**Economic Horizons**, September - December 2014, Volume 16, Number 3, 173 - 189
UDC: 33 eISSN 2217-9232



***Original scientific paper***
UDC: 336.221:334.726; 336.227.1/.2
doi: 10.5937/ekonhor1403177D

# EVALUATION OF THE EFFECTS OF INTERNATIONAL TAX PLANNING

Srdjan M. Djindjic*
*Faculty of Economics, University of Kragujevac, Kragujevac, Serbia*

In this paper, the effects of the essential instruments of tax planning related to the effects of the deferral of the repatriation of international income, the effects of the reallocation of international income and the effects of the current and perspective reform tendencies in the EU member countries on the achievements of international tax planning in the Republic of Serbia are valorized. By a meaningful restructuring of its global business transactions, a transnational corporation can gain an „extra" reduction in the effective tax burden, compared to the level of the tax burden standard, overlooked within the officially established procedure of international tax planning (OECD). As long as there are differences in the corporate income tax rates among the countries, there is a realistic incentive for TNCs to locate their income in low-tax countries and their expenses in high-tax countries. The actual reform tendencies in the EU have a two-sided influence on the achievements of tax planning in the Republic of Serbia, in the form of activating non-tax instruments for an improvement of the competitiveness of the Serbian industry as well as in the form of prolonging international pressure on the budget of the Republic of Serbia.

**Keywords:** international taxing, international tax planning, transnational corporation, repatriation of international income, reallocation of international income

JEL Classification: H25, F23

## INTRODUCTION

Globalization is the process of spreading a business activity beyond national borders. Transnational companies (TNCs) and multinational companies (MNCs) „are unfamiliar with" national borders, and they perform cross-border operations at a multinational level. International taxation, i.e. the corpus of the rules regulating the taxation of the income of a foreign source of a resident and the domestic income of a non-resident, was inspired by the mitigation and/or elimination of international double taxation existing because of the conflict between the resident country of a TNC and the destination country of the capital over the allocation of the tax „loot". The parent company registers the headquarters of its central management in the resident country, while, through its subsidiaries, it realizes cross-border operations throughout the world. The realization of business operations generates the overlapping of competencies between the nations involved. Which national jurisdiction is eligible to tax the international tax base (international income); what

* *Correspondence to:* S. M. Djindjic, Faculty of Economics, University of Kragujevac, D. Pucara 3, 34000 Kragujevac, Serbia; e-mail: srdjanmdjindjic@gmail.com

segment of the international tax base and at what rate? This question is raised in the ambience of global tax disharmony, i.e. in the ambience of various national systems, methods and principles of the taxation of the corporate sector. The tax disharmony affects the efficiency and fairness of international taxation, but also presents the basic assumption for the activation of international tax planning by a TNC (MNC); in other words, we mark the fact that the disharmonies of the actual procedure of international taxation and international tax planning are the complementary contents.

The subject of this paper is international tax planning, i.e. the allocation of the global tax transactions of TNCs or MNCs in order to achieve the minimum amount of paid taxes; in other words, to achieve maximum net income at the TNC (MNC) level. The instruments and scope of tax planning oscillate first of all depending on the character of the registered activity of the TNC (MNC) and the characteristics of the organizational structure, i.e. the residence of the central management and the tax authenticities of the countries where the subsidiaries are located.

The key initiators of analytic dilemmas in the area of disharmonic international taxation are:

- the repatriation of foreign-source income in the country of residence, when the moment of repatriation is a problem, and
- the act of allocation, i.e. reallocation of income and costs to different cross-border destinations, when the combined application of the transfer price is a problem, i.e. the price one dependent entity charges to another one for intra-company transactions within a TNC (MNC), and the corrective „arm's length" principle, i.e. the principle of taxation hypothetically treating intra-company transactions, transactions among related domestic and foreign entities, as transactions among unrelated entities.

This paper is aimed at presenting the results of the research in the area of the three central questions: How does the moment of the repatriation of international income affect the volume of a tax burden of TNCs (MNCs)? How does the reallocation of international income affect the volume of TNCs (MNCs)? How do the actual and perspective reform tendencies in the EU member states affect the range of international tax planning in the Republic of Serbia?

Based on the description of the subject and aim of the research, the three basic hypothesis were formulated:

H1 : There is an invert relation between the period of delaying the repatriation of international income to the parent TNC company in the country of residence, on the one hand, and the effective tax paid by the resident TNC, on the other.

H2 : The intensity of the international reallocation of income is in the function of the size of international differences in the statutory tax rates of corporate income tax.

H3 : When taxing transnational corporations, i.e. their subsidiaries, each redesigning of corporate income tax in the destination country must be observed integrally with tax effects in the TNC countries of residence.

For the purposes of conducting the research into the effects of international tax planning, the standard methodology, favored by respectable institutions and professional authorities, is utilized. For the purpose of the valorization of the TNC target function, the model of the present value of net income, tax expenses and tax savings is used (Hyman, 2011, 199; Schreiber, 2013, 27-32; OECD, 2014, 1-7). With respect to the procedure of the analysis and/or correction of transferring prices, the representative traditional method of the comparable market price is relevant (OECD, 2010b, 64; UN, 2013, 196-197; Službeni glasnik Republike Srbije, 61/2013, 8/2014, 5).

The paper is structured into eight parts. The second part of the paper discusses the description of the genesis of the key events, the state and perspective tendencies in the domain of international taxation. In the third part of the paper, the performances of the alternative systems of international taxation are analyzed together with those of the methods available for mitigating or eliminating international double taxation. In the fourth part, the methodology used in valorizing the effects of international tax planning is presented. The fifth, sixth and seventh parts of the paper contain the results of the research into the effects of international tax planning, respectively related to the effects of delaying the repatriation of international income, the effects of the reallocation of international income and the effects of the current and perspective reform tendencies in the EU member states regarding the range of international tax planning in the Republic of Serbia. In the eighth part of the paper, the conclusions are presented.

## THE GLOBAL TAX LANDSCAPE

Commenting on the international tax content during the first decades of the new millennium, the equivalent for the world tax system is the world tax disharmony. The international taxation procedure „rests" on the three fundamental conceptual-methodological pillars. The first pillar is valorization: international economic activities can be valorized. The second pillar is identification: transnational and multinational corporations and their globally located subsidiaries can be identified. The third pillar is theory: taxes can be charged in accordance with the flows of the economic activity on the territory of a particular country. Where is a value added formed? How should a fair share of the international tax base be operationalized between the countries whose rights to taxation overlap?

