Eco L3 - Globalization, Inequality, and Redistribution

Lecture 9: Unilateral vs. multilateral approaches to international tax reform

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Roadmap

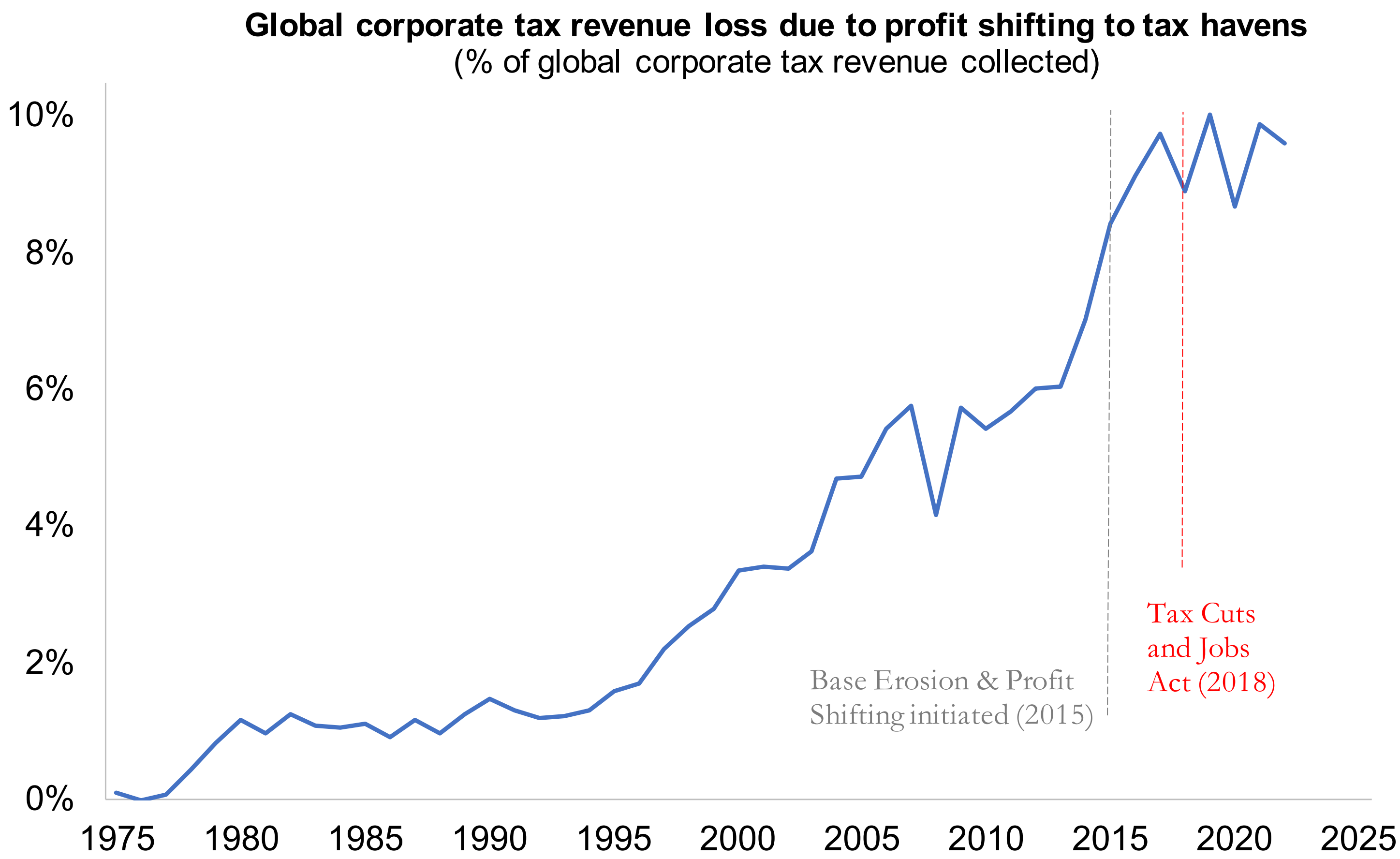
- Multilateral approaches: what has been tried?
- The global minimum tax: a revolution?
- Unilateral approaches

1 Multilateral approaches

1.1 Base Erosion and Profit Shifting

- OECD initiative started in 2015 to harmonize and fix inconsistencies in tax laws

- E.g., end of "double Irish" scheme (since 2020), popular with US tech multinationals



Source: Global Tax Evasion Report 2024

2 Minimum taxation

- 2022 international agreement on 15% minimum country-by-country corporate tax for multinationals ("Pillar 2")

