
TAXING MULTINATIONALS IN THE EUROPEAN UNION

The 2021 global tax deal and beyond



Summary

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As countries look for revenues to fund a sustainable recovery post-COVID, there is an historic opportunity to stop profit shifting by multinationals and put an end to harmful tax competition between countries, which in turn would allow governments to make corporate tax systems more progressive. It can also provide the EU with an opportunity to move forward towards deeper European economic integration and progressive taxation of multinationals to ensure corporations contribute their fair share to the recovery post COVID.

This policy brief looks at the ongoing international tax negotiations and the opportunity that a 2021 global agreement would bring to the European Union to play a leadership role in the modernisation of global business tax rules.

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1. Introduction

The chances of global consensus on reforming the way multinationals are taxed have been revived thanks to the change in the US administration. The G7 agreement in June on both a global minimum tax and reallocation of global profits of multinationals to the market jurisdictions provides impetus towards a broader consensus at the G20 level in July, with a final deal expected by the end of 2021. As countries look for revenues to fund a sustainable recovery post-COVID, there is an historic opportunity to stop profit shifting by multinationals and put an end to harmful tax competition between countries, which in turn would allow governments to make corporate tax systems more progressive. It can also provide the EU with an opportunity to move forward towards deeper European economic integration and progressive taxation of multinationals to ensure corporations contribute their fair share to the recovery post COVID.

This policy brief looks at the ongoing international tax negotiations and the opportunity that a 2021 global agreement would bring to the European Union to play a leadership role in the modernisation of global business tax rules.

2. Progressive taxation of multinationals post COVID

For too long, international institutions have failed to deal with one of the most toxic aspects of globalisation: tax avoidance by multinationals. Fair taxation of multinationals is needed to create the type of societies that we aspire to, and it must be a central part of

any progressive tax system aimed at driving economic growth and creation high living standards for all.

This will require reversing long-term trends of countries' lowering corporate tax rates and putting an end to tax avoidance by multinationals, which results in €50-70bn¹ annual losses in EU member states alone and more than \$240bn globally². Corporate income tax is an important source of revenue in most countries, and in Europe accounts for about 10 percent of tax revenue collection. It averaged about 3 percent of GDP in 2018 and above 4 percent of GDP in one-third of the European countries³.

However, due to the pressure on countries to compete to offer lower tax rates to attract investments has pushed the average headline corporate tax rate in the European Union to fall from 32 per cent in 2000 to just 22 per cent by 2020.

Many countries had been planning to continue to cut their corporate tax rates before the start of the global pandemic but the global pandemic is forcing a fundamental rethinking in many countries of the benefits of tax competition.

