G7 countries move closer to tax plan for US tech giants

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The Group of Seven major economies have begun work on a plan that could reshape taxes for big multinational firms including those in Silicon Valley.

G7 countries that make up lucrative markets for US tech giants have moved closer to a plan to squeeze more tax money from the coffers of

Amazon, Apple, Facebook and Google.

The group, including Britain, Canada, France, Germany, Italy, Japan and the United States, has visions of a global tax rate of at least 15 percent on the multinational behemoths.

The move comes as US President Joe Biden is pressing to raise the corporate tax rate, taking particular aim at companies reaping fortunes.

"Pressure has been building over the years," said Georgetown University law professor Lilian Faulhaber.

"I think some of it, honestly, is just political."

The pandemic's hit to economies has made it harder to balance government budgets, the professor noted. At the same time, voters see stories of internet firms raking in profits while avoiding taxes and, perhaps, taking advantage of market dominance.

"More and more voters have gotten upset about this," Faulhaber said.

Silicon Valley giants are increasingly under fire in Europe and the United States due to concerns about wielding monopoly-like power.

"Maybe the resentment bleeds from one side into the other in terms of tax avoidance and the influence these companies have over the way we live," said Alan Auerbach, a taxation specialist in the University of California, Berkeley, economics department.

Big Tech critics say the major multinational firms often avoid or minimize taxes by shifting profits and taking advantage of investment credits offered by governments.

Outdated tax code

Nations out to optimize tax revenue from tech firms face powerful companies adept at using data, analytics and ingenuity to build markets and profits.

In the United States, internet companies take advantage of opportunities for tax credits from investments or recruiting. Elsewhere, companies use legal strategies to shift profits to countries with low tax rates and move losses to places where taxes are steep.

"It's wrong to call them ethically or morally defective because they take advantage of the incentives that we provide them," Auerbach said.

"The international tax system is designed for an earlier era; when companies had a clear residence and their production occurred in one place," added Auerbach, co-author of recently released Taxing Profit in a Global Economy.

Using a 19th century tax code in a 21st century economy is a recipe for losing revenue, he reasoned.

Part of the G7 reform plan involves taxing multinational corporations where they make their money rather than where they have offices or factories.

"There are all these people who are both receiving services and providing eyeballs," Faulhaber said, referring to online audiences cashed in on by internet firms relying on digital advertising.

"Previously, their role has not been recognized in international tax law."

In Europe, such a tax code change would be felt in Ireland, which has attracted companies such as Apple with a favorable tax environment.

US President Joe Biden's administration is pressing to harmonize global corporate tax rates to discourage multinational firms from shifting profits.

Mere 'pinch'

It remained unclear whether the G7 would achieve its goal.

Questions to be answered included whether countries could woo companies with deductions or breaks, and what portions of profits should be taxed.

What would become of digital taxes already introduced in countries such as Britain, France, Italy and Spain?

Nuances of a global tax would have to be negotiated by those involved, with everyone figuring out how to apply the rules fairly.

Authorities will also need to craft a code that targets large tech firms while avoiding penalizing small or unrelated firms.

"In the end, it's a pinch; it's not going to be a back breaker," said Wedbush Securities analyst Dan Ives.

"Because ultimately global tax structures of big tech are some of the most complex in the world."

Seattle-based Amazon, for example, has been keen to distinguish itself from Silicon Valley firms by playing up its e-commerce core, complete with warehouses and a relatively lean profit margin of six percent.

The profile changes significantly once Amazon Web Services, its lucrative cloud computing division, is factored into the equation.

Saying Amazon is not a tech company is "like saying (Lionel) Messi doesn't play football," Ives quipped, referring to the Argentinian soccer star.

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