

## HOW ARE THE RESIDENTS OF THE WORLD'S LARGEST ECONOMIES TAXED?

### **NGAMBA, Divin Eyir**

MSc

*Kodolányi János University of Applied Sciences*

*Department of Business and Management*

[divinngamba10@gmail.com](mailto:divinngamba10@gmail.com)

### **MALATYINSZKI, Szilárd**

Dr. habil.

*Kodolányi János University of Applied Sciences*

*Department of Business and Management*

[mszilard@kodolanyi.hu](mailto:mszilard@kodolanyi.hu)

### **KÁLMÁN, Botond Géza**

PhD

*Kodolányi János University of Applied Sciences*

*Department of Business and Management*

[kalman.botond.geza@kodolanyi.hu](mailto:kalman.botond.geza@kodolanyi.hu)

## INTRODUCTION

Taxation is a fundamental aspect of a country's fiscal policy that shapes its revenue generation and economic situation. The purpose of this essay is to provide a comparative analysis of how residents are taxed in the OECD countries examined, highlighting key principles, keys and implications. The authors examined and compared Asian (Japan, China) and European (Germany, United Kingdom) countries with high gross national income. A third group of countries was also formed, which is not based on topographical regional localization. This is a group of Anglo -Saxon countries (United Kingdom, United States of America). Anti-avoidance rules are a critical element of tax systems around the world that aim to curb tax avoidance strategies. The effectiveness and enforcement of these rules can be influenced by cultural factors. In this study, the authors examine possible relationships between anti-avoidance rules and cultural background in Asian and Anglo-Saxon societies.

## **THEORETICAL BACKGROUND**

The Organization of Economic Cooperation and Development (OECD) member countries share common taxation principles. These principles emphasize fairness, efficiency, simplicity and transparency (OECD, 2021), on the basis of which member countries design their tax systems and implement their taxation rules. In the following, the authors review the most important tax types and taxation principles of the OECD.

Income tax is a significant element of the tax system of most OECD countries. Member States generally apply progressive tax rates, meaning that individuals with higher incomes are subject to higher tax rates. For example, in Sweden, known for its progressive tax system, the marginal tax rate of the highest earners can exceed 50% (Fouché, 2008). Consumption taxes such as Value Added Tax (VAT) or Goods and Services Tax (GST) are also common in OECD countries. These taxes are applied to the purchase of goods and services and may vary from country to country. For example, New Zealand has a GST rate of 15% (Te Kāwanatanga o Aotearoa, 2021). Social security contributions are also tax-related state revenues. Many OECD countries impose social security contributions intended to finance social programs such as health care and pension systems. These contributions are often based on individuals' income and can therefore be shared between employees and employers. France, for example, applies social security contributions to both employees and employers to finance its comprehensive social welfare system (French Entrée, 2022). Tax credits and deductions are also important state revenue regulators. Tax credits and deductions are mechanisms that can be used both to facilitate the situation of certain social groups and to encourage certain behaviors. In the United States, for example, taxpayers can claim a deduction for mortgage interest, which encourages homeownership (Sato, 2023). Wherever there is a tax payment, the taxpayers' desire to avoid or at least reduce the tax to be paid also appears. This can be done legally by taking advantage of the opportunities provided by the legal regulations, in which case we are talking about tax optimization. However, there are also methods that brush the border of legality or even cross it, these are called tax evasion. Well-known examples of the latter methods are some practices of multinational companies. An example is the legal, but morally worrisome, now defunct (Reynolds, 2019) Double Irish with a Dutch Sandwich method (Cohen, 2014), which brought significant benefits to Google and Apple (Kahn, 2018; Meijer, 2019).

Large multinational companies often do not shy away from covert or overt political intervention. The case of the so-called banana republics is a vivid example of this. Their history begins in the 1880s. The Boston Fruit Company began importing bananas from Jamaica to the United States (Stromberg, 2016). In order to satisfy the ever-increasing demands of American customers, a significant amount of money was spent on the purchase of new production areas and the modernization of the existing ones. Therefore, they tried to block any process that threatened their interests. For example, banana traders financed the 1911 coup in Honduras (Cohen, 2013). As a result, the current president of Honduras was replaced with a new president who better serves the interests of the United States. The Guatemalan conspiracy of 1954, which was also financed by the CIA, United Fruit, was also a "banana coup". Company sponsored (Jones, 2019). This coup ended the first real period of democracy in Guatemala.

