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WORKING PAPER

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MEETING DOCUMENT

From:	Italian delegation
To:	Working Party on Tax Questions (Digital Taxation)
Subject:	Tax challenges arising from digitalisation - Presentation

Delegations will find attached a powerpoint presentation in view of the meeting of the Working Party on Tax Questions (Direct Taxation - Digital) on 18 July 2019.

MEF Dipartimento delle Finanze

Working Party on Tax Questions

Tax challenges arising from digitalisation – Exchange of views.

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Italian Ministry of Economy and Finance

Directorate for Study and Research on Tax Economics

Brussels, 18 July 2019

Available micro and aggregated data
Pros and Cons

1. Country by Country Reports
   - Pros:
     - In principle, micro data on subsidiaries in each country reported by each (Italian) Ultimate Parent Entity
     - Unrelated and Related party revenues are separated
     - Reliable information on subsidiaries in all countries
   - Cons:
     - For Italian Ministry of Finance and for OECD **only aggregated data** therefore no details at MNE level
2. Orbis bureau van dijk:
   - Pros:
     - Information at subsidiaries level and consolidated level from balance sheet
     - Information of firms from all the world with ownership info
   - Cons:
     - **Missing information on subsidiaries** especially from specific countries (USA, Canada, etc…)
     - No separation between Related and Unrelated Revenue
3. Tax Returns
   - Pro: [redacted]
     - Information on subsidiaries with taxable presence in Italy
     - Accurate Taxation data
   - Cons:
     - **No info on foreign subsidiaries**

Data flow

Tax Returns

More reliable info on tax liability for firms with taxable presence in Italy but NOT on foreign subsidiaries and UPEs

Use ORBIS micro data to have info on all subsidiaries and UPEs but Missing data from subsidiaries in specific countries

Use CBCRs to fix the lack of data for subsidiaries in the different countries

Estimation of Residual Profits and different proposals

Identifying MNEs above the €750m threshold (1/2)

Extracting from ORBIS Entities being in a group with at least one subsidiary in Italy (either with Italian UPE or with Foreign UPE)

Appendix

ORBIS dataset: 540'718 subsidiaries of which:

- 415'197 subsidiaries with info on the consolidated balance sheet of which:
  - 50'424 have operating revenues below €750 millions
  - 364'773 have operating revenue above €750 millions

- 125'521 have no info on consolidated balance sheet

Fill this Gap using CBCRs (1st Correction)

Identifying MNEs above the €750m threshold (2/2)

Fill this Gap using CBCRs

From CBCR: For each country compute $u_c \equiv \left(\frac{Unrelated\ Revenue_c}{Total\ Revenue_c}\right)$

In ORBIS:

- for each subsidiary estimate the unrelated revenue by multiplying revenue with u_c
- Compute the estimated consolidated revenue of MNE by summing up all the subsidiaries Unrelated revenues

Check of the estimation quality:

- Comparison with the consolidated balance sheet where available
- Good performance of the indicator

		Consolidated Balance sheet			
		No info	**<750m**	**>=750 m**	**Total**
Estimated consolidated balance sheet	**No info**	0	0	0	0
	<750m	58'178	34'101	2'598	94'877
	>=750 m	67'343	16'323	**362'175**	445'841
	Total	125'521	50'424	364'773	

ORBIS lacking data on subsidiaries

Now we focus on subsidiaries with Italian UPE above the €750m threshold to compare with CBCRs filled in Italy

- 13'300 subsidiaries (in line with the 10'291 subsidiaries from CBCR)
  - Of which **6'534 subsidiaries report all the economic variables to be equal to 0**

Fill this Gap using CBCRs (2nd Correction)

