

# *Taxation, Innovation and Training*

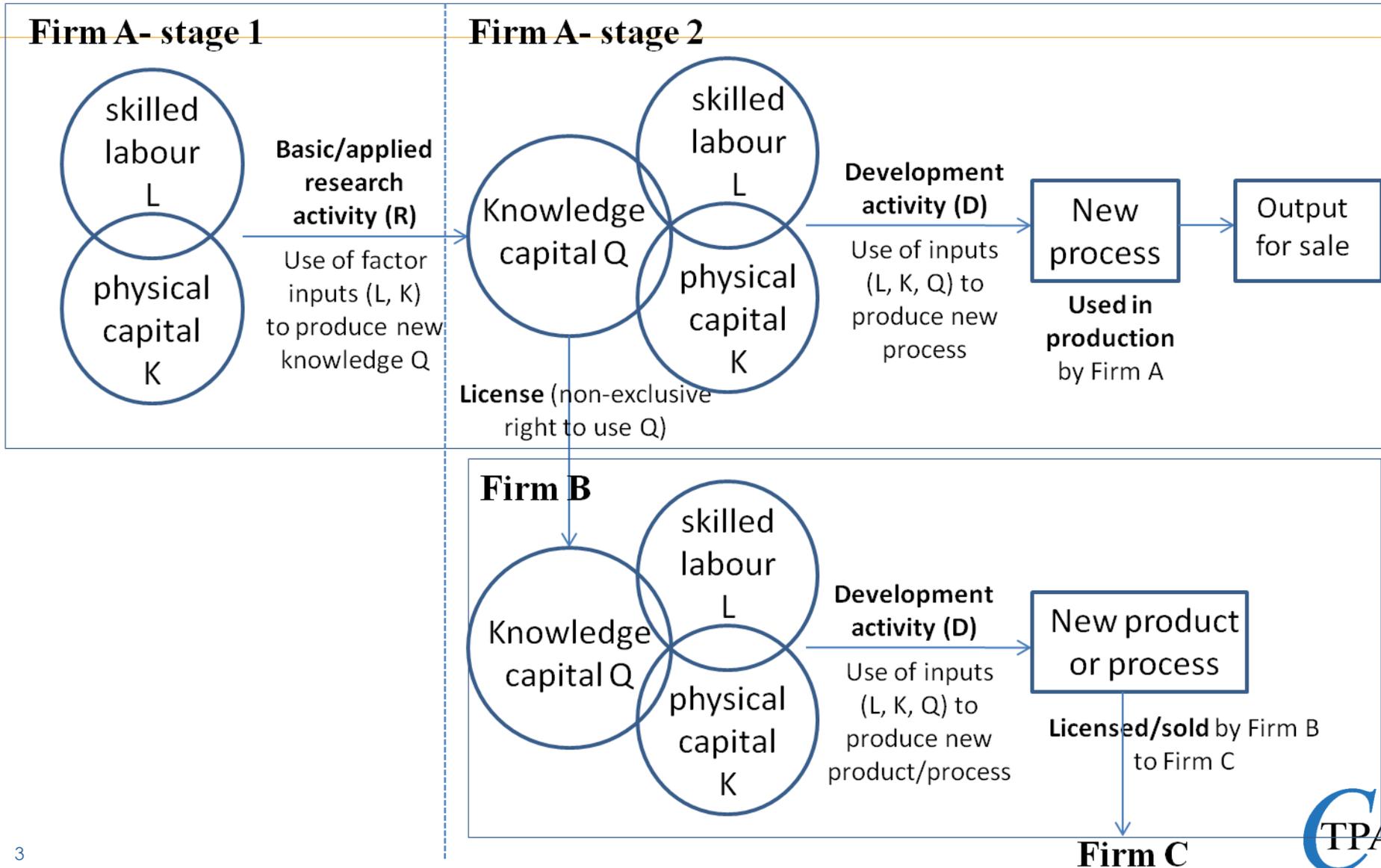
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MENA-OECD Investment Programme  
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# Interest in Taxation and innovation

- Wealth creation depends increasingly on adoption/use of ‘knowledge capital’.
- Need for policy framework that supports the creation, adoption, and use of knowledge capital.
- Global economic crisis and need to restore public finances – increased focus on role of innovation and need for efficient provision of tax/non-tax support.
- Corporate tax policy – tax treatment of cost of R&D, cost of purchase/license of knowledge capital, returns on own-use/sale/license of knowledge capital.