The OECD Convention Model on Income and Capital Taxation, Business Profits (Article 7) and Related Enterprises (Article 9), favors the combination of the separate taxation method and the following ALP principle, as an international standard for the allocation of income among domestic and foreign subsidiaries in the given MNC/TNC (OECD, 2010a; 2010b). However, the method is essentially approximate and often completely unusable. According to the unique analysis of the implications of the ALP principle (Devereux & Keuschnigg, 2009, 31), ALP prices are systematically different from the prices of independent entities, which is the indicator of the presence of tax evasion and international double taxation. The application of the ALP endangers the business activities of TNCs/MNCs, reducing the capacity of the borrowing and investing of foreign subsidiaries; it also disturbs the choice of the form of organizing investment performance on the world market. Although the ALP increases public revenue in the country of residence of the parent company, the bigger loss of welfare is in the country where its subsidiary is located, i.e. in the capital destination country.

Almost simultaneously with the EU (European Commission, 1998), the OECD identified the key factors of „harmful tax competition", i.e. aggressive tax planning (OECD, 1998, 25-35). During the first decade of the new century, the OECD was recognizable for its request to revoke preferential regimes for entities in the area of financial services. Concerning the character of the problems on the agenda today, the OECD reactivates the solving of the four central issues that were in their initial phase in 1998, but in the meantime, they have evolved with certain „new" issues which both dynamic globalization and technological-tele-communicational development are responsible for:

- establishing coherent international taxation of corporate income;
- the complete renewing of the effects and benefits of the international standards;
- ensuring transparency, including the promotion of certainty and predictability; and
- from the point of view of the harmonized tax rules, a quick implementation of tax measures is necessary (The OECD structured the four central aims into fifteen sub-central aims, the solving of which was postdated September 2014 and October 2015, OECD, 2013a, 3; OECD, 2013b, 15-25).

Permanently actual are the questions of tax avoidance. The OECD and G-20 of the developed nations marked the countries of „tax haven" and grouped them precisely according to their respective geographical location (Gravelle, 2013, 3), whereas the unique tax position of Switzerland has not been emphasized at all until recently. The federal rate in Switzerland is 8.5% of net income. The combined cantonal and local rate varies from about 12% (Lucern Canton) to 24% (Geneva Canton), with the average rate of about 18%. The key particularity is the tax incentive for holding companies (qualified companies only pay the federal tax of 8.5%, Deloitte Touche Tohmatsu Limited, 2013, 2; 6). This concept emphasizes the international competitiveness of Switzerland, shown in the form of the relocation of the headquarters of not just American MNCs in Switzerland (Foster Wheeler, Philip Morris, Transocean, Tyco International, Weatherford) but also the headquarters of the EU MNCs (Amgen, Cargill, Chiquita, E-Bay, Kraft Foods, McDonalds, Monsanto, Pfizer and yahoo; Steimle, 2014, 3).

International taxation is not operated by multilateral agreements but it is rather dominated by bilateral agreements: that *per se* point out to a limitation, the localization of international cooperation, and are complement to the crown international rule saying that there are no consistent rules of international taxation. There are national tax principles, which are then applied to international activities. Not only do harmonized pragmatic rules precede the principles of international taxation but their results must be acceptable for all respectable countries, i.e. the rules must be in accordance with the „big boys' rule" (Bird & Mintz, 2003, 426).

There is a „flood" of intangible assets on the global market. Only a year after the key and still valid documents of the OECD (OECD, 2010a; 2010b) had been passed, the official justification, authorized by the Director of the Center for Tax Policy and Administration of the OECD, Caroline Silberztein, was stated, saying that the question of dematerialization was far from a definite solution (Silberztein, 2011, 3):

> „Numerous specific questions for intangible assets stayed aside in the revision of the OECD Guidelines for the applications of the rules of transfer prices for multinational enterprises and tax administration from 2010. The complexity of the problem leads to monetary important misunderstandings about the transfer prices all over the world, with the risks of either double taxation or the absence of taxation".

Since the business has stepped into the „digital economy" and begun the realization of „e-commerce", the meanings of the terms: valorization, identification and territory were approximately defined. The visualization of the reality shows that the fundament of the actual world tax content has been sinking.

Commenting the twenty-eight national tax systems of the European Union in the interval of the first decades of the new millennium, the description of the tax situation in the EU as a tax disharmonized one is not a surprise, nor does the fact surprise us that institutional and business leaders keep looking for a way to a more efficient, supranational, European mode, according to the treatment of a group of related entities, which realizes and integrates business across the EU, as a „European TNC/MNC", not as Dutch, Italian or Austrian corporations, for example, operating as a separate entity in the remaining EU member states.

In order to describe the European landscape for the tax reform, the variations in the rates and first of all in the corporate income tax bases are so big that it is impossible to recognize the common denominator between the central elements of the base. The thirteen new member states have reduced the average level of the rate but they have also increased the variations in the income taxation systems.

The European Union is moving in a new, Anglo-American, tax direction, reasoning that: by using only one, i.e. European set of tax rules, a transnational (multinational) European Union corporation should only count one, i.e. European, tax base, the Common Consolidated Corporate Tax Base („CCCTB"), which would then be allocated among the member states where the subsidiaries of the European multinational corporation are located, according to a predetermined formula for such allocation. At the same time, like a sample solution, the flexibility of the system is reflected through leaving it to the twenty-eight nations to make decisions on the tax base, with certain member states autonomously establishing and applying them to their share in the total income of the multinational corporation made at the level of the European Union.

Why has the reform course from separate to unitary taxation been slowed down? Because change was radical since it represents splitting up with the hundred-year-old European tax tradition, and complex. The methods of taxation are imperfect surrogates of the ideal hard to obtain both in theory and in practice. For a business to unitarily be integrated, there must be a value flow among the related entities; however, such a value flow is not an easy one to follow along the non-transparent corridors of the European and the world tax systems, especially because of the non-withering tendency of the corporate management towards tax planning, proving their inventiveness and expert superiority related to tax offices and their threatening actions with respect to control auditing and monitoring.

The traditional European method, the method of separate taxation, requires from a resident transnational (multinational) company to count a separate tax base in each member state of the European Union for each foreign subsidiary within the related group, but in such a way that each of such foreign subsidiaries is an independent entity independently operating on the European Union market, where they fall into the normative trap of their own normative protocol.

The unitary taxation method requires from the resident multinational corporation to establish and allocate a single tax base, according to the shares that dependent subsidiaries make in the total business activity, where such shares are demonstrated by the triad of criteria, its own size of the available assets, engaged labor and trading income (European Commission, 2011, 49).