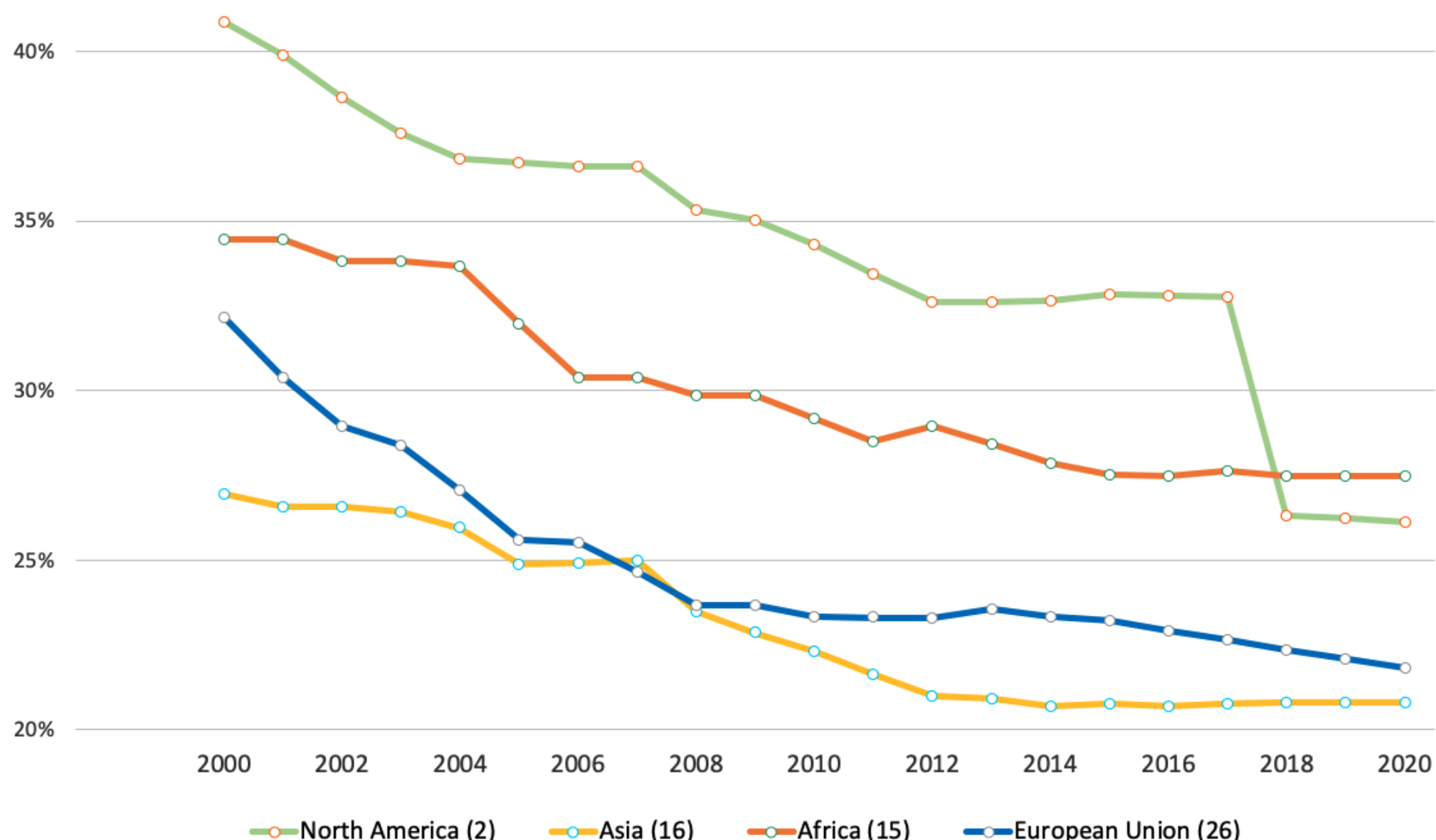
The new US administration plans to raise the corporate tax rate from 21% to 28%. The UK government has reversed a plan to cut corporate tax rate to 17% and instead announced its plan to raise it from 19% to 25% in 2023. The Netherlands has postponed a planned decrease of the corporate tax rate due in 2021, which remains at 25%.

¹ See www.europarl.europa.eu/doceo/document/E-9-2020-004736_EN.html.

² See www.oecd.org/tax/beps/.

³ Crivelli, de Mooij, and De Vrijer, [Taxing Multinationals in Europe](#), IMF, 25 May 2021.

Figure 1 - Average Regional Statutory Corporate Tax Rates – 2000 to 2020



Source: OECD Dataset on Statutory Corporate Income Tax Rates. Note: zero-rate jurisdictions are not included. The EU average does not include Cyprus.

Whilst countries look at future corporate tax revenues as one of a mix of sources to fund the recovery post-COVID, this shift points to a new understanding of the lack of positive association between corporates taxes and investment decisions, where the earlier belief that corporate tax cuts could help spur business investment has been contradicted by the reality that corporate tax decreases have failed to provide a step change in the level of capital investment.

In the UK, where the corporate tax rate was cut from 30% before the global financial crisis to the current rate of 19% adopted in 2017, business investment as a percentage of GDP was lower in 2017 than it was in 2000 (falling from 10% to 9%).

The net increase in business investment over the 2010-2018 period was £49.5bn⁴. This compares to the cost of corporate tax cuts of £87bn over the same period. In the US, the 2017 corporate rate cut from 35% to 21% did not lead to an increase in investment or economic growth⁵.

