ICRICT

Independent Commission for the Reform of International Corporate Taxation

PRESS RELEASE

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Today's deal is not historic or sufficient. ICRICT calls on G7 leaders to show real leadership and make a much more ambitious commitment.

For too long, international institutions have failed to address one of the most toxic aspects of globalization: tax avoidance by multinational corporations resulting in global revenue losses of at least $240bn each year.

An historic deal today would have seen **ALL** multinationals' **worldwide profits** taxed in line with their real activities in each country - that is, by allocating global corporate profits of multinationals to different countries on a **formulaic basis,** according to the key factors that generate profit: employment, sales, and assets **AND an ambitious 25% global minimum tax on multinationals**, putting an end to harmful tax competition between countries and reducing the incentive for multinationals to shift profits to tax havens.

Unfortunately, **this is not what we have today**, as the G7 agreement to introduce a global minimum tax of at least 15% on its own is insufficient to generate significant revenues for both the Global North and the Global South and reflects a preference by other G7 countries to find a solution to accommodate the preferences of tax havens and protect their own multinationals rather than follow US leadership. **A 15% tax rate is close to the rate of tax havens like Ireland and Switzerland.**

Real leadership requires G7 and G20 countries to make a much more ambitious commitment, like the US has, to go beyond whatever is the final agreed global minimum at the G20/OECD Inclusive Framework and unilaterally commit to introducing a much higher minimum tax, of at least 21% as the US is proposing, and ensuring more global profits of multinationals are reallocated using a formula, as emerging economies represented by the G-24 have been calling for.

Ultimately, any deal must be favourable to countries in the Global South, which are more affected by tax avoidance by multinationals and rely more on corporate revenues.

The world is at a crossroads and the time to act to ensure all countries have sufficient resources to pay for public goods and to create a more resilient economy post-COVID is now.

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

José Antonio Ocampo, Professor at Columbia University and ICRICT Chair:

"A global minimum tax rate of 15 percent is far too low to end the damaging race to the bottom on corporate tax and properly clamp down on tax havens. Once a global floor is agreed, G7 and G20 countries must beyond this global minimum and unilaterally commit to introducing a much higher minimum at 21% or above. It is also imperative that the additional revenue generated by a global minimum tax be shared equitably between the home countries of multinational companies, such as the United States, and developing countries".

Jayati Ghosh Professor of Economics at the University of Massachusetts at Amherst, and ICRICT Commissioner:

"Massive increases in some multinational profits during the pandemic, with barely any increase in the taxes they pay, point to the urgency of international tax reform. The simple and fair step of a reasonably high global minimum tax rate of 21% or more would go such a long way in making multinationals pay their fair share, the same as national companies. A global minimum tax of 15% as announced by the G7 is close to meaningless".

Joseph Stiglitz, Professor at Columbia University and ICRICT Commissioner:

"It is crucial that nations such as the major European countries make a more ambitious commitment, as the US is doing, to go beyond this global minimum. A 21 per cent minimum tax adopted by the G7 (and, even better, by the G20 this summer), combined with a widespread adoption of a minimum of at least 15 per cent by other countries, would ensure that the vast majority of the world's corporate profits help provide the revenues that are desperately needed as we emerge from the pandemic".

Eva Joly, ex-Member of the European Parliament, ICRICT commissioner:

"At a time when Europe and the world are going through unprecedented health, ecological, economic and social crises, it is imperative to repair our societies and help the most disadvantaged. Recovering the billions of euros that are escaping us thanks to an ambitious global minimum tax, will allow us to finance our hospitals, our schools and the indispensable transition to a sustainable and peaceful society. It is absolutely necessary to accompany the global tax revolution that is taking shape".

Notes to editors:

- Globally, tax avoidance diverts 40% of foreign profits to tax havens, according to ICRICT commissioner Gabriel Zucman. You can explore the world map to see how much profit and tax revenue your country loses (or attracts) here.
- A global minimum tax is one of the main recommendations of the Report on Financial Integrity for Sustainable Development - presented last February by a United Nations high-level panel, the FACTI.

- A global minimum tax rate close of 21% could generate $640 billion, according to a recent study on the potential revenue-raising effects of the widespread adoption of this measure.
- The European Tax Observatory, run by ICRICT commissioner Gabriel Zucman, just considered several scenarios, depending on a range of rates. An international agreement on a minimum rate of 25% - as supported by ICRICT- would allow the European Union (EU) to raise its tax revenues by €170 billion in 2021, an increase of 50% of the corporate tax revenue collected today and equivalent to 12% of total EU health spending. With a 21% minimum rate (Biden's proposal), the EU would collect about €100 billion more. Moving from 21% to 15% would halve these revenues (to €50 billion).
- Multinationals, supported by some economists, claim that a 21% rate would be excessive and would harm developing countries, depriving them of a valuable tool to attract investment. This is a specious argument. Studies show that when a multinational company considers where to locate a production unit, tax advantage does not take pride of place at all on the list of criteria to be considered. In fact, it appears well behind other issues such as the quality of infrastructure, the education of workers, or legal security.
- Additional revenue generated by a global minimum tax must be shared equitably between the home countries of multinational companies and the developing countries where the activities – workforce and raw materials – are sourced. The Intergovernmental Group of 24 (G24), a body representing emerging economies, is requesting that, in some circumstances, these economies should have priority in taxing profits shifted to tax havens.

Read our latest report, "The global pandemic, sustainable economic recovery and international taxation".

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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.