Executive summary

The taxation of large businesses, and especially Multinational Enterprises (MNEs), has been a high priority globally for a number of years. Updating the international tax rules to ensure that governments are better able to tax MNEs in the era of globalisation and digitalisation has been on the international political agenda since the global financial crisis. This prioritisation has led to a number of important reforms, including the update in 2011 of the OECD Guidelines for Multinational Enterprises (OECD, 2011[1]), which call on MNEs to comply with both the letter and spirit of the laws and regulations of the countries in which they operate, the OECD/ G20 Base Erosion and Profit Shifting (BEPS) Actions agreed in 2015, and the landmark agreement reached in October 2021 on the two-pillar solution to addressing the tax challenges of the digitalising economy, joined by 137 members of the OECD/G20 Inclusive Framework on BEPS (hereafter Inclusive Framework).

The focus on international tax policy has been accompanied by increased attention from the public, media and investors on the tax practices and tax morale of MNEs. In many countries, MNEs have been subject to increased public and media scrutiny concerning their tax practices. Furthermore, a growing number of investors are concerned about aggressive tax planning by the companies they invest in and are screening MNEs on their approach to fulfilling their tax obligations as part of their Environmental, Social and Governance (ESG) considerations. In many cases, especially as part of ESG, such scrutiny seeks to hold MNEs accountable not only to the letter of the law, but also to the spirit of the law, thereby encouraging higher tax morale (the intrinsic willingness to pay tax) among MNEs.

While there is a growing interest in the tax morale of MNEs, there is relatively limited research on the topic. While the body of research on tax morale has increased in recent years, much of this has focused on individuals, rather than on trying to understand what factors may influence the tax morale of businesses, especially MNEs, how tax morale may vary across countries and regions, and how it can be enhanced.

To help address this gap, this report builds on previous research of MNE perceptions of government performance to deliver tax certainty, with an examination of the perceptions of tax administrators concerning MNEs' performance against voluntary commitments on best practices. The 2019 report *Tax Morale: What Drives People and Businesses to Pay Tax?* (OECD, 2019[2]) used data on MNEs perceptions on tax certainty to identify some potential determinants of MNE tax morale. To complement the perceptions from MNEs, some 1 240 tax officials from 138 jurisdictions participated in an online survey to provide their perceptions of MNE adherence to the *Business at OECD (BIAC) Statement of Tax Best Practices for Engaging with Tax Authorities in Developing Countries* (Business at OECD, 2013[3]). The results of both perception surveys were subsequently discussed at a series of regional roundtables that brought together tax administrations and MNEs.

By combining these data sets, this report identifies not only how MNEs' adherence to best practices across different regions is perceived but also the factors that may influence tax morale, especially the key issue of trust between MNEs and tax administrations. Trust is increasingly recognised as a key driver of tax morale and is more responsive to policy interventions than many other factors (Dom et al., 2022[4]), making it a useful lens through which to analyse tax morale. By bringing together the perceptions of business and tax administrations, this report seeks to focus on mutual trust and how to build it. It further seeks to focus on those areas where businesses and tax administrations have identified common challenges, indicating a shared interest in adopting new approaches.

The data underlying this report shows that business behaviour is perceived more positively in OECD countries and in Asia than in Africa and in Latin America and the Caribbean (LAC). Behaviour is perceived to be better on more routine compliance and formal co-operation than on more subjective issues, such as trust in information and transparency. There is wide variation in tax officials' perceptions of MNE behaviour, both regionally and according to topic. While in all regions there are some officials who perceive consistently good adherence to best practices across most large businesses/MNEs, this is much more common in the OECD and to a lesser extent in Asian countries than in African or LAC countries. In all regions, officials perceive that most large businesses/MNEs perform routine compliance well (e.g. paying on time) and are at least formally co-operative. Perceptions are significantly less positive in all regions with regard to openness and transparency displayed by business and trust in the information they provide, especially so across Africa and the LAC region.

Government officials' perceptions of the behaviour of the 'Big Four' professional services networks (Deloitte, EY, KPMG, and PricewaterhouseCoopers) were similar to their perceptions concerning MNEs but with less variation between regions. While there was less variation between the regions when questions were asked on perceptions of Big Four behaviour, similar patterns to the perceptions of MNEs were observed. For example, the Big Four were generally seen to be formally co-operative but were much less likely to be seen to follow the spirit/intention of the laws, or to only promote tax planning aligned with substance.