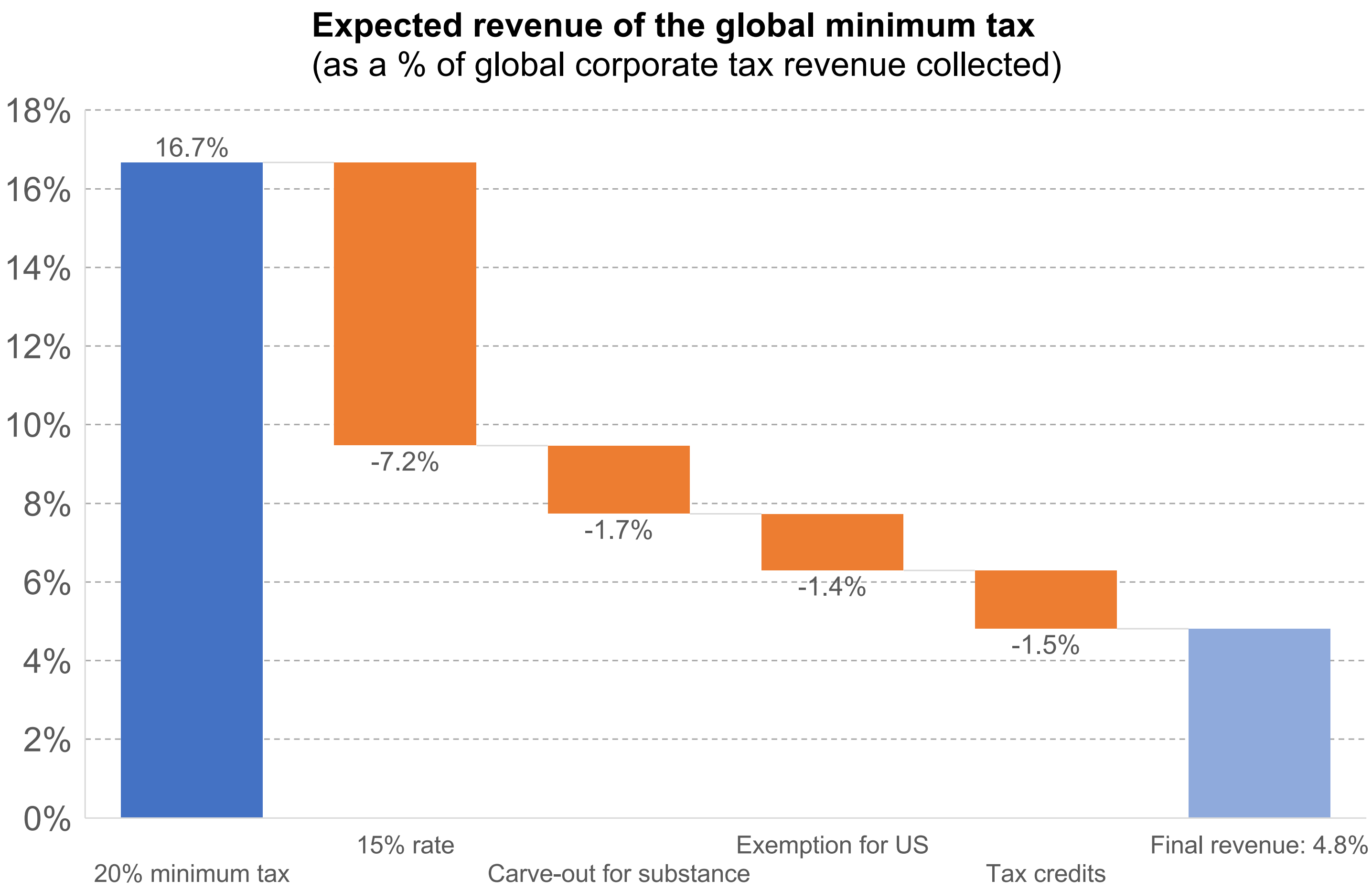
- Implementation starting 2024 in the EU, UK, Japan etc.

- Plan endorsed by Biden administration in Spring 2021 (pushing for minimum tax rate of 21%) but not passed by US Congress

Pillar 2: ending or embracing tax competition? Two main issues:

- Carve-out for substance: 8% of tangible assets + 10% of payroll can be excluded $\rightarrow$ encourages firms to move activities to low-tax places with real production

- Refundable tax credits not counted as reduction in taxes paid $\rightarrow$ new form of tax competition on tax credits?



