

## **Abstract**

### **Inter-governmental Networking Applications in Taxation of International Business**

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#### **Subject definition**

Industrial Marketing firms would like to do more business with their customers. For this, they would like a larger part of their customers' existing business. They would also like to help their customers to grow because the customer would then purchase more from them.

For this article, governments are being viewed as a business of providing public services and getting its revenue in the form of tax receipts. This business has two major client segments: individuals and enterprises. Some overlaps occur because some individuals do business without a corporate veil. Another gray line is the investment activities of individuals in corporate shares and bonds. For the purpose of this paper, we will try to remain within the business-to-business segment (in our case the government-provided public service business-to-business). Moreover, we are not looking at all the government activities. We are restricting ourselves to their "business" receipts. Again, not all sources of government income, but only those which are termed tax<sup>2</sup>.

As with industrial marketing we will look at two aspects: first, the attempt by governments to increase tax receipts from existing activities of businesses. Second, we look at the attempts by governments to increase the activities of businesses to generate more tax receipts. This latter can be fostered by many ways: providing different kinds of infrastructure, simplifying company regulation, etc. We will be restricting ourselves only to stimulations relating to tax.

This is not meant to be a paper on tax policy. So, we are not going to see the effect of corporate income tax rate reductions (price reduction to continue our metaphor) on increasing

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<sup>2</sup> This excludes for example, public sector profits, interest income, etc.

investment allowance type incentives to grow for businesses. In fact, we are going to assume that all technical tax aspects such as bases, rates, exemption, etc. remain the same.

This paper looks at the involvement of governments with international businesses. Each government forms a DYAD with individual business entities. For an international enterprise, more than one supplier (governments) is involved. Just like multiple suppliers to an industrial customer compete against each other, governments of nations are competing with each other to attract industrial customers. Just like price wars between suppliers, there are tax wars between governments. These could take the form of "tax rate" wars or "tax base" wars, tax exemptions, holidays, etc. All these different mechanisms are not being studied here. We are assuming that this war is going on between competing governments.

If these governments interact, it creates a network. This inter-governmental network is actually a network of competing suppliers to international businesses.<sup>3</sup> We are interested in seeing if these competitors (suppliers, governments) find mutual advantage to gain from networking.

In short, we are studying network analysis and seeing whether it can be applied to some of the governmental activities pertaining to taxation of international enterprise, and whether there are instances where networks are used by governments to increase their tax collection. Our findings of such instances are presented here. These instances of networks in taxation are in turn separated into two parts: network mechanisms used to increase tax collections from existing businesses of customers (part I) and tax network mechanisms used to stimulate business activities (part II), in turn to enhance tax receipts of all the governments (suppliers). Based on this study, we reflect on how inter-governmental networks evolve (Part III).

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<sup>3</sup> What is true of the inter-national level with national tax collections would also find similarities at the inter-regional or inter-municipal levels with their respective tax collections.