper of Hentze (2015). However, I doubt that results from this paper are reliable.
- The link between the empirical and the normative part is rather weak. What do I learn from section 2 for the remaining sections?
- Maybe, the authors could relate their proposals to the recent tax reform in the US. Some of the new rules are designed for taxing MNE.

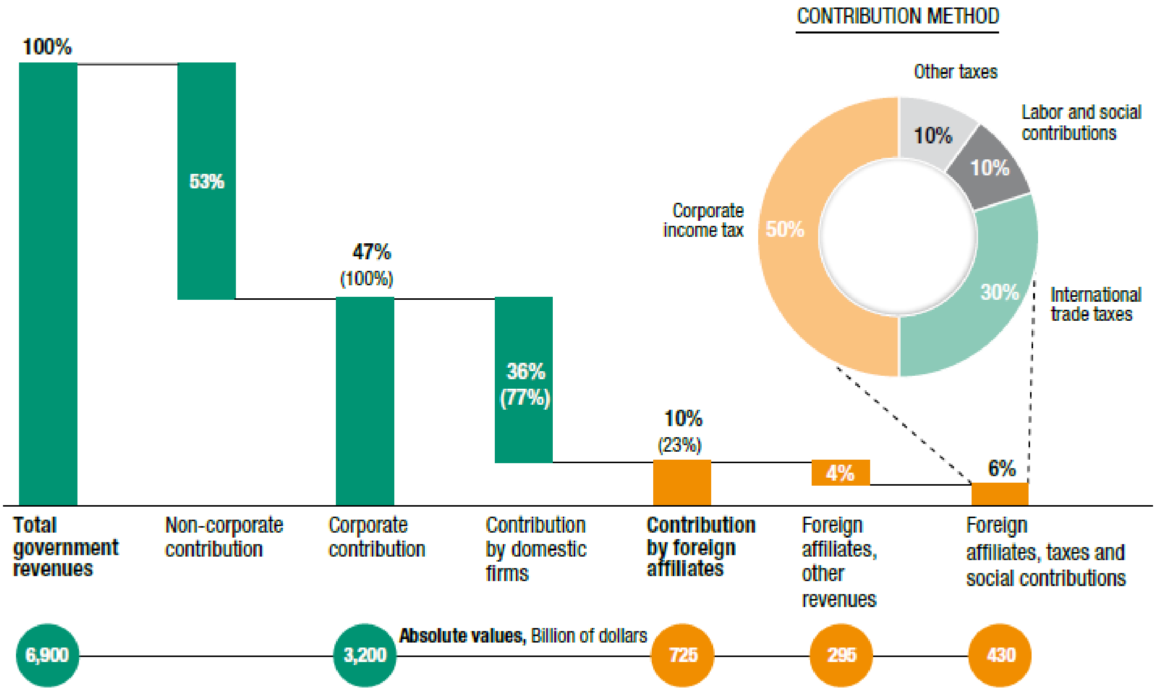
Specific Comments

- Potentials for economic development due to better tax policies: is there any empirical evidence? Is there some literature that could be cited?
- The authors argue that many developing countries "depend to a large degree on tax payments of MNEs". Data from UNCTAD (see below) show that the mean contribution is 6 % of all revenues (including social contributions). This is still sizeable but far away from being the single most important part of the budget. Maybe there are countries where MNEs are especially important. It would be interesting to know which countries are most affected.
- The authors argue that attracting MNEs is beneficial for tax revenues. It is argued that international exposure of a company increases its tax payments. The argument is based on a paper on German data. While this is one of the rare examples where the authors base their argument on broader evidence I still have to point at the severe weaknesses of the cited study (Hentze 2015).[1]

[1] Hentze (2015) takes gross value added from German states ("Länder") and subtracts the compensation of workers. The remaining figure is assumed to be a proxy for profits of enterprises (right hand side variable).

- Tax certainty vs. sovereign decision making (in a democracy). Is there a trade off? Maybe the authors should devote some more time to this debate. This topic does apply to EEP to some degree, but even more to the issue of international standardization.
- Regarding the proposals, with respect to EEP and CbCR the authors discuss the importance of the “fiscal secret”. More transparency is not a silver bullet. Business secrets need protection, alternatively invest activity could be damaged.
- Further, I have the feeling that 3.1.5 is almost redundant as several aspects of this subsection are already covered in previous subsection.
- 3.2.1 is a bit vague. Maybe some details about the plans within the EU could help. A deeper discussion about the economic weaknesses of the proposed reform could be informative.

Figure V.6. **Government revenues contributed by foreign affiliates of MNEs**
Share of government revenues, developing countries, reference year 2012
(Per cent and billions of dollars)



Sources: UNCTAD estimates, based on the ICTD Government Revenue Dataset; IMF Government Financial Statistics database; United Nations System of National Accounts; Eurostat; U.S. Bureau of Economic Analysis; International Labour Organization; literature review.
Note: Estimates represent range midpoints. Details on data and methods contained in annex I.

Further, revenues from the trade tax and the corporate tax are taken together as taxes paid by enterprises (left hand side variable). Hentze finds in various panel regressions that additional regressors like trade intensity or FDI have a significant positive impact. The identification strategy does not consider that many firms in Germany pay personal income tax. Especially rather small firms (low FDI activity and highly likely less export activity as larger firms) are among the personal income tax payers. Profits of these firms are also included in the right hand side proxy. In sum, the paper may not measure the effect it wants to measure, but the circumstance that large companies are not equally spread over Germany and that large firms are more likely to export. I do not oppose the view that attracting MNEs is beneficial but it needs an alternative reasoning.

Source: UNCTAD (2015). World Investment Report 2015: Reforming International Investment Governance. Chapter V.