Source: Global Tax Evasion Report 2024

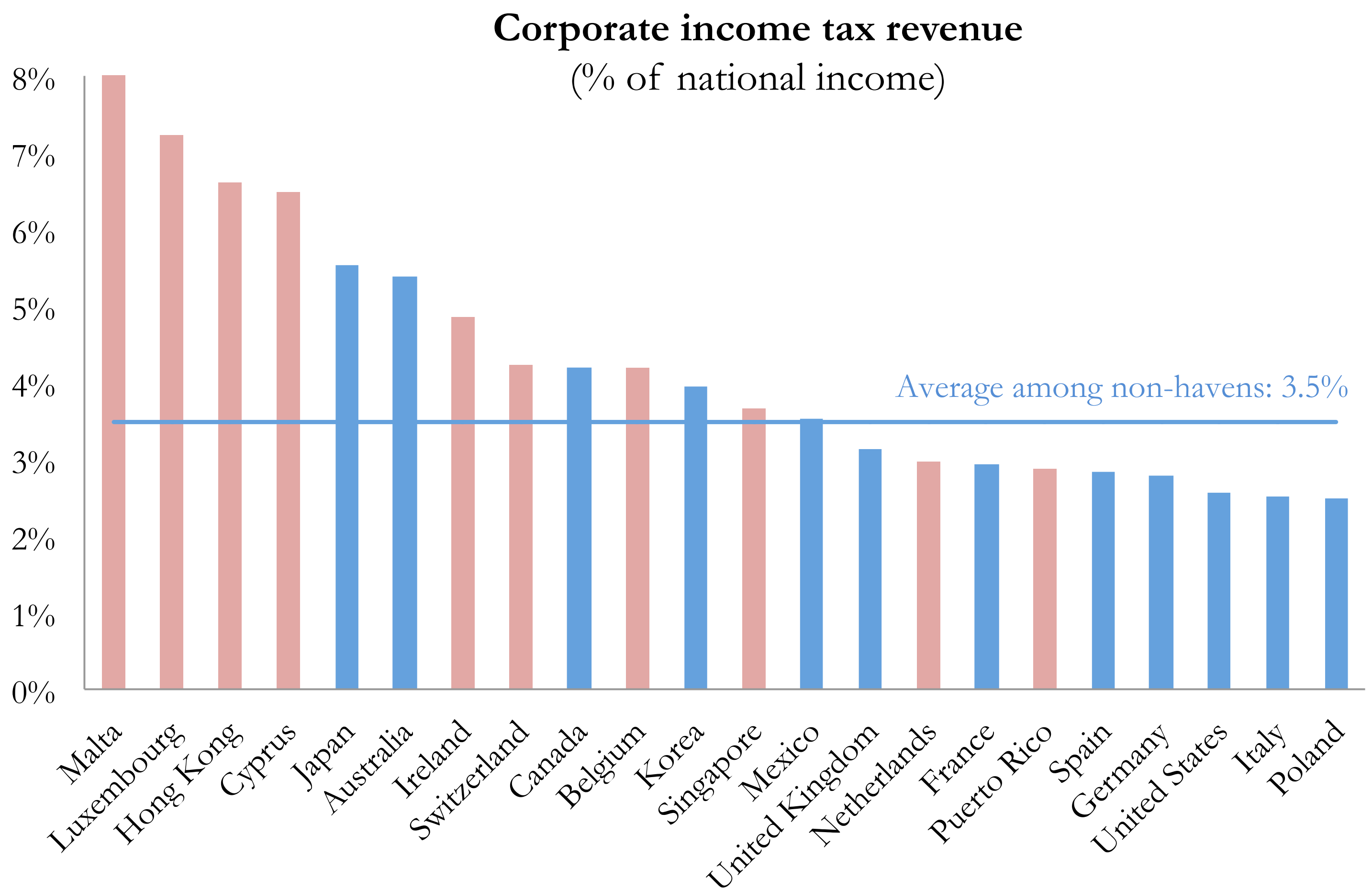
2.1 The pitfalls of unanimity

Q: why are international agreements disappointing? A: **Tax havens have no interest in ending the race-to-the-bottom**

