Financial Times (Oct. 12, 2020)

OECD drafts principles for $100bn global corporate tax revolution

Technical blueprint would upend taxation of US tech groups but still needs political agreement

Chris Giles

The OECD's draft reforms would see companies such as Google, Amazon and Facebook pay more tax in Europe and developing countries.

The world's rich nations have drafted a set of technical principles which would revolutionise the corporate taxation of multinational companies and could raise $100bn in extra tax revenues around the world. The blueprints of the new system are ready to be implemented if political agreement can be reached next year, the OECD said on Monday.

The Paris-based organisation has sought consensus between more than 135 nations on the reforms, which it said would enable tax authorities to collect up to 4 per cent more corporate tax. The blueprint's goal is to ensure that multinationals — including highly profitable US tech giants and European luxury goods companies — pay corporate taxes on profits where they operate and cannot shift them to tax havens.

The question of whether an international political deal on the tax changes can be struck will be one of the first big tests for the next US president after the election in November.

Washington has been the main reason why political progress on a deal has stalled. Speaking to the FT, Pascal Saint-Amans, head of tax administration at the OECD, said: "We have the building blocks ready for the moment the political dynamic changes." The technical work on the new framework, which has been under way at the OECD for more than a year, has produced blueprints which are internationally agreed so long as the political differences which have bedevilled talks this year can be bridged in 2021.

Failure to pass the reforms was likely to result in trade wars that would cost 1 per cent of global national income, the OECD warned. "We will not deliver an agreement this year, but we have done the work on what [a unified global corporate tax system] should look like," Mr Saint-Amans said. This week all G20 members will reiterate their desire to reach agreement,

but they are not expected to indicate whether they are ready to make the necessary political compromises. The Independent Commission for the Reform of International Corporate Taxation, a pressure group wanting action on multinational taxes, said the lack of political agreement showed countries had a "misplaced sense that national interest [that was] served by protecting multinationals". It urged countries to press ahead with digital taxes to raise the heat on multinationals and nations to come to an agreement in 2021. The OECD's blueprint includes two main pillars aimed at preventing multinationals from shifting profits to low tax jurisdictions.

The first element seeks to revolutionise how companies are taxed. Highly profitable multinationals would find that an element of their global profits would be apportioned to the countries in which their customers are located, even if they sell remotely.

That part would initially be quite small, but would represent a fundamental shift from the current system in which corporation tax is based on the physical location of a company. This part of the reform would not raise much additional revenue, but would redistribute about $100bn of corporate tax revenues around the world — ensuring the likes of Google, Amazon and Facebook paid more tax in Europe and developing countries, and LVMH and Mercedes-Benz paid more in the US. Recommended Digital economy Europeans vow to pursue digital tax plans after US 'provocation'

The second pillar would be an effective minimum corporate tax rate that every multinational would have to pay, regardless of where they were headquartered.

If a company was based in a tax haven with low corporate rates, other countries would have the right to collect taxes up to the global minimum, removing the incentive to shift profits to low tax jurisdictions.

In total the two pillars could raise up to $100bn a year without raising corporate tax rates, the OECD said, including the amount the US already collects from a similar mechanism it already applies unilaterally.

The increase in effectiveness of collection of corporate taxes would reduce investment by multinationals a little, but this would cost less than 0.1 per cent of global gross domestic product, the OECD said. The alternative, it said, was that countries would continue to take unilateral action such as the imposition of digital services taxes — a move which provokes

fury across the political spectrum in the US because many of its politicians believe that these measures unfairly discriminate against American companies.

If the world went down this route the result would be "a proliferation of uncoordinated and unilateral tax measures and an increase in damaging tax and trade disputes" which would cost up to 1 per cent of global GDP, the OECD warned. Dan Neidle, tax partner at Clifford Chance, said: "The consequences of failing to reach agreement will be highly negative. However I hear that this remains the most likely outcome."

To get an agreement, the next US administration is likely to have to concede that US companies could not treat the first pillar as voluntary. The UK and France insist on this as part of a global compromise, although some other European countries believe a deal could be struck on the second pillar alone.