# Chart 1 – Illustration of creation, adoption and use of knowledge capital



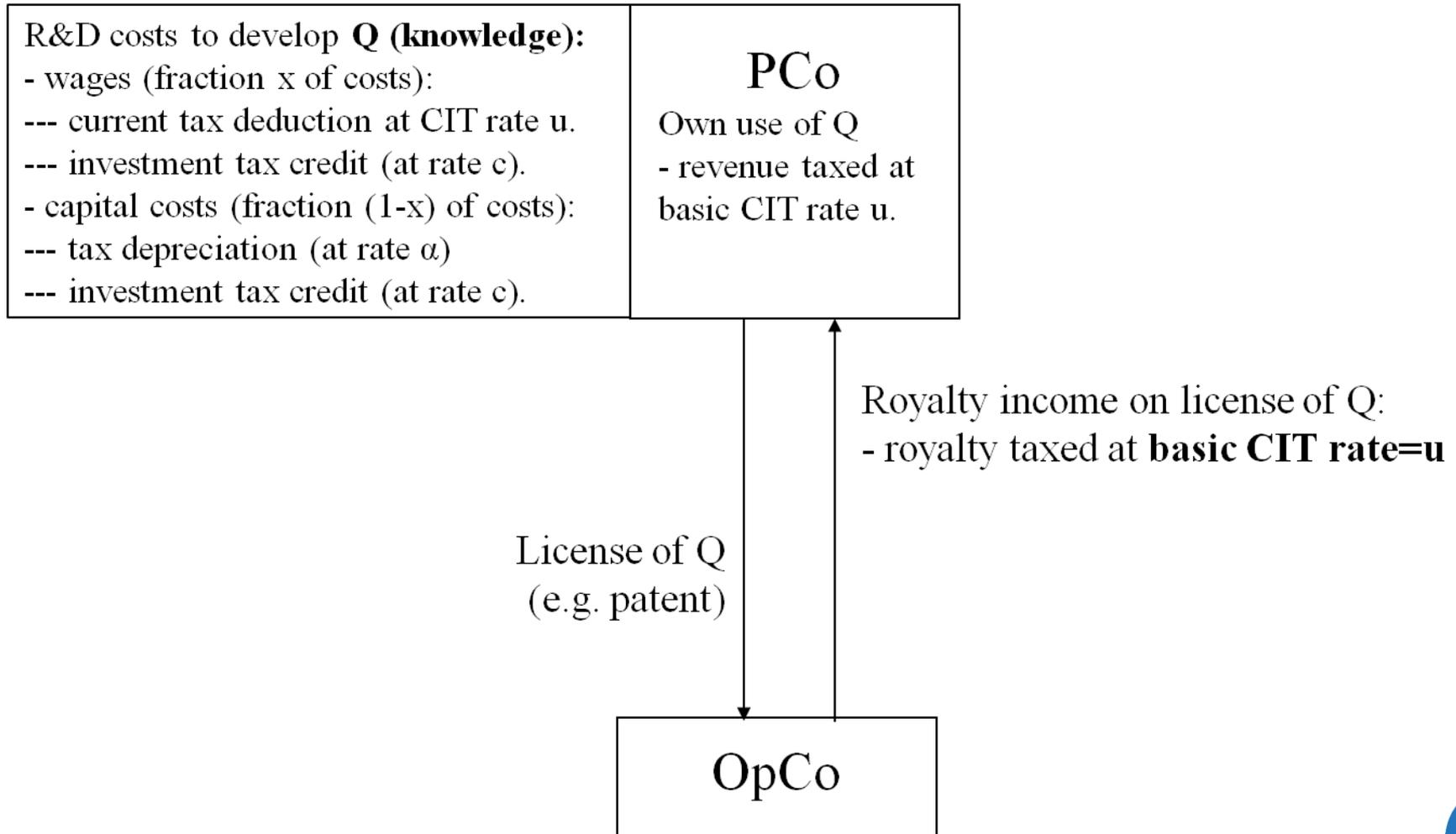
# Taxation and innovation

## - tax policy considerations -

- Possible spillover benefits from R&D (research versus development versus adoption).
- Difficult to target incremental investment and avoid providing ‘windfall gains’ to investors.
- Policy strategies should take into account highly mobile nature of the location of intangibles (e.g. patents), and MNE tax planning strategies (tax avoidance).
- Policy makers encouraged to consider pros/cons of tax policy that subsidizes R&D, while taxing – at basic/full corporate tax rates – profits on the use/applications of intellectual property.