This lack of effect on investment should not come as a surprise, as corporate taxation is effectively a tax on pure profits – also known as economic rents–, and therefore lowering or raising the rate has little (or close to zero⁶) effect on economic activity. To the extent the corporate taxes fall on rents (earnings above the minimum return required by the investor), the incidence will be on the firm’s owners. Therefore, the corporate tax can help achieve

⁴ See Andrew O’Brien, [Bounce Back Britain](#), Social Market Foundation, 4 June 2020, pag. 13

⁵ See detailed evidence within: Furman, Jason (2020), Prepared Testimony for the Hearing “The Disappearing ‘Corporate Income Tax.’” Committee on Ways and Means, 11 February; Gravelle, Jane and Donald Marples (2019), “The Economic Effects of the 2017 Tax Revision:

Preliminary Observations.” Congressional Research Service, 22 May; Clausing, Kimberly (2020), “Fixing the Five Flaws of the Tax Cuts and Jobs Act.” *Columbia Journal of Tax Law* 11(2): 31–75.

⁶ Gechert and Heimberger, [Do Corporate Tax Cuts Boost Economic Growth?](#), wiiw and IMK, Working Paper 201, June 2021, pag. 10.

positive effects on income distribution, while reductions in this tax have contributed to the rising income inequality that has characterized a large number of countries over the past decades.

Rents have been on the rise over the last decades, notably in the US, but also globally as a result of increased market concentration and monopoly/monopsony power. These have in turn been triggered by gaps in access to technology (fueled by intellectual property rights) and a series of benefits and privileges not available to smaller firms⁷.

The current crisis is affecting sectors very differently, with pharmaceutical and digital businesses seeing an increase in revenue and profits, whilst hospitality and travel industry have seen their revenue collapse. However, targeted increases in corporate tax for specific sectors can be problematic because sectors are often difficult to define, and firms may operate across sectors.

Therefore, a comprehensive solution should include progressive corporate taxes, with higher rates on larger firms (which will likely capture profits of monopolies/oligopolies) and lower rates on smaller firms in highly competitive sectors. Because taxing rents is not distortionary and is perhaps even beneficial since doing so reduces rent-seeking behaviour, this shift presents a golden opportunity for raising high revenue at a low efficiency cost.

However, the ability of multinationals to shift profits from the countries where their activities take place, and profits are created, to low tax jurisdictions hinders the ability of countries to make the corporation tax system more

progressive, as increases in corporate tax rates will incentivise profit shifting.

To support a more progressive system of corporate taxation of multinationals at country level, it is therefore critical that countries are able to stop or drastically limit profit shifting by multinationals.

3. Stopping the race to the bottom to enabling progressive corporate taxation

Tax avoidance by multinationals is facilitated by current international tax rules, which are based on treating the subsidiaries of multinationals for tax purposes as legally independent firms that transact with each other. In these transactions, the price assigned to value the exchange in a transaction is often referred to as a 'transfer price.' In order to ensure accuracy, the 'arm's length principle' prescribes that transfer prices should be the same as the prices that the companies would have used if they had been unrelated parties negotiating under market conditions, and not part of the same corporate group.

Through transfer pricing, multinationals are able to avoid taxation by shifting profits from high-tax jurisdictions to low tax ones, undermining the tax base of those countries where real activities take place and, therefore, where profits have been generated.

Limiting profit shifting by multinationals can be achieved by a move to unitary taxation, (moving away from the transfer pricing and separate entity system), and the implementation of a strong global effective corporate minimum tax.

⁷ See Power, Laura and Austin Frerick. 2016. "Have Excess Returns to Corporations Been Increasing Over Time?" *National Tax Journal* 69(4): 831–46. Since this paper, tax law has exempted much of the normal return to capital for equity-financed investment, so the corporate tax should fall even less on labor than it did in years past. (The mechanism by which corporate taxes burden labor requires a reduction in investment.) Of note, many debt-

financed investments are currently subsidized through the tax code. Also, the role of market power in the U.S. economy has continued to increase, making more and more of the corporate tax base excess profits rather than the normal return to capital. See Phillipon, Thomas. 2019. *The Great Reversal: How America Gave up on Free Markets*. Cambridge: Harvard University Press.