However, the method is not just an old procedure. A good example is the Evo The 2019 military coup that removed Bolivian President Morales. News immediately began to spread that the campaign was also financed by the Tesla company (Rocha, 2021). Tesla's goal was to gain control over Bolivia's lithium and the mining concession, which was threatened by the policies of President Morales. Musk, the head of Tesla, responded to the accusations with a Twitter message, which he later deleted, but by then the screenshot of the post (Figure 1) had already spread and many were outraged by the two sentences: "We will coup, whoever we want! Deal with it" (Parker, 2020).

Figure 1. Twitter message of Elon Musk



Source (Parker, 2020)

Tax evasion and tax evasion are therefore still a global challenge today (Fuest and Riedel, 2009). Some OECD countries have enacted rules against these practices, including the exchange of financial information and international cooperation to combat tax evasion. Already in its 2013 report, the OECD estimated the amount of lost tax revenues at USD 240 bn (OECD, 2013). It is therefore no coincidence that the organization has become the flagship of the international fight against tax evasion. Countermeasures can be general anti avoidance rules (GAAR), these generally regulate tax avoidance (Waerzeggers and Hillier, 2016). There are also specific anti avoidance rules (SAAR) as well (Shome, 2021). These regulate a specific tax area in a targeted manner. Another important tool is the double taxation agreements and other bilateral contracts (bilateral treaties). The tools described so far are considered legal tools. Another group of tools includes judicial tools (Ostwal and Vijayaraghavan, 2010). These are used by the courts in their jurisprudence. Another tool is the so-called "extended right" ("extended law"). One example of this is the FCPA, which extends the jurisdiction of the United States beyond its borders (US Congress, 1977). The FCPA criminalizes any bribery that is subject to US jurisdiction at any point. Proceedings were initiated against Magyar Telekom, for example, citing this law (The US Department of Justice, 2011).

## **METHODOLOGY**

Authors selected their data from the publicly available reports of the Deloitte company. The selection of countries therefore enables comparisons from several perspectives. The data were analyzed using the results of further research available in the literature. Authors were primarily interested in the similarities and differences between the examined countries.

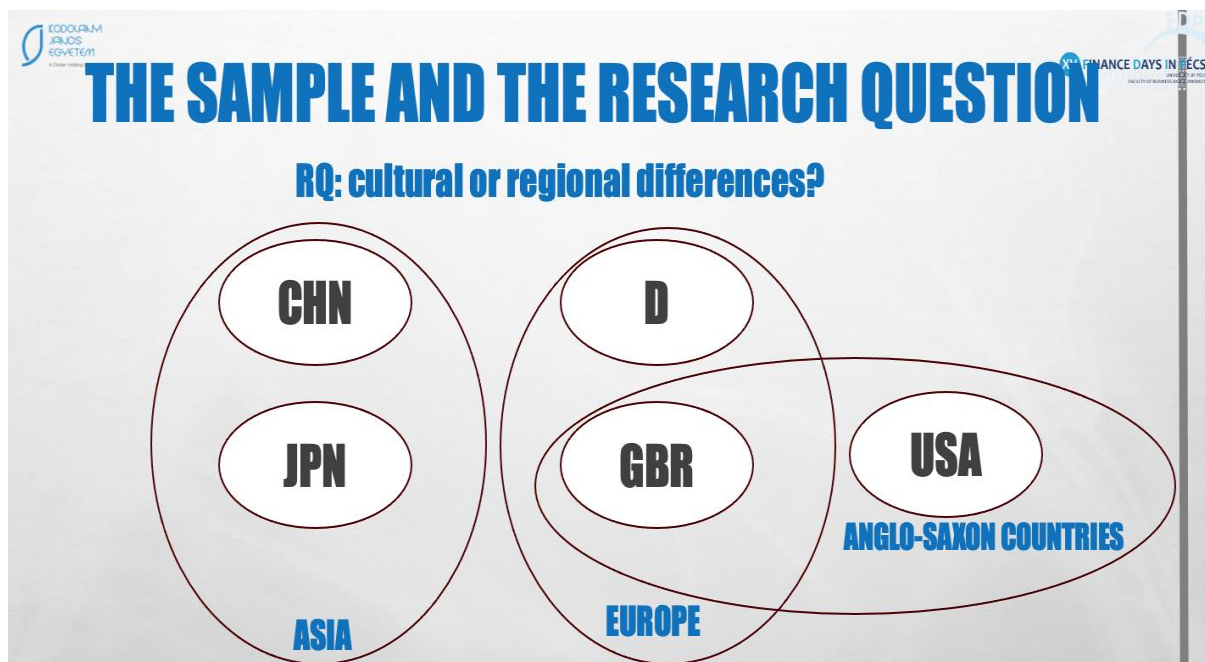
Why did the authors choose the literature review method? Primarily because the subject of the study is a comparative study of tax customs and regulations. The authors wanted to solve these tasks primarily by acquiring and synthesizing knowledge. On the other hand, literature review is a widely and frequently used research method (Snyder, 2019). It includes the critical analysis and synthesis of scientific works dealing with the topic. In this way, it provides a basis for new insights and contributes to the wider knowledge environment. By reviewing the existing literature, researchers can identify gaps, problematic areas or areas that require further exploration (research gap). The literature review places the research within the existing body of knowledge (Shehadeh, 2020). This allows researchers to position their work in relation to previous studies in the line of research. Reviewing and