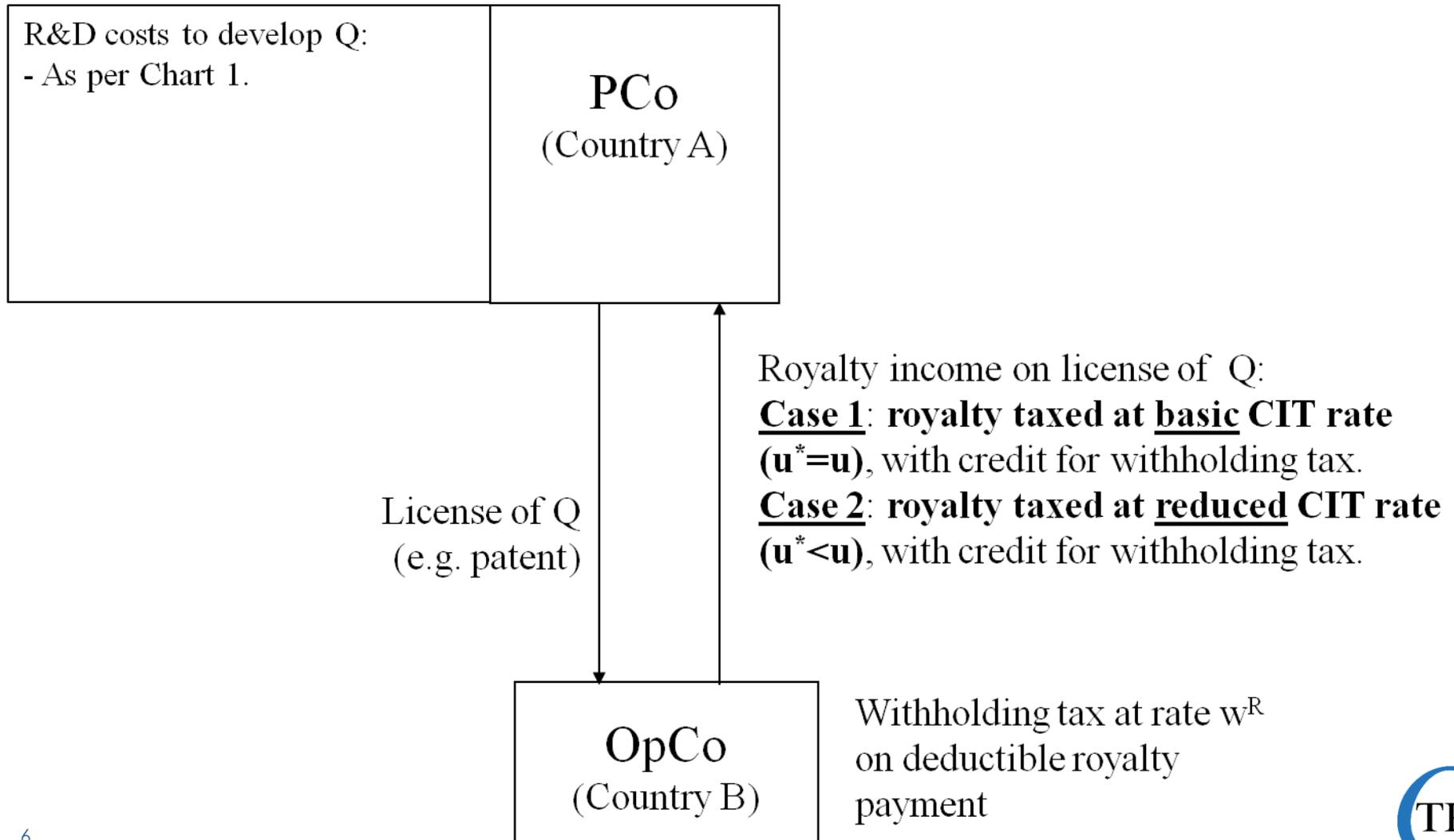
## Chart 2

### Simple domestic structure



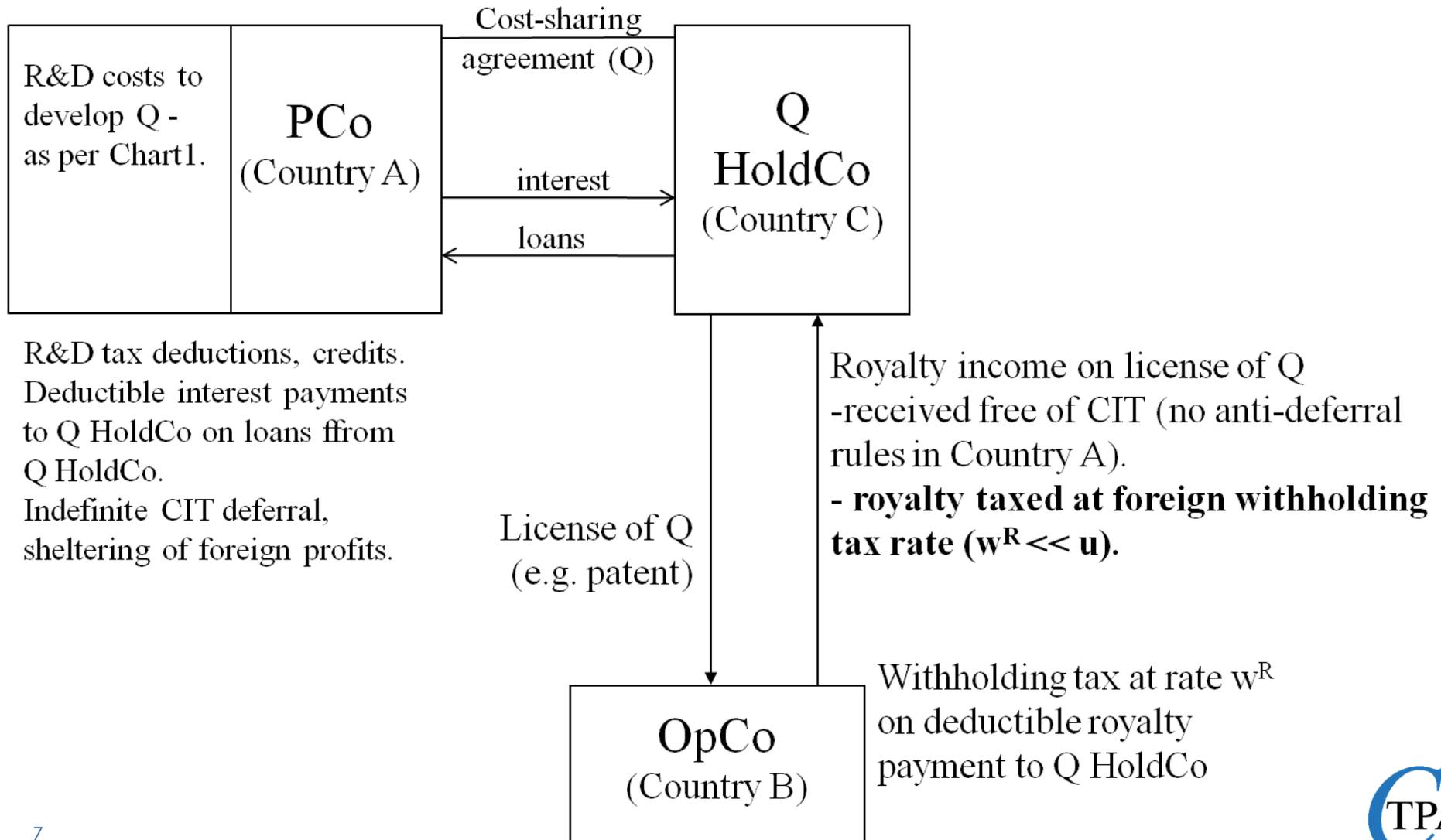
# Chart 3

## Simple cross-border structure



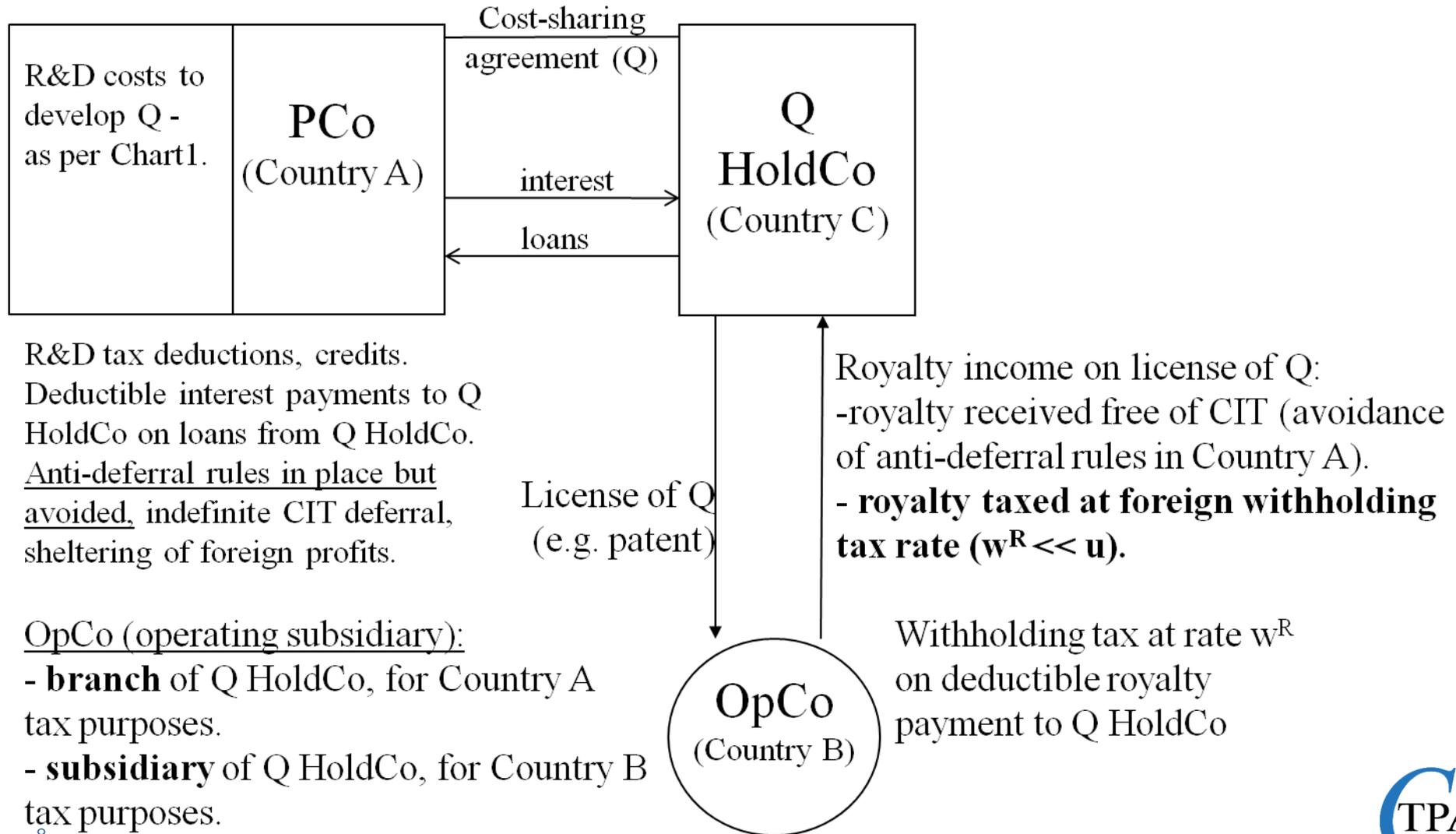
## Chart 4

### Triangular structure, no 'anti-deferral' rules



## Chart 5

# Hybrid structure, avoidance of 'anti-deferral' rules



# Interest in Taxation and training

- Employment and investment – need labour with skills that match requirements of business operations.
- Training/skills upgrading may be required.
- Direct and spillover benefits of training workers.
- Policy interest in tax and non-tax policies that may efficiently encourage training/address skills gaps:
  - Productivity gains (e.g. applications of knowledge capital)
  - More even distribution of financial/social benefits of economic activity
  - Nation building.

# Taxation and training

## - tax policy considerations -

- Possible spillover benefits from training (labour mobility).
- Difficult to target incremental training and avoid providing ‘windfall gains’ to suppliers/purchasers.
- Policy makers encouraged to consider pros/cons of tax relief that reduces tax on sales (supply) of training, versus tax relief on purchase (demand) of training.
- Important question of the incidence of tax relief – distinction between entity that pays the tax, and entity that bears the economic burden of the tax.

# Taxation and training

## - tax policy considerations -

- Sale of training services:
  - General sales tax provisions
  - Corporate income tax provisions
- Purchase by companies of training services:
  - Corporate income tax provisions
  - Personal income tax provisions
- Purchase by individuals of training services:
  - Personal income tax provisions
- Qualifying training services:
  - General training (no restriction)
  - Training in current activities of worker (retraining)
  - Training in new activities of worker, part of current business activities
  - Training in new activities of worker and business.

A faded, grayscale background image of a large, classical-style building with a portico and columns, possibly a government or institutional building. The image is partially obscured by large, light gray geometric shapes on the left side.

# *Comments / questions*