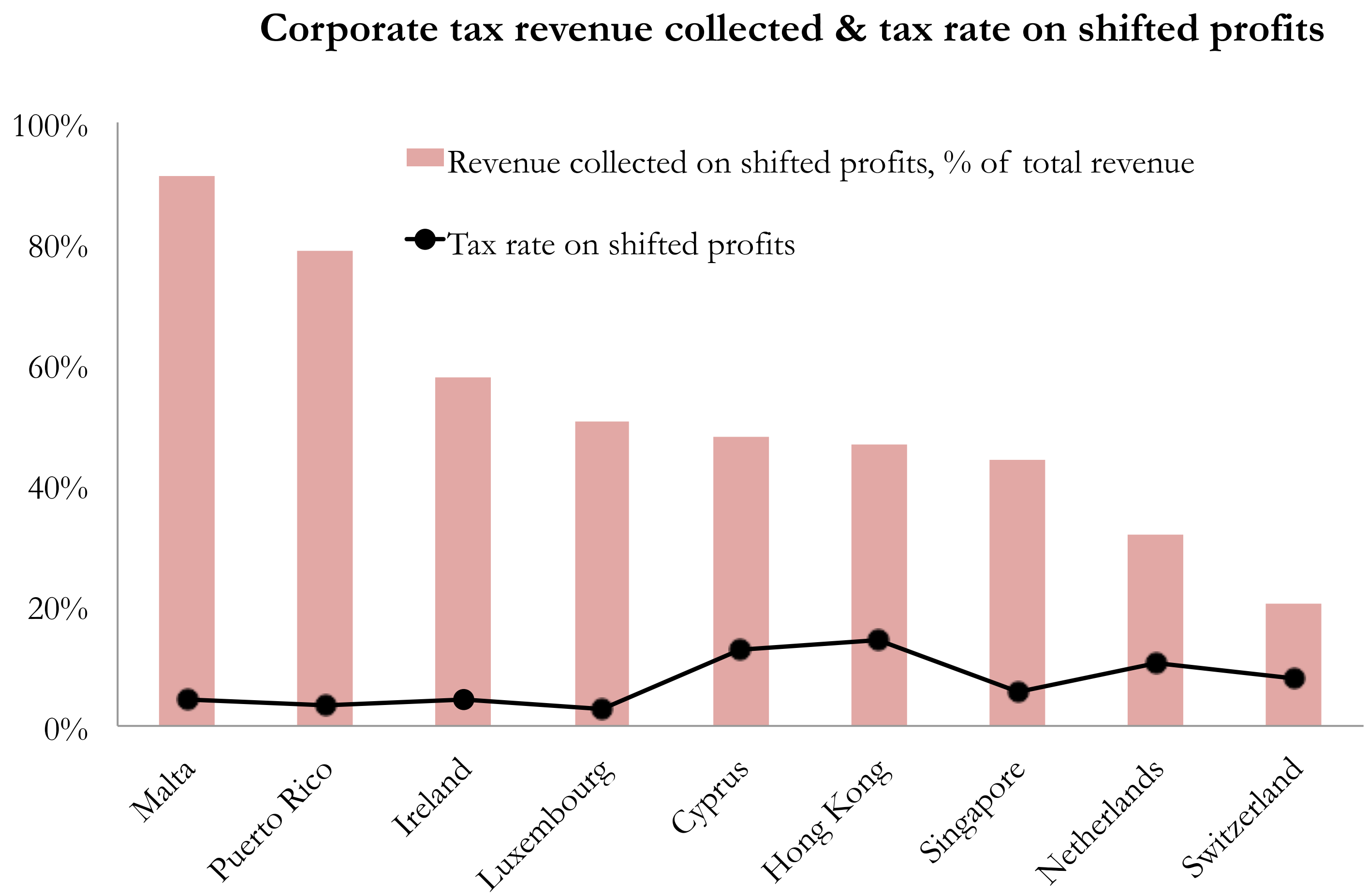
- With tax competition, revenue-maximizing corporate rate τ^* is low for small countries, $\approx 5\%$.

- Havens with $\tau \approx \tau^*$ generate large tax revenue at the expense of other countries (and to the benefit of global shareholders)

- Insisting on global agreements (or unanimity in EU context) means carving tax competition into stone, fueling inequality