Entity's country	Number of entities	Numer of entities reporing 0 to all economic variables	% of entities reporting 0 in the country	% of the total entities reporting no info
United States	1'281	1'278	99.8%	19.6%
Italy	5'043	1'211	24.0%	18.5%
Germany	750	493	65.7%	7.5%
China	291	218	74.9%	3.3%
United Kingdom	422	189	44.8%	2.9%
Brazil	261	186	71.3%	2.8%
France	415	168	40.5%	2.6%
Luxembourg	190	141	74.2%	2.2%
Spain	445	133	29.9%	2.0%
Mexico	123	117	95.1%	1.8%
Switzerland	150	114	76.0%	1.7%
Canada	104	104	100.0%	1.6%
Turkey	115	99	86.1%	1.5%
Greece	140	98	70.0%	1.5%
Chile	107	96	89.7%	1.5%
Netherlands	201	85	42.3%	1.3%
Russian Federation	155	78	50.3%	1.2%
India	121	74	61.2%	1.1%
Hong Kong	69	64	92.8%	1.0%
⋮	⋮	⋮	⋮	⋮
Total	**13'300**	**6'534**		

Use of CBCRs to fix the lack of data on subsidiaries observed in ORBIS

Methodology used

Average Method: Compute the average value of the variable (e.g. profits, revenues, tangible assets,…) in CBCRs for each country→ Fill the missing info in ORBIS with country specific averages from CBCRs

- Pros: Simple method to assign average values to subsidiaries for countries with missing info → enables better representation of those countries
- Cons: Give the same value to all subsidiaries in a specific country irrespective of the MNE's values. The sum of profits of subsidiaries may be higher than the consolidated profits→ Consolidated profits should be included in the formula, but what about MNEs without Consolidated info?

Welcome suggestions on better/alternative approaches to fill this gap

Appendix

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Possible applications of the tool

1. Estimation of location and amount of Residual Profit:
   - CBCR: (Profits of all entities in a country – 10% aggregated tangible asset in the country)
   - ORBIS: (Profits of entities of each MNE in a country – 10% tangible asset of the MNE in the country)
2. Estimation of the different approaches:
   - Johnson & Johnson approach
     - CBCR: Profitability computed at aggregated level for all the MNEs, minimum profits at country level from aggregated profit info
     - ORBIS: Profitability computed at MNE level, minimum profits computed for all the MNE's entities in a country
   - In principle all the other approaches can be estimated (also for Income Inclusion Rule of Pillar II)

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Conclusions

- Methodology aiming at using micro-data and fixing the most important issues with aggregated data to assign higher representativeness to the data
- Analysis can be carried out by each country or institution using their own CBCRs even in aggregated format
- Work in progress: Further approaches to fix ORBIS caveats

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Thank you for the attention!

For questions or suggestions please contact:
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Appendix

