

Global minimum tax for corporations inches towards reality

7 April 2021, by Virginie Montet



US Treasury Secretary Janet Yellen said she will push G20 nations to adopt a global minimum tax, giving the issue momentum

Proposed by the United States, supported by the IMF and welcomed by major economies including France and Germany, a global minimum tax rate on corporations is gathering momentum toward becoming a reality.

The reform aimed at ending tax competition between countries and the use of tax havens by companies will be on the agenda of G20 finance ministers when they meet virtually on Wednesday, and the group could unveil a proposal by July.

The idea has been promoted by the Organization for Economic Co-operation and Development but received a fresh boost this week when US Treasury Secretary Janet Yellen said she would push for an agreement among the advanced economies in the G20.

"Together, we can use a global minimum tax to make sure the [global economy](#) thrives based on a more level playing field in the taxation of multinational corporations," Yellen said on

Monday.

The idea is to ensure companies pay a minimum amount of tax regardless of where they are located, preventing firms from evading taxes by establishing headquarters in countries with lower rates—a practice prevalent among [tech companies](#) which drains resources from government coffers.

'Great step forward'

The United States lowered its corporate tax rate in 2017 under former president Donald Trump. But President Joe Biden last week proposed raising the rate again to finance a massive \$2 trillion infrastructure and jobs plan.

However, Yellen has said it would be best to couple a US rate increase with the establishment of a global minimum tax to end the "race to the bottom" among countries to see who implements the lowest rate.

Washington's allies welcomed the US push, with French Finance Minister Bruno Le Maire telling AFP "a global agreement on international taxation is now within reach" and called on countries to "seize this historic opportunity."

German Finance Minister Olaf Scholz called Yellen's announcement a "great step forward" in the battle to stem the erosion of government revenues.



of where they are headquartered—which would likely impact tech giants the most.

Biden singled out the US technology and e-commerce giant Amazon last week for avoiding federal income taxes as he proposed to boost the US [corporate tax rate](#) to 28 percent.

Chief executive Jeff Bezos said Tuesday that the company supports the proposal as part of a "balanced solution that maintains or enhances US competitiveness" and one that makes "bold investments in American infrastructure."

IMF chief economist Gita Gopinath said the fund supports a global minimum tax

No official global minimum tax rate on corporations has been decided, but estimates range between 12.5 percent and 21 percent.

© 2021 AFP

"The support of the USA gives this initiative a strong tailwind," Scholz said, adding he hoped a deal could be reached this year.

The European Commission expressed a similar sentiment, with spokesman Daniel Ferrie saying the bloc called on "all global partners to remain engaged in these discussions and to continue the work without delay."

How high?

The IMF joined in on Tuesday, with the fund's chief economist Gita Gopinath saying "We are very much in favor of a global minimum corporate tax."

Speaking at the start of the spring meetings of the IMF and World Bank, she underscored the "large amount" of tax avoidance and "countries sending money to tax havens."

"That's reducing the tax base on which governments can collect revenues and do the necessary social and economic spending that's required."

The international reform would be comprised of two components: the minimum tax rate and the establishment of a system to modulate corporate taxes based on profits in each country, regardless

APA citation: Global minimum tax for corporations inches towards reality (2021, April 7) retrieved 19 May 2022 from <https://techxplore.com/news/2021-04-global-minimum-tax-corporations-inches.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.