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Impact of Round-tripping FDI on Tax Avoidance of Enterprises

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Abstract: As a part of enterprise strategy, round-tripping FDI has a far-reaching impact on tax avoidance. Enterprises aim to minimize the tax burden by redistributing capital, optimizing the global business structure and adjusting the location of economic activities. This strategic choice has spawned a variety of complex mechanisms in the international tax environment, and its influence involves tax competition, tax evasion theory, transfer pricing and intellectual property rights on a global scale. These incentives can attract enterprises to bring their overseas profits back to their home countries by reducing their operating costs and improving their competitiveness, thus achieving economic growth and increasing employment opportunities. Generally speaking, the impact of round-tripping FDI on corporate tax avoidance is reflected in many levels. By optimizing the global business structure, flexibly using intellectual property rights and adjusting the transfer pricing strategy, enterprises skillfully use the international tax environment to maximize economic benefits. At the same time, the state provides positive support for enterprises through economic incentives, which reduces the tax burden of enterprises in the domestic economy and promotes the development and innovation of domestic industries.

Keywords: Round-tripping FDI; Tax Avoidance.

1. Introduction

The trend towards globalisation is driving enterprises to pursue a wider range of business opportunities across different countries and regions. In order to coordinate and integrate their global operations, enterprises set up subsidiaries, joint ventures or engage in other forms of investment in international markets(Xiao, 2004). However, with this comes complex tax, regulatory, cultural and economic environments in different countries and regions, which create challenges for business operations and capital management. Reinvestment is the process by which a company redirects its investments, earnings or capital gained abroad back to the country or region where it is headquartered. This strategic decision usually involves the optimisation of capital flows, the management of international business networks, the adjustment of tax strategies, and the effective management of foreign exchange risks. With the trend of globalisation and cross-border expansion, repatriation investment has become a key component of a company's global strategy aimed at improving overall efficiency, reducing risk and adapting to the complex business environment in different countries and regions. Reinvestment is also closely related to a company's tax strategy. Different countries and regions have their own unique tax policies and regulations, and companies may be able to take advantage of these differences through repatriation investments to minimise the overall tax burden. Therefore, companies need to thoroughly understand and assess each country's tax environment in order to develop a tax planning strategy that best meets their overall strategic objectives. However, there are a number of challenges and risks associated with repatriation investments. Changes in the regulatory environment, political stability and economic expectations of different countries and regions may have a direct impact on repatriation investments. Companies need to carefully assess these factors to avoid potential risks and adverse effects. In general, backhaul investment plays a key role in global business strategy and involves complex considerations of capital, tax, risk and many other aspects. Enterprises need to weigh various factors in the context of globalisation and international business operations when making backhaul investments in order to develop a comprehensive strategic plan to ensure that they achieve a sustainable competitive advantage in global competition (Ledyaeva et al., 2015).

2. Theoretical Analysis

2.1. International Tax Avoidance Theory

According to the theory of international tax avoidance, enterprises take legal means to minimise their tax liabilities globally by taking advantage of differences in tax policies in different countries and regions. Repatriation investment can be regarded as part of this avoidance strategy, whereby enterprises reduce their overall tax liability by channelling overseas earnings back to the country or region where their headquarters are located. The mechanism of repatriation investment for corporate tax avoidance can be analysed in depth from the perspective of international tax avoidance theory. Firstly, through the optimisation of global capital flows, enterprises repatriate investments and earnings obtained overseas to the country or region where the head office is located in order to minimise the overall tax burden. Secondly, the adjustment of debt financing structure becomes a key means of tax avoidance. By implementing debt financing in low-tax regions, enterprises reduce their tax payments in high-tax regions. In addition, companies choose to steer capital back to tax havens to take full advantage of their liberal tax policies and maximise tax avoidance through strategic positioning and reinvestment. The optimisation and transfer of intellectual property rights is also an important mechanism whereby enterprises adjust their global IP layout by registering their IP rights in low-tax jurisdictions to effectively reduce their tax burden in high-tax jurisdictions. Finally, companies strategically adjust their internal transactions and transfer pricing to maximise profit

distribution in low-tax jurisdictions, which in turn reduces their overall tax liability. Together, these series of mechanisms constitute a comprehensive mechanism for the impact of corporate repatriation investment on tax avoidance, reflecting the clever use of the international tax environment to maximise economic efficiency. However, when pursuing tax avoidance advantages, companies still need to carefully consider legality and compliance to avoid potential legal risks and reputational damage(Aykut et al., 2017).

