

Tackling BEPS in the Global South: Evidence from Peru's Tax Reform

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Content

① Setting

② Empirical Strategy

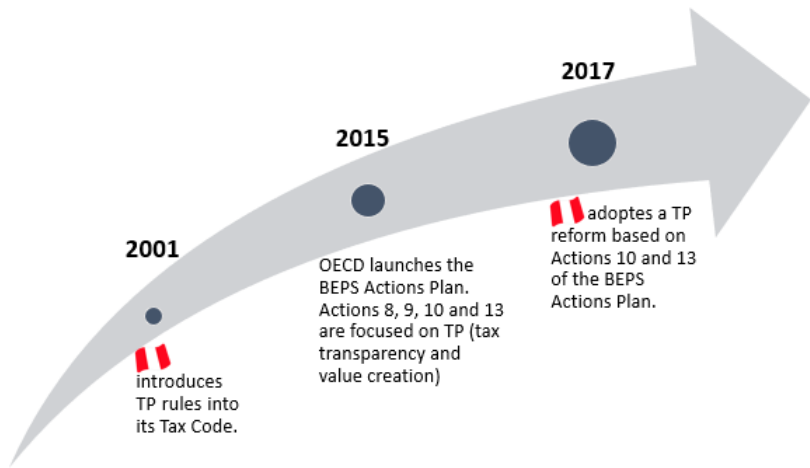
③ Results

④ Conclusions

Motivation

- Collection of corporate tax revenues is threatened by BEPS practices. These tax revenues are particularly important for LAC compared to OECD countries (OECD, 2020).
- Tax revenue losses are especially large in developing economies (Cobham & Janský, 2018; Crivelli, De Mooij & Keen, 2015; Garcia-Bernardo & Janský, 2021).
- Countries introduce transfer pricing (TP, hereinafter) rules into their laws.
- Firms could invest in tax planning/consulting services to reduce their tax payments.

Institutional Framework



The Peruvian TP Reform

- Increase of reporting requirements (Local File, Master File, CbCR)
- Investment in better human capital (TP Auditors)
- Specific rules for intra-group services (Benefit Test)
- Scope:
 - Firms with total revenues \geq 2,300 UIT (USD 2.86 MM)
 - Firms with controlled transactions $>$ 400 UIT (USD 500 M)
 - Firms with total revenues \geq 2,300 UIT but controlled transactions $<$ 400 UIT

Note: UIT is the acronym for *Unidades Impositiva Tributarias*, the Peruvian term for tax units. Controlled transactions are operations between related parties and with tax havens.

Research questions

- What was the effect of the TP reform, on tax payments at a firm level, implemented in Peru in 2017?
- What role did tax consulting firms play in that TP reform?

Variables

- Total revenues: Sum of sales, financial income, and other income.
- Controlled transactions: Sum of accounts payable and accounts receivable with related parties. We do not observe the flow of controlled transactions during the year, we only observe the stock at the end of the year in the balance sheet. To overcome this issue, we study three populations of firms:
 - (A) Firms with controlled transactions > 0
 - (B) Firms with controlled transactions ≥ 0
 - (C) Firms with controlled transactions > 400 UIT
- Consultancy services/payroll: Expenditure on tax services and others.
- Income tax/payroll: Tax payments of firms
- Source: *Encuesta Económica Anual* (A yearly enterprise survey in Peru)

Regression discontinuity design

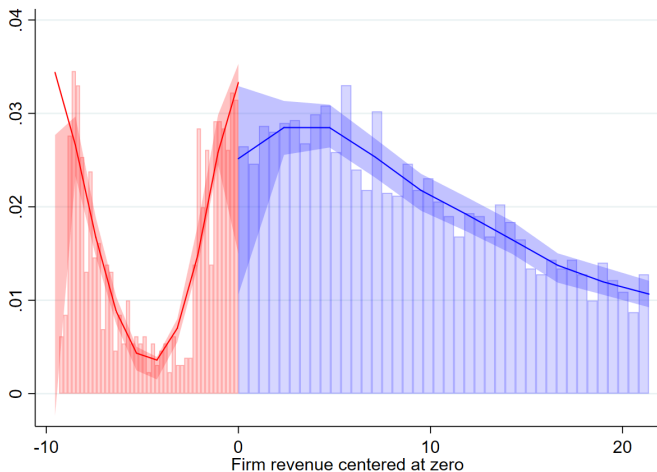
$$\beta_{RD} = \lim_{\epsilon \rightarrow 0} E(Y_i(1)|X_i = c + \epsilon) - \lim_{\epsilon \rightarrow 0} E(Y_i(0)|X_i = c - \epsilon)$$

$$\beta_{RD} = E(Y_i(1) - Y_i(0)|X_i = c)$$

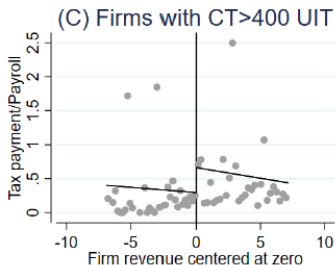
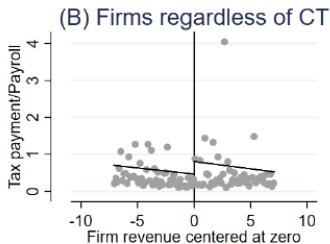
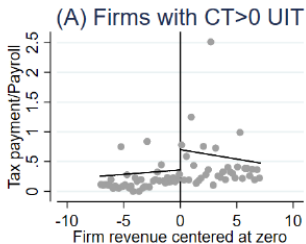
- β_{RD} : Local average treatment effect.
- $Y_i(1)$: Potential firm outcome for treated firms.
- $Y_i(0)$: Potential firm outcome for untreated firms.
- X_i : Running variable (Total annual revenues).
- c : Cutoff point (Total annual revenues of 2300 UIT).