If multinationals paid taxes as single, unified companies, the use of transfer pricing to shift profits would disappear, because their global income would be consolidated, and they would not be able to shift profits through internal transactions. In turn, all countries would obtain fiscal revenues from the multinational group in proportion to the activities carried out in them – that is, to the real economic activities that take place in each territory. The opportunities for tax avoidance which are inherent in the current system will be drastically reduced.

A minimum effective taxation either at the global or the EU level would mitigate the incentives for profit shifting, reduce the intensity of tax competition and create a space for countries to raise their corporate tax rates.

Whilst taxation is only one of many factors affecting investment decisions, limiting international tax competition through a global minimum tax will reduce the distortions of investment decisions caused by tax incentives or low-tax regimes. Other factors that better reflect the productive capacity of the economy will gain in relevance for investment decisions, which in turn will ensure a more efficient global allocation of resources.

4. The G20 negotiations and the G7 deal

After the years of austerity that followed the global financial crisis and the public outcry that followed revelations of tax avoidance schemes of a number of multinationals, the G20 mandated the OECD in 2013 to address the problem of tax avoidance by multinationals, through the establishment of the G20/OECD Base Erosion and Profit Shifting (BEPS) project⁸, with the broad aim to ensure profits should be taxed where economic activities deriving the profits take place and where value is created and to ensure that international tax rules do

not allow or encourage multinational enterprises to reduce overall taxes paid by artificially shifting profits to low-tax jurisdictions.

Chances of a global tax reform looked meagre in 2020 under the Trump administration, but they have been revived under the Biden administration. This renewed pressure has so far culminated in the June G7 agreement on two reform proposals, which was also endorsed on 1 July by 131 countries negotiating under the G20/OECD Inclusive Framework⁹:

- 1) a **reallocation of taxing rights**, with market countries awarded taxing rights of between 20-30% of the global profit exceeding a 10% margin for the largest and most profitable multinationals; and
- 2) The introduction of a **global minimum tax** of *at least* 15% on a country-by-country basis.

The G7 agreement in June on both a global minimum tax and reallocation of global profits of multinationals to the market jurisdictions provides impetus towards a broader consensus at the G20 level in July, with a final deal expected in 2021. However, implementation of these two proposals will require political commitment by countries and will only be effective from 2022 at the earliest.

The next sections look at what these two potential proposals mean for the European Union.

4.1 The reallocation of taxing rights

Through new “nexus” and “profit reallocation” rules Member States will have the right to tax a small fraction of the most profitable and largest multinationals, regardless of industry classification or business model, by reference to how much of the global revenue of

⁸ See www.oecd.org/g20/summits/saint-petersburg/Saint-Petersburg-Declaration.pdf

⁹ OECD/G20 Inclusive Framework on BEPS, [Statement on a Two-Pillar Solution to Address the Tax Challenges](https://www.oecd.org/g20/summits/saint-petersburg/Statement-on-a-Two-Pillar-Solution-to-Address-the-Tax-Challenges.pdf)

[Arising From the Digitalisation of the Economy](https://www.oecd.org/g20/summits/saint-petersburg/Statement-on-a-Two-Pillar-Solution-to-Address-the-Tax-Challenges.pdf), OECD/G20 Base Erosion and Profit Shifting Project, 1 July 2021

multinationals is derived by each Member State. Under the proposal, “between 20% and 30%” of global pre-tax profits of multinationals exceeding a 10% margin will be reallocated to the countries where the revenues derive. The proposal is based on high thresholds for size and profitability aimed at limiting the number of in-scope businesses to the world’s largest and most profitable MNEs¹⁰.

A significant share of the multinationals in scope are likely to be US multinationals and the US administration expects countries to withdraw existing digital services taxes that have proliferated in recent years as part of the final agreement. A number of EU Member States have digital services taxes in place and have started collection of such taxes in 2020.

The proposal will for the first time introduce an element of formulary apportionment of global profits of multinationals and therefore moves “beyond the arm’s length principle” but this will be limited to a fraction of the global profits of multinationals, leaving the current dysfunctional transfer pricing system largely in place for the allocation (and taxation) of the majority of multinationals’ profits.

The limited reallocation has a detrimental effect on the expected additional tax revenues generated (c \$5-12bn¹¹) and has been deemed insufficient by countries in the Global South participating in the negotiations.

