

## Taking Account...

### Overview of income taxes and other taxes on MNCs

In a recent paper, Daniel R. Yorgason, economist at the Bureau of Economic Analysis (BEA), discussed the statistics compiled by BEA on corporate income and other taxes paid by multinational companies (MNCs) with a presence in the United States (either as direct investors or direct investment enterprises). The paper includes some examples of how the data can be used to assess various facets of the international economy.

The paper was presented by Obie G. Whichard, Associate Director for International Economics at BEA, at the Fourth Joint Session of the Working Group on International Investment Statistics and the Working Party on Globalisation of Industry Organisation for Economic Co-operation and Development held in October in Paris.

BEA collects two types of MNC tax data: corporate income taxes and “taxes other than income and payroll taxes,” also referred to as “indirect business taxes.” These data are collected as part of larger surveys—both annual surveys and benchmark surveys, which are conducted roughly every 5 years—that gather financial and operating statistics directly from MNCs.

For U.S. direct investment abroad (outward), the annual and benchmark surveys collect tax data from both U.S. parent companies and their foreign affiliates. For foreign direct invest-

ment in the United States (inward), the surveys collect tax data from U.S. affiliates of foreign MNCs; no information is available on the taxes paid by foreign parent companies.

These surveys, which have been used to collect data since 1982 for outward data and since 1976 for inward data, gather comprehensive financial data on MNCs as well as data on a wide range of their activities, including assets, sales, employment, foreign trade, R&D, value added, and net income.

BEA data on the tax liabilities of MNCs can be used for a variety of purposes. At the most basic level, the data on income taxes, which are reported on the income statement in the MNC surveys, illustrate the difference between the pretax and after-tax net incomes of MNCs as a group or of given subsets.

The data can also be used to calculate effective average income tax rates: the total income tax liability of an individual entity or a group of entities divided by the corresponding pretax net income. These data provide an indication of the average burden of taxes borne by MNCs or groups of MNCs.

However, as discussed in the paper, adjustments may be necessary to avoid misleading results. For example, income that affiliates earn by virtue of ownership of other affiliates rather than as a result of their own operations is included in the denominator of the calculation but

is often untaxed. Thus, it may be appropriate to make an adjustment for such income.

Effective average income tax rates typically differ from effective marginal income tax rates—the actual tax rate applicable to the next unit of income received—and from statutory marginal income tax rates—legally mandated tax rates on the next unit of income. The reasons include factors such as deductions, credits, and movement through tax brackets.

As with income tax data, the indirect business tax data can be used variously. One key use is the calculation of MNC value added. BEA computes value added by summing up all costs incurred, except intermediate inputs, and the profits earned in production. Indirect business taxes are one of the cost categories used in this calculation.

Because indirect business taxes are a mix of different types of payments, there is no obvious measure to compare with indirect business taxes—unlike income taxes, which can be compared with pretax net income. However, it is often informative to scale indirect business taxes by value added.

Several academic uses of the MNC tax data are included in “[Taxation and Multinational Activity: New Evidence, New Interpretations](#),” in the February 2006 SURVEY OF CURRENT BUSINESS.

Yorgason’s paper is available on the BEA Web site in “[Papers and Working Papers](#).”