Where are the source of and a motivation for the implementation of the new reform idea? Unitary taxation is a completely new method for the EU as an economically integrated whole. However, Spain used unitary taxation until the middle of the 20th century, in order to tax foreign enterprises. Germany utilizes the formula method for its local tax in the area of trading, the so-called „local trade tax" (Schon, 2010, 78). The European Commission sees the Anglo-American approach to the taxation of, in this case, the multistate corporations of the USA as a logical direction of the development of the taxation of transnational (multinational) corporations in the European Union (for more about the specific features of the tax systems of the USA and Canada, see: Repetti, 2010; Arnold, 2010). Why? The tax history of the USA and Canada illustrates that, by adopting the „new" method, they have successfully solved the typical „old" tax problems, namely: (a) the multiplicity of the tax systems, 50 state systems in the USA, or 28 national systems in the European Union; (b) a lack of compensation for cross-border losses; (c) the eliminating of the need to precisely determine transfer prices for intra-company transactions, which, as we will see, are the Achilles heel of separate taxation.

The disharmony of international taxation is a matrix for formulating the basic presumptions of this paper:

- there is an invert relationship between the postponing period of the repatriation of international income in the parent TNC in the country of residence, on one hand, and the effective tax paid by the resident TNC, on the other;
- the intensity of the international reallocation of income is in the function of the size of international differences in the statutory rates of corporate income taxes; and
- when taxing transnational corporations, i.e. their subsidiaries, each redesigning of corporate income tax in the destination country must be observed in integration with the corresponding tax effects in the TNC's countries of residence.

## INTERNATIONAL TAXATION SYSTEMS

National companies verify their business affirmation within the borders of the country, which is the multidimensional limiting factor of maximizing the present value of net income. „Local" enterprises are not, among other things, eligible to the corpus of tax preferrentials, which is an exclusive privilege of the standard procedure of international taxation. TNCs and MNCs primarily realize their business operations on the integrated world market of goods and services. Parallel to alluring macro- and microeconomic benefits, the catalyst of international business performance is often of tax provenances, because of desirable consequences for investments, net income and the „trade name". What is in the focus is the responsiveness of the central management of a TNC to a different corporate income tax design in various countries, to the disharmony of international taxation.

Transnational corporations and their subsidiaries account for „a group of related companies". Related entities are originally characterized by formal independence since subsidiaries formally function as independent economic entities in destination countries and by factual dependence, because of the factual convergence of economic aims and the power of decision making projected by the central management of the parent entity in the country of residence (all the forms of organizing related companies with mutual participation in the capital are included in the status forms of concentrations, characterized by expansiveness and spreading beyond the borders of the country; Službeni glasnik Republike Srbije, 36/2011; 9/2011, Zakon o privrednim društvima čl. 550, 551). Globalization, as the synonym for an increase in international trade, flows of capital, work and income, practically means that companies are tax payers of various countries. In the open-economy environment, the overlapping of national tax jurisdictions and competences emphasizes a big question of eliminating and/or mitigating international double taxation.

Who has the right to tax the income of certain companies dispersed all over the world? The global tax content is disharmonic because there are two alternative systems of international corporate income taxation and four alternative methods of eliminating/ mitigating international double taxation. The first one is a global system based on the concept of the world income, meaning that the country of residence is the one to have the right to tax the total, „world" income of resident corporations, regardless of the fact whether such income originates from a domestic or a foreign source. The second one is the territory system, which, based on the concept of destinations, means that the resource country is entitled to tax the total income generated within its country borders, regardless of the fact whether the recipient of such income is a resident (i.e. has its headquarters) in the territory of that particular country or outside its territory. During the international process of the taxation of the corporate sector, each country can have two opposing tax-investment roles: the role of the country of residence and the role of the destination country.

Although countries show a tendency to accomplish the standard aims of the tax policy, which first of all is to build a fair tax system and accomplish an efficient international allocation of capital, in the context of maximizing the world or national income, they vary in the ways and criteria used for making such accomplishments. Because of that, international taxation overshadows the imperative of the coordination of the national taxation rules. How can a country of residence react to the previous tax of a destination country in order to eliminate/ mitigate international double taxation? There are four available methods (1-4), the first of which is important for the purpose of this paper, because it is present in the practice of certain countries (the USA, Japan, the UK, Ireland, Serbia, for example; Russo, 2007, 65). Firstly, the country of residence can approve „a foreign income tax credit" paid in the destination country, in a full or partial amount, by means of which it recognizes foreign tax as its own. This method is based on a professional argument that, from an international point of view, tax fairness implies that the foreign tax of the destination country is equally worth to the domestic tax of the country of residence.

Secondly, the country of residence can exempt foreign income from the taxation process, by means of which it practically waives a possibility to tax repatriated income tax. Thirdly, the country of residence can forbid any deduction of the previously paid foreign tax in the destination country, and apply its own tax to repatriated foreign income on the gross base, net income increased by the tax of the destination country. Fourthly, the country of residence can charge its own tax on repatriated foreign income on the net base, considering such foreign tax as a „deduction" from the tax base. This method is based on a professional argument that, from the national point of view, the foreign tax of the destination country represents an expense for a resident tax payer.

## THE METHODOLOGY

Transboundary business transactions are treated through the two alternative systems of international taxation which can be operated by the four alternative methods (1-4), for the purpose of avoiding international double taxation. What is important for this paper is the global system of international taxation and the method of foreign tax credit.

A transnational corporation (TNC) is a corporation performing the international business activity in several different countries at the same time. For the purpose of this paper, the important one is a transnational corporation constituted of one parent company, i.e. one central management in the country of residence (PCR), and one foreign subsidiary, i.e. one formally independent company, because it operates in compliance with the laws of the foreign country in which it was founded, complying to the laws of the destination country of capital (FSD).

The central management of the transnational company applies the common business strategy on the common world market, including the domestic market in the country of residence. The target function of the TNC is the structuring of transactions with the aim to maximize the present values of net income at the transnational corporation level. The tax system is non neutral, because tax is a factor of business decision making; in other words, the valorization of the present value of net income must incorporate all the business expenditures and business incomes, including tax costs and tax savings as the results of international tax planning. The present value of net income at the TNC level and/or at the level of its constituents, $PV_{NI}$, as the indicator of the present value of the business result after paying corporate income tax, is established according to the following formula (Hyman, 2011, 199; Schreiber, 2013, 27-32; OECD, 2014, 1-7)

$$PV_{NI} = \sum_{t=0}^{n} \frac{NI_t}{(1+i)^t} \quad (1)$$

where $PV_{NI}$ is the present value of net income, $NI_t$, made on the world market during particular fiscal years, $t$, for the observed period of $n$ years. The counting of the present value of net income is based on the standard presumptions of the financial analysis of the non-existence of the fluctuation of the business risk in the function of the time component, so that the discount rate, $i$, is constant during the observed period and is 5%.

