

# Contents

<i>List of Tables</i>	vii
<i>List of Figures</i>	viii
<i>List of Abbreviations</i>	ix
<i>Acknowledgements</i>	xi
<i>Series Preface</i>	xiii
1 Introduction	1
<b>Part I: International Tax Governance: The Issues</b>	
2 Empirical Puzzles, Institutional Theory, and Tax Sovereignty	11
3 A Baseline Model of Tax Cooperation	30
<b>Part II: The Empirical Record of Global Tax Governance</b>	
4 The Institutional Setup of International Taxation	57
5 Eradicating the ‘Evils of Double Taxation’	86
6 The Struggle against Under-Taxation	117
<b>Part III: Explaining Institutional Choice and Development</b>	
7 Institutional Choice in the Avoidance of Double Taxation	155
8 Institutional Development in the Avoidance of Double Non-Taxation	181
9 Conclusion: Which Future for International Tax Governance?	198
<i>Appendix</i>	204
<i>Notes</i>	211
<i>References</i>	227
<i>Index</i>	246

## 1

## Introduction

Economic activities cross national borders, whereas the power to tax is bound to the nation state. In order to deal with the two problems for income taxation resulting from this incongruity – potentially overlapping national claims to tax that cause *double taxation* and increased possibilities of tax evasion and avoidance (*double non-taxation*) – countries engage in international cooperation.

The governance of international taxation has mostly been the subject of rather technical discourses by tax lawyers and a few economists. It has gone largely unnoticed by most students of international political economy. The political and economic determinants of international cooperation in this area have received little or no attention. This lack of research is surprising because every political scientist would agree that taxation is inherently important (see, for example, Strange 1994, 87). Taxes are the most direct link between the private and public economy, between market and state. Thus, they are at the heart of the field of political economy. Given that changes in the relation of market and state caused by economic globalization are *the* major theme of contemporary research, it is a serious shortcoming of the literature not to have investigated international tax cooperation. The present study is a first effort at closing this gap.

International tax governance consists of several elements on the unilateral, bilateral and multilateral levels interacting with each other. States started to conclude *bilateral* double tax agreements (DTAs) at the beginning of the twentieth century to avoid double taxation. Today almost all tax treaties are based on a non-binding *multilateral* model convention developed and regularly updated by the Organization for Economic Cooperation and Development (OECD), the central organization of the international tax regime. This established institutional infrastructure has recently become the locus of efforts to establish international cooperation against harmful tax competition. In addition, states have their own *unilateral* rules for the taxation of international income. The main purpose of this book is to make sense of the governance structure of international taxation from the disciplinary perspective

of international political economy. The institutional choice, development and transformation over time of international income taxation are analysed and explained in this study.<sup>1</sup>

My central argument is the following: double tax avoidance – historically states' only concern – is a *coordination game with a distributive conflict*. A bilateral approach, supported by an international organization disseminating information and shared practices that all have an interest to follow, can best accommodate countries' concern for the distribution of tax revenues and other economic benefits connected to the tax base. The institutions needed to deal with this problem do not have to be equipped with enforcement capabilities. The nature of the problem is such that it can be handled in a 'sovereignty-preserving' fashion. As the economy becomes more global, this setup enables the related phenomena of tax evasion, avoidance and competition.<sup>2</sup> These issues exhibit the institutionally more demanding strategic structure of an *asymmetric prisoner's dilemma*. The cooperative solution of the fundamentally transformed tax game ultimately requires the establishment of multilateral institutions, which are able to effectively enforce rules upon countries. But, precisely because of the dilemma structure, the establishment of cooperation is very difficult. In addition, the institutions of double tax avoidance, due to their nature as solutions to a coordination problem, exhibit characteristics of path-dependence. While the change in the functional requirements of tax cooperation leads to various institutional reforms, the pre-existing setup of double tax avoidance constrains and shapes the responses to the problem of double non-taxation. This is evidenced by the fact that reform only proceeds in an indirect and incremental fashion.

