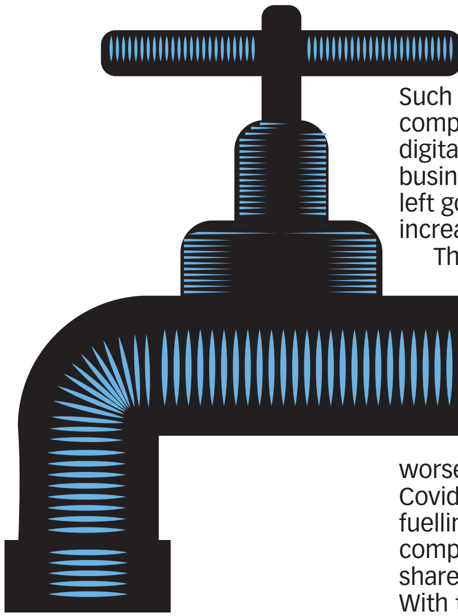
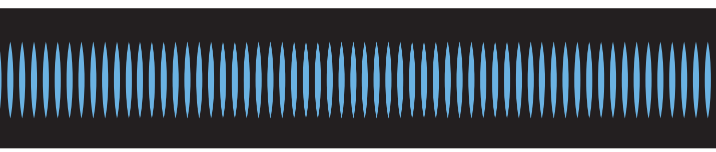
Global minimum corporate tax rate

FOR more than a decade, 135 members of the Organisation for Economic Co-operation and Development (OECD) – a club of mostly rich countries – have been deliberating an ambitious plan to impose a global minimum tax rate on corporate profits for multinationals in a bid to end a "race to the bottom" when countries compete for foreign investments by lowering their tax rates. But the OECD proposals, including measures against base erosion and profit shifting (BEPS), failed to garner support from the US until recently under the new Biden administration.

BY ANGELA TAN





Taxing issue

Contrary to the corporate tax reduction policy of his predecessor Donald Trump, US President Joe Biden wants to increase domestic corporate tax to 28 per cent from 21 per cent to cover infrastructure investment and job package worth more than US$2 trillion.

Washington also wants to impose a 21 per cent minimum tax on American companies, regardless of where their revenue comes from. More recently, this was lowered to 15 per cent.

Today, the effective tax rate on US profits of American multinationals - the share of profits that they actually pay in federal income taxes – is just 7.8 per cent. And although US companies are the most profitable in the world, the US collects less in corporate tax revenues as a share of gross domestic product (GDP) than almost any advanced economy in the OECD.

Recent figures show the global effective tax rates paid by the world's biggest digital firms are even lower than the average statutory corporate tax rate of 20.6 per cent across 109 countries assessed by the OECD: Amazon pays 11.8 per cent, Apple 14.4 per cent and Facebook 12.2 per cent. The proportion of gross profits US MNCs shift into tax havens is estimated to have soared to between 25-30 per cent today, from 5-10 per cent in the 1990s.

Such profit-shifting by big companies – turbocharged in the digital age and the ease of doing business across borders – has left government coffers increasingly short.

The financial stress is made worse as the battle against the Covid-19 pandemic rages on, fuelling louder demand for companies to pay their fair share.

With the US more or less on the same page as the OECD, a radical reshaping of the global tax system looks like a realistic possibility.

Uphill task

But much negotiation still remains to be done, not least on what the global minimum tax would be. Washington wants 21 per cent, but several nations have much lower rates.

An agreement among EU nations would not be easy, as rates range from 9 per cent in Hungary and 12.5 per cent in Ireland to 33 per cent in France.

The developed nations have to convince nations which are at different developmental stages why they should follow suit.

Afterall, like developed nations before them, the latter often apply the low tax model to attract foreign investments. A global minimum corporate tax may not be a beneficial outcome for governments which need fiscal policy levers to help drive economic growth.

Having said that, only the largest 2,400 global multinationals are expected to be affected by the proposed OECD rules, generating about US$100 billion in additional tax revenue.

The reduction in net profits for future investments is a potential concern, especially for the pharmaceutical industry and other sectors where research and development (R&D) spending is critical.

Even after a global tax floor is agreed on, there must be a mechanism to tax business on profits in each country. How "top-up' taxes - which would be levied and collected in jurisdictions that are permitted to do so under proposed rules - are to be collected and shared will be a topic closely watched by many governments.

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