Forum: GA2

Issue: The question of implementing a global minimum corporate tax

Student Officer: Shyam Soundararajan

Position: President Chair

Introduction

The implementation of the tax system has made funding for public goods easier for the governments. Most countries in the world have implemented taxes on income, corporate profits, goods and services purchased, etc. However, there remain few countries that don't impose an income tax such as the United Arab Emirates, Monaco, St.Kitts and Nevis, Cayman Islands, the Bahamas and Vanuatu. On the other end, corporate taxes are not imposed in some countries such as Anguilla, Bahamas, Bahrain, Bermuda, Cayman Islands, Guernsey, Isle of Man, Jersey, Turks and Caicos Islands and Vanuatu. Due to this distinction, these countries have been termed as 'tax havens' since companies and corporations flock to these countries to set their tax base.

Corporate tax is a tax imposed not on the gross but the net profit of a firm or a company licensed with the government. The taxes are paid by the firms on the taxable income which is the Cost of Goods Sold and selling, administrative, general expenses deducted from the turnover or the sales of the corporation made in the fiscal year or a period of time.

Corporate taxes have been avoided by many corporations for the past 120 years. The only way the corporations cannot pay for corporate tax legally is either when the government deducts the tax by adjusting the amount in other variable taxes, they can also be given subsidies if the product being produced is a merit good, tax loopholes also help corporations get away with paying less corporate tax.

Besides less corporate tax payments, some companies attempt to evade taxes, which is an illegal way to avoid paying taxes. Tax evasion schemes involve an individual or corporation misrepresenting their income to the national institution where taxes are collected and kept record. Misrepresentation may take the form either of underreporting income, not recording money made from home firms or from side professions, inflating deductions, or hiding money and its interest altogether in offshore accounts in countries which are considered to be tax havens.

Tax evasion remains one of the biggest issues in the world due to the billions of dollars lost by governments. In order to tackle tax evasion, governments have taken many steps, one of which is the implementation of a global corporate tax. The aim of this tax is to set a global standard in corporate taxation, which will reduce corporations attempting to evade taxes to a low-tax country. If implemented, this tax could set a new unprecedented standard for global cooperation in the attempt to stop tax evasion and loss of tax revenues to countries.

Definition of Key Terms

Tax Evasion

According to the Organisation for Economic Co-operation and Development (OECD), tax evasion refers to illegal arrangements where liability to tax is hidden or ignored, i.e. the taxpayer pays less tax than he is legally obligated to pay by hiding income or information from the tax authorities. Tax evasion can take many forms, from individuals not reporting their full income to corporations inflating their expenses and hiding money in offshore accounts.

Tax Avoidance

According to the Organisation for Economic Co-operation and Development (OECD), tax evasion refers to legal arrangements where a taxpayer’s liability to tax is reduced through various methods. Although this arrangement could be legal, it is usually in contradiction with the intention of the taxation laws at hand. In some rare cases, however, tax avoidance could stem from practices such as permissions or incentives given by governments.

Tax Treaty

A tax treaty is an agreement between two countries or more, which aims at resolving issues, mainly involving double taxation (the levying of tax by two or more jurisdictions on the same income or financial transaction)

BEPS (Base erosion and profit sharing)

An acronym referring to various methods and strategies utilized by companies and individuals to exploit gaps in tax regulations, in order to shift profits to low or no-tax locations. In most cases, these strategies are completely legal.

Tax

A tax is a charge imposed by the government on financial institutions and taxpayers.

Tax Havens

A tax haven is a country that offers foreign individuals and businesses a minimal tax liability in a politically and economically stable environment, with little or no financial information shared with foreign tax authorities. Tax haven status benefits the host country as well as the companies and individuals maintaining accounts in them. Tax havens benefit by drawing capital to their banks and financial institutions, which can form the foundation of a thriving financial sector. Individuals and corporations benefit through tax savings resulting from tax rates ranging from zero to the low single digits versus relatively high taxes in their countries of citizenship or domicile. Some tax haven countries are Luxembourg, the Cayman Islands and Bermuda.

Hidden tax

An Indirect tax paid by the consumer without his knowledge.

Minimum tax

In certain countries corporations are always liable to a certain amount of annual tax, regardless of whether they have realized a profit.

