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Biden, other G-20 world leaders formally endorse groundbreaking global corporate minimum tax

The new global minimum tax of 15 percent aims to reverse the decades-long decline in tax rates on corporations across the world

ROME — President Biden and the other national leaders gathered for the Group of 20 summit formally endorsed a new global minimum tax on Saturday, capping months of negotiations over the groundbreaking tax accord.

The new global minimum tax of 15 percent aims to reverse the decades-long decline in tax rates on corporations across the world, a trend experts say has deprived governments of revenue to fund social spending programs. The deal is a key achievement for Treasury Secretary Janet Yellen, who made an international floor on corporate taxes among the top priorities of her tenure and pushed forcefully for swift action on a deal.

The plan was already endorsed by the finance ministers of each country, but its official approval by the heads of state puts added pressure on the difficult task of turning what remains an aspirational agreement into distinct legislation.

Global minimum tax effort moves forward as Ireland and Hungary join pact
Nearly 140 countries representing more than 90 percent of total global economic output have endorsed the deal, but they each must implement the new standards in a process that could take some time.

Meeting Saturday morning in Rome, each of the G-20 leaders expressed support for the global minimum tax and Biden emphasized his support for the "historic" measure, according to a senior administration official, who spoke on the condition of anonymity to reveal the discussion. Some of the world leaders participated virtually.

"Today, every G-20 head of state endorsed a historic agreement on new international tax rules, including a global minimum tax that will end the damaging race to the bottom on corporate taxation," Yellen said in a statement Saturday. "It's a critical moment for the U.S. and global economy."

The minimum tax will be coupled with a broader change to global taxation intended to prevent countries and companies from undercutting the new floor. Under the pact, corporations trying to evade taxation by shifting profits to low-tax countries will face a "top-

up" tax, which would require them to pay the difference between the tax haven's tax rate and the 15 percent minimum tax rate of the companies where they are headquartered. Supporters of the deal are also optimistic companies will not, under the agreement, move to relocate their headquarters abroad, in part because so much of the world has committed to the new minimum and in part because Treasury officials have said new "enforcement provisions" will impose tax penalties based in countries refusing to join the deal.

The United States already has a version of its own global minimum tax, created as part of the 2017 GOP tax act, that imposes a 10.5 percent minimum tax on U.S. multinational firms' foreign earnings. The Biden administration initially proposed raising that amount to 21 percent as a demonstration of America's commitment to higher corporate taxes, but after negotiations with congressional Democrats, have instead proposed a 15 percent rate in line with the global agreement. (This 15 percent tax on U.S. multinationals' foreign profits is separate from the 15 percent minimum tax Biden is also seeking to impose on large firms in the United States.)

"There's going to be a lot of opportunity for enforcement to make it difficult, especially if there's more international cooperation," Itai Grinberg, deputy assistant treasury secretary, said in a blog post last month.

But the deal includes not just these changes but a separate — and arguably more controversial — overhaul of how multinationals are taxed when earning profits in countries where they have no physical presence. That related but distinct tax deal is intended primarily to address anger in Europe over the U.S.-based tech giants that pay little in taxes in European countries despite earning substantial sums there. Several European leaders have said they see the measures as tied together.

Republicans have slammed both parts of the plan as fanciful thinking by an administration sacrificing part of the U.S. tax base to European rivals largely to secure a symbolic victory. Skeptics also note that key details in the plan, particularly pertaining to the part of the tax agreement related to taxing multinational tech firms, remain unresolved and that leaders could confront disagreements when bringing the plan to fruition.

"The Europeans have no particular interest in the global minimum tax, and will in subtle ways gut it so it's effectively far less than 15 percent," said Douglas Holtz-Eakin, a Republican policy analyst. "The deal was: 'We'll give you some more tax base, and in exchange you'll raise taxes on yourself.' But I wonder if we'll get that deal in practice."

Across the globe, taxes on corporations plummet

Other critics contend that the plan could in fact punish some of the poorest countries, by shifting the base of taxation from where production occurs to corporate headquarters more often located in rich nations. Nigeria and other African countries, along with Pakistan and a handful of others, have balked at the agreement.

“The production occurs in the developing world,” said Joseph Stiglitz, an economist at Columbia University. “The fact they decided to give the tax to the advanced countries just shows the lack of empathy for the developing countries.”

Still, Yellen has been adamant that something has to be done to prevent corporations from playing countries off each other to push corporate tax rates lower and lower. The average corporate tax rate globally has fallen from about 40 percent in 1980 to roughly 23 percent in 2020, according to the Tax Foundation.

In 2017, roughly 40 percent of profits earned by the world’s multinational firms — or more than $700 billion — was stashed in tax havens.

The new minimum tax rate only applies to firms with more than $850 million in annual revenue and is expected to raise roughly $150 billion in additional global tax revenue every year, according to the Organization for Economic Cooperation and Development, which brokered the agreement.