2.2. Transfer Pricing Theory

The mechanism of round-tripping FDI on corporate tax avoidance can be analysed in depth from the perspective of transfer pricing theory. Firstly, firms adjust the prices of their internal transactions, i.e. transfer pricing, through repatriation investments in order to maximise profit distribution in low-tax jurisdictions, thereby effectively reducing their overall tax base. Secondly, repatriation investment involves companies re-evaluating their global internal transactions and pricing strategies to ensure that subsidiaries operating abroad buy and sell products or services at reasonable prices, achieving tax avoidance. In addition, repatriation investments can be viewed as strategic transfer pricing adjustments to adapt to the tax environment of different countries and regions, minimising tax liabilities in high-tax jurisdictions through reasonable pricing arrangements. This mechanism reflects the strategic goal of tax avoidance through the clever use of transfer pricing strategies by firms through backhauling investments in order to optimise their profit and tax structures on a global scale. However, while pursuing the advantages of tax avoidance, companies still need to carefully balance legality and compliance to guard against potential legal risks and maintain their reputation(Gök & Schiller, 2006).

2.3. Tax Competition Theory

The theory of tax competition suggests that tax competition exists between countries and that countries offer various tax incentives in order to attract more enterprises and capital. Enterprises choose to operate in regions with lower taxes through round-tripping FDI in order to respond to international tax competition and reduce the amount of tax paid in high-tax regions. From the perspective of tax competition theory, the mechanism of round-tripping FDI on corporate tax avoidance involves multiple factors. Firstly, by choosing to reinvest in lower-tax regions through round-tripping FDI, firms respond to tax competition between countries in order to reduce their overall tax burden. This involves firms making shrewd choices about where to operate in order to maximise the benefits of tax incentives offered by countries to attract investment. Second, repatriation enables firms to take full advantage of the tax incentives that exist in international tax competition and obtain more favourable tax treatment by reinvesting in low-tax jurisdictions. In addition, firms may strategically reinvest in higher-tax jurisdictions in order to induce the government of that jurisdiction to adopt more favourable tax policies for firms, thus creating a competitive tax environment. This mechanism reflects the fact that firms proactively engage in tax competition by choosing where to invest in order to minimise their tax liabilities and optimise their economic performance on a global scale. While pursuing tax advantages, companies need to carefully balance legality and compliance to guard against potential legal risks and ensure that their tax avoidance strategies are legally compliant in the context of international tax competition while maintaining a solid reputation(Karhunen et al., 2022).

2.4. Intellectual Property Theory

Some businesses may be able to reduce the amount of tax they pay in high tax jurisdictions by registering their IPRs, such as patents and trade marks, in low tax jurisdictions. Round-tripping FDI may involve the restructuring of intellectual property rights to maximise the optimisation of the enterprise's intellectual property structure for tax avoidance purposes. From the perspective of intellectual property theory, the mechanism of round-tripping FDI for corporate tax avoidance involves flexible management and strategic optimisation of intellectual property rights. Firstly, an enterprise re-evaluates its intellectual property layout through backhaul investment and may register patents, trademarks or copyrights in low-tax jurisdictions in order to reduce its intellectual property costs in high-tax jurisdictions and reduce its tax base. Secondly, companies may strategically adjust the ownership and usage rights of their IPRs through backhaul investments to maximise the value of their IPRs in low-tax jurisdictions, thereby reducing their tax burden overall. In addition, companies may use backhauling to optimise IP licensing and transfer transactions in order to price these transactions more rationally, thereby achieving efficient management of IP and tax advantages on a global basis. This mechanism reflects the flexibility of companies to optimise their global IP structure through backhaul investment at the IP level to achieve the objectives of their tax avoidance strategies. While pursuing tax advantages, companies need to carefully balance legality and compliance to guard against potential legal risks and ensure that their IP management and backhauling strategies are legally compliant within the regulatory framework, while safeguarding their reputations(Parchomovsky & Siegelman, 2002).

