What is the proposal for a Global Minimum Tax Rate?

And why is it important for Global Justice?

May 2021

Learner Profile

- JC Business Studies
- JC CSPE
- Transition Year
- LC Politics and Society
- LC Business
- LC Economics
- LCA Social Ed

FINANCIAL JUSTICE IRELAND
PLAIN-ENGLISH ECONOMICS

Irish Aid
WorldWise Global Schools

A 'Plain-English Economics' Classroom-Resource for Post-Primary Schools

Learning Objectives

Junior Cycle

Business Studies

3.5 Examine the purposes of taxation from a financial, social, legal and ethical perspective.

3.7 Debate the implications of globalisation of trade, including the benefits and challenges of international trade

3.11 Evaluate the benefits and costs of a government economic policy and assess who enjoys the benefits and who bears the costs

CSPE

Local and Global Development
2.6 express an informed opinion about the root causes of poverty, both locally and globally

Effecting Global Change
2.8 identify one person and one institution with power and influence in the world today, explaining the role of each

Senior Cycle

Business

Unit 6 - Domestic Environment
Topic: Business and the economy
6.4 The impact of business on the economy at local and national level, taking into account employment, tax revenues and environmental issues

Unit: 7 - International Environment
Topic: Introduction to the international trading environment
7.1 The changing nature of the international economy and its effects on Irish business; Trading blocs and agreements

Economics

2.3 The firm (supply)
Evaluate the economic role of firms in an economy, explaining how positive and negative incentives influence economic activity

3.3 Market failure
determine and debate how governments can overcome market failure using factors such as taxation, regulation and direct government intervention

4.2 Fiscal policy and the budget framework
debate the purpose and impact of taxation on the economy as a whole, explaining how tax policy can be used to address inequality

Leaving Cert Applied - Social Education

Unit 2: Forces and Interests
The student will be able to identify forces/interests which have an effect on particular issues.

Unit 3: Making Links
The student will be able to make local to global links.

Student Instructions

Read this online with a copy book beside you, or have it printed. As you read, make sure to find the definitions of the underlined words and write them in the boxes at the end. Extra information to help you understand (beyond what's written by the article authors) is in italics. Reflective or research questions are in red, and should be reflected on individually or discussed with a partner.

Critical background information

The EU has been campaigning for a 'Common Consolidated Corporate Tax Base' (CCCTB) since 2011 which would help combat tax avoidance in EU countries. The CCCTB proposes a 'single tax rulebook' for companies in Europe, and this conversation is ongoing, with a third effort to get EU countries to agree taking place in May 2021. The CCCTB proposes that cross-border companies would use a single set of rules to calculate their taxable profits in the EU, instead of having to deal with different national systems, which allows for loopholes and tax evasion.

Additionally, many people are concerned a minimum global tax rate would actually act as a global maximum, and many countries would feel pressure to push their rates down closer to it! Many EU countries already have corporate tax rates above what is being proposed by the USA, so this is a real worry.

An alternative approach suggested by those concerned about justice in global tax is to determine how much tax is paid based on where the actual labour to make the product takes place. So if marketing happens in one country, and profits are booked in another, but the raw materials are mined in another and the final produced is produced in another, there is a formula to decide which country gets what proportion of the tax. Currently, this formula benefits richer countries over poorer ones.

Key articles translated

Business Post

Economics

Aidan Regan: Biden's move against the global rich puts Ireland in a moral dilemma

This country risks making a fool of itself by using moral reasoning and principles of fairness to advance its own economic interests

Aidan Regan

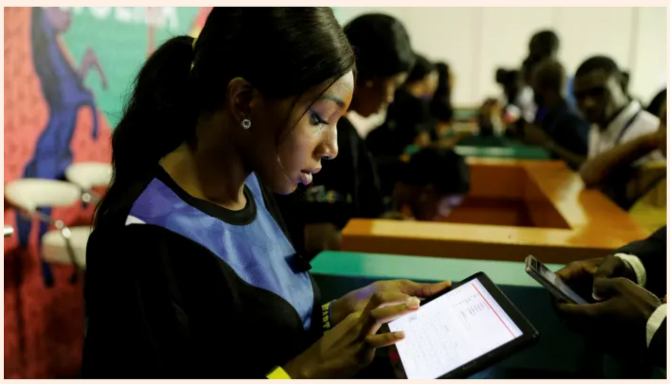
@aidan_regan

2nd May, 2021

Financial Times

Biden's global tax plan could leave developing nations 'next to nothing'

Rival UN effort targeting tech companies risks leading to a stand-off with OECD



Nigeria recently introduced digital corporation taxes and has backed the UN proposal © Akintunde Akinleye/Reuters

Jonathan Wheatley in London and **Emma Agyemang** in Copenhagen MAY 10 2021 25

What's happening?

The corporate tax rate is the percentage of their profit that corporations pay. For example, if a corporation makes €100 in profit and the corporate tax rate is 18%, the company would pay €18 of their profits to the State.