Source: Tørsløv et al. 2023



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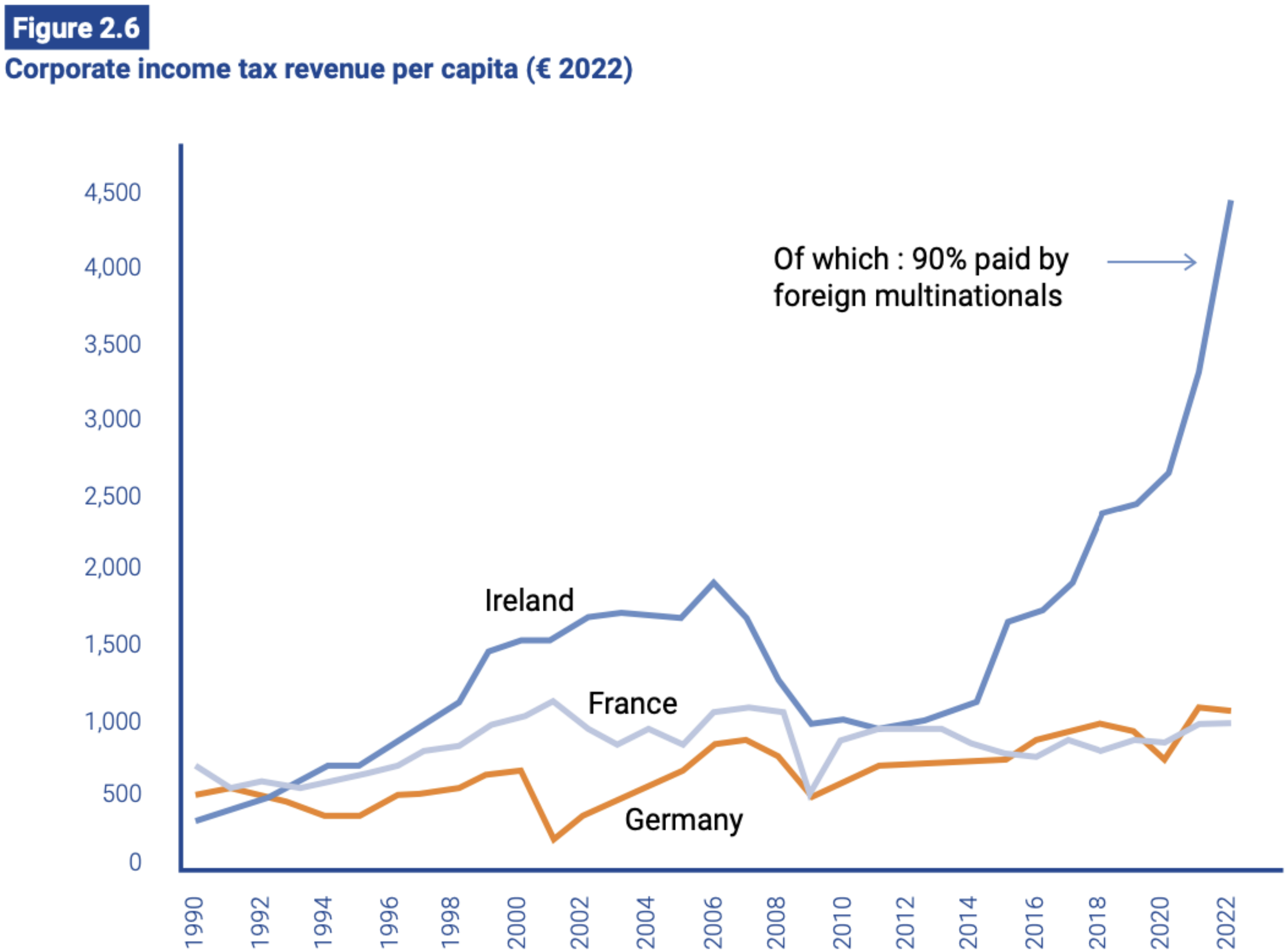

Source: Global Tax Evasion Report 2024

3 Unilateral approaches

3.1 Formula apportionment

- Tax base in country i based on shares of global sales, assets, and/or payroll made in i

- Used by US states for their own corporate taxes

- Key attraction: eliminates the opportunity for companies to engage in profit shifting

- Sales only apportionment removes incentives to move K abroad

- Underlying the OECD's Pillar 1, but unlikely to be implemented

- Other formulas could be used: population, users... (all multinationals benefit from global knowledge, emit carbon that harm the planet, etc.) $\rightarrow$ taking the interest of developing countries seriously

3.2 Unilateral collection of tax deficits

- Any number of countries could chose to collect the taxes that tax havens refuse to collect

- ... playing the role of **tax collector of last resort**

- ... making it pointless for firms to book profits in tax havens

- See EU Tax Observatory report #1 (Barake, Chouc, Neef, and Zucman, 2021) for simulations on corporate tax, and Global Tax Evasion Report 2024

Logic can be implemented broadly, not only to corporate tax but also to wealth taxation

- Any country can implement minimum tax on wealth

- Then collect part of taxes other countries choose not to collect (bas on time spent, location of assets, market shares...)

$\rightarrow$ **Key to change the dynamic of global tax competition, and reconcile globalization with tax justice**