By developing this argument the book makes four contributions. First, I aim for an explanation of the institutional design of the global regime of direct taxation. As shown below, the particular design of the regime is in need of an explanation for several reasons. Using established tools of rational choice institutionalism (see, for example, Lake and Powell 1999; Koremenos *et al.* 2001), I provide such an explanation by reconstructing actors' preferences, prevailing concerns at different times and the resultant interest constellations. I argue that the strategic structure of the 'international tax game' can explain institutional design.

While the purpose of this exercise is primarily empirical – the desire to understand institutional choices in international tax policy – it also contributes to theories of international institutions. Given the extensive body of scholarship on international institutions, it is quite surprising that very few contributions deal explicitly with bilateralism. Almost all studies focus on regimes that are organized multilaterally. This lack of research is a serious shortcoming, because empirically, there is a lot of bilateralism in international relations. The United Nations treaty database, for example, has collected 5130 bilateral treaties adopted from 1990 to 1999; in the same period, 351 multilateral treaties were signed (United Nations 2003b).

These numbers indicate that bilateralism is an important feature of international cooperation.<sup>3</sup> By narrowing down its focus to multilateral cooperation, an important part of international life is simply disregarded. But research is not only narrowed down to multilateral cooperation: it is also blind to the choice between bilateralism and multilateralism. What are the advantages or disadvantages of bilateral compared to multilateral cooperation? Existing theories of international institutions do not investigate this question. One reason for this may be that the focus on multilateralism is only implicit in most studies. Because of this, the alternative to multilateral cooperation, that is, bilateralism, cannot be put in perspective and does not receive any attention.<sup>4</sup>

This leads to an incomplete understanding of cooperation, including multilateralism. As is also the case in international taxation, institutions often exhibit a mix of both bilateral and multilateral elements, which interact in systematic ways. A straightforward classification of a regime as bilateral or multilateral is not always possible. However, an analyst who implicitly assumes a multilateral form will necessarily be blind to these aspects of institutional design. I contend, therefore, that if we are to gain an appropriate understanding of international institutions, it is necessary to develop theory-driven accounts of the choice of bilateralism and multilateralism and the ways in which these forms can interact. It is necessary to investigate the relative benefits and costs of both multilateral and bilateral cooperation to get leverage to explain the (co-)existence and variations of these institutional forms. Not only 'multilateralism matters' (Ruggie 1993b); bilateralism *and* multilateralism also matter. My explanation of institutional choice in international taxation addresses these issues directly. Since it is cast in sufficiently general terms, it should prove useful for future theory development on the choice between, and the coexistence of, bilateralism and multilateralism.

However – and this leads me to the second objective – I do not stop at considering institutional choice but also consider institutional development over time. The account based on interests and structure is supplemented by a perspective on history and timing (see, for example, Pierson 2004). Can an institution be reformed? Or are there rigidities that make reform difficult? Which bypasses to reform might actors take? These kinds of questions are the topics explored under the rubric of so-called 'historical' or 'new' institutionalism (March and Olsen 1989; Thelen 1999), which has mostly been used in domestic and comparative political science. However, such issues of institutional development have not received sufficient attention in research on international institutions (Simmons and Martin 2002, 203; Zürn *et al.* 2007; but see March and Olsen 1998). Thus, by considering the development of international tax governance and referring to some of the mechanisms employed in the literature of domestic and comparative politics, I hope to demonstrate that such an extension is worthwhile.

By considering institutional development over time, I not only make a theoretical contribution to research on international governance but also propose an alternative perspective on the issue of tax competition. In the rapidly expanding literature on this topic, tax competition is seen as a natural corollary of economic globalization that is not itself in need of an explanation. It is assumed to be an exogenously given force. The focus is solely on the effects of tax competition for domestic tax policies; for example, in how far it leads to a 'race to the bottom' or not (Edwards and Keen 1996; Frey and Eichenberger 1996; Schwarz 2007). Political scientists have extended this analysis by focusing on domestic institutional factors that affect governments' responses (Hallerberg and Basinger 1998; Garrett and Mitchell 2001; König 2005; Ganghof 2006a).