comparing different studies allows researchers to synthesize ideas, theories, and findings to gain a comprehensive understanding of the research field. Researchers synthesize the results of different studies, thereby identifying patterns (Tinani and Kandpal, 2019), trends and research gaps in the literature (Somasundaram, 2022). In summary, the literature review is a strategic approach to inform, contextualize and improve the quality of research as a research methodology. By uncovering gaps, synthesizing ideas, and laying the groundwork for further investigation, a literature review makes a significant contribution to academic discourse and the advancement of knowledge. With the literature review, the authors searched for an answer to the following research question:

Cultural guard regional Are the differences more decisive in the state regulation of taxation?

Primarily the OECD's working on the topic paper (Johansson, Bieltvedt Skeie and Sorbe, 2016) was the starting point of the review. As a sample, the authors examined data from the following countries: Japan (JPN), China (CHN), Germany (D), United Kingdom (GBR) and United States (USA). The individual countries were grouped according to several aspects (Figure 2).

Figure 2. Countries examined (the sample)



Source: authors ' own

The authors of the characterization of the countries by Deloitte It was summarized based on his reports. the following topics were scored from these reports:

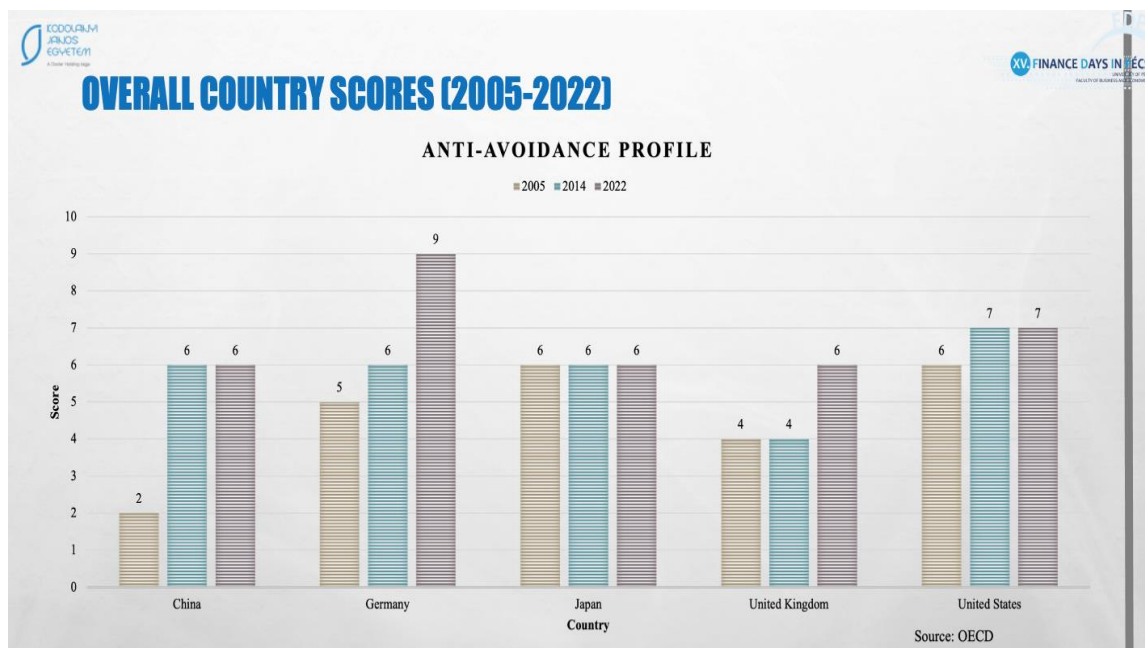
- Transfer price rules (*market prices in joint ventures*) – 0, 1 or 2 points
- Thin capitalization rules and rules limiting interest deductibility (*against excessive reduction of the tax base*) – 0, 1 or 2 points
- Controlled foreign company (CFC) rules (*for eliminating the deferral of tax*) – 0 or 1 point
- General anti-avoidance rules (GAAR) (*against "aggressive" tax avoidance*) – 0 or 1 point
- Withholding tax rules (*against obtaining tax benefits without a legal basis*) – 0, 1 or 2 points

The earned total score will be used further the countries to characterize. The research added value that the earlier available surveys in 2005 and 2014 to your data were built, but now the authors for this yet added 2022 performance your scores.

## RESULTS AND DISCUSSION

The scores Based on established ant-avoidance profiles shown in Figure 3.