3. Case Study

3.1. Specific Business Case

Apple Inc. as a leading global technology company has attracted much attention for its repatriation investment strategy and tax implications. In the past international tax environment, Apple had minimised its worldwide tax burden by setting up subsidiaries in places such as Ireland to take advantage of tax incentives in low-tax jurisdictions. However, as international tax regulations continue to adapt, particularly changes in tax policy in places such as Ireland, Apple Inc. has announced a repatriation investment programme in recent years. The centrepiece of the plan is to channel some of its overseas earnings back to the US to implement large-scale investments. The aim of this strategy is to increase production and employment in the United States and reduce dependence on overseas earnings, while responding to U.S. tax reform and international tax pressures. Specifically, Apple Inc. has invested in the United States by repatriating investments in the construction of new manufacturing facilities, expansion of data centres, and increased R&D investment. The implementation of this strategy has allowed the company to benefit more directly from lower tax rates in the U.S., reducing the average global tax rate and thus effectively reducing its tax base in high-tax jurisdictions. The tax impact of repatriated investments on Apple Inc. is manifested in a number of ways. First, by repatriating overseas earnings to the U.S., the company is able to allocate earnings more evenly

across the globe, reducing its over-reliance on high-tax jurisdictions and effectively avoiding the tax pressures associated with high tax rates. Second, because the investment plan involves manufacturing and R&D in the U.S., Apple Inc. is expected to take full advantage of U.S. R&D tax credits and other incentives, which will further reduce its tax burden and increase its competitiveness in the U.S. Overall, Apple Inc.'s repatriation investment strategy demonstrates its response to international tax pressures by strategically investing in the U.S. with the aim of reducing its overall tax burden and maximising the use of tax incentives. This case highlights the ability of companies to flexibly adjust their strategies in the international tax environment to adapt to changing tax regulations and achieve a balance between sustainable growth and global tax advantages(Barrera & Bustamante, 2018).

3.2. Comparison of Different Enterprises' Repatriation Investment Strategies and Tax Performance

The repatriation cases of Apple Inc. and Nike Inc. show different strategic choices and tax performance, highlighting the diversified strategies of enterprises in response to changes in the international tax environment. In the case of Apple Inc., the repatriation investment is aimed at bringing overseas earnings back to the US, reducing the overall tax burden and responding to international tax pressures by making large-scale investments in the US. In contrast, Nike Inc.'s repatriation strategy is more focused on increasing value creation in the US and reducing its reliance on manufacturing in places such as Asia in order to adapt to global supply chain adjustments. In terms of tax performance, Apple Inc. reduces its over-reliance on high-tax jurisdictions through a more balanced distribution of earnings globally through repatriation investments, effectively avoiding the tax pressures associated with high tax rates. At the same time, by manufacturing and R&D in the U.S., the company is able to benefit more directly from lower U.S. tax rates and related incentives, thus further reducing its tax burden. Nike Inc., on the other hand, is increasing its value creation in the US through repatriation investments, reducing its reliance on Asian manufacturing, and responding to changes in the international tax environment through more localised production layouts and supply chain optimisation. Overall, the two companies' repatriation cases show differentiated strategic orientations and tax performances. apple Inc. maximises the advantages of the US tax policy and reduces the global average tax rate through repatriation of overseas earnings and strategic investments in the US. In contrast, Nike Inc. has strengthened its value creation in the US through its localisation strategy and achieved flexibility in its supply chain. This comparison highlights the strategic diversity of enterprises in the face of international tax competition and tax reform, from Apple Inc. which emphasises global balance to Nike Inc. which focuses on local value, and provides useful references for enterprises to respond flexibly in the global tax environment.

4. Economic Incentives and Support

4.1. Whether Countries Support Round-Tripping FDI Through Economic Incentives

Countries are generally actively supporting the repatriation of firms through economic incentives. This trend reflects the desire of national governments to actively guide and promote the repatriation of their enterprises. Economic incentives include tax incentives, subsidy policies, and industrial support. By providing tax breaks or credits, countries have created a more relaxed financial environment for returning enterprises and reduced their operating costs. In addition, some countries encourage enterprises to invest more in their countries through direct financial subsidies or by offering favourable conditions. In terms of industrial support, governments may actively promote the implementation of enterprises' round-tripping FDI programmes by providing technical support and market access assistance. This series of economic incentives not only helps to enhance the competitiveness of enterprises and reduce their risks, but also creates employment opportunities and promotes economic growth for the country itself. Thus, active state support for round-tripping FDI plays a key role in promoting industrial upgrading, innovation and sustainable development in the country. When considering round-tripping FDI, enterprises often factor national economic incentives into their decision-making, in order to obtain more support, improve returns on investment and achieve a win-win situation.