Manipulation testing plot

- No evidence of manipulation in the running variable.



Graphical analysis of effects on tax payments/payroll

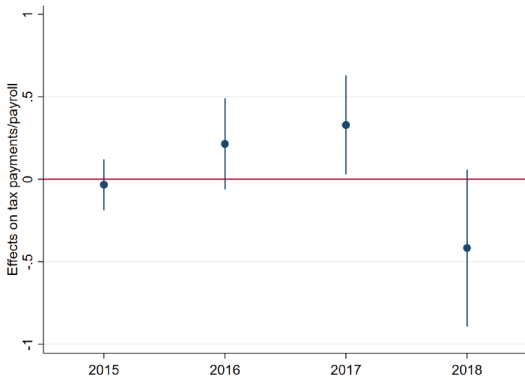


Effects on tax payments/payroll by bandwidth

	(1)	(2)	(3)	(4)	(5)
	x0.5	x0.75	x1	x1.25	x1.5
<i>(A) Firms with CT > 0 UIT</i>					
β_{RD}	0.266	0.320**	0.330**	0.324**	0.319**
	(0.231)	(0.162)	(0.153)	(0.156)	(0.154)
Observations	970	1323	1694	2196	2441
Bandwidth	3.562	5.343	7.124	8.905	10.686
<i>(B) Firms regardless of CT</i>					
β_{RD}	0.394*	0.352	0.342*	0.396**	0.404***
	(0.224)	(0.216)	(0.197)	(0.163)	(0.156)
Observations	699	1045	1406	1829	2318
Bandwidth	2.047	3.071	4.095	5.119	6.142
<i>(C) Firms with CT > 400 UIT</i>					
β_{RD}	0.235	0.315*	0.347*	0.358*	0.350**
	(0.181)	(0.162)	(0.180)	(0.183)	(0.177)
Observations	853	1183	1497	1744	1981
Bandwidth	4.759	7.138	9.517	11.896	14.276

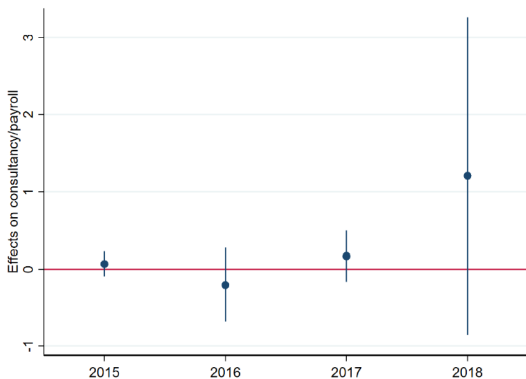
Hereinafter: Standard errors in parentheses. *Significant at 10%, **Significant at 5%, ***Significant at 1%.

Effects on tax payments/payroll by year



	(1)	(2)	(3)	(4)
	2015	2016	2017	2018
β_{RD}	-0.033 (0.079)	0.215 (0.141)	0.330** (0.153)	-0.417* (0.243)
Observations	1755	1317	1694	729
Bandwidth	6.348	4.329	7.124	3.591

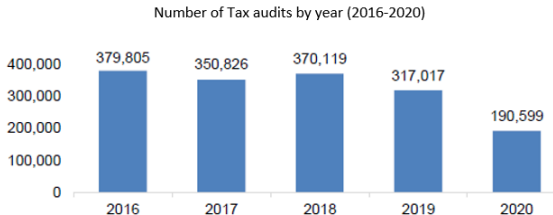
Effects on consultancy/payroll by year



	(1)	(2)	(3)	(4)
	2015	2016	2017	2018
β_{RD}	0.067	-0.203	0.168	1.206
	(0.081)	(0.243)	(0.168)	(1.052)
Observations	847	1283	1272	797
Bandwidth	2.328	4.183	5.134	3.842

Next steps

- Granting more information and discretion to the tax authority will not result in higher tax compliance if there is no increase in tax enforcement resources and capabilities (Pomeranz, 2015 and Casey & Castro, 2015).
- Find out what happened between 2017 and 2018 (and beyond) New firm behaviour? Insufficient enforcement activities of the tax administration?



Source: Peruvian tax administration

Concluding remarks

- TP reform had a positive effect on tax payments. Firms affected by the intervention paid more taxes on average in 2017.
- Policies that boost tax transparency and strengthen the institutional capacities of tax authorities are essential.
- A potential channel of tax avoidance with respect to consultancy services was analyzed. TP reform did not have a significant effect on tax payments in years after the reform. We find tentative but no significant effects.
- More research should be done to disentangle the role of tax consulting firms in abusive TP practices.

Thank you!



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