Figure 3. Anti-avoidance in examined countries



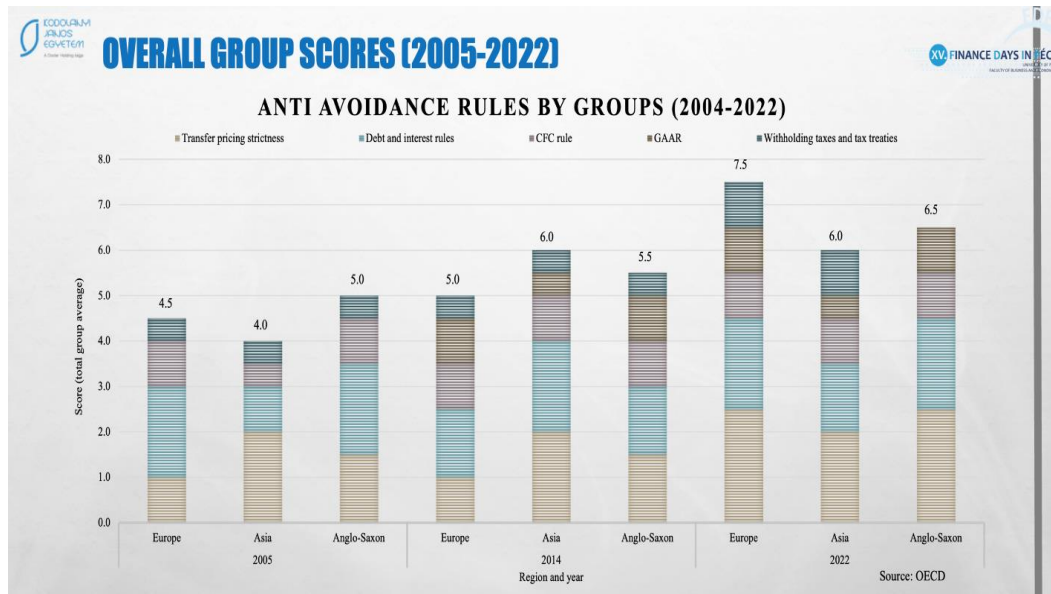
Source: authors ' own

The result Based on it can be said that China, in the year 2005 yet weakest performing featured by 2014 caught up with advanced farms anti-avoidance regulation level, even in this area, it even surpassed the United Kingdom. The development the point is that in 2005 in China practically just transfer price regulation existed, but by 2014 already by a lot more differentiated system they brought create. First of all, the development of the debt and interest rules was spectacular, but also CFC rules and GAAR rules came into effect steps. Although it is In the country's anti-avoidance rules system, transfer pricing still plays a key role (these are the rules roughly 50%), the rest rule type with each other near same is present in proportion. Primarily in the areas of industrial clusters numerous modern rule and facilitation helps the economic growth and the foreigner investments. This is the change especially for that significant because the former communist countries large part of the political democratization consequence became the economy liberalization and the foreigner capital attraction. The former communist countries another in your group However until today authoritarian political management and centralized there is an economy. It belongs here for example Cuba, North Korea, Vietnam and China. China of this despite significant the foreigner is an attractive force capital for. This can be attributed to several reasons. One that In China, the local decision makers is also significant role they got the central in control because the country giant sizes and its population this already millennia since necessary did. This process helped him also the politics of the Great Leap Forward (1958–1962) and the Cultural Revolution (1966–1976) (Falkenheim, 1980). Decentralization and Sino -Vietnamese angry weakened by the Chinese army which could endanger it would be the economic one liberalization. Therefore there is none for example progress in North Korea 's economy because there is the army loyalty the system is essential for maintenance. The Chinese army business into businesses started. As a pedal was opened by the military hospitals the supply quality to pay can civilians for you, too they got into mining and the construction industry sector as well, making use of the mass at will stationary cheap workforce (Saunders and Scobell, 2015). Further as a reason external can be mentioned economic and political shocks, for example with Soviet blood by break up following to China suddenly