

# Strategies by oecd members essays examples

[Business](#), [Company](#)



Globalization has led to firms becoming multinationals since additional international markets are opening up and, therefore, economies are becoming integrated. With the increase in trade, migration and finance there are expected to be a rise in the level of global domestic Product. The Organization for Economic Co-operation and Development (OECD) was established to stimulate trade between countries and also ensure that there is economic progress. OECD has thirty-four member states currently including the U. S, France, and U. K among others (OECD, 2005). These are some of the best economies in the world hence OECD hence this business plays a major role in guaranteeing that the world's economy is on the right path of growth.

Over the years, multinational entities have changed their structure and the way they operate in order to reduce their tax liability. A system of international laws coupled with national laws of countries in which they operate is critical to ensure that free and fair trade exists. The laws ensure that small domestic companies are protected from unfair competition from the multinational corporations to enable them to continue with operations (Hoor, 2010). Organization for economic cooperating and development (OECD) establishes guidelines that ensure smooth international trade and finance between countries that have signed a trade treaty. Therefore, about taxation, the company has proposed new guidelines that will reduce tax avoidance that many multinational entities practice using a different way. The 2014 actions are aimed at ensuring the effectiveness in international trade in the following ways; Taxation and digital economy have brought many changes in small and large businesses because they are able to easily

offer their services and products. Digitized economy has brought about challenges, for example, how to apply taxation on a company that delivers goods or services without the need for physically locating into that business (OECD, 2010). This shows that, with the change in technology, new laws will be needed to be created that address some situations that arise with time. Multinational entities also use transfer pricing as another way of reducing the company's tax liability. When different divisions in a multi-national business trade or transact with each other the price that determines the cost is known as the transfer price. Thus, when buying at a price that is higher than the market price it will reduce their tax base, therefore, reducing the tax liability of the multinational company. The multinationals, therefore, mandate OECD. It is important for multinational firms to follow the guidelines set by the OECD Action two on taxation because; this contributes to sustainability and stability of the country's tax revenues. Secondly, it promotes growth and competitiveness in the economy. Thirdly it provides certainty, consistency and a level playing field is created between firms. Internationally, tax sovereignty of the country is respected and also international cooperation is advanced. It also prevents companies from getting unfair advantage by eliminating double non taxation. It also encourages fair trade between developing and developed countries.

Another way in which multinational organizations reduce their tax liability is by the use of hybrid financial instruments. A hybrid financial instrument is an investment instrument that combines features of all debt and equity markets that are bonds and stocks. A common example of hybrid financial instrument is a convertible bond. This security is an issuance of debt that can be

changed into to the company's common stock at any time. The main benefit is that if the stock price of any company reduces the call option will fail to be exercised and instead will receive payments in the form of interest (Ryan, 2007). However, when the price of stock goes up the company can convert the bonds into stock and sell them at a strike price. Holding a convertible gives an opportunity to the market to make a yield when the price of stock goes up but also it can leave a company with high debt.

The only way one can value the real loss to the company is when it defaults on its debt. Hybrid financial instruments, for example, the convertibles often have a low yield compared to other financial instruments. On the other hand, it is crucial to note that convertible bonds or hybrid financial instruments is that it is difficult to value them accurately. This is represented by their market value of the instruments. The situation leaves much room for arbitrage where a security can be bought then immediately sold for profit. This, therefore, presents a major challenge for multinational companies because it is hard to know the ideal time to buy or sell these instruments. There are also other types of hybrid financial instruments, this includes trust preferred securities, equity default swaps, and preferred stock (Ryan, 2007). The multi-national companies account a large portion of the world's gross domestic product (MNC's), with trade between the firms accounting for a substantial part of this share. There has been an aggressive tax planning by the large multi-national corporations or digital businesses that raise concerns on the impact that this has on national and small companies that do not have a chance to plan their tax affairs (Martin Feldstein, 2007). For this reason, the OECD has created measures aimed at neutralizing the effects of

hybrid financial instruments mismatch between different countries.

Hybrid difference occurs when a multinational corporation uses financial instruments to hybrid in order to reduce business tax that would have otherwise been payable when viewed in a group wide basis. In this case, a business uses a hybrid financial instrument to present a scenario in which a tax deductible expense or payment is the net result. Hence it reduces the tax payable in the recipient country. An example of this is when a company owns an instrument that can be treated as debt in the country A and equity in another country B.