The Intergovernmental Group of Twenty-Four¹² have demanded a bigger reallocation of global profits, with the reallocation percentage ranging from 30% up to 50% for the most profitable firms¹³. The African Tax Administration Forum has asked for the new rules to apply to all multinationals with annual

revenues above €250 million, much lower than the G7 proposed threshold of \$10 billion¹⁴, and argues that a percentage of all global profits¹⁵ should be apportioned to the countries where these companies do business.

Ultimately, a solution that is meant to address the tax challenges arising out of digitalisation of the economy but that limits the scope of top 100 or so companies would not address the basic problem and be meaningful and sustainable long term. It is also unclear whether the proposal will be beneficial to market jurisdictions, in particular where they are requested to commit to remove unilateral measures such as digital services tax.

A simpler and more comprehensive solution would be to fully move to unitary taxation and allocation global profits among countries on a formulaic basis, according to the key factors that generate profit, namely employment, sales, and assets. Such a rule would help to establish a more level playing field, reduce distortions, limit opportunities for tax avoidance, and provide certainty to multinationals and investors. Instead, the G7’s proposal reflects a political agreement to avoid a far-reaching global reallocation of taxation and revenues.

It is yet unclear whether the demands to widen the scope will be met but the proposal may nevertheless provide the impetus for further reform in the EU if and when a global deal is secured.

4.2 A global minimum tax

The proposal for a global minimum tax reflects the need for global action to stop a harmful race to the bottom in corporate tax rates,

¹⁰ Presentation by the United States, [Steering Group of the Inclusive Framework Meeting](#), 8 April 2021, slide 11 and 12.

¹¹ OECD (2020), [Tax Challenges Arising from Digitalisation – Economic Impact Assessment](#), Inclusive Framework on BEPS, pag. 15.

¹² See the Intergovernmental Group of 24: www.g24.org.

¹³ Comments of the [G-24 on the Pillar One and Pillar Two proposals](#) being discussed by OECD/G20 Inclusive Framework on BEPS, 17 May 2021.

¹⁴ Presentation by the United States, [Steering Group of the Inclusive Framework Meeting](#), 8 April 2021.

¹⁵ African Tax Administration Forum, [ATAF Sends Revised Pillar One Proposals to the Inclusive Framework](#), 12 May 2021.

which otherwise risks shifting taxes to fund public goods onto less mobile bases including labour and consumption, effectively undermining the tax sovereignty of nations and their elected legislators.

It still permits countries to vie for foreign investments through low levels of effective taxation but establishes a lower floor for this competition and protects high-tax countries from having to completely abandon their own, diverging tax policy preferences.

Under the proposal for a global minimum tax (Global Anti Base Erosion rule or “GloBE”), jurisdictions will have a right to “tax back” where other jurisdictions have not exercised their primary taxing rights or the payment is otherwise subject to low levels of effective taxation, through the following components:

1. Income inclusion rule (and switch-over rules), which will operate as a minimum tax by requiring the home country of the multinational to bring into account a proportionate share of the income of that corporation if that income was not subject to an effective rate of tax above a minimum rate in a foreign jurisdiction. It would ensure that the income of the multinational group is subject to tax at a minimum rate thereby reducing the incentive to allocate income for tax reasons to low taxed entities. The inclusion rule would operate as a top-up tax to a minimum rate calculated as a fixed percentage and is intended to apply, through switch over rules, equally to foreign branches and foreign subsidiaries that are taxed at an effective rate of tax below the minimum rate.
2. The undertaxed payments rule, which will operate by denying a deduction or making an equivalent adjustment in respect of intra-group payments.
3. The subject to tax rule, which will operate by subjecting a payment to withholding or other taxes at source and denying treaty

benefits on certain items of income where the payment is not subject to tax at a minimum rate.

The proposal is intended to only apply to businesses that meet or exceed a EUR 750 million annual gross revenue threshold, which would cover multinationals earning over 90% of global corporate revenues.

The effectiveness of the GloBE will depend in particular on the chosen rate for the minimum tax, the calculation of the tax base, whether blending will be set at jurisdictional or global level and the extent of carve outs for specific industries or tax incentive regimes (e.g., Patent Boxes).