The United States President, Joe Biden, wants to create a global minimum corporate tax rate. This means that the rate of corporate tax is increased in places where it is below the minimum. Biden is proposing a 21% rate globally on 100 of the world's largest <u>multinational</u> corporations.

Do you know what the corporate tax rate is in Ireland? if not, research it!

Why this?

Biden said in his first speech to the US Congress that "trickle-down economics never worked".

Trickle-down economics is economics that believes that if the rich get richer, their wealth will eventually 'trickle down' to those who are poorer. This is based on the assumption that enough rich people will invest their riches into creating a better society and that this will benefit everyone. This is a major statement from Biden, as many important politicians in history (like Margaret Thatcher and Ronald Reagan) based their policies on trickle-down economics, believing that a rising tide (of wealth) will "lift all boats" as more investment means more employment which means more jobs and higher wages for everyone. There are still many politicians around the world today that believe by making the rich richer, they are really benefiting everyone. As a result, these politicians have tried to reduce the amount of taxes that corporations pay.

This has been impactful. The World Bank in 2017 found that "corporation tax rates have plummeted since 1980, by an average of almost 20%."

Do you think that corporations have an obligation to invest in making society better for everyone? If corporations don't pay taxes but rely on services such as public infrastructure to produce their products, does that mean individuals are subsidising them?'

Why now?

Biden needs more tax to be paid in the USA in order to fund his programme of investment.

One of the key areas of investment will be in programmes to <u>decarbonise</u> the USA so that the climate crisis might be prevented from getting much worse. At the moment, many US companies have a significant part of their operations taking place overseas, in countries with lower rates of tax than the US. A minimum global tax rate would mean it was less attractive for those countries to be based overseas.

Biden wants to invest directly in the USA rather than hoping that corporations will (if he gives them the right <u>incentives</u>). In order for this plan to work, Biden needs to make sure three things happen, globally:

1. That there is an end to the ‘race to the bottom’ in corporate tax rates.
2. That tax competition between countries is reduced
3. That there are no more offshore tax havens

Let’s explain these one by one.

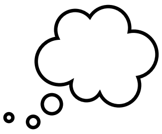
1. An end to the ‘race-to-the-bottom’

Imagine you are head of a corporation that sells mugs. Let’s call it Mugworld. You are selling a mug for €5. The mug costs €2 to make, so you make €3 profit. However, Joe down the road is also selling this mug, but Joe is selling it for €4.75. In that case, you might reduce the cost of your mug to €4.50. Well, Joe might go down to €4.25, and so on. You are in a race to the bottom, trying to lower prices to encourage people to buy your product, not Joe’s! But there’s a problem: Joe is doing the same.

This could continue until you sell your mug for less than the cost price, or the cost of making the mug (€2). In this case, you and Joe will both make <u>losses</u>. Now you have another problem, and you will need to find other ways to fund your mug-making. You might cut wages of those that make the mugs, or you might increase the price of other items. The winners in this situation are the people that buy your mug because they are getting a great deal, as they are paying you less than it costs to make the mug.

According to the International Confederation of Free Trade Unions, corporate tax rates in industrialised countries could be 0% by 2050 if governments continue cutting corporate tax rates and businesses keep finding ways of avoiding paying taxes.

Many observers argue that lower tax rates in other countries entice corporations abroad, meaning the US loses out on much needed tax revenue. This race to the bottom also means that other countries feel the need to drop their corporate tax rates, to entice corporations to invest in their countries. Biden (and many others, like the EU) don't want this, and believe that the only way to prevent it is to have a collective response globally to prevent the race-to-the-bottom on corporate tax continuing.



What might happen if every country lowered its corporate tax rate to attract corporations?

2. Tax competition between countries is reduced

Remember the example with Joe above? Let's imagine that Joe is a developing country. The lower your tax rate goes, the lower Joe has to go to compete with you. But maybe Joe needs the money more than you, because maybe you sell more products or have more money and resources.

International tax competition particularly affects countries that heavily rely on corporate tax for improving their country and protecting their citizens. Developing countries are particularly reliant on corporate income tax for revenues. Tax competition negatively affects these countries as corporations can relocate to countries that can afford to have lower corporate tax rates. This leaves developing countries with less options for raising the money that could help reduce poverty. In that case, they might have to cut public spending on things like schools and hospitals, they might need to increase tax on other people in society, like workers, or they might need to borrow money from other countries or institutions (and these loans often have very high interest rates). That means that what we do in Ireland (and therefore what's happening in the US) matters for global tax justice. In other words, national tax policies have a cross-border impact. The local impacts the global.

This is supported by statements from governments in developing countries. This is just some of what politicians from developing countries have said over the years:

"The members of the Organisation of Eastern Caribbean States have been competing with increasing fervor over foreign direct investment and tourism."

Embert St. Juste of the Ministry of Finance in St. Lucia

"With greater globalization, all countries have been dragged, willingly or not, into the fray."