replace it I needed the knockout revenues, therefore they needed the western for capital. The consequence: the Chinese Communist Party still remained the country political manager, but liberalized the economy. In regulation always conductor role playing USA, on the other hand, somewhat by 2022 missed out. Already just Germany after is located away from the examined countries in the ranking. However, the rest country yet always precedes. For this reason primarily the that the similar regulation beside the German tax regulation more transparent and somewhat easier the at American. At the same time for example, transfer price

regulation is also faster improved in Germany and for today caught up with him US regulatory quality.

The regional comparison result shown in Figure 4.

Figure 4. Comparing anti-avoidance rules' regional level



Source: authors' own

Could be seen that the development pace and center of gravity continuously changed. While in 2005 it is Anglo-Saxon countries were the leader examples are regulation of its formation, by 2014 Asia developed most dynamically. However, by 2022, the leader role already of Europe became. This latter in turn significant role played the GAAR, the national provisions and the OECD anti-avoidance rules are coordinated and strict and consistent application.

## CONCLUSIONS

Taxation of residents of OECD countries is determined by common principles. At the same time, they also enable individual nation-specific approaches. Various incentives through income tax, consumption tax, social security contributions, and tax credits and deductions are an integral part of these systems. As the global economy develops, OECD member states continue to strive to tackle tax avoidance and evasion as well. Looking at the anti avoidance types, essence and application of rules, the following answer can be given to the research question: the regulation of tax evasion primarily depends on culture. Cultural tendencies can influence



enforcement and compliance with anti-avoidance rules. In their characterization, the best-known sources are related to Hofstede's investigations (Hofstede, 2001; Hofstede, Hofstede and Minkov, 2010). The European and the similarity of the Anglo-Saxon cultural environment also appears in the development and nature of the tax rules. In Asian countries with cultural foundations based on collectivism, respect for authority and social harmony, other motivations and constraints led to the development of the rules. Therefore, despite the similarity of the principles, the system of rules and its practical application are structured differently.

