

## ■ ■ ■ Tax reform, tax planning and investment

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### ABSTRACT ■ ■ ■

This paper considers the use of ‘forward-looking’ effective tax rates to estimate the impact of corporate tax reform on FDI flows, and signals the need to address increasingly common strategies of multinationals to minimize host and home country tax, when attempting to model representative financing and repatriation structures. Average effective tax rate (AETR) and marginal effective tax rate (METR) formulae are developed that incorporate various corporate tax-planning strategies, and illustrative results are derived to shed light on possible implications of moving away from standard financing and repatriation assumptions. The results suggest that AETRs/METRs based on standard assumptions, such as used in *Taxing Profits in a Global Economy* OECD (1991), need to be reconsidered, as effective tax rates may be significantly lower in certain cases, when tax-planning is accounted for. A central question is whether tax-planning is taken into account by investors when making investment decisions.

**JEL Classification:** H25, H26, H32, F23

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