Finance Minister of the Republic of Serbia, Dušan Vujović

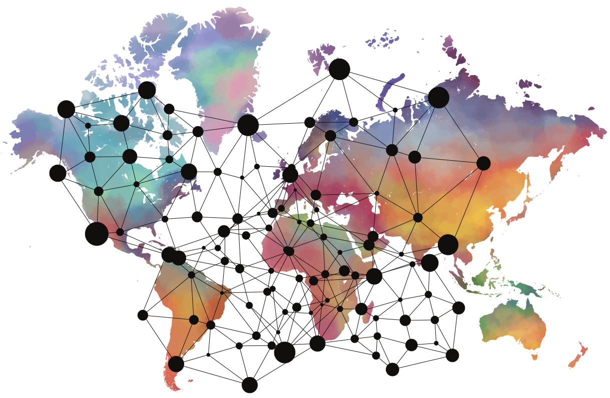
"The less tax incentives developing countries offer, the more they are able to retain needed revenue for their development and the less they rely on borrowing or aid."

Nigeria's ambassador to the OECD, Matthew Gbonjubola

What might some countries need to resort to to attract investment?

3. No more offshore tax havens

Until now, many rich corporations have created subsidiary companies in other countries. They have done this so that they can move (or 'shift') profits there, and pay a lower tax rate. For example, the corporate tax rate in Ireland is lower than that of the USA, so many US companies have set up subsidiary companies in Ireland.



Why is this important for global justice?

Economic globalisation has also meant that more labour has been moved offshore in order to reduce the corporation's labour costs. This means the labour has been moved to another country, while the profits might still be registered or 'booked' in a country with a low tax rate (for example, Mugworld might move its factories to parts of Africa where it can pay workers less, in order to reduce the cost of making the mug).

This means that much profit-making labour (e.g. the workers who make the mugs) happens in the developing world, but governments in those countries are deprived of tax revenues as the multinational corporations profits are registered elsewhere (Mugworld is registered in Ireland).

Who might be negatively impacted by a global minimum tax rate?

Ireland has attracted a lot of Foreign Direct Investment (or FDI) because of its corporate tax rate. Many politicians in Ireland are resisting a global minimum tax rate because they say that every jurisdiction in every country in the world should be allowed to set its own corporate tax rates. These politicians also say that every country should be allowed to use tax as an incentive to attract investment. *Carry out some research and decide for yourself whether you think this is a good argument, given the impacts on other countries!*

Problems with the proposal

- It is not clear if under the US's proposed plan, tax is paid where profits are made. Instead, tax might be paid where the company is headquartered - not where the labour and raw materials are sourced from.

- Matthew Gbonjubola of Nigeria says that the US "has not provided the economic reasoning" for only targeting 100 companies. This actually has scaled back OECD proposals, which would have covered thousands of businesses.

- The African Tax Administration Forum (ATAF), which advises governments in Africa, doesn't think a single rate is fair, and instead wants a 'tiered approach' with different tax rates for smaller economies.

- There are some groups that believe that the decision-making at the OECD is not truly global, and developing countries are not involved enough in the drafting of the rules.

Current status

There has been an alternative UN proposal initiated by developing countries to grant countries the right to tax digital companies' revenues based on where revenues are generated, rather than only where the company is resident (remember, tax could be paid where profits are made!) The UN proposal has been championed by India and Argentina and backed by Ecuador, Ghana, Liberia, Nigeria, Vietnam and Zambia.

Nevertheless, the idea of a global minimum tax rate remains a key pillar of the OECD's (Organisation for Economic Cooperation and Development) talks on global tax reform.

Talks are continuing in May 2021 around the EU's CCCTB.

Find the Definitions

Multinational	
Decarbonise	
Incentives	
Losses	
Collective	
Revenue	
Public spending	
Interest	
Subsidiary	
Economic globalisation	
Offshore	
Foreign Direct Investment	

Discuss & Debate

Discuss

Imagine for a moment that you are an alien, brought down to Earth for one day to help humans come up with fair policies, before you go back home. You have no social status or wealth on Earth, you are only here to help come up with the policies that would result in the most fairness or justice for everyone on Earth.

Get into groups of four and discuss what you think would be the most fair global corporate tax policy for Earth.

Debate

Some countries should be allowed to have a 'favouritest' tax policy, in other words one that attracts more foreign investment than other countries. First, think about where you would put yourself on the spectrum line below, and second, discuss your views with a partner.

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Sources

Aidan Regan: Biden’s move against the global rich puts Ireland in a moral dilemma

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Peer Pressure: Tax competition and developing economies

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'A 30-year race to the bottom': Why might the Biden global tax plan spell trouble for Ireland's entire economic model?

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Corporate tax ‘race to the bottom’ hurts EU growth

https://www.euractiv.com/section/innovation-industry/news/corporate-tax-race-to-the-bottom-hurts-eu-growth/

Biden’s global tax plan could leave developing nations ‘next to nothing’

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