The minimum tax rate needs to be set at a sufficient level for the global minimum tax to be effective in stopping profit shifting. A global minimum tax of 21-25% will ensure that profits shifting by multinationals is drastically limited¹⁶ and will provide significant additional revenues to EU countries.

However, if the minimum effective rate is substantially below these rates, it is unlikely to lead to a change in taxpayer behavior in respect of such profit shifting and a much lower minimum effective corporate tax rate becoming the international benchmark could effectively incentivise and legitimise a “race to the minimum”. Developing countries, which rely relatively more on corporate tax income as a source of government revenues, would be the main losers from such a trend, as would small and medium enterprises in developed countries, which will still pay the full local rate.

The rate will have a significant impact on the additional revenue generated. The EU Tax Observatory¹⁷ has estimated that a 25% minimum tax would increase corporate income tax revenues in the European Union by about €170 billion in 2021. This sum represents more than 50% of the amount of corporate tax revenue currently collected in the European Union and 12% of total EU health spending.

¹⁶ Oxford University Centre for Business Taxation, [The OECD Global Anti-Base Erosion Proposal](#), January 2020, pag. 42.

¹⁷ EU Tax Observatory, [Collecting the Tax Deficit of Multinational Companies: Simulations for the European Union](#), Report by Barake, Neef, Chouc and Zucman, June 2021, pag. 24.

However, with a 21% minimum rate, the European Union would collect about €100 billion in 2021. The number drops to €48 billion at a rate of 15% (see Appendix A for more details on impact on EU and G20 countries).

At agreement at the G20/OECD Inclusive Framework of “at least 15%”, or higher, will nevertheless allow individual countries to introduce a higher rate. The US are planning to revise their existing minimum tax rule on foreign profits to increase the minimum rate to 21%, significantly above the proposed globally agreed minimum of “at least 15%”.

For the global minimum tax to be effective, it is not necessary for all countries to adopt it. If G20 countries were to agree to impose a 25% minimum corporate tax (on the foreign profits of their multinational firms) more than 90% of worldwide profits would automatically be taxed at 25% or more. Willing EU countries should follow the US leadership and introduce a minimum rate of 21% or above. Adoption by all largest capital exporters would fundamentally change tax competition and remove the incentive for every country to reduce their tax rates below the minimum.

Whilst the average EU headline corporate tax rate in 2020 was 22%, the four largest economies in the EU, Germany, France, Italy and Spain had an average corporate tax rate of 28%. A global minimum tax significantly lower than this rate (e.g., at 15%) will both continue to encourage profit shifting from those countries and generate little additional corporate tax revenue.

Some countries within the EU (e.g. Ireland, Hungary) are likely to oppose a global minimum tax at 15%, let alone 21% or higher. This is why it is necessary that a “coalition of the willing” follows the US lead and moves

unilaterally to introduce a global effective minimum tax of 21% or more.

A key issue of contention in the negotiation is the ordering application of the different components of the GloBE. Developing countries, which are not home to most multinationals, are unlikely to benefit from the income inclusion rule and switch over rules, and are calling for the Subject To Tax Rule to be applied in priority over the income inclusion rule and switch over rules, both to reduce the substantial loss of tax revenues through base eroding payments but also assist in addressing the current imbalance in the allocation of taxing rights, which inappropriately favours residence jurisdictions to the disadvantage of developing countries, which are usually source jurisdictions.

The ordering rule will determine the distributional impact of the global minimum tax. Should priority be given to source countries, then this will benefit higher income countries more than low- and middle-income countries. Alternative proposals for a formulaic allocation of the minimum tax, so that undertaxed profits are allocated between countries on the basis of substance (e.g., sales, employment) show the strongest revenue gains at minimum tax rates of up to 25 per cent for both high and lower-income countries¹⁸.

5. From the GloBE to an EU global minimum tax

Both the EU Commission and several EU Member States would like to see an international effective minimum tax implemented across the Union and the European Commission will likely table a proposal for an EU effective minimum corporate tax in late 2021 or 2022.

