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International Taxation Policy & Harmonization of the Corporation Tax System in the European Union

In 2003, as a part of an extensive taxation reform, Israel has moved from a territorial taxation system [based on the Source of income principle] to the worldwide system [residence principle], that is accepted in some of the European countries [Germany among them] as well as in United States.

The basic purpose of moving from a territorial system to the worldwide principle is broadening the scope of taxation; raising government's income from taxes and thereby raising the national product.

In reality, broadening the taxation base so that the resident individual/corporation would be taxed not only on the income produced in the country but also on any other income from abroad even if it has no connection to the country of residence [below-country A], might discourage foreign investors from initiating any business projects in the country in question taxing on a worldwide basis, because of the concern that under the residence principle [which applies to corporations as well as to individuals] they would pay additional taxes on all of their income worldwide [provided that the tax rates in country A are higher than in the rest of the world].

I'd like to examine the above mentioned question according to macro-economic models [e.g. the Economic Growth model of Solow etc.]. Then I'll test my hypothesis using empirical studies; statistical data as well as analyzing the legal aspects of certain European International Taxation systems: German system [having relatively high tax rates] as opposed to other European countries such as Switzerland and Ireland [having very low corporate tax and income tax rates].

While the bottom line is defining the optimal international taxation policy taking into account the tax rates differences among the countries .I believe that this kind of research is important especially, because due to the globalization process[in the European Union in particular] ; the increasing capital mobility etc Tax Competition should not be ignored while determining the international policy rule.

1. The "Source"/Territorial tax base versus the Global(worldwide)/ Residence Principle*-
The goal of my work would be to try to define the optimal international taxation policy in terms of promoting investments, economic growth ,technological progress etc ,on the basis of legal &economic comparative analysis ,empirical research papers(statistic data) and macro economic theories.

2. The impact of the international taxation policy on investments ;economic growth etc.

3. The problem of harmful tax competition leading to a "race to the bottom"; fiscal externalities imposed by national tax policy(in particular in form of tax base flight ;capital outflow to escape high taxation).

4. The correlation between the international taxation policy (i.e choosing the basic principle of international taxation) and the tax rates imposed ;in particular :corporate tax rates in light of the relatively high capital mobility (compared to human capital for instance).

5. The Pareto-efficient solution: Global/European harmonization of the tax systems ,in particular in the fields of International taxation policy & Corporate tax under the assumption of perfect capital mobility?

The goal of my work would be to figure out what is the pareto optimal international taxation policy in terms of promoting investments and economic growth, through a comparative analysis which will examine the German Taxation system as well as other European Systems.

While the bottom line is defining the optimal international taxation policy taking into account the (corporate) tax rates differences between the countries .I believe that this kind of research is important while especially due to the globalization process[in the European Union in particular] ; the capital mobility the Tax Competition can't be ignored while determining the international policy rule.

Beyond the question whether the worldwide principle has a negative impact on investments and subsequently on the economic growth I'll try to define the incentives

that might neutralize this potential negative effect, by examining the legal provisions used in the countries applying the above mentioned taxation rule.