These results, together with the roundtable discussions between tax administrations and MNEs, highlight a lack of mutual trust and sub-optimal communication between tax administrations and businesses. The survey results were discussed at a series of regional roundtables which brought together tax administration officials and businesses to provide further context. These roundtables confirmed the survey's finding that trust and communication were key challenges, and highlighted the impact that poor relationships between tax administrations and businesses can have, creating costs and inefficiencies on both sides. It is in the interests of tax administrations and businesses to invest in improving this dynamic. Tax administrations will be better able to prioritise their limited resources, enabling enforcement actions to be more accurately targeted at those most non-compliant, while compliant businesses will benefit from greater certainty and reduced compliance burdens.

There is no single solution to building trust and improving communication to increase tax morale. The required combination of actions will depend on the country context, but in all cases, it will require commitments from both tax administrations and businesses to succeed. While co-operative compliance (OECD, 2016[5]) is seen by many, especially MNEs, as the preferred relationship between tax administrations and MNEs, it is not something that can be established quickly. It requires high levels of pre-existing trust and commitment to openness and transparency. Co-operative compliance may be a logical goal for the relationship with MNEs in many countries, but it may not be the starting point for all. In many countries the best starting point may be to identify practical steps to improve communication, which can be built upon progressively.

This report outlines a range of existing good practices as well as new opportunities, highlighted by both MNEs and tax administrations in the regional roundtables. The actions suggested in chapter three of this report do not purport to represent an exhaustive list of actions but rather a reflection of the discussions, especially those that identified convergence between MNEs and tax administrations on actions that had already proved useful or had the potential to address some of the challenges identified. Nor do they seek to prescribe what should happen in each context, since this will be determined by local circumstances (and resources). Instead, they seek to provide options for both administrations and businesses to consider. These actions range from the relatively simple (e.g. increasing use of local languages when filing and communicating with the tax administration), to the more complex (e.g. establishing tax ombudsmen). The discussions also identified scope to improve/expand existing initiatives (e.g. improve the statement of tax best practices) or establish new initiatives (e.g. developing a process for a voluntary multilateral dialogue). The list of actions is not exhaustive, although it is hoped that the classification of types of actions (compliance and audit strategies, expectations/accountability of behaviour, transparency and communication, and capacity building programmes) will help all stakeholders in identifying the best approaches for each specific context. While the focus of the discussions during the roundtables was on policies and practices that would improve the situation with respect to MNEs, many of the good practices identified may help build trust and tax morale with all taxpayers.

While the issues highlighted are relevant globally, this report focuses primarily on developing countries, which are more reliant on tax revenues from large businesses, suffer from greater tax avoidance and face larger capacity challenges. Developing countries are not only more reliant on corporate income tax than OECD countries but are also especially reliant on large taxpayers. Data from the International Survey on Revenue Administration (ISORA) shows that the Large Taxpayers Units in Africa were responsible for administering 64% of total revenues in 2019 (over twice the level as the OECD at 31%). Developing countries are also estimated to suffer relatively more from international tax avoidance, with an estimated cost of 1.3% of GDP, compared with 1% of GDP in OECD countries (Crivelli and De Mooij, 2015[6]). The impact of these revenue losses is even more significant given the lower tax-to-GDP ratios in developing countries.

The OECD will continue to identify ways to support both tax administrations and MNEs in building trust, improving communication and increasing tax morale. While the onus is primarily on MNEs, as well as tax administrations to take actions to build trust, the OECD will seek to identify how it can be supportive. This is likely to include further research, integrating some of the findings from this report into OECD capacity building, developing further guidance and case studies on issues highlighted by the report, and identifying opportunities where the involvement of the OECD as a third party can help build trust and strengthen relationships between MNEs and tax authorities.

More broadly, the OECD will also continue to encourage research, dialogue and innovation on tax morale, especially in developing countries, to help deliver the tax systems necessary to achieve the Sustainable Development Goals (SDGs). This report is part of the OECD's broader work on tax morale, which undertakes new research and encourages global discussions on various aspects of tax morale, especially in developing countries. Covering both businesses and individuals, this workstream recognises the importance of considering tax morale as part of the debate on tax policy and administration, as building tax systems with strong societal support and promoting voluntary compliance will be vital for delivering development that is sustainable in the long term.

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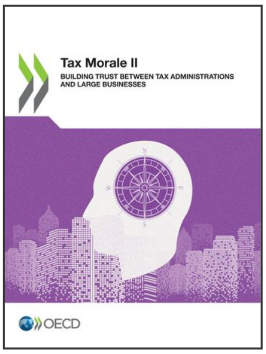

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