## REFERENCES

- Cohen, MA (2014) 'Double Irish Dutch Sandwich Taxi Avoidance: Definition & Explanation', *National Tax Journal*, 67(4), 919-942, 67(4), pp. 912–942. Available at: <https://www.freshbooks.com/glossary/tax/double-irish-dutch-sandwich> (Accessed: 25 August 2023).
- Cohen, R. (2013) *The Fish That Your the Whale*. Picador. Available at: <https://us.macmillan.com/books/9781250033314/thefishthatatethewhale> (Accessed: 25 August 2023).
- Falkenheim, VC (1980) 'Decentralization and Central Control in Chinese Local Administration', in *Local Politics in Communist Countries*. Lexington: The University of Kentucky Press, pp. 191–224. Available at: [https://scholar.google.com/scholar\\_lookup?title=Decentralization+and+Central+Control+in+Chinese+Local+Administration&author=VC+Falkenheim&publication\\_year=1980](https://scholar.google.com/scholar_lookup?title=Decentralization+and+Central+Control+in+Chinese+Local+Administration&author=VC+Falkenheim&publication_year=1980) (Accessed: 27 August 2023).
- Fouché, G. (2008) 'Where tax goes up to 60 per cent, and everybody's happy paying it', *The Observer*, 16 November. Available at: <https://www.theguardian.com/money/2008/nov/16/sweden-tax-burden-welfare> (Accessed: 26 August 2023).
- French Entrée (2022) *What You Need to Know About French Social Charges*, FrenchEntrée. Available at: <https://www.frenchentree.com/living-in-france/what-you-need-to-know-about-french-social-charges/> (Accessed: 26 August 2023).
- Fuest, C. and Riedel, N. (2009) 'Tax evasion, tax avoidance and tax expenditures in developing countries: A review of the literature', in. Available at: <https://www.semanticscholar.org/paper/Tax-evasion%2C-tax-avoidance-and-tax-expenditures-in-Fuest-Riedel/f380d93d0d3528955018d28491134794129aee97> (Accessed: 25 August 2023).
- Hofstede, G. (2001) *Culture's Consequences: Comparing Values, Behaviors, Institutions and Organizations Across Nations*. 2nd ed. Thousand Oaks, CA, US: SAGE Publications, Inc. Available at: <http://www.pdfdrive.com/cultures-consequences-comparing->

- [values-behaviors-institutions-and-organizations-across-nations-e194565778.html](#)  
 (Accessed: 24 April 2023).
- Hofstede, G., Hofstede, GJ and Minkov, M. (2010) *Cultures and Organizations: Software of the Mind*. 3rd edn. McGraw -Hill Education - Europe. Available at: <https://www.bookdepository.com/Cultures-Organizations-Software-Mind-Third-Edition-Geert-Hofstede/9780071664189> (Accessed: 15 November 2020).
- Johansson, Å., Bieltvedt Skeie, Ø. and Sorbe, S. (2016) *Anti- avoidance rules against international tax planning: A classification*. ECO/ WKP(2016) 80. [online]: OECD, p. 16. Available at: <https://www.oecd.org/tax/public-finance/Anti-avoidance-rules-against-international-tax-planning-A-classification.pdf> (Accessed: 5 August 2023).
- Jones, G. (2019) 'The Controversial History of United Fruit ', *Harvard Business Review*, 2 July. Available at: <https://hbr.org/podcast/2019/07/the-controversial-history-of-united-fruit> (Accessed: 25 August 2023).
- Kahn, J. (2018) *Google shielded €16 billion from tax using a ' Dutch Sandwich '*, *The Independent*. Available at: <https://www.independent.co.uk/news/business/news/google-alphabet-tax-netherlands-dutch-sandwich-bermuda-ireland-a8138466.html> (Accessed: 25 August 2023).
- Meijer, B. (2019) 'Google shifted \$23 billion lake tax haven Bermuda in 2017: filing ', *Reuters*, 3 January. Available at: <https://www.reuters.com/article/us-google-taxes-netherlands-idUSKCN1OX1G9> (Accessed: 25 August 2023).
- OECD (2013) *International collaboration to end tax avoidance, Base erosion and profit shifting - OECD BEPS*. Available at: <https://www.oecd.org/tax/beps/> (Accessed: 3 October 2021).
- OECD (2021) *OECD Tax Policy Studies*. [online]: OECD. Available at: <https://doi.org/10.1787/19900538>
- Ostwal, TP and Vijayaraghavan, V. (2010) 'Anti- Avoidance Measures ', *National Law School of India Review*, 22(2), pp. 59–103. Available at: <https://www.jstor.org/stable/44283791> (Accessed: 5 May 2023).
- Parker (2020) ' Elon Musk: " We will coup anyone we want ! Deal with it." Bolivia just you stopped male from mining in their country. I'd say they deal with it pretty well <https://t.co/5dR0E7wZyh>', *Twitter*. Available at: <https://twitter.com/panoparker/status/1318157559266762752> (Accessed: 25 August 2023).
- Reynolds, S. (2019) *Google to Abandon ' Double Irish, Dutch Sandwich ' Tax Scheme*, *Wccftech*. Available at: <https://wccftech.com/google-to-abandon-double-irish-dutch-sandwich-tax-scheme/> (Accessed: 25 August 2023).
- Rocha, JA (2021) *Bolivia hints Tesla's involvement in the 2019 military coup*. Available at: <https://www.aa.com.tr/en/americas/bolivia-hints-teslas-involvement-in-2019-military-coup/2187164> (Accessed: 25 August 2023).

