PRESS RELEASE

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Taxing multinationals: ICRICT calls for an ambitious global minimum tax to stop the harmful race to the bottom

Since its creation in 2015, ICRICT calls to stop the harmful race to the bottom in both corporate tax rates and the artificial shifting of corporate profits to low-tax jurisdictions **by putting a floor to tax rates** and attributing taxable profits to the jurisdictions where real economic activity takes place. We therefore welcome the ongoing discussion within the OECD's "Inclusive Framework", a group of 135 countries across the globe, including developing economies, to establish an effective minimum corporate tax at the global level.

The proposals constitute the second part, called "Pillar 2", of a review of global tax rules by the OECD to address the challenges of taxing multinational corporations in the digital era. Before that, the OECD put forward in October ("Pillar 1") a limited proposal to overhaul century old rules to tax multinationals. ICRICT submitted a response to this proposal, finding it not sufficiently ambitious and fair to all countries.

ICRICT welcomes now the opportunity to respond to the OECD's request for input on the "**Global Anti-Base Erosion Proposal ("GloBE") - Pillar Two**".

You can read our submission here, quickly summarized below.

1) **A global minimum tax should be set at an agreed rate of 25%.** This is because this rate is just under the current GDP-weighted mean of the statutory rate in OECD countries (26% in 2018), but considerably lower than the developing countries mean. We are concerned by the possibility of a much lower minimum effective corporate tax rate becoming the global maximum. Developing countries, which rely relatively more on corporate tax income as a source of government revenues, would be the main losers from such a trend, as would small and medium enterprises in developed countries, which will still pay the full local rate.

2) **Multinationals should pay a minimum level of tax in all the countries where they operate.** This measure would remove the raison d'être of tax havens, while ensuring that all States have access to resources that are essential for development.

3) **This minimum effective tax should be applied to all profits with no deduction to harmful tax practices (such as patent boxes).** This measure would put an end to aggressive and wasteful tax competition.

4) **Both developing and develop countries should be able to apply the minimum tax to base erosion payments to low-tax jurisdiction first**, before the headquarters of multinationals can apply the minimum tax. This is extremely relevant for developing countries, as majority of headquarters of multinationals are in developed countries.

5) **The OECD Secretariat must publish the economic impact analysis of the estimates of revenues per country under different proposals**. Sharing this information is essential for countries' legislators and their citizens to understand the impact of the proposal.

   We urge the OECD secretariat (and other international institutions such as the International Monetary Fund) to publish the economic impact analysis of the proposals both under Pillar 1 (where corporate profits are generated for tax purposes) and under "Pillar 2" (effective minimum corporate tax at the global level) **before the Inclusive Framework meeting in January 2020**, along with the full data from multinationals' country-by-country reporting. **Without this, the 135 members cannot fully evaluate whether it is in their interests to sign up to this reform.**

ICRICT Head of Secretariat Tommaso Faccio will present our submission. **You can watch his intervention** during the Public consultation on Pillar 2 (find the agenda here), today 9 December at the OECD in Paris, at 11.30-13.00 On OECD WebTV.

KEY FIGURES

- Since 2000, average statutory tax rates have declined across OECD member states and most jurisdictions. You can find the figures in the OECD's Corporate Tax Statistics (p. 10).
- You can find current corporate tax rates around the world here.
- Some developing countries fear that by abandoning the weapon of tax incentives, they will no longer be able to attract investment from multinationals. Yet, the evidence that these incentives attract investment is controversial, according to IMF research. Also, studies suggest that tax incentives in developing countries are frequently characterized by excessive discretion, poor monitoring and little transparency.
- Developing countries rely relatively more on corporate tax income as a source of government revenues. Corporate tax represents 15% of total tax revenues in Africa and in Latin America, compared to 9% in OECD countries.
- IMF's Fiscal Affairs Department estimates annual total corporate tax losses associated with profit shifting at more than $500bn, with $400bn for OECD member states and around $200bn for lower-income countries per annum.
- 40% of overseas profits made by multinationals around the world are artificially transferred to tax havens, according to economist Gabriel Zucman.
- Of the current 28 EU member states, 17 already have a patent box or similar exemption regime, that have no positive impact for countries. Instead, foreign multinational corporations that relocate intangible assets (like brands or R&D) to a Dutch company through such patent boxes can even enjoy an effective tax rate almost as low as zero per cent.

Videos of ICRICT commissioners (please feel free to use them)

Watch **Joseph Stiglitz**, Professor at Columbia University and ICRICT Commissioner explaining **why we need a global mininim tax rate to end the race to the bottom** (video 1) and **why tax competition doesn't work** (video 2).

Quotes of ICRICT commissioners (please feel free to use them)

Joseph Stiglitz, Professor at Columbia University and ICRICT Commissioner:
"A global minimum tax rate should be set at a rate comparable to the current average effective corporate tax, which is around 25%. Otherwise, global corporate tax rates will converge on the minimum, and what was intended to be a reform to increase taxation on multinationals will turn out to have just the opposite effect"
"The US and the EU could—and should— impose a global minimum corporate income tax. If they did, others would follow, ending this corrosive race to the bottom where the only winners are the multinationals, the losers are everybody else".

Ricardo Martner, economist and member of ICRICT said:
"Many countries are concerned about the impact on private investment of a minimum effective corporate tax (and the fact that it would infringe on tax sovereignty, although such decisions would emanate from cooperation between countries rather than from imposition by the Centre or the North), but empirical evidence does not show such negative impacts. In effect, studies polls put the corporate tax issue very low on the list of investor concerns. In addition, seeking to attract private investment through tax incentives reduces the ability of the state to invest in public goods, so necessary in developing countries".

Read our latest report about how to change the way multinationals are taxed, with solutions that are in the interest of both developed and developing countries

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ABOUT ICRICT:
The Independent Commission for the Reform of International Corporate Taxation (ICRICT) aims to promote the international corporate tax reform debate through a wider and more inclusive discussion of international tax rules than is possible through any other existing forum; to consider reforms from a perspective of public interest rather than national advantage; and to seek fair, effective and sustainable tax solutions for development.