These contributions generally do not consider the extent to which tax competition is caused by the institutions to avoid double taxation. As I demonstrate, international double tax avoidance is set up in a particular way that helps to create tax evasion, avoidance and ultimately tax competition. However, due to certain institutional rigidities worked out in Chapter 8, the existing institutions of double tax avoidance shape and constrain the responses to the emerging problem of tax competition. To a considerable extent, tax competition is endogenous to the institutional setup of double tax avoidance. Thus, I present the story of a regime that has the seeds of its own undermining planted within itself.

The third contribution is empirical. I present an accessible overview of a field that is usually occupied by specialists writing in rather technical language. The book is an improvement on the few existing contributions in that it presents a political history of the international tax regime focusing on actors' preferences, the prevailing concerns at different times and the resultant interest constellations. This qualitative historic narrative is supplemented by quantitative material on the network of bilateral tax treaties that I have compiled. The resultant tax treaty database (TTD, see Appendix) forms the basis for various descriptive statistics used throughout the book. Using the tools of network analysis, I explore the influence of some relevant political and economic variables – for example, the influence of a nation's wealth and investment position – on the network's structure and development. The book thus presents empirical material that has not been available in this form before.

By doing so, it opens up a new field of empirical research for political scientists and political economists who have in the past hardly paid any attention to issues of international taxation. The few existing contributions focus exclusively on the European Union (Puchala 1984; Genschel 2002). Of these books with a focus on Europe, Radaelli (1997) has one chapter on global taxation that touches quite generally on a few aspects of the regime. The one book that has presented an account of global tax cooperation (Picciotto 1992) does not take an explicit international relations (IR)

perspective, as the present study does. In turn, the IR perspective could prove interesting for international tax scholars, who are mostly lawyers or economists.

The fourth purpose is to investigate the role of tax sovereignty in an era of globalization. One reason why international cooperation in tax policy has hardly received any attention in international political economy may be a strongly held but rarely investigated presumption. The ‘folk wisdom’ in the discipline holds that cooperation is largely absent in taxation, because the power to tax is one – if not *the* – central attribute of sovereignty. It is often taken for granted that international cooperation in tax matters must be difficult to establish and is virtually absent because states cling to their sovereignty in this field. The little cooperation that exists is regarded as so rudimentary that it does not warrant interest. This is also, according to the cursory perception of the discipline, the reason why cooperation in tax matters takes the form of bilateral tax treaties instead of a ‘solid’ multilateral agreement (Abbott and Snidal 2000, 441). However, analysts very often merely assume governments’ concern for sovereignty and do not subject the issue to a closer investigation.

By distinguishing between different dimensions of sovereignty, I show that even in taxation governments react to the pressures of economic globalization. In the face of growing tax evasion, avoidance and tax competition, they are increasingly willing to share – albeit only grudgingly – their *administrative sovereignty*, understood as the authority to enforce tax laws, that is, to collect taxes, in order to regain de facto control over their tax policies. They increasingly engage in administrative cooperation and information exchange with other governments. On the other hand, they are hardly willing to delegate or pool their *legislative sovereignty*, the authority to make tax policy, that is, to design tax laws. For example, they have repeatedly shunned all proposals to introduce unitary taxation with formula apportionment. However, as I argue in Chapters 8 and 9, only if governments will in the future be willing to share their legislative sovereignty will they be able to regain effective control over the national and international tax system.

The book is structured in three parts. Part I gives an overview of the issues. First, I develop the research questions and present the research design (Chapter 2). After that, I develop a simple baseline model of cooperation in direct taxation on the basis of existing theoretical contributions: I show that ‘single taxation’ would be the globally optimal policy and then investigate the collective action problems inherent in reaching this outcome. The strategic structure of double taxation is that of a coordination game with a distributive conflict, whereas the problem of double non-taxation is represented by an asymmetric prisoner’s dilemma. This model is supplemented by theoretical considerations on the effects of institutional development over time. On the basis of these considerations, I derive hypotheses on the institutional design and the expected reform path of global tax governance (Chapter 3).