The concept of transfer prices has three different functions (Schon, 2012, 47). First, from the point of view of realizing the TNC's business activity, transfer prices are used for counting the intra-company transactions, i.e. the transfer of assets, and for forming obligations based on the value of the acquisition and sale of business results within a group of intra-dependent companies located all over the world. Second, from the point of view of international taxation, transfer prices combined with the ALP serve to allocate international income amongst dependent companies within the parent TNC, on the one hand, and amongst foreign countries in which the subsidiaries are registered, on the other. Third, from the point of view of a tax jurisdiction, transfer prices are the starting point of the procedure of the prevention of tax avoidance/evasion. For the purpose of this paper, the respectable ones are the first two functions of transfer prices.

The „arm's length prices" (ALP) are an exogenous variable. Each chosen method for the analysis of transfer prices must, as its final effect, have a reasonable evaluation of the results in accordance with the „arm's length" principle. For in the purpose of the procedure of the analysis and/or correction of the transfer prices carried out in this paper, the relevant method is the representative traditional method of the comparable price on the market (OECD, 2010b, 64; UN, 2013, 196-197; Službeni glasnik Republike Srbije, 61/2013; 8/2014, 5).

## THE EFFECTS OF POSTPONING INTERNATIONAL INCOME REPATRIATION

According to the global system, the parent corporation pays corporate income tax in the country of residence, regardless of the fact where such income has been earned. The tax paid by a foreign subsidiary in the destination country can be credited against the tax liability of the parent company in the country of residence. This solution is based on a professional argument that, because of the available foreign tax credit, national and transnational corporations bear the same corporate income tax rate, the corporate income tax rate of the country of residence, completely independent of how a transnational corporation located its subsidiaries in the country and abroad. However, national and transnational corporations do not bear the identical tax rate. International tax planning, which can ensure a double tax benefit for a TNC, i.e. an increase in net income at the level of a TNC, are immanent in the procedure of international taxation: based on the postponing of the repatriation of international income and based on the reallocation of international income.

Can, in real life, the parent corporation from the country of residence use its own foreign subsidiary in the destination country as a „tax shelter" from its own tax administration? The first tax advantage of the transnational organizational form stems from the authentic conceptual characteristic of the credit method that enables a legal possibility of postponing the repatriation of foreign income in the country of residence. A transnational corporation, a group of related entities, consisting of one parent company in the country of residence ($PC_R$), where it has paid 30% of corporate income tax in the current year (2014), and one foreign subsidiary ($FS_D$), which pays 10% of corporate income tax in the destination country on 1000000 monetary units (m.u.) of income generated in the current year 2014, are the subject of our analysis. How big is the isolated tax effect of the five-year postponed repatriation of foreign income? To be precise, how much is corporate income tax in the country of residence in the case of the five-year postponing of the repatriation of the generated income, i.e. the postponing of such repatriation until 2019, for instance, compared to the amount of the tax that the TNC would pay in the country of residence in the case of the repatriation of the foreign income of the current year (2014), with a 5% discount rate? The country of residence reacts to the previous tax of the destination country by approving a „foreign tax credit" in order to eliminate (mitigate) international double taxation (Table 1).

A transnational corporation is interested in spreading its business activities beyond the national borders of its own country because of the possibilities of tax planning. When a foreign subsidiary earns net income abroad, such „foreign income" is not considered as a part of the country-of-residence income, until the parent company decides to repatriate it. However, by reinvesting the foreign subsidiary's income in the destination country, for instance, the parent company can endlessly postpone the paying of corporate income tax in the country of residence. Tax planning in the form of postponed taxation ensures tax reduction for a TNC. In the analyzed example, because of the five-year postponing of the foreign income repatriation in the country of residence, tax is reduced by 43200 m.u. Does the official procedure of international planning ensure the central management the following yet conceptually–methodologically unforeseen and unintended strategy of the expatriation of income; is it complementary to the target function of TNCs? In the ambience of the global system of international taxation and the foreign tax credit method, the standard result of the officially established procedure of international taxation is the effective rate of 20% (OECD). However, by the restructuring of investments in the direction of maximizing the present value of net income at the level of transnational corporation, as the target function, the TNC additionally reduces the effective tax burden to 15.7%. We have noticed that there is an invert relationship between the length of the postponing repatriation period of the foreign subsidiary in the parent corporation, on the one hand, and the effective tax that the resident parent corporation (TNC) pays, on the other.

When, in real life, can a TNC's postponed taxation be manifested in the form of the reduction of the tax burden in the country of residence? Tax reduction is only possible if the income of the foreign subsidiary in the destination country is taxed at a lower tax rate than its counterpart rate in the country of residence, i.e. in the circumstances of a credit deficit. Why is it so? Because the volume of a credit limit for foreign tax is determined by the country of residence. In the opposite case, when the tax rate in the destination country is higher than the tax rate in the country of residence, the foreign tax of the destination country is higher than the credit limit, i.e. it is higher than the amount of the foreign tax which the country of residence wants to credit, which brings the parent corporation into the position of a credit surplus. What does „excess" practically mean? The only tax for the parent company based on foreign source income is the tax that the foreign subsidiary paid in the destination country in the year which such income was generated in. Credit surplus, a difference in the corresponding tax in the country of residence and the tax in the source country, can be used by the parent company by carrying backward to the previous tax years, or forward, into the following tax years, when there is a possibility that a credit deficit will appear. Low taxes in the destination country are a strong agent for the activation of international tax planning, the postponing of the foreign income repatriation in the country of residence (the presented tax scenario is very similar to the tax advantage that the income of capital

**Table 1** The valorization of the effects of postponing the repatriation of international income on tax reduction at the TNC level

| Description | The sum of income or tax (in monetary units) |
|---|---|
| Corporate income tax in the destination country in the current year (2014) | |
| 1.The income of a foreign subsidiary, $FS_D$, generated in the destination country | 1000000 |
| 2. The statutory tax rate in the destination country | 10% |
| 3. The income that the $FS_D$ pays in the destination country in the income generating year (1000 000 x 0.1) | 100000 |
| The corporate income tax in the country of residence in the case of the repatriation of income in the current year (2014) | |
| 1. The corporate income tax base | 1000000 |
| 2.The foreign income repatriated in the parent company, $PC_R$ | 900000 |
| 3. The statutory tax rate in the country of residence | 30% |
| 4. The tax credit paid in the destination country | 100000 |
| 5. The tax the $PC_R$ pays in the country of residence in 2014 [(1000000 x 0.3) – 100000 of the foreign tax credit] | 200000 |
| The comparative review of the effects of the current and postponed repatriations of foreign income in the country of residence | |
| 1. The tax that the $PC_R$ pays in the country of residence, when the $FS_D$ makes the repatriation of foreign income tax in the year which such income was generated in (2014) | 200000 |
| 2. The present value of the tax the $PC_R$ would pay in the country of residence if the $FS_D$ postponed the repatriation of the income generated in 2014, until no later than 2019 (200000 x 0.784) | 156800 |
| 3. The reduction of tax at the TNC level caused by the isolated influence of postponing the foreign income repatriation in the country of residence | 43200 |
| The isolated quantitative effect of the five-year-long postponing of the repatriation of foreign income in the country of residence | |
| 1. The global tax rate | 20% |
| 2.The effective tax rate in the country of residence | 15.7% |

*Source:* Author

character has: the procedure of capital gains taxation is performed based on realization instead of real generation, i.e. the effective tax rate is reduced because taxes are not paid at the moment of real generation but will be paid in the future, at the moment of realization).

