THE EFFECTS OF TAX COMPETITION ON THE OPERATIONS OF MULTINATIONAL COMPANIES

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ABSTRACT

Multinational companies are the main driver of world economy and globalization, as well as the overall process of innovation, research, development and transfer of modern technologies. Given that the objective of the multinational companies that rationally structured network affiliations, and maximize the benefits offered by different countries, the decision to locate the mean activity of the previous detailed analysis of all relevant potential determinants of the country in which to invest capital and its comparison with other potential sites. Today, many countries have introduced various incentives to attract multinational companies. The goal is to create a more competitive economic environment, tax policy is a legitimate and important instrument for achieving this goal. Tax competition implies that each jurisdiction tries to attract capital and investment by offering favorable tax treatment, through a broad tax base and/or low tax rates. One of the main reasons for the appearance of tax competition is certainly the tax burden. States fully realize the situation that if there is a deliberate reduction in effective tax rates automatically comes to attracting foreign capital.

Key words: Tax competition, Multinational companies, Investments

INTRODUCTION

The single European Union market is characterized by high competition within the free flow of capital, people, goods and services. Member States shall endeavor to create a more competitive economic environment, tax policy is a legitimate and important instrument for achieving this goal. Using tax policy to achieve competitive advantage is particularly obvious at the beginning of the millennium when the new EU members from Eastern Europe competed to attract foreign investment from Western Europe.

The ratio of the relative advantages of fiscal harmonization, on the one hand and tax competition, in turn, leads to two guiding principles of fiscal integration in the EU: (1) is necessary to harmonize only those taxes that lead to real distortions in the process of economic integration and (2) agreements on minimum tax rates should prevent tax systems in the direction of suboptimal levels of taxation. In the field of fiscal harmonization, as default, the question is which taxes should be harmonized, and the answer to this question depends primarily on the phase and the degree of fiscal integration.

TAX COMPETITION AS A SIGNIFICANT FACTOR IN ATTRACTING INVESTMENT

Tax competition implies that each jurisdiction tries to attract capital and investment by offering favorable tax treatment, through a broad tax base and/or low tax rates. It is widely accepted view that high taxes impede economic growth so that tax competition between states is useful for economic growth, which means the global economy and increasing investments. Tax competition exists when people can lower your tax burden by moving capital and/or work from jurisdictions with high tax burden in jurisdictions with low tax burden. Tax competition is, in itself, a positive phenomenon in so far as it affects the reduction of public spending in the state, which makes tax and a state public sector more efficient. However, when tax competition leads to erosion of tax revenues levied on the base consisting of the income or capital income, it is necessary to take appropriate measures to prevent it. For this purpose, and to prevent double taxation, and the double exclusion and to improve cooperation between national tax authorities, it is necessary to establish a coordinated action at EU level. The necessity of cooperation should exist between themselves and the national tax authorities of the Member States. This is especially important, since the line between fair and unfair tax competition is very unclear.

Tax competition is only a small part of the competition between countries, but it is increasingly important because the growing mobility of capital and labor. Workers and people with money want to invest to achieve the greatest benefit when they refuse to tax (the highest rate of return), and their quest for opportunities for profit is not limited by national borders. Not surprisingly, investors and workers tend to leave the country with "heavy" burden of taxation and strict tax laws. Instead, these resources are going to reward states that wealth creation in the private sector. Businesses of all types - if you are faced with the pressure of competition - are constantly forced to improve quality and offer new products to maintain consumer interest. Competitive pressures encourage a better allocation of resources and improve economic efficiency. This is why a market economy grow faster and provide higher standards of living.

One of the main arguments in favor of tax competition is that it encourages public sector efficiency, as well as attempt to provide taxpayers the best services at lowest cost. Tax competition means lower tax rates and reduce public revenues, and states are forced to, in order to provide the existing level of public services, encourage public sector efficiency. Also, tax competition leads to a reduction in public sector costs by promoting the transition of public enterprises from the state to the private sector, which particularly affects the strengthening of the local private sector.