In Part II, I present the empirical record of international taxation. After a brief discussion of the fundamental problems and major theoretical concepts of international taxation, I describe the general setup of tax cooperation and give an overview of international tax rules. The rules of international taxation operate on the unilateral (domestic), bilateral (tax treaties) and multilateral (model conventions) levels. Tax governance is based on the principle of non-interference with national tax systems. It consists of the regulation of interfaces of different tax systems (Chapter 4).

I then trace the development of the regime over time, beginning with the history of the avoidance of double taxation. In the 1920s and 1930s, the basic principles of double tax avoidance were developed by the League of Nations and the practice of concluding bilateral treaties originated in continental Europe. While the League's work became very influential and enduring in the history of international tax policy, the practical relevance at the time was low. This changed after the Second World War as the OECD took over the position of the League of Nations. By the early 1960s, the institutions of double tax avoidance were firmly in place. The key mechanism can be described as bilateralism on the basis of multilateralism. As the main multilateral forum, the OECD disseminates 'soft law' in the form of a model convention and other policy advice. On the basis of this, governments conclude bilateral tax treaties. Along with the process of liberalization of trade and investment since the 1960s and in particular during the 1980s, the bilateral tax treaty network grew rapidly – and continues to grow today – so that the institutions of double tax avoidance have become firmly entrenched (Chapter 5).

In Chapter 6, I turn to the history of the fight against double non-taxation. From the 1920s to the early 1960s, under-taxation received very little attention from policymakers. However, since the mid-1960s – as a byproduct of trade and investment liberalization – the problem of double non-taxation has arisen in addition to that of double taxation. As a reaction, there have been efforts aimed at incremental reform of international tax governance, which are driven by the desire to fight international tax avoidance and evasion. At first, anti-avoidance policies are implemented on the unilateral (domestic) level. Nevertheless, as will be shown, they have international ramifications because they represent an implicit challenge to the traditional concepts of tax cooperation. However, governments take great care not to make this explicit. Instead, anti-avoidance policies are reinterpreted to bring them into line with the traditional institutional setup. Since the mid-1990s, double non-taxation has become governments' prevalent concern. The OECD launched a multilateral attack on tax evasion and avoidance (OECD 1998a). The OECD project was a break with established traditions of international tax governance in that it attempted to intervene in countries' national tax sovereignty and tried to create 'hard law'. Ultimately, however, the project was curtailed and the traditional approach continues. As will be argued, this and other developments

can be interpreted as attempts to construct a multilateral support structure for the established framework of international tax governance.

In Part III, I return to my baseline model, refining it on the basis of the empirical material and thereby constructing an explanation for the institutional design and trajectory of international tax governance. By means of a regression analysis, I show that the distributive conflict between residence and source countries, which is determined by the asymmetry of dyadic investment flows between countries, can be accommodated by bilateral bargaining. Since there is no enforcement problem in the avoidance of over-taxation, there is no need to come to a multilateral agreement. Nevertheless, the non-binding model convention can help to economize on transaction costs of bilateral bargains by providing a constructed focal point. The strategic structure of a coordination game can also explain why the institutions of double tax avoidance do not have to be equipped with third party enforcement capabilities. The Mutual Agreement Procedure (MAP), a diplomatic procedure that can be invoked in cases of treaty disputes, is better understood as a device to deal with problems of incomplete contracting (Chapter 7).

In Chapter 8 I construct an explanation for the institutional trajectory of the tax regime. The switch to more hierarchical modes of governance, which is necessary to tackle the problem of double non-taxation effectively, is difficult to achieve because the institutions of double tax avoidance develop in a path-dependent fashion. I reconstruct the mechanisms of institutional reinforcement and those of institutional undermining and argue that the timing and interaction of these two processes can explain why the reform of international tax governance takes place in an incremental fashion. Finally, Chapter 9 concludes and contains speculations on the future development of international tax governance.

Since this book aims at a diverse audience, different readers may wish to skip certain parts of the text. Political Scientists familiar with rationalist institutional design and historical institutionalism can skip some parts of Chapter 2. Lawyers familiar with the rules of double tax avoidance may not have to read all of Chapter 4.