## EFFECTS OF INTERNATIONAL INCOME REALLOCATION

The key issues of TNC taxation are initiated by the procedure of precisely defining the character of and sharing international income among the countries involved. According to the globally current concept of separate taxation, a TNC establishes the transfer price on an ALP basis for every international transfer of goods, services and intangible assets transferred to its globally dispersed subsidiaries. In real life, separate taxation confirms to have some respectable advantages as well as disadvantages.

At the beginning of the last century, the international community adopted separate taxation, giving it the status of the superior concept of counting the amount of the income that a TNC has earned by certain countries of the capital destination. The concept was traditionally favored by some immanent characteristics. First, the TNC taxation procedure is inspired by a professional argument that each group of related entities as merely a single form of organizing business activities must be put in the same tax plan together with alternative organizational forms. The treatment of related and „unrelated" enterprises on the same ALP basis derives strong attractiveness. Second, the international community came to a consensus about the concept of the distribution of the international base, which is a reasonable excuse for its usage at the global level.

Nowadays, renowned institutions/experts are disturbed by a lack of vision because the topics on the agenda belong to the corpus of the elementary issues of international taxation, „establishing coherent international taxation", „the recovery of the effects and benefits of the international standards" and „providing transparency", which were once believed to have been put *ad acta* at the end of the last century. The expert public faced a test of historical changes. There are „good" reasons to give up on separate taxation. First, the impossibility of determining ALP prices for numerous intra-company transfers, which is confirmed by the OECD Action Plan for 2014/2015. Second, increasing the total costs of the implementation of separate taxation for both taxpayers and the administration (obeying the ALP principle is an expensive process). Third, there is contemporary governments' concern about the erosion of their own public revenue because of the correlation of the intensifying of global investments and international income reallocation.

The concern is stressed in the corpus of the developed countries which apply in practice high corporate income tax rates. According to the data for 2014, the corpus of the developed countries with a high corporate income tax rate include: Argentina (35%), Australia (30%), Austria (25%), Belgium (33.99%), China (25%), Denmark (24.5%), France (33.33%), Germany (29.58%), Italy (31.4%), Japan (35.64%), Luxemburg (29.22%); Holland (25%), Norway (27%), South Africa (28%), Spain (30%), Sweden (22%), UK (21%), USA (40%). (2014) The global directions of international income reallocation, as the function of the international differences in corporate income tax rates, can be anticipated in the context of the data related to the average corporate income tax rates by particular continents (2014): Africa - 27.85%, America - 27.62%, North America - 33.25%, Latin America - 27.15%, Oceania - 27%, Europe - 19.68%, the EU Member States - 21.34%, the OECD Member States - 24.11%, the global average rate for 136 observed countries - 23.57% (KPMG, 2014).

The reallocation of the international income can be under the influence of heterogenous factors. We focus on the interaction of the height of the tax rate and the intensity of the reallocation of income in a hypothetical ambience of the immobilization of all the remaining potential determinants. Two business ambiences will be compared in order to isolate the influence of different national rates of corporate income taxes on the reallocation of international income: (a) the standard market business ambience, when market prices are meritory, and (b) the business ambience of a TNC, with the meritory transfer prices. In order to ensure the comparability of the data between the two business ambiences different in character, a presumption of income equivalence is introduced: the total income from regular operations prior to taxation is identical in both observed business ambiences (40000 m.u.) (Table 2).

First, the market ambience of operating is observed. The business transactions between one separate operating company in the „R" country (the equivalent to the country of residence), $SC_R$, (where corporations are taxed at the rate of 10%), which, at the market prices, delivers final products to a separate trading company in the „D" country (the equivalent to the destination country), $SC_D$, (where corporations are taxed at the rate of 30%) (Table 2) are analyzed. When market prices are meritory, the management of unrelated entities are individually concentrated on maximizing their individual business results. There is no international tax planning because the tax component is a separate factor of business decision making in two unrelated companies. Business relations between two unrelated entities are typically manifested in reducing the total of the realized net income at the level of the two unrelated companies (the sum of the net income of the two unrelated companies, SCR and SCD, is 33000 m.u.) (Table 2), and in an increase of the net income of the unrelated trading company in the „D" country (the net income of the SCD is 10500 m.u.) (Table 2).

The business ambience of the TNC applying the unitary business strategy on the world market in the presence of international tax planning is now observed. The business transactions between the parent operating company in the country of residence, PCR (where the rate remained the same as in the „R" country, i.e. 10%) (Table 2), which, at the transfer prices, delivers final products to the related trading subsidiary in the destination country, FSD (where the rate, also remained the same as in the „D" country, i.e. 30%) (Table 2) are analyzed. The aimed function is the

**Table 2** The valorization of the effects of the reallocation of international income on the reduction of tax at the TNC level

| The allocation of net income among the unrelated entities (in monetary units) | |
|---|---|
| The business transactions of the unrelated operating company, $SC_R$, in the „R" country (the equivalent to the country of residence) | |
| 1. The revenue from the sale of final products | 100000 |
| 2. The costs and expenditures made | 75000 |
| 3. The income from regular operations prior to tax | 25000 |
| 4. Corporate income tax (10%) | 2500 |
| 5. Net income | 22500 |
| The business transactions of the unrelated trading company, $SC_D$, in the „D" country (the equivalent to the destination country) | |
| 1. The revenue from the sale of goods | 200000 |
| 2. The costs of the acquisition of final products | 100000 |
| 3. The costs and expenditures made | 85000 |
| 4. The income from regular operations prior to tax | 15000 |
| 5. Corporate income tax (30%) | 4500 |
| 6. Net income | 10500 |
| The reallocation of net income among the related entities (in monetary units) | |
| The business transactions of the parent operating company, $PC_R$, in the country of residence | |
| 1. The revenue from the sale of final products | 110000 |
| 2. The costs and expenditures made | 75000 |
| 3. The income from regular operations prior to tax | 35000 |
| 4. Corporate income tax (10%) | 3500 |
| 5. Net income | 31500 |
| The business transactions of the related trading subsidiary, $FS_D$, in the destination country | |
| 1. The revenue from the sale of final products | 200000 |
| 2. The costs from the acquisition of final products | 110000 |
| 3. The costs and expenditures made | 85000 |
| 4. The income from regular operations prior to tax | 5000 |
| 5. Corporate income tax (30%) | 1500 |
| 6. Net income | 3500 |

*Source:* Author

one of maximizing net income at the TNC level. Since the unified tax component is within the competence of the central management, the resultant of international tax planning and the valorization of the intra-company transactions in accordance with the transfer prices, i.e. the resultant of the convergence of the economic aims of the group members of the related persons, is an increase in net income at the TNC level (to 35000 m.u.) and a reduction of the net income of the foreign subsidiary in the destination country (to 3500 m.u.) (Table 2).