4.2. Round-trip FDI as an Incentive for Firms

Round-tripping FDI has a positive impact on firms' access to incentives and support. First, repatriation investments often enable firms to benefit from various incentives provided by the state, including tax incentives, subsidies and industrial support. These policies help to reduce the operating costs of enterprises in their home countries and increase profitability, thereby enhancing their competitiveness in the domestic market. Second, round-tripping FDI usually fits in with the country's development strategy, and enterprises may receive more government support in the process, such as technical support and market access assistance, which can help them promote the upgrading and innovation of their home industries more smoothly. In addition, government support for round-tripping FDI can also help improve the legal and political environment for enterprises, enhance their long-term development prospects, and increase their stability in their home economies. Overall, round-tripping FDI has a positive impact on enterprises' access to incentives and support, providing more favourable conditions for their development in their home countries and injecting vitality into the sustainable development of the national economy. When enterprises make decisions on round-tripping FDI, they usually take national support policies as an important consideration in order to maximise incentives and support and achieve common prosperity for both the enterprise and the country(Mkhitar, 2021).

5. Conclusion

This paper comprehensively examines the impact of round-tripping FDI on corporate tax avoidance, and it can be concluded that this strategic choice has brought about profound changes to the global economic landscape and the

international tax system. Enterprises have successfully implemented tax avoidance strategies through the flexible use of the international tax environment, transfer pricing, intellectual property rights and other mechanisms to minimise the tax burden in high-tax regions. At the same time, countries have adopted a series of incentives in order to attract enterprises to make round-tripping FDIs, thus creating a mutually supportive dynamic between enterprises and countries. Repatriation investment enables companies to allocate their resources more optimally on a global scale and to achieve the strategic objective of minimising their tax liabilities by choosing regions with less stringent tax policies and by flexibly applying tax avoidance theories and transfer pricing. This brings obvious tax advantages to enterprises, enabling them to respond more flexibly to the tax environments of different countries and regions, lowering the global average tax rate, and providing strong support for enterprises to compete in the international market. Especially in transfer pricing and the use of intellectual property rights, enterprises have successfully avoided the risks of high-tax regions and minimised their global tax burden through clever strategic adjustments. The State has developed a series of economic incentives, including tax incentives, subsidy policies and industrial support, in order to attract enterprises to make repatriation investments. These incentives create more favourable conditions for enterprises in round-tripping FDI by reducing their operating costs in their home countries and increasing their competitiveness. Enterprises are able to benefit directly from these policies during the process of round-tripping FDI, reducing the overall tax burden while promoting the development and upgrading of national industries. This mutually beneficial relationship provides greater scope for enterprises and promotes the country's position in global competition. However, the impact of round-tripping FDI on corporate tax avoidance is accompanied by a series of challenges and problems. Firstly, there may be issues of legality and ethics involved in tax avoidance, and firms need to ensure compliance while pursuing tax advantages. Second, countries need to balance the contradiction between tax incentives and fiscal revenues in terms of incentives, in order to avoid damaging fiscal health through excessive incentives. In addition, the international community's supervision and regulation of tax avoidance behaviour is being strengthened, and companies need to face more complex and stringent international tax regulations. Suggestions for future research include digging deeper into tax avoidance mechanisms in corporate round-tripping FDI, especially practices and innovations in transfer pricing and intellectual property rights. In addition, there is a need for a more comprehensive examination of the impact of national incentives on business repatriation investments, as well as the long-term effects and fiscal sustainability of these policies. Under the trend of global economic integration, it is also an important direction to study the international community's regulatory and co-operative mechanisms for tax avoidance and to promote the co-ordination and improvement of international tax regulations. In summary, future research should focus on international cooperation and governance while digging deeper into the mechanisms and effects, so as to promote corporate tax avoidance research in a more in-depth, comprehensive and sustainable direction.

(Benito et al., 2019)
(Barrera & Bustamante, 2018)
(Mkhitar, 2021)
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