¹⁸ Cobham A., Faccio T., Garcia-Bernardo J., Jansky P., Kadet J., Picciotto S. (2021), [A Practical Proposal to End Corporate Tax Abuse: METR, a Minimum Effective Tax](#)

[Rate for Multinationals](#), IES Working Papers 8/2021, pag. 18-19.

It is unclear whether such an EU directive to introduce a global minimum tax would be compatible with the freedom of establishment, and any predictions to this effect are at the moment speculative¹⁹. However, such legislation will require unanimity in the EU Council to be approved and Member States that oppose such a measure are likely to try to prevent a meaningful agreement to be reached.

Both the previous²⁰ and the current EU commissions have noted that the current method of policy making in tax matters within the EU is not keeping up with current developments in markets and the economy and that a purely national approach in fact does not guarantee an effective solution to problems, particularly since national interests are often intertwined indicated a willingness to move to qualified majority voting.

Whilst the consideration of mechanisms and legal provisions in the EU treaties that could mitigate the use of unanimity in tax matters continue under the current Commission, no proposals have been tabled so far²¹.

Willing countries should therefore consider unilateral implementation ahead of the Directive being negotiated, with a promise to withdraw the measure once an agreement is reached in the EU Council. This will provide political and tangible pressure on other EU countries to accept an ambitious common legislation via a EU directive.

Whilst a consensus-based approach is preferable, the reality is that countries that have benefited so far from tax competition will use their veto power to block or water down the directive. Principled and muscular unilateralism by a coalition of the willing will

create the political incentives for other EU member states to agree to an ambitious minimum tax.

6. From GloBE to BEFIT

A global minimum tax set at a sufficiently high rate will drastically reduce the incentives for multinationals to shift profits between or out of EU countries and reduce tax competition within the EU.

This in turn should increase the incentives for Member States to adopt a common consolidated corporate tax base, a comprehensive reform applicable to all profits of multinationals, which would allocate all profits through the use of a balanced formula to reflect value generating economic activities along the supply chains.

The idea of a common consolidated corporate tax base is a long-standing EU project and a proposal is currently blocked in the Council.

However, the EU Commission in planning to propose a new framework for income taxation for businesses in Europe called Business in Europe: Framework for Income Taxation or “BEFIT” by 2023, which will include a common tax base and the allocation of profits between Member States based on a formulaary apportionment. The use of a formula to allocate profits is expected to remove the need for the application of complex transfer pricing rules within the EU to the companies within the scope of BEFIT. The lack of a common corporate tax system within the EU represents a competitive disadvantage for the EU Single Market compared to third country markets, as the current corporate tax framework acts as a distortive element for investment and

¹⁹ Englisch J., [How to Bring a Harmonized GloBE Minimum Tax in Compliance with EU Fundamental Freedoms](#), EC Tax Review 3/2021 (Forthcoming), pag. 5.

²⁰ European Commission, [Towards a more efficient and democratic decision making in EU tax policy](#), COM(2019), 15 January 2019.

²¹ Kotanidis, [Passerelle clauses in the EU Treaties - Opportunities for more flexible supranational decision-making](#), European Parliament Research Service, December 2020.

financing decisions and increases compliance costs for multinationals²².

BEFIT will provide for common rules for determining the corporate tax base and for the allocation of profits between Member States, based on a pre-defined formula (formulary apportionment) and it is expected that the proposal will build on the principles being negotiated in the G20/OECD Inclusive Framework on both the reallocation of taxing rights and the minimum tax.

BEFIT would consolidate the profits of the EU members of multinationals into a single tax base, to be subsequently allocated to Member States using a formula that will replace the current transfer pricing rules. The formula will be developed by considering issues such as giving appropriate weight to sales by destination, assets (including intangibles) and labour (personnel and salaries). Once allocated, profits will be taxed using the common principles of an EU corporate tax base²³.

A common consolidated tax base allocated between Member States through the use of formulary apportionment does not eliminate tax competition, as the production factors used in the apportionment formula will be affected by tax differences between Member States. Whilst the location of consumers is not under multinationals' control, if assets and labour are factors in the formula, low-tax countries can still incentivise firms to relocate such production factors, to have a larger portion of the EU-wide profit apportioned there. This makes the introduction of a high minimum effective minimum taxation in the European Union crucial to mitigate such tax competition.