Although the initial income of regular operations prior to taxation were identical in both business ambiences (40000 m.u.) because of a possibility of international tax planning, the TNC realizes bigger net income (35000 m.u.) compared to the total net income of the two unrelated entities (33000 m.u.). The increase in the net income of the group of the related entities by 2000 m.u. (Table 2) is the result of the isolated influence of the difference in the tax rates on the reallocation of international income from the country with higher corporate income tax (30%) to the country with lower corporate income tax (10%). In other words, international tax planning ensured the tax saving of 2000 m.u. for the TNC. The unrelated entities, in other words the two „national" companies, are handicapped since they have not been given a possibility of international tax planning because of which they pay higher taxes altogether by 2000 m.u., and consequently make a worse total business result.

The increase in international differences in the corporate income tax rates encourages the international reallocation of income. The bigger an international difference in corporate income tax rates, the bigger a benefit from manipulating in the area of price determining for intra-company transactions. As long as there are differences in the corporate income tax rates among countries, there is a realistic incentive for TNCs to locate their income in low-tax countries and their costs in high-tax countries.

## EFFECTS OF REFORM TENDENCIES IN THE EU

When the reallocation of international income is observed in the context of the alternative methods (1-4) which the country of residence can use to react to the prior tax of the destination country with an aim to mitigate international double taxation, we find ourselves in the position to formulate the following professional comments:

- When the country of residence of a TNC applies foreign tax credit, the incentive for the reallocation depends on the position the TNC has reached in relation to foreign tax credit (if the TNC is either in the credit deficit position or in the credit surplus position) as well as on the statutory possibilities of postponing tax payment in the country of residence (whether the parent company can use such excess credit by carrying it either backward or forward).
- When the country of residence of the TNC applies an exclusion or deduction method of foreign tax, the TNC always has an incentive to reallocate international income in a low-tax country.
- When a new tax system to cover certain territory (the EU) is being developed, then the EU TNC has an incentive to reallocate its income beyond the territory boundaries of the EU-28, in the Republic of Serbia, for instance.

In the recent past, the EU has intensified the question of the essential reform of corporate income tax by the phase application of the „common consolidated corporate tax base" (the CCCTB) in order to promote the global competitive superiority of the EU. At the dawn of the European tax discourse, which relations can be expected on the territory of the Republic of Serbia? First of all, the essence of the current and perspective tax reform tendencies can reduce the national tax sovereignty of the countries gravitating towards the Euro zone, including the two central implications for the scope of international tax planning in the Republic of Serbia.

The first implication implies the activation of non-tax instruments for improving the competitiveness of Serbia's economy. The European Union chose a two-sided combination of supranational autonomy, meaning the existence of one, consolidated tax base at the level of the European Union, and national autonomy, meaning different tax rates at the level of the 28 European Union Member States. Serbia must understand this two-sided strategy in three ways:

- as a partial loss of control in the tax incentives segment,
- as an indicator of the tendency of reducing the significance of tax competition in the corporate income tax rate segment, and
- as the inhibiting of the developing-propulsive potential of tax preferential instruments in favor of the growth of the relative significance of non-tax subsidies.

Since a single, European tax base is to be determined, Serbia is implicitly provided with a reduced possibility of autonomously leveling the effective tax burden of corporations by tax incentives, i.e. of influencing the mobilization of international capital by a set of tax preferrentials. Because the possibility of competing by varying the size of the tax base is reduced, the remaining possibility is to compete by varying the height of the tax base. Can the strategy of the atypically low tax rate of 15% (until 2012, the rate was 10%), which, within the EU, is still only used in Bulgaria (10%), Cyprus (where traditionally the rate of 10% was used, but in 2013, the rate was increased to 12.5%, which is the rate that is still in use) and Ireland (12.5%) be an effective instrument of the promotion of the economic space of the Republic of Serbia? No, it cannot. Serbia finished its race from „top" in 1992 to „bottom" in 2012 (Službeni glasnik Republike Srbije, 25/01, 80/02, 43/03, 84/04, 18/10, 101/11, 119/12, 47/13, 108/2013, 68/2014).

Serbia realized an impressive trend of reducing the enterprise profit tax rate. The authorities then (1992) started with the fantastic rate level of 40% (Službeni glasnik Republike Srbije, 76/1991) only to reduce the rate to 30% in 1994 (Službeni glasnik Republike Srbije, 43/1994). After that, on 1st January 1999, the authorities reduced the rate from 25% to 20%, so, for the first time, the rate in Serbia was lower than the correspondent „average rate" of the corporate income tax of the EU Member States (26%). However, the strategy of the tax rate reduction went on to charm the following generations of authorities as well, who, by „forgetting" the international aspect of the tax content, „reached" 2012 and established the „atypical reduction of the rate" to 10% („the bottom"). What professional comments does the presented regressive scenario deserve (1992-2012)? When taxing transnational corporations, every redesigning of corporate income tax in the destination country, in Serbia, must be observed integrally with the corresponding tax effects in the countries of residence of TNCs in the EU member states. When the rate in Serbia is below „the average rate", and particularly when it is significantly below „the average rate" of developed countries, TNCs in the majority of developed countries are not in the „credit surplus" position but rather find themselves in the „credit deficit" position. In other words, when the rate in the destination country is lower than the credit limit of the country of residence of the parent TNC, tax requirements are allowed because the TNC has a surplus of unused (approved) credit by its country of residence. Then, each further reduction of the rate reduces the relative importance of the very tax subsidy and increases the importance of the non-tax subsidies that are to be met. By making a clear intersection of the attitudes previously presented, we point out that the strategy of the continuous rate reduction (1992-2012) took away the status of an exclusive owner of comparative advantages for the mobilization of foreign capital from enterprise profit tax.

In 2013, the Serbian government introduced the logic of discontinuity with the previous twenty-year period of the „pro-European designing" of enterprise profit tax by increasing the rate from 10% to 15% (the average rate in the EU-28 was 22.75% in 2013, and 21.34% in 2014). So, we all find ourselves at the „beginning" once again (2013-2014). The Government is being faced with a question of a possibility of including, by means of non-tax subsidies, extreme requirements for a direct reduction of the price of conducting the entrepreneur's registered activity in the Serbian economy, reorganizing the realization of competitive tendencies in order to attract foreign investments. Nowadays, RS is faced with a pronounced need for the rebalancing of the relationship on the relation net inflow of international capital – the net loss of public revenue based on the non-standard reduction of the tax rate.