Tax competition is entirely inconsistent with fundamental tax reform, and is reflected in the following (a) the goal of tax reform is a system with low tax rates on productive behavior. Tax competition promotes tax reform by helping to lower the marginal tax rate, (b) the goal of tax reform is a system in which income is taxed only once. Tax competition promotes tax reform by helping to eliminate the double taxation of income that is saved and invested, (c) the goal of tax reform is a system in which government does not tax income earned in other states. Tax competition promotes tax reform by rewarding territorial taxation and common-sense idea that the government tax income earned inside national borders, (d) plan for the harmonization of taxes, however, is a clear threat to the rights of states to reform their tax laws and introduce systems that are proportionate and based on taxing consumption. Tax harmonization plan will almost certainly mean that the tax reform has become unlikely, (e) the OECD and other international bureaucrats believe that the territorial form of taxation "harmful" competition. The flat tax also eliminates double taxation, but the OECD initiative is intended to assist the authorities to discriminate against income that is saved and invested. (A. Jones, B. Sufrin, 2001)

MULTINATIONAL COMPANIES AS CARRIERS OF FOREIGN DIRECT INVESTMENT

The strategy of a country to attract foreign direct investment is part of the overall economic strategy of the country. In the past 20 years completely changed the attitude of most countries to foreign capital and foreign investors. Until the mid-80s of the last century, most countries are very suspicious attitude towards foreign investors. In early 90-ies of the last century was followed by a reversal in attitudes towards foreign capital, and today many countries have introduced various incentives to attract multinational companies and more foreign capital, particularly foreign direct investment. Multinational companies are commercial organizations that have their own businesses in several different countries. They operate under different tax and economic systems, different economic policies and has different goals that each country in which they operate. Multinational companies have a growing importance in the global economy. Instead of products in one country and then exported goods in the other, they establish their businesses in countries where they want to sell their products. So operate as domestic legal entities and thus avoid any restrictions that states may impose on the international exchanges. These companies bring a certain benefit the country in which they operate, for employing domestic workers, and they are mostly local companies supplying the necessary raw materials. These are companies engaged a large volume of capital and production, which, moreover, are becoming larger. Some of these companies achieve greater national product of many countries. Estimates show that even now the 250 largest multinational companies produce nearly half of world gross domestic product. Because multinational companies dominate many national economies, and control how their business.

Today, multinational companies are the main driver of world economy and globalization, as well as the overall process of innovation, research, development and transfer of modern technologies. Multinational companies are seeking the best investment opportunity around the world and enter and exit from certain markets, looking for better conditions for investment, thereby forcing the country to compete with each other to attract foreign capital. The great importance of multinational companies and say the following: (a) 500 largest companies achieved one third of world gross domestic product and controls about 70% of world trade, (b) 1% of the largest multinational company achieves over half of world foreign direct investment. Most countries try to attract multinational companies to invest in their country so as to reduce the tax burden as possible. This behavior results in tax competition, which is described as a thesis about the "race to the bottom” (RTB thesis), and it is about attracting foreign capital only to tax mechanisms.

In achieving the goals of multinational companies use various strategies, which seek to improve their business and win more market share worldwide. At the end of the twentieth century an increasing number of multinational companies adopt a global strategy and accept the global structure. Global access means that investment decisions are made with the fall orientation to the local market than is the case with multinational strategies. Basic characteristics of the global strategy of multinational strategies are (a) increasing global market share, (b) the branches located in different countries receiving characteristics of increasing specialization, and flows between them are internalized in order to reduce transportation costs, (c) multinational companies locate their activities in countries in which they invest, and who possess the required competitive advantage, (d) branches of multinational companies have business activities in the host country, selling, exporting to third countries or even in the exporting country of origin of multinationals. Comparative advantages are realized activities of foreign subsidiaries and their relationships with local businesses, and government measures in host countries aimed at improving the investment climate in the country. Under this approach, the multinational companies require that countries meet the requirements for adequate tax competition, qualified workforce, good communications and transport networks, transparent and stable judiciary, ordered societies and political stability. Thus, if a country implemented a successful investment policy it will be at the same time attractive to both domestic and foreign multinational companies.