Penalties

Administrative penalties are imposed for tax offences, such as failure to make a timely return or payment, negligence, and making a false return or statement. They take the form of additions to the tax and are assessed as part of the tax. Criminal penalties, on the other hand, are enforceable only by prosecution. A prison sentence may be imposed for serious tax fraud.

Tax authorities

The body responsible for administering the tax laws of a particular country or regional or local authority.

Tax Free Zone

Area within the territory of a country in which customs duties and other types of indirect taxes are not applied.

Key Issues

The establishment of a global corporate tax is a strenuous task as if it were to flourish and be ‘global’ it would need support from every country in the world. A global corporate tax would remove the possibility of corporations evading and moving their money to countries with no taxes. But due to the lack of a United front of all the countries the motion of a global corporate tax has been shot down.

The Biden administration is proposing that a global minimum corporate tax rate of 21 percent be established, which would require each country to agree to it and enact whatever laws and regulations they need to implement it, since there obviously is no supranational tax authority. How exactly the corporate minimum would be enforced has not yet been explained. The formation of an international tax authority would take a substantial amount of funding and time. The countries are reluctant to be a part of the global corporate tax initiative due to the lack of information.

Lower tax rates and other incentives are used by developing economies to attract investment, and most fear that they will see an exodus of their multinational business colonists if their ability to "race to the bottom," so to speak, is taken away from them. While most developing economies look at the global minimum tax idea as creating a wider divide between richer and poorer nations and making it more difficult for the latter to catch up. The idea of wealth inequality made most of the LEDC's oppose to the idea of a minimum global tax.

Another reason there is no united front is that most LEDC's is that during the pandemic the primary concerns were healthcare and keeping the country stable and floating and solve their economic problems.

Major Parties Involved and Their Views

IMF

First Deputy Managing Director of the International Monetary Fund, Gita Gopinath expressed the IMF's stance on the implementation of a global corporate tax. Gopinath said current disparities in national corporate tax rates had triggered "a large amount" of tax shifting and tax avoidance, reducing the tax base on which governments could collect revenues to fund needed economic and social spending. The IMF had not taken a position on the ideal level for such a tax rate, adding that governments would need to replenish their coffers after massive spending to contain the COVID-19 pandemic and mitigate its economic impact.

UN FACTI

The Facti panel comprises former world leaders, central bank governors, business and civil society heads and academics.

The panel recommends the creation of a body that collects and disseminates data about corporate profits, where the assets of multinational corporations are located, as well as which entities own them, calling such data the "bare minimum" necessary to even begin addressing tax avoidance and evasion. The minimum tax, the panel notes, should be designed to incentivize "sustainable development investment while retaining sufficiently high effective taxation."

US

The US Treasury Secretary Janet Yellen celebrated the tax deal as a "victory for American families as well as international business". "We've turned tireless negotiations into decades of increased prosperity — for both America and the world. Today's agreement represents a once-in-a-generation accomplishment for economic diplomacy," she said after the deal.

G7

Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States are the major countries who have shown support and a positive response to the introduction of a global corporate tax.

Development of Issue/Timeline

Date	Event	Outcome

1992	Initial Proposal of Minimum Corporate Tax	A 30% minimum corporate tax rate was proposed to the European Union member states. This was however not implemented because important differences would remain between the EU and the rest of world when it comes to tax systems, so this approach could only reduce some of the distortions within Europe and cause problems externally.
2004	Initial Acknowledgement of a Minimum Corporate Tax	At an ECOFIN Meeting, member states agreed that it would be useful to progress towards a common base of taxation with the hope of a legislative proposal implemented by the end of 2008.
2019	Proposal for Minimum Corporate Tax	Through the OECD, Germany and France published a joint proposal for a global minimum corporate tax rate. This Franco-German proposal received European Union support, and both the then-IMF

		Managing Director Christine Lagarde as well as the then-OECD Secretary-General Angel Gurría endorsed it.
2020	Signs of International Consensus	After the success of the above corporate tax system, 137 member states of the OECD called the *Pillar Two* proposal "a solid basis for a systemic solution that would address remaining base erosion and profit shifting (BEPS) challenges". This joint opinion signalled an international agreement for a new global minimum corporate tax.
2021	Approval of Minimum Corporate Tax by G20	The G20 Conference approved a new global minimum corporate tax. The deal has two aims: First, to prevent multinationals from paying low taxes (or no tax) by booking their profits in tax havens; and second, to make them pay taxes wherever they operate or conduct business in,

		even if they do not have a physical presence in the country.