The second implication points out the fact that no increase in the collected public revenue based on the taxation of TNCs in Serbia can be expected; what we can expect is the prolonging of international (TNC) pressure on the budget of the Republic.

The doyens among the old members of the European Union, who themselves are faced with the failure of the Lisbon Agenda and who hurriedly work on the implementation of the Europe 2020 Strategy (EC, 2010), will choose the definition and the way of sharing the consolidated base, i.e. the „external" link towards countries outside the EU-28, in such a way so as to, in the first place, satisfy the interests of the European transnational (multinational) corporation. The consolidation of the tax base at the level of the European multinational corporation makes it possible for the central management to reduce the tax burden of the European subsidiaries present in Serbia by combining the instruments of international tax planning with the effects of the ratified bilateral agreements. The combination of the noted factors can objectively imply a reduction of income from enterprise profit tax, i.e. it can prolong the existing pressure on the budget of the Republic of Serbia (revenue from enterprise profit tax in Serbia is standardly below 1.5% of the GDP, which is almost two times as small as the EU average).

The first task of the State of Serbia must be a skillful navigation through the process of a „real" public-private partnership. Serbia must carefully enter into an interactive partnership with big transnational (multinational) corporations by co-financing and co-producing the vital components of the public-economic-political results in an atmosphere of cooperation and competition. The national public financial and economic social results should be achieved according to the circumstances of the porous borders between the public and the private sectors, on the one hand, and between the areas of the domestic and foreign economic (tax) policies, on the other.

## CONCLUSION

The aura of intra-version had shaded the content of the public finances for too long. The local coloration and the national predetermination, i.e. the favorability of the public finance development, have in the meantime been rethought. The global challenges have added new functions to the national public finances in the context of a reaction to the globalization of its main activities and competences.

The growing complexity of international economic relations emphasizes the importance of the international aspect of the corporate sector taxation. The globalization practically means that a transnational corporation is a taxpayer in multiple countries, conditioning an overlapping of national tax jurisdictions and opening a big question of international double taxation. Since the actual global tax content is represented by a disharmony between the national tax system, on the one hand, and the internationally efficient allocation of resources and the fair sharing of the international tax base, on the other, the search for a methodological form able to optimize the burden of international double taxations continues.

As the direct outgrowth of the disharmonic official procedure of international taxation, international tax planning can take different forms. By studying the effects of the basic forms of international tax planning, we have come to particular results.

By thoughtfully restructuring its global business transactions, a transnational corporation can achieve an „extra" reduction of the effective tax burden compared to the level of the tax burden standardly predetermined within the officially established procedure of international taxation (OECD). This statement directly originates from the first research hypothesis, which stresses the existence of an invert relationship between the length of the period of the postponing of the repatriation of foreign income from a foreign subsidiary into the parent corporation in the country of residence, on the one hand, and the effective tax paid by the parent corporation (TNC), on the other.

The bigger international difference in the corporate income tax rate, the bigger benefit from manipulating in the area of determining prices for intercompany transactions. As long as there are differences in corporate income tax rates among countries, there is a real incentive for TNCs to locate their income in low-tax countries and their costs in high-tax countries. Based on the presented statements, the second research hypothesis can be defended and a conclusion can be drawn that the growth of international differences in the corporate income tax rates encourages the international reallocation of capital.

By confirming the third hypothesis of the paper, we explicitly came to conclusion in this paper that, when defining the methodology and valorization of the effects of TNC taxation, every redesigning of corporate income tax in the destination country, in Serbia, must be observed integrally with the corresponding tax solutions in the countries of residence of TNCs, in the EU Member States. The actual reform tendencies in the EU influence the range of tax planning in the Republic of Serbia in two ways, namely in the form of activating non-tax instruments for improving the competitiveness of the Serbian economy and in the form of prolonging international pressure on the budget of the Republic of Serbia.

The main affirmative specificities of this paper are represented by the standard methodology, namely an original illustration of the treated problems and the argumented justifications of the results obtained. The main disadvantage of this paper is its partial approach to the analyzed problems since numerous respectable instruments of international tax planning have not been included in the analysis.

The paper is important not only for the academic community but also for the creators of the tax policy. In the Republic of Serbia, analyses of multidimensional issues of international tax planning and/or similar problems from the broader corpus of „international taxation" are relatively rarely carried out. In this particular area, the Republic of Serbia is at the back of the group of countries of South-East Europe because there is an absolute absence of normative and practical development especially in the segment of the administrative control of transfer prices. This paper can be an inspiration for researchers who, in their professional work, are tangent to the problems in focus. In further researches, attention should be directed towards the fifteen open questions zoomed by the OECD in its Action Plan 2014 and 2015.

The paper is important from the practical point of view and is also problem illustrative for the creators of the tax policy in the Republic of Serbia since it implies the complexity and challenges of international tax planning. The research done enables us to formulate particular instructional messages for the needs of the creators of the tax policy of the Republic of Serbia.

The first instructional message is initiated by the question of the effects of the postponing of international income repatriation: When speaking about the position of the country of the placement of capital, i.e. the position of Serbia, what are the objective potentials of the tax preferring of the corporate sector with respect to attracting foreign capital? We stress the marginal example of the foreign tax credit method. Tax policy creators must have in mind the fact that the country of the origin of capital activates its own tax regime at the moment of the repatriation of income, which can have negative consequences for the tax incentives previously approved in the country of capital placement. To the extent a tax incentive in the country of capital results in a tax liability smaller than a tax liability determined in the country of origin, the tax benefits approved in the country of placement can be taxed again in the country of origin. If the presented marginal scenario is really played, the onerous curiosity is in fact the transfer of tax revenues from the Treasure of the country of placement (Serbia) to the Treasure of the country of origin (the EU).

The second instructional message is initiated by the question of the effects of the reallocation of international income: What are the basic methodological-practical challenges of the subject matter of the transfer prices in Serbia? The increasing significance of TNCs (MNCs) in Serbia is manifested through the non-existence of separate enterprises in numerous economic activities. The increasing complexity of operations performed by TNCs (MNCs) in Serbia should be answered by the simplification of the taxation procedure, which is based on knowing the nature of a business transaction and the evaluation of the risk of the appearing of manipulations with the transfer prices by certain activities/big entities. Because of the international implications of the transfer prices, while building of one's own database, the Amadeus database should be used – the database of comparable financial information for public and private companies in Europe (https://amadeus.bvdinfo.com/). The Serbian tax administration should be focused on the actual concept of the „Advance Pricing Agreement". The resultant of the APA concept is a cost efficient result, the realization of a certain level of reducing the tension in the taxpayers-administration relationship, at the lowest possible total costs.