Depending on the country, the use of hybrid business can be treated in two ways; in the laws of one country these financial instruments can be treated as opaque or taxable and in another country the instruments can be treated as transparent which means that they are not recognized as taxable in another country. Also, there are countries that give the multinational entity power to determine the how treatment of particular hybrid financial instrument will be carried out. As a result, situations will emerge in which double deduction will occur. Double deduction is situation in which a hybrid financial instrument has not been taxed in two countries, that is the home country and the country in which the multi-national entity has operated as a foreign country. There is also another situation that can lead to similar mismatches brought about by use of hybrid financial instruments.

Dividend repatriation tax holiday allows Multinational Corporation from the U. S with foreign subsidiaries to delay their payment of corporate tax to the U. S. This tax policy allows the firms to delay the payment of corporate tax until foreign dividend earnings are sent back to the U. S that effectively

denies earnings to the government by the multinationals. The firms were meant to reinvest the repatriated funds to create more jobs, however, analysts observed that this policy did not create jobs but instead they used the funds to increase shareholder dividends. Some of the multi-national entities used did not use the funds as intended to create extra jobs for the people instead they used the funds to increase shareholder dividends. An example of a multinational entity that took advantage of the dividend repatriation tax holiday is Pfizer. The firms earned over \$30 billion dollars inform of money send back and instead of creating additional jobs it laid off employees in the U. S then in 2005 it closed its factories. Hybrid financial instruments and weak laws are the main factors that contribute to firms not submitting fully the corporate tax that they owe the state (Peter Carroll, 2011). Hence OECD must make laws that remove the grey areas in order to minimize tax avoidance and tax evasion by the multinational corporations. Globalization has brought about a challenge on how to harmonize tax laws of countries that are involved in trade and have to enter into double taxation agreements. In order to achieve a competent tax system which has no loopholes, countries must ensure that international tax treaties built upon them can keep up with development changes that the multi-national entities do not exploit the grey areas in the law. For a transaction that is cross border, establishing which country's tax laws that are not being followed is not always possible. Formulating laws that can be consistently applied by each country in which the multinational entities operate can comprehensively address this problem. An example of such laws is the United Kingdom's anti arbitrage rules in which enables one knows the tax

base of the country which deduction is going to be given. An important consideration on the way neutralization of the mismatch is to be carried out and the scope of laws that are to be used for each instrument is critical for hybrid financial instruments.

Solving these problems can be a difficult task and especially if the countries in the treaties are not willing to apply the rules formulated. Hence the law should be formulated to be applied only where a mismatch exists. The laws would be in place to prevent the player from receiving any tax deductions or force the country that is the recipient to include the payment as a tax receipt. These laws come in handy to deny a multinational entity from avoiding paying taxes in two countries in which it is operating (Slemrod, 2011). Non double taxation is when a company takes advantage when owning hybrid financial instruments to avoid paying taxes in two countries of operations.

Action two aims at formulating new tax laws that prevent the multinational entities from using certain structures in business to avoid tax or finance transactions. Many countries will contemplate forming new tax policies which will ensure that the hybrid financial instruments are not used by multinational entities as a means of eliminating any tax benefit. Countries should create laws that reduce the abuse or violation of international tax treaties. When a company violates international treaties that bind two or more countries it should be punished by law and also more stringent laws should be made to reduce situations in which multinationals use hybrid financial instruments to reduce their tax liabilities.

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features of both debt and equity markets that are bonds and stocks.

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Digitized economy has brought about challenges, for example, how to apply taxation on a company that delivers goods or services without the need for physically locating into that business. To ensure that multinational companies do not take advantage of the digital economy, they should ensure that there are laws that are readily made to address this particular issue (Sonja Lynne Olhoft, 2000).

The law should be made that ensure that a company pays taxes regardless of whether it has a physical presence or no physical presence in the country in which it is selling its goods. Establishing such taxes will ensure that there is minimal tax avoidance by the multinational countries hence the countries are able to reap maximum benefit (OECD, 2005). Another way of ensuring that multinational entities do not help on the loopholes in the tax system of the country is by making sure that there are tax reforms that enhance competitiveness between the multinationals that are set up in the country and the domestic corporations.

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