CITY UNIVERSITY OF HONG KONG
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Pillar One of the Unified Approach of the OECD Base Erosion and Profit Shifting Project: The Income Tax Implication of Chinese Multinational Companies
經濟合作與發展組織
基礎侵蝕和利潤轉移項目支柱一:
中國跨國公司企業所得稅的影響

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ABSTRACT

The Organization for Economic Cooperation and Development ("OECD") has embarked on the Base Erosion Profit Shifting (BEPS) project since 2015, the latest proposal – Pillar One of the Unified Approach (hereinafter referred to as "Pillar One") has called for a revolutionary change to the century old international tax rule, requiring a portion of the profit of MNEs to be reallocated to market jurisdictions in which they operate. This research uses empirical data and survey data to evaluate the potential impact of Pillar One on Chinese MNEs, specifically how would their overall and domestic tax expense be impacted. The results of this research reveal that Pillar One has a significant positive correlation with the overall tax and a negative significant correlation with the Chinese tax, meaning the Chinese MNEs will have a higher overall tax post Pillar One. However, the net Chinese tax liability will be less due to the increase of foreign tax credit claim as a result of additional foreign taxes paid on the reallocation of residual profit to market jurisdictions, meaning the Chinese government will collect less tax revenue from the Chinese MNEs that subject to reallocation of residual profit post Pillar One. The research results also identify a gap between the perception of the senior executives of Chinese MNEs and the result from the empirical study in relation to the impact of Pillar One. This indicates Chinese MNEs either did not follow closely the development of Pillar One or misunderstand the implication of it.

Key words: Base Erosion Profit Shifting, Pillar One, Chinese MNEs, international tax, residual profit allocation, taxing right, market jurisdiction.