7. Conclusions

The current international corporate tax system was designed more than a century ago and is based on outdated principles, which are increasingly out of sync with today's global and digital economy. Multinationals exploit the loopholes in the current system through aggressive tax planning strategies which results in significant revenue losses for the European Union as a whole.

The current revival in the G20/OECD negotiations provides an opportunity to end the race to the bottom in corporate tax rates and to provide meaningful additional revenues to countries in the EU and worldwide. It can also provide the EU with an opportunity to move forward towards deeper European economic integration through both the introduction of a global minimum tax and a common consolidated corporate tax base, which will address profit shifting and tax competition concerns within the region. This in turn will allow countries that are being driven by rather than driving international tax competition to regain some leeway for making tax policy choices on the desired level of public goods and services, as well as the distributional balance of their tax systems. Such policy choice should include progressive taxation of multinationals to ensure corporations contribute their fair share to the recovery post COVID and reduce the need to raise revenues by implementing other (potentially more regressive) tax measures in the constrained post-COVID-19 budget environment.

The EU can play a leadership role in the modernisation of global business tax rules to put an end to tax avoidance of multinationals. Other countries and regions could then follow, as a progressive European solution becomes the benchmark for a global solution in the longer run.

²² Estimated tax compliance costs for large companies amount to about 2% of taxes paid, while for SMEs the estimate is about 30% of taxes paid. See: https://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/tax_survey.pdf

²³ European Commission, [Business Taxation for the 21st Century](#), Communication from the Commission to the EP and the Council, COM (2021) 251 Final, 18 May 2021.

APPENDIX A - Revenue in 2021 of minimum tax proposal at different rates

Country	Revenues (billions of €) for a minimum tax rate of...			
	15%	21%	25%	30%
Austria	3.0	5.4	7.0	8.9
Belgium	10.5	15.6	19.0	23.3
Bulgaria	–	–	–	–
Cyprus	0.3	0.4	0.9	1.7
Czech Republic	0.1	0.3	1.1	2.1
Germany	5.7	6.6	29.1	69.1
Denmark	0.7	2.3	3.5	4.9
Estonia	0.1	0.3	0.4	0.5
Spain	0.7	5.4	12.4	21.2
Finland	1.7	3.5	4.7	6.2
France	4.3	16.0	26.1	39.2
Greece	0.1	0.6	1.6	2.9
Croatia	–	–	–	–
Hungary	0.6	1.3	1.9	2.7
Ireland	7.2	11.3	14.0	17.3
Italy	2.7	7.6	11.1	15.7
Lithuania	–	–	–	–
Luxembourg	4.1	6.3	7.9	9.9
Latvia	0.1	0.3	0.5	0.6
Malta	0.1	0.2	0.3	0.5
Netherlands	0.9	4.9	9.3	14.9
Poland	3.7	8.0	11.0	14.8
Portugal	0.1	0.1	0.6	1.9
Romania	–	–	–	–
Sweden	1.5	1.7	5.3	10.8
Slovenia	0.0	0.0	0.1	0.1
Slovak Republic	0.0	0.0	0.0	0.4
EU total	48.3	98.0	167.8	269.7
Australia	2.3	7.9	11.7	16.6
Brazil	0.9	3.4	7.4	12.3
Canada	16.0	27.2	34.7	44.2
Chile	0.2	0.8	1.2	1.8
China	4.5	12.0	30.2	53.1
Indonesia	0.1	0.3	0.9	1.8
India	0.5	1.1	1.4	2.2
Japan	6.0	14.4	28.7	61.4
South Korea	0.0	1.5	6.2	12.7
Mexico	0.5	0.9	1.3	3.1
Norway	0.1	0.2	0.4	0.7
United States	40.7	104.4	165.4	245.4
South Africa	0.6	2.0	3.0	4.3

Source: EU Tax Observatory, [Collecting the Tax Deficit of Multinational Companies: Simulations for the European Union](#), Report by Barake, Neef, Chouc and Zucman, June 2021, pag. 27.

8. ABOUT THE AUTHOR



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9. RELATED PUBLICATIONS