- Sato, G. (2023) *Can I Deduct Mortgage Interest on My Taxes ? - Experian*. Available at: <https://www.experian.com/blogs/ask-experian/can-you-deduct-mortgage-interest-on-taxes/> (Accessed: 26 August 2023).
- Saunders, PC and Scobell, A. (eds) (2015) *PLA Influence you China's National Security Policy making*. Stanford University Press. Available at: <https://doi.org/10.1515/9780804796286>
- Shehadeh, A. (2020) 'Contextualizing Your Research Project', in C. Coombe, NJ Anderson, and L. Stephenson (eds) *Professionalizing Your English Language Teaching*. Cham: Springer International Publishing (Second Language Learning and Teaching), pp. 327–335. Available at: [https://doi.org/10.1007/978-3-030-34762-8\\_27](https://doi.org/10.1007/978-3-030-34762-8_27)
- Shome, P. (2021) 'Specific Anti- avoidance Rules (SAAR)', in Shome, P., *Taxation History, Theory, Law and Administration*. Cham: Springer International Publishing (Springer Texts in Business and Economics), pp. 329–347. Available at: [https://doi.org/10.1007/978-3-030-68214-9\\_28](https://doi.org/10.1007/978-3-030-68214-9_28)
- Snyder, H. (2019) 'Literature review as a research methodology: An overview and guidelines', *Journal of Business Research*, 104, pp. 333–339. Available at: <https://doi.org/10.1016/j.jbusres.2019.07.039>
- Somasundaram, S. (2022) *Different Types of Research Gaps in Literature Review*, *iLovePhD*. Available at: <https://www.ilovephd.com/different-types-research-gaps-literature-review/> (Accessed: 26 August 2023).
- Stromberg, J. (2016) *The improbable rise of the banana, America's most popular fruit*, *Vox*. Available at: <https://www.vox.com/2016/3/29/11320900/banana-rise> (Accessed: 25 August 2023).
- Te Kāwanatanga o Aotearoa (2021) *GST rate, New Zealand Government*. Available at: <https://www.govt.nz/browse/tax-benefits-and-finance/tax/gst-rate/> (Accessed: 26 August 2023).
- The US Department of Justice (2011) *Magyar Telekom and Deutsche Telekom Resolve Foreign Corrupt Practices Act Investigation and Agreement lake Pay Nearly \$64 Million in Combined Criminal Penalties*, *Justice News*. Available at: <https://www.justice.gov/opa/pr/magyar-telekom-and-deutsche-telekom-resolve-foreign-corrupt-practices-act-investigation-and> (Accessed: 3 October 2021).
- Tinani, KS and Kandpal, DH (2019) 'Literature Review you Methods of Classification in Pattern Recognition', *IAPQR Transactions*, 44(1), pp. 85–102. Available at: <https://doi.org/10.32381/IAPQRT.2019.44.01.5>
- US Congress (1977) *Foreign Corrupt Practices Act*. Available at: <https://www.justice.gov/criminal-fraud/foreign-corrupt-practices-act> (Accessed: 4 May 2023).
- Waerzeggers, C. and Hillier, C. (2016) 'Introducing a General Anti- Avoidance Rule (GAAR)', *Tax Law Technical Notes*, 1(1), p. 12. Available at: <https://doi.org/10.5089/9781513515823.008>