The strategy of a country to attract foreign direct investment is part of the overall economic strategy of the country. A country that has a good macro-economic indicators alone attracts large amounts of foreign direct investment. Economic measures to benefit the country in attracting foreign direct investment can be divided into financial, fiscal and other incentives. It should ensure that social benefits exceed social costs. Studies show that export promotion brings in the most positive effects of foreign direct investment on the domestic economy, as well as a request for greater involvement of local suppliers. The fiscal incentives include tax measures such as reducing income taxes, deferred payment of tax (accelerated depreciation), making agreements on avoidance of double taxation, tax deductions for investment and reinvestment in the form of foreign direct investments, deductions from the tax base associated with number of employees. Financial incentives include granting funds to finance businesses of foreign direct investment, such as state aid and subsidies in the amount of the investment cost, subsidized state loans, state guarantees, and insurance against currency and non-commercial risks by the government rather than insurance companies. Among other incentives are thought to increase the profitability of investments nonfinancial ways, such as the provision of services relating to infrastructure under favorable conditions.

Implement strategies that allow multinational companies to understand the process of globalization of economic activities. Linking the activities of multinational parent companies with subsidiaries can be achieved through (a) stand alone strategy in which the connections are direct, concentrated on technology, financial capital and property, (b) strategies for simple integration of subsidiaries which provide inputs to the nut and (c) strategies for complex Integration, which aims to exploit global economies of scale and greater degree of functional specialization, which includes specific corporate activities worldwide. Although all three strategies coexist, there is a very pronounced trend toward the integration of the complex.

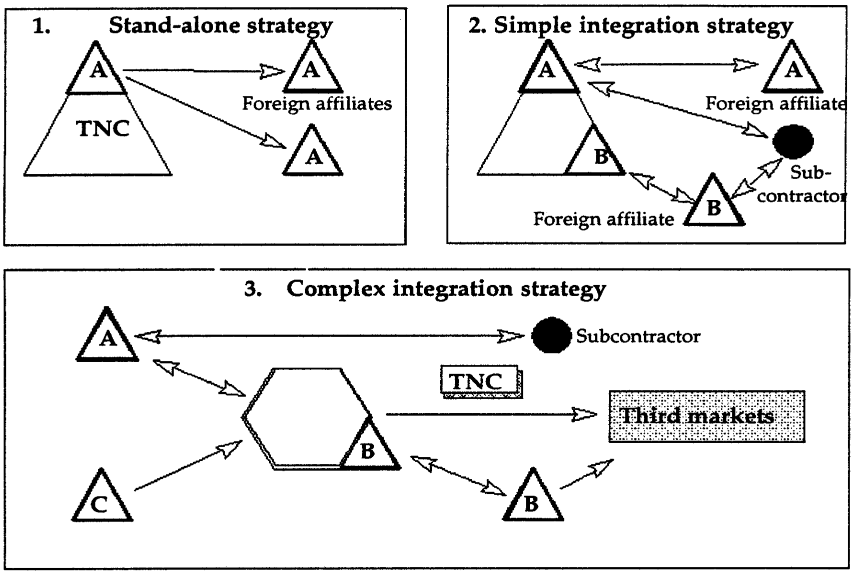

Figure 1: International production strategies

More specifically, the growth and organization of international production under the governance of transnational corporations has several implications for the organization of domestic labour markets:

- The conditions underlying firm-level competitiveness are changing, relying less on traditional natural assets and more on created assets, above all assets in the form of skills and knowledge. Such assets are therefore an important factor influencing the locational advantages of countries as hosts to transnational corporations.
- The importance of skilled human resources, as well as the proliferation of cross-border production linkages via foreign direct investment, subcontracting arrangements and strategic alliances and the adoption of complex integration strategies by transnational corporations create both challenges and opportunities for mutually beneficial relations between employers and employees.
- As the organizational scope of transnational corporations widens, both geographically and functionally, and as the mobility of capital increases, labour and governments must adapt more quickly to changes in the international competitiveness of their industries and firms.
- Increasing reliance on market forces redefines the relationships of firms, labour and governments with one another, including those in the areas related to employment and the workplace.

