Essay on international taxation

Business, Company

Tax considerations influence decisions on where to invest, the kinds of businesses to engage in, as well as the methods of financing and recognizing revenues/expenses and the transfer prices to charge. This implies that management ought to minimize international taxes through contending with special rules regarding taxation of foreign income. Issues relating to double taxation, tax provisions, arbitrage opportunities between national tax jurisdictions for multinational firms and transfer pricing ought to be assessed in order to minimize corporate taxes in the broader context of strategic planning and control (Choi & Meek, 2010).

Globalization of businesses has immense effects on the international tax system and this is attributed to diversity of national tax systems. For instance countries that import products find it complicated to enforce taxes levied on foreign exporters. This is also the case with multinational companies whose operations need an understanding of national tax systems that differ greatly among countries (different types of taxes, tax burdens' assessment and collection philosophies). Globalization of businesses makes it complicated for firms to compute indirect taxes since they are entrenched in ' other' expenses unlike the direct taxes that are normally disclosed in the financial statements of the companies (Jolly, June 21, 2012).

Globalization of businesses has also resulted in a reduction in the levels of corporate taxes levied on businesses (multinational firms) so as to promote foreign direct investments. This means that more firms are established in countries with lower tax rates so as to yield higher profits while facilitating economic expansion and development in the countries they are established. Information relating to depreciation is also made clear so as to reduce the

tax burden among businesses established in foreign countries (Choi & Meek, 2010). For instance Germany's regulations relating to taxation depreciate items on a straight line basis, just as it is the case in France. In the US companies are allowed to use accelerated depreciation methods and this means that integrating multinational operations with the international tax rates/laws established in these countries increases levels of foreign investment.

Social overhead costs are also considered by countries in implementing their tax rates making it suitable for more investors. For instance, less industrialized countries often assess lower corporate income tax rates than their more industrialized counterparts. Foreign governments have also put in place different taxation models through broadening corporate tax bases (Choi & Meek, 2010). Classical and integrated tax systems are used to facilitate effective international taxation. Under the classical system the corporate taxes are levied at the corporate and shareholder levels (this is applied in Netherlands, Belgium and Sweden). The integrated system involves combination of corporate and shareholder taxes so as to reduce or eliminate double taxation of corporate income (used in EU, Canada and Mexico and others).

National tax systems in the global economy are being harmonized so as to promote foreign investments and global business operations. For instance tax treaties are signed between nations to generally agree on how taxes and tax incentives will be imposed, honored, shared or otherwise eliminated on business income generated. For instance, the Tax Reform Act of 1986

introduced formal rules regarding the taxation of foreign currency gains or losses in the US. This means that all tax determinations ought to be made in the taxpayers' functional currency (US dollar) unless otherwise specified. There is integration of international tax planning among global economies so as to synchronize taxation through putting in consideration factors such as inflation, tariffs, competition, currency values among other financial aspects. This is noticeable in the operations of the US and Switzerland' deal on sharing of financial account data (Jolly, June 21, 2012).

Conclusion

An analysis of the issues relating to international taxation and globalization of businesses implies that there is need to harmonize international laws on taxation. This will ensure that national tax systems and global economies are integrated so as to promote foreign investments. Aspects such as tariffs, inflation and other economic trends ought to be considered so as to enhance equitable collection of taxes and promote economic expansion and growth. The trends adopted by OECD in the US include (1) the comparable uncontrolled price method, (2) the comparable uncontrolled transaction method, (3) the resale price method, (4) the cost-plus method, (5) the comparable profit method, (6) the profit split method, and other methods (Choi & Meek, 2010).

Jolly, D (June 21, 2012). U. S and Switzerland Reach Deal on Sharing of Financial Account Data.

The New York Times.

Choi, F & Meek, G (2010). International Accounting. Edition7. Publisher: Prentice Hall.