## Index

- ability to pay 59–60, 82, 84, 89, 115  
 active (business) income 65–6, 78, 84, 122, 167  
 Advance Pricing Agreements (APA) 145–7, 195  
 agreement 20–2, 40–3, 156, 159, 169–80  
 allocation convention (of 1935) 94–6  
 analytic narrative 14–16, 18, 211  
 anti-avoidance, unilateral 81, 120–5, 129, 131, 141–5, 150–1, 181, 201–2  
   proliferation spiral 123, 132, 143–4, 196  
 arbitration 74–5, 107–8  
 arm's length standard (ALS) 64–5, 69, 94–5, 126–30, 190, 195–7, 220  
 assurance game 37, 41, 156  
 avoidance *see* tax avoidance
- bargaining 20–2, 42, 48–9, 155–6, 159–65, 172, 178–80, 200, 209  
   bilateral bargaining 159–60, 169, 172, 178–80  
   multilateral bargaining 156, 165, 172, 178  
 bargaining phase 21–2, 178  
 bargaining power 162–4, 209  
 bargaining problem 21–2, 42, 169–70, 180, 200  
 base company 77  
 battle of the sexes 20–1, 159  
   *see also* coordination game, with distributive conflict  
 benefit theory 59–60, 115
- capital allocation 31, 84, 103  
 capital export neutrality *see* tax neutrality  
 (net) capital exporters 38–40, 159–62, 223  
 capital flows 35–6, 38, 40, 45, 160–1, 160–8  
   asymmetric 38, 40, 160  
   symmetric 38, 40, 89, 160
- capital import neutrality (*see* tax neutrality)  
 (net) capital importers 38, 159–61, 101  
 common pool resource 47  
 competent authorities procedure *see* Mutual Agreement Procedure  
 conduit company 77  
 contract making 20–2  
   *ex ante* problems 20–2  
   *ex post* problems 20–2, 174–5  
 Controlled Foreign Corporation (CFC) 77–8, 122–5, 143–4  
 conversion 52–4, 190  
 cooperation 1–6, 12–21, 47–8, 63–4, 183–4, 155–6, 198–202  
   game theory 16–17, 19–20  
   sovereignty-preserving 2, 63–4, 124–5, 130, 170, 179, 191, 196, 201–2  
 coordination 2, 20, 25, 32, 37–43, 48–51, 156, 161, 168–72, 187, 191–2  
 coordination game 2, 7, 20, 25, 32, 38, 40–2, 48–50  
   with a distributive conflict 2, 5, 40, 54, 161, 169, 198  
 corporate inversion 27–8, 196  
 corporate tax base 65, 202  
 creative destruction 51–3, 194  
 credible commitment 25, 47  
 credit *see* tax relief methods
- deduction *see* tax relief methods  
 deferral *see* tax relief methods  
 discrimination  
   negative 82  
   positive 74, 82, 134  
   *see also* non-discrimination, national treatment  
 distributive conflict 40–1, 43, 101, 149, 159–61, 167–72  
 dividend 69–71, 73, 79, 162–4, 216  
 double non-taxation 13–14, 48–50, 81, 150–1, 181–6, 193, 196–7, 198, 200–1, 203