Table 1: The strategies and structures of transnational corporations

Strategy	Intra-firm linkages	Foreign affiliate type	Degree of integration	Environment
Stand-alone, e.g., multi-domestic	Ownership, technology, finance; mostly uni-directional	Miniature replica of the parent firm	Weak	Host country accessible to foreign direct investment; trade barriers; costly communications and transportation
Simple integration, e.g., outsourcing	Ownership, technology, markets, finance, other inputs; mostly bi-directional; subcontracting	Rationalized producer of one or a few elements in the value chain.	Strong at some points of value chain, weak in others.	Open trade and foreign direct investment regimes, at least bilaterally; non-equity arrangements permissible.
Complex integration at the regional or global levels, e.g., networks	All functions; mostly multi-directional	Product or process specialist; functional specialization	Potentially strong throughout value chain	Open trade, technology foreign direct investment and related regimes; use of advanced information technology; convergence in tastes, heightened competition, low communication and transportation costs.

The extent to which foreign direct investment affect the integration of national economies into the global economy depends on the strategic role that has an affiliate within the multinational company. In Table 1 highlighted the strategic role of the affiliate, depending on their type, within the corporate bonds, the degree of integration, and the prominent characteristic elements of the host environment in which they operate. As can be seen, the highest level of integration with affiliates that are specialized for a particular product or process within the multinational companies. They have strong links with the homeland, and are an integral part of its production network. On the other hand, miniature replicas are integrated into the composition of the multinational companies that are primarily oriented to serving the domestic market.

In order for a country was able to attract foreign capital must first create a favorable investment climate that will be created if a stable economic conditions, there is a political and social stability, a favorable foreign trade, customs and foreign exchange treatment of joint ventures, as well as available, reliable and skilled labor power and access to raw materials and other domestic sources of supply. Each country is trying to offer better conditions for conducting economic activity and investment. Special attention is paid to the tax requirements and tax treatment of companies, in a way that the tax base for corporate income significantly expanded, while lowering the tax rate so that almost approaches zero or even disappears completely. Consequence of this behavior state represents a significant erosion of tax base, and create a very "unfair" tax environment compared with the terms of entities in neighboring countries.

The motive for the opening of new markets or expanding existing markets is a logical response to the situation of multinational companies that have their domicile market become too narrow for the sales of goods and services. In the situation of lack of resources in their own country or the inability to secure imports, multinational companies are motivated to get closer to sources of raw materials which are largely located in countries in transition, where it can provide cheaper labor because the wage level is lower in countries in transition.

CONCLUSION

As all the countries of Southeast Europe, including Serbia, are in a position relative to the most developed countries are lagging behind in development and that the sources of their own accumulation can not get enough of their own funds to get closer to most developed countries, and Serbia are foreign direct investment very interesting. Serbia and other countries in transition to leaving the socialist way of doing business were outside the foreign direct investment. Move to a market economy and privatization of foreign investors are beginning to express interest in this country. Therefore investment in transition economies are not sufficiently researched form of international capital movements in economic theory.

Behind the multinational companies are the national interests of those who seek to impose on other countries by transferring production of its own segments and treating them by external factors, which need to master and subordinate their own interests. Multinational companies emphasize the concentration of strategic factors in the development of home countries and other countries and seek to integrate their economies into the global production system primarily as a source of cheap resources and markets for their products. Experience in many countries has shown that the effects of such activities of multinational companies are not always positive for the development of the country in which to invest. However, it is significant that the multinational companies involved in technology development process under-developed countries, and transfer of capital, technology and different types of knowledge, creates conditions for the reduction, or at least alleviate underdevelopment relative to developed countries.

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