Previous Attempts to Solve the Issue

While there have been many attempts to solve the issue of tax evasion in the past, there is no instance of the implementation of a global corporate tax.

The biggest instance for a proposal came in 1992, a European Commission expert panel led by Onno Ruding came up with a proposal for a minimum corporate tax, which would be implemented on a regional level for the European Union member states. The proposal suggested a 30% minimum corporate tax. This idea was partly inspired by the differences in taxes amongst countries and the loss of tax revenue on cross-border income flows. However, this idea was not implemented by the European Union and would not be picked up, despite interest amongst economists and left-wing politicians.

Subsequent ideas to implement a global corporate tax would not materialize due to disagreements between member states and other factors. The next attempt to solve this issue would come in 2019, when the OECD proposed a global minimum corporate tax rate to prevent companies from shifting profits to other nations with a lower corporate tax rate.

Possible Solutions

Tax evasion remains one of the biggest issues in the financial world. In the corporate domain, it remains a grave issue with the loss in tax revenue constituting a major economic loss to countries around the world. To reduce this loss, many solutions have been devised, some of which will be outlined below:

1) A global corporate tax of 15% can be implemented globally with a new international body being created to supervise and regulate the global corporate tax. The creation of a new body may not be the most efficient solution, but it can help smooth out inconsistencies and irregularities amongst economies that aim to implement a global tax without any discrepancies. This new body can work in coordination with other relevant bodies such as the FATF and the IMF to increase global reach.

2) A global corporate tax of 15% can be implemented globally with an existing body such as the FATF or the IMF or the OECD supervising the implementation and regulation of the global corporate tax. While this solution may prove to be easier than creating an all-new body, the designated body may not be suitable for this purpose as the organization may already be involved in a string of other operations. With its existing synergies and connections, this body could work with local governments to come up with an effective solution to the tax evasion problem

3) A global corporate tax can be implemented at a higher rate than 15%. Several economists such as Gabriel Zucman have advocated for a rise in the global corporate tax to increase the tax revenue raised and alleviate inequality concerns. Zucman has also added that the 15% would not be sufficient to alleviate inequality between the rich and middle class. While this solution may increase the total tax revenue received by authorities, a higher rate may cause further disagreements and could lead to some countries abandoning the implementation of a global corporate tax. If a greater tax percentage leads to countries abandoning the agreement, it could reduce the effectiveness of the tax as companies and MNCs might choose to change their tax base to a country that does not implement the global corporate tax.

Works Cited

1) https://www.atlanticcouncil.org/blogs/new-atlanticist/the-case-for-a-global-minimum-corporate-tax/
2) https://www.forbes.com/sites/rachelsandler/2021/02/25/un-panel-recommends-a-global-corporate-income-tax-to-cut-down-on-tax-avoidance/?sh=6f9a2e385be9
3) https://www.reuters.com/article/us-imf-world-bank/imf-favors-global-minimum-corporate-tax-chief-economist-idUSKBN2BT1NG
4) https://www.downtoearth.org.in/news/economy/global-corporate-taxation-the-new-bare-minimum-80383
5) https://www.cnbc.com/2021/07/16/oecd-tax-reform-g-20s-crackdown-may-create-a-new-kind-of-tax-haven.html
6) https://www.un.org/development/desa/financing/what-we-do/ECOSOC/tax-committee/tax-committee-home
7) https://www.downtoearth.org.in/news/economy/global-corporate-taxation-the-new-bare-minimum-80383
8) https://www.cnbc.com/2021/07/16/oecd-tax-reform-g-20s-crackdown-may-create-a-new-kind-of-tax-haven.html
9) https://www.atlanticcouncil.org/blogs/new-atlanticist/the-case-for-a-global-minimum-corporate-tax/
10) https://www.forbes.com/sites/rachelsandler/2021/02/25/un-panel-recommends-a-global-corporate-income-tax-to-cut-down-on-tax-avoidance/?sh=ff6cb925be94
11) https://www.un.org/development/desa/financing/what-we-do/ECOSOC/tax-committee/tax-committee-home