- double tax agreement (DTA) 11, 66–76, 93, 100, 102, 109–10, 116, 130–1, 156
  - bilateral 84, 100, 156, 165, 182
  - multilateral 90, 170, 172–3, 177
- double tax avoidance 2, 4, 6–7, 32–41, 66–7, 149–51, 155–6, 158–61, 169–80, 181–2, 191–2, 198–201
- double taxation 11–14, 31–5, 37–8, 40–2, 57–8, 63–4, 67–9, 74, 81–4, 86–90, 92, 93, 97–8, 108–9, 111, 115–6, 149–50, 155–61, 172–4, 183, 200–1
- e-commerce 104–6
- economic allegiance 60–1, 89
- endogenous change 50, 186
- enforcement 19–22, 41–2, 48–52, 142, 156, 168–9, 173–80, 198–201
- enforcement phase 20–1, 173–5
- enforcement problem 20, 41–2, 46, 48–52, 158, 168–9, 182–3
- entitlement theory 59–60
- equality 58–9, 82–4
- evasion *see* tax evasion
- exemption 33–7, 62, 72–3, 82, 90, 98, 157
- fairness 57–8, 82–3
- ‘first crack’ 37, 66, 159
- focal point 42–3, 50, 54, 164, 169–72
  - constructed 42, 169–72, 180
- foreign investment fund (FIF) rules 78, 124
- foreign tax credit *see* tax relief methods
- formula apportionment 58, 94, 128–9, 147, 197, 201–3
- free riding 175–6
- Global Forum on Taxation 138–40
- hard law 6, 20, 47, 141, 151, 183, 200
- harmony 12, 34
- historical institutionalism 23
  - see also* new institutionalism
- incomplete contract 22, 174, 186
- incremental reform, 52–4, 120, 143, 151, 185, 189, 194–6
- inertia 51, 187
- information exchange 13–14, 53, 75, 120–2, 131, 137–42, 181–2, 184, 189–90, 192, 194
  - automatic 75
  - spontaneous 75
  - upon request 75, 139
- institutional choice 2–3, 15–24, 41, 46, 48, 155, 178
- institutional design 2–3, 11, 14–17, 20–2, 32, 49, 52
- institutional development 3–5, 22, 25, 51–2, 181–2
- institutional form 3, 12, 14, 17, 21, 48, 155–6, 159, 169
- institutional resilience 24–6, 185, 190
- institutional rigidity 25, 51, 182, 185, 187–9, 199
- interface regulation 179, 198
- inter-nation equity 60
- international trade *see* trade, international
- inversion *see* corporate inversion
- investment position 162–5, 193, 209
- jurisdiction to tax 31, 57–8, 63–5, 68, 72, 90, 115, 170
  - disentanglement of 63–5
  - jurisdictional vacuum 57
  - overlap of 31, 57–8
- k group 47
- LAFTA Model Convention 101–2
- Layering 52, 189–91, 193–4
- League of Nations 6, 86–8, 97–9, 109–10, 115, 120–1, 170–1
- liberalization 6, 114, 117–19, 176, 185–6
- mailbox company 77, 80
- model convention (MC) 6, 63, 84–5, 88–103, 99–101, 115–6, 142, 149–50, 155–6, 169–72, 180
- OECD Model Convention 12, 66–8, 70–3, 79, 102–4, 139, 142, 144, 164, 171–2
- UN Model Convention 102–3, 147, 172

- monitoring 47, 85, 173
- multinational enterprise (MNE) 28, 46, 64–5, 78, 117–19, 126–9, 133, 146, 222
- Mutual Agreement Procedure (MAP) 7, 74–5, 107–8, 145–6, 173–5
  
- Nash equilibrium 36–7, 44
- neutrality *see* tax neutrality
- new institutionalism 3, 51
- non-discrimination 72, 74
  - most-favoured nation (MFN)
    - treatment 74, 93–4, 176–8
  - national treatment 74
  
- OECD 1, 12, 96–9, 102–4
- over-taxation 32, 35–6, 38–9, 41, 48–9, 54, 58, 76, 86–7
  - see also* double taxation
  
- Pareto optimum 20, 36–7
- passive (business) income 65–6, 78, 122, 185, 203
- patching up 52
- path dependence 53, 187
- Permanent Establishment (PE) 63, 65–6, 68–72, 92, 104–6, 165
- politicization 147–9
  - de-politicization 65
- preferences 15, 17–19, 156, 158
- preferential tax regime (PTR) 78, 119, 134–6, 140–1
- prisoner's dilemma (PD) 2, 19–20, 36–7, 43–6, 48–50, 182–3
  - asymmetric prisoner's 2, 44, 49, 182–3
  - with nested coordination game 49
- private income 30–1, 35–6, 39, 45
- problem structure 28–9, 32, 43
  - see also* strategic structure
- proliferation spiral
  - see* anti-avoidance, unilateral
  
- rational choice 16–17, 22–4, 199–200
- rational (choice) institutionalism 2, 16, 18, 23–4, 155, 199–200
- reciprocity 47, 66, 183–4
- repatriation 72, 77–8
- residence country 33–4, 37, 58–63, 66, 102
- residence principle 37–40, 58–9, 89, 96, 106, 149
- residence-residence conflict 68
- residence-source conflict 58–63, 68, 96
- royalty 70, 98, 104–6, 163–4
- rule stretching 150, 190
  
