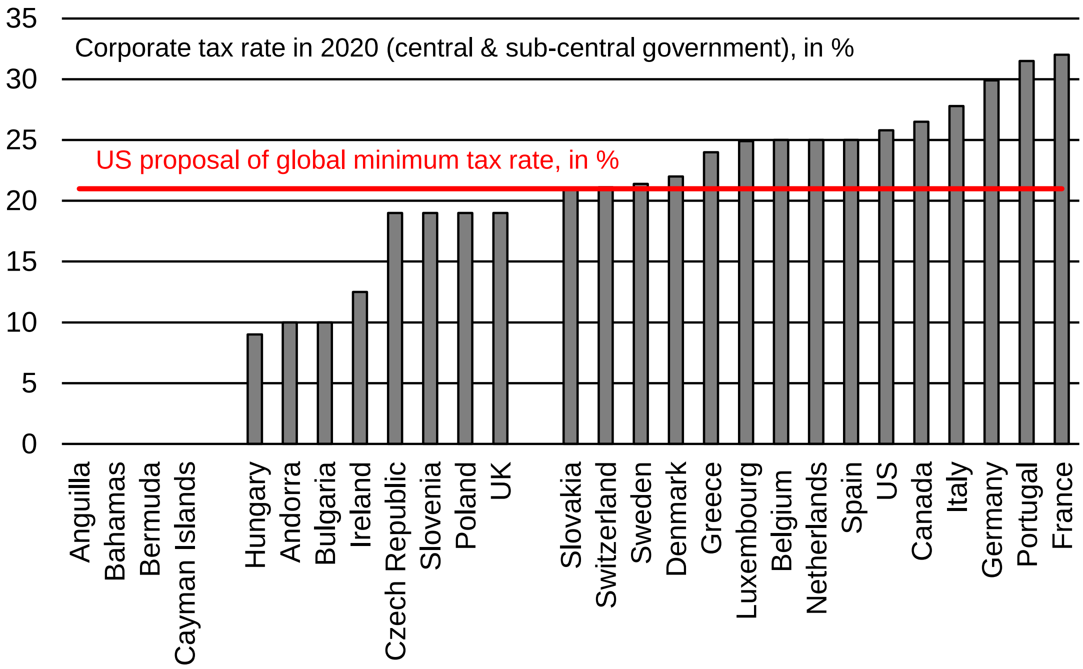
Global minimum corporate tax and its varying impact on EU countries



Source: OECD, UniCredit Research

- In his recent presentation of the more than USD 2tn infrastructure package, US President Biden proposed the introduction of a 21% global minimum tax for multinational corporations. Such a tax would double the already existing minimum US tax on profits of US multinationals.[1] It could therefore help in funding higher infrastructure spending. Maybe more importantly, since the US have been urging other countries to join, the Biden proposal could also address the long-standing issue of corporate tax arbitrage from high-tax to low-tax countries. The strict enforcement of a minimum tax on a global level may put a stop to this and lead to the shifting back of profits to the parent country and/or to the country where the sales were made. In the last few decades, multinationals have used creative methods to reduce their tax bills. In a recent paper by Torslow et al. (2020)[2], it is estimated that nearly 40% of multinational profits worldwide have been shifted to tax havens.
- A global minimum tax rate would also have implications for EU countries. The shifting back of company profits would probably lead to lower public revenues in smaller EU countries which acted as tax havens so far. Examples are Hungary with a statutory corporate tax rate of only 9%, Bulgaria (10%) and Ireland (12.5%). At the same time, it would presumably help in shifting back taxable revenues to the three EU heavy weights with a higher tax burden: France (32%), Germany (about 30%) and Italy (nearly 28%). In the UK, it is planned to hike the corporate tax rate to 25% from 19% in 2023.
- Of course, statutory rates can only give a first glimpse into cross-country differences. Decisive is the effective tax rate which could markedly differ by taking deductions, exemptions, etc. into account. Examples are the Netherlands and Luxembourg where the effective corporate tax rates might be lower than the statutory rates of about 25%.
- Whether the Biden proposal is a game changer remains to be seen. Many legal details still need to be sorted out to make a global minimum tax really effective. While the plan was welcomed by Germany and France, it is likely to meet heavy opposition from low-tax countries. However, after the latest example of the US retaking their global leadership role, the chances of a multinational agreement have been rising. There would be much to

gain, even more for the EU (as a whole) than for the US. According to Torslow et al., about one third of the globally shifted profits by multinationals have come from the EU (excluding safe havens) and about one fourth from the US.

[1]The so-called GILTI (Global Intangible Low-Taxed Income) rate was introduced in 2017 and is currently 10.5%. However, it only applies to income of US multinationals above a 10% return on physical assets in foreign low-tax countries. For more details, see the Briefing Book of the Tax Policy Center. The statutory US corporate tax rate for domestic US companies is currently 25.8%.

[2]Torslov, T. et al. (2020), The Missing Profits of Nations, WID.world Working Paper No. 2020/12, April

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