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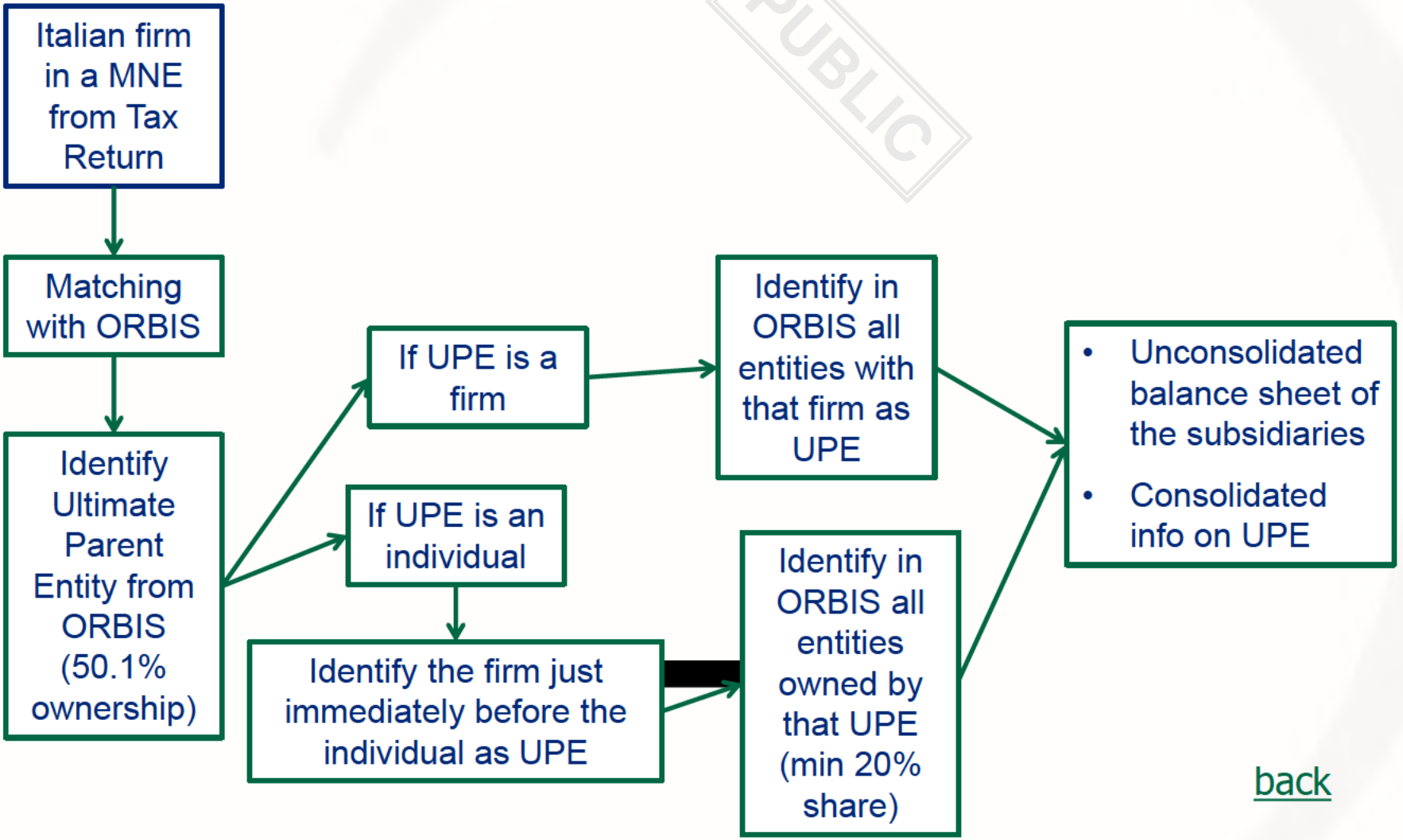
Italian firm in a MNE from Tax Return
Matching with ORBIS
Identify Ultimate Parent Entity from ORBIS (50.1% ownership)
If UPE is a firm
If UPE is an individual
Identify the firm just immediately before the individual as UPE
Identify in ORBIS all entities with that firm as UPE
Identify in ORBIS all entities owned by that UPE (min 20% share)
• Unconsolidated balance sheet of the subsidiaries
• Consolidated info on UPE

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Fixing the ORBIS gaps: Average Method

From CBCRs we compute the average values:

- $\bar{\pi}_c = \frac{\pi_c}{N_{entities,c}}$
- $\overline{UnrRev_c} = \frac{UnrRev_c}{N_{entities,c}}$
- $\overline{TangAsset_c} = \frac{TangAsset_c}{N_{entities,c}}$

In ORBIS

To estimate $\pi_{s,c}$:

- If subsidiary s has info on $\pi_{s,c}$ then use it
- If does not have info then use $\bar{\pi}_c$

To estimate $UnrRev_{s,c}$:

- If subsidiary s has info on $Rev_{s,c}$, then $UnrRev_{s,c} = u_c Revenue_{s,c}$
- If does not have info then use $\overline{UnrRev_c}$

To estimate $TangAsset_{s,c}$:

- If subsidiary s has info on $TangAsset_{s,c}$ then use it
- If does not have info then use $\overline{TangAsset_c}$

We can compute

1. Residual Profit
2. Redistributed profit under proposals, e.g. Johnson & Johnson

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