- self-enforcing agreements 21, 41
- separate entity accounting 115, 129, 147
- shadow of the future 20, 47
- side payments 43–4, 46
- single taxation 5, 30–2, 35, 39, 41, 45
- soft law 6, 20, 42, 116, 149, 151, 170, 183, 199–200
- source country 32–3, 37–8, 59–60
- source principle 37–40, 59–62, 89–90, 96, 159
- source rules 68–9, 71, 82
- sovereignty 5, 26–29, 63–65, 95, 125, 136, 140–1, 150, 178–80, 183–4, 186, 191–3, 195–7, 201–3
  - administrative 5, 28, 184, 192, 195–6
  - de facto 27–8, 195–6
  - de jure 27–9, 64, 95, 183–4
  - legislative 5, 28, 179, 192–3, 195–7
- sovereignty-preserving cooperation *see* cooperation
- strategic structure 2, 16–17, 34–40, 43–4, 168–9, 179, 198
- subsidiary 64–5, 69, 122, 126–7, 143
- substance over form 80–1, 124
- sunk costs 25, 50, 187
  
- tax avoidance 12–13, 50–1, 77–80, 99, 119, 121–3, 125, 129, 131, 142, 185–6
- tax competition 4, 43–8, 131–4, 148–9, 151, 165–8, 183, 186, 193–4, 197, 203
  - asymmetric 44
  - home-home 46, 183
  - home-host 34–8
  - host-host 43, 46
- tax evasion 80–1, 118–21, 130–2, 139, 149–50, 186–7, 203
- tax haven 44, 75–8, 80, 115, 118–19, 121–2, 130–8, 140–1, 183

- tax neutrality 61–3, 82–5
  - capital export neutrality 39, 61–3, 82–4
  - capital import neutrality 62–3, 82–4
  - global neutrality 62–3
  - national neutrality 62
- tax planning 80, 118, 139–40
- tax relief methods 72, 96, 210
  - credit 33–4, 36–7, 61–2, 72–3, 82, 90, 96, 98, 103, 157–8, 166, 210
  - deduction 33–6, 40–1, 73, 90, 157–8, 210
  - exemption 33–7, 62, 72–3, 82, 90, 98, 103, 157, 166, 210
  - exemption with progression 72
    - and national neutrality 62–3
- tax relief, unilateral 13, 76, 89–90, 156–61, 168
- tax revenue 13, 30–1, 34–6, 38–40, 43–5, 157
- tax sparing 103
- tax systems, national 6, 64–5, 93–5, 133, 150, 196
  - interfaces of 64, 150–1
  - harmonization of 65, 188
- thin capitalization 79, 81, 131
  - see also* anti-avoidance, unilateral
- trade, international 88, 175–8
- transaction cost 20, 126, 165, 169
- transfer prices 78–9, 126–9, 145–6
  - comparable profits method 79, 128
  - compared uncontrolled price (CUP) 79, 128
  - cost-plus 79
  - manipulation of 78, 128, 185
  - regulation of 67, 95, 127, 130, 195
  - resale-price 79
  - profit-split method 128–9
- transposition 52, 57
- treaty shopping 77, 80, 130, 185
- uncertainty 19, 22, 41, 24, 145
- under-taxation 30–2, 43–6, 77, 120, 130, 132, 150, 181–93
- unilateral anti-avoidance *see*
  - anti-avoidance, unilateral
- unilateral tax relief *see* tax relief, unilateral
- unintended consequence 23–4, 50, 186–7
- unitary taxation 58, 64, 79, 127–9, 148, 201–3
  - with formula apportionment 58, 64, 201–3
- United Nations 66, 96–9, 101–4, 147–8, 172
- water's edge 127
- welfare 30–5, 38–9, 43–5, 88, 160–1
- withholding tax 70, 76–7, 79, 102–4, 161–3, 166–7, 203, 209