The End of Tax Incentives: What will a global minimum tax mean for developing countries?

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The ‘Race to the Bottom’

Corporate Tax Rates Have Declined in Every Region over Time

Average Statutory Corporate Income Tax Rate by Region and Decade

Source: Tax Foundation
Pillar 2 / ‘GloBE’ Rules

Main Features:

• Global minimum tax on corporate profits

• Applies to MNEs with a global consolidated annual revenue of 750mn Euros

• Global profits are taxed at least at a minimum Effective Tax Rate (ETR)

• ETR is total taxes on corporate profits paid to government / accounting profits

\[ ETR = \text{Covered Taxes (current year cash taxes paid)} / \text{Accounting Profits} \]
How it works

1. Income Inclusion Rule

Parent pays top-up tax on Sub’s undertaxed income in Country A.

Country A
Parent Company
(ETR > 15%)

Transfer of tax revenue from B to A.

Country B
Subsidiary
(ETR < 15%)
How it works

2. Undertaxed Payments Rule (Backstop to IIR)

Country A
Parent Company
(ETR < 15%)

Subsidiary pays Parent for a service. Parent is subject to a lower tax rate in Country A.

Country B
Subsidiary
(ETR > 15%)

Country B charges top up tax on payment to Parent.

Transfer of tax revenue from A to B.
G7 agrees at least 15%

G7 nations reach historic deal to tax multinational corporations

A group of the world’s richest nations agree on a minimum global corporate tax rate to close cross-border tax loopholes used by some corporations.

Finance ministers from the Group of Seven (G7) rich nations reached a landmark accord on Saturday backing the creation of a global minimum corporate tax rate of at least 15 percent in an effort to close cross-border tax loopholes used by some corporations.
Speakers

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