The third instructional message is initiated by the question of the actual and perspective reform tax tendencies. With respect to the mobilization of capital, how far is it justified in the country of capital placement, i.e. in Serbia, to apply the strategy of the reduction of the enterprise profit tax rate? The benchmark is the parallel relation of the volume of the tax paid in the country of capital placement and foreign tax credit in the developed country of capital origin.

The previously stated instructional messages are the founded ideas that, from different „aspects", run down to the same professional „source": the character and potentials of a tax system are the realistic reflection of the achieved level of economic development. The tax system in Serbia is not, or cannot be, an individual „predecessor" but rather the „parallel" and most often the „follower" of the achieved level of the total economic-technological-social-political emancipation. The development-propulsive scopes of the tax content will directly be proportionally increased with the intensification of the logistic support from the very fundament of such development: (a) from the development of an internationally recognizable entrepreneurial climate, when the business ambience of the Republic of Serbia has become a pro-European outgrowth rather than the resultant of frequent, sometimes daily, but in any case short-term bound, non-strategic reform movements; (b) from the professional and institutional stateliness and responsibility, when the credibility of not just tax actors, as the most miraculous and crucial prerequisite of a success and business reputation, has become an outdated question.

## ACKNOWLEDGEMENTS

The research in this paper was conducted within the Project of interdisciplinary research, No. 41010, funded by the Ministry of Education, Science and Technological Development of the Republic of Serbia.

## REFERENCES

Arnold, B. (2010). Canada. In B. Arnold, & H. Ault (Eds.), *Comparative Income Taxation: A Structural Analysis* (pp. 27-45). New York, USA: Aspen Publishers.

Bird, R., & Mintz, J. (2003). Sharing the International Tax Base in a Changing World. In S. Cnossen, & H. Sinn (Eds.), *Public Finance and Public Policy in the New Century* (pp. 405-446). Cambridge, Massachusetts, USA: The MIT Press.

Delloitte Touche Tohmatsu Limited. (2013). *Investment in Switzerland 2013: Reach, relevance and reliability* (1-17). Zurich, Switzerland: Deloitte Touche Tohmatsu Limited.

Devereux, M., & Keuschnigg, C. (2009). *The Distorting Arm's Length Principle* (Working paper). (1-37). Oxford, UK: Oxford University Centre for Business Taxation.

European Commission. (1998). Conclusion of the Ecofin Council Meeting on 1. December 1997 concerning taxation policy. *Official Journal of the European Communities*, C2/01-C2/06.

European Commission. (2010). *Europe 2020 Strategy: A Strategy for smart sustainable and inclusive growth*. COM(2010) 2020. Brussels, Belgium: European Commission.

European Commission. (2011). *Councile Directive on a Common Consolidated Corporate Tax Base*. (CCCTB), COM(2011) 121/4, 2011/0058 (CNS). Brussels, Belgium: European Commission.

Gravelle, J. (2013). *Tax Havens: International Tax Avoidance and Evasion*. Washington, DC, USA: Congressional Research Service.

Hyman, D. (2011). *Public Finance: A Contemporary Application of Theory to Policy*. Mason, Ohio, USA: South-Western Cengage Learning.

KPMG International. (2014). *Corporate Tax Rate Table*. Switzerland: KPMG International

OECD. (1998). *Harmful Tax Competition: An Emerging Global Issue*. (25-35). Paris, France: OECD Publishing.

OECD. (2010a). *OECD Model Tax Convention on Income and on Capital*. Paris, France: OECD Publishing.

OECD. (2010b). *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations*. Paris, France: OECD Publishing.

OECD. (2013a). *Action Plan on base Erosion and Profit Shifting.* (24-49). Paris, France: OECD Publishing .

OECD (2013b). *Addressing Base Erosion and Profit Shifting.* (15-25; 83-86). Paris, France: OECD Publishing.

OECD. (2014). Development Assistance Committee. *Explanation of Concepts Used in Concessionality and Grant Element Calculation.* Paris, France: OECD Publishing.

Repetti, J. (2010). The United States. In B. Arnold, & H. Ault (Eds.), *Comparative Income Taxation: A Structural Analysis* (pp. 173-192). New York, USA: Aspen Publishers.

Russo, R. (Ed.). (2007). *Fundamentals of International Tax Planning.* Amsterdam, The Netherlands: The International Bureau of Fiscal Documentation.

Schon, W. (2010). Germany. In B. Arnold, & H. Ault (Eds.), *Comparative Income Taxation: A Structural Analysis* (pp. 65-91). New York, USA: Aspen Publishers.

Schon, W. (2012). Transfer Pricing - Bussines Incetives, International Taxation and Corporate Law. In S.Wolfgang & K. Konrad (Eds.), *Fundamentals of International Transfer Pricing in Law and Economics.* Munich, Germany: Springer.

Schreiber, U. (2013). *International Company Taxation.* Mannheim, Germany: Springer.

Silberztein, C. (2011). Transfer pricing aspects of intangibles: the OECD project. *Transfer Pricing International Journal*, 8, 1-6.

Službeni glasnik Republike Srbije (1991). broj 76/91.

Službeni glasnik Republike Srbije (1994). broj 43/94.

Službeni glasnik Republike Srbije (2011). *Zakon o privrednim društvima*. broj 36/11; 99/11.

Službeni glasnik Republike Srbije (2014). *Zakon o porezu na dobit pravnih lica.* broj 25/01; 80/02; 80/02; 43/03; 84/04; 18/10; 101/11; 119/12; 47/13; 108/13; 68/14.

Službeni glasnik Republike Srbije (2014). *Pravilnik o transfernim cenama i metodama koje se po principu „van dohvata ruk" primenjuju kod utvrđivanja cena transakcija među povezanim licima*. broj 61/13; 8/14.

Steimle, P. (2014). *International Fiscal Pressures on Switzerland: How the Swiss Corporate and Individual Tax System Will Maintain / Increase Its Attractiveness* (pp. 1-11).http://www.steimle-consulting.ch/repository/File/International%20pressures%20-%20March%202014.pdf

United Nations. (2013). *Practical Manual on Transfer Pricing for Developing Countries.* (191-258). New York, USA: UN.

https://amadeus.bvdinfo.com/

*Received on 10th July 2014,*
*after two revisions,*
*accepted for publication on 15th December 2014.*

*Published online on 22nd December 2014*

***Srdjan M. Djindjic*** is an Associate Professor at the Faculty of Economics University of Kragujevac, Kragujevac, Sebia, where he received his PhD degree in the scientific area of Finance, and financial institutions. He teaches the subjects of Public Finances, in Bachelor Studies, and Comparative Tax Systems, in Master Studies.