Exaggerated claims for G7 tax deal

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The announcement by G7 finance ministers over the weekend that they had agreed to push for a minimum 15 percent corporate tax rate as part of a bid to eliminate tax havens for major global corporations has been presented as the beginning of a new era of multilateralism and even a significant step towards social justice.

Closer examination of what was actually agreed to, and whether it can even be implemented in further negotiations going beyond the G7 group of the US, UK, France, Germany, Italy, Japan and Canada, reveals the empty character of these assertions.

The main promoter of the exaggerations was US Treasury Secretary Janet Yellen, anxious to advance the claims of the Biden administration that it is taking a lead role in managing the affairs of global capitalism in contrast to the "America First" doctrine of the Trump administration.

Yellen said the G7 finance ministers had made a "significant, unprecedented commitment… that provides tremendous momentum towards achieving a robust minimum global tax rate of at least 15 percent.

"That global minimum tax would end the race to the bottom in corporate taxation, and ensure fairness for the middle class and working people in the US and around the world."

It would also help the global economy thrive, she added, encourage countries to educate and train their workforces and invest in research and development as well as infrastructure.

Others also waxed lyrical about the impact of a new tax regime. France's finance minister Bruno Le Maire said the G7 countries had "risen to the challenge of this historical moment." Italian Prime Minister Mario Draghi called the deal a "historic step towards a fairer and more equitable society for our citizens."

But the figures do not support these statements. According to estimates by the Organisation for Economic Cooperation and Development (OECD), which has been involved in negotiations for a uniform tax regime over the past eight years, the proposals, if implemented, could generate an additional $50-$80 billion a year in revenue, but the actual sum raised would vary significantly depending on the final agreement. And spread over a large number of countries any tax boost will not meet the claims being made for it.

Moreover, the G7 deal is only the first step in implementation. Much has still to be determined in the wider negotiations, involving 139 countries, being conducted by the OECD. The next stage will be to win the backing of the G20 group of countries, which are to meet in Venice next month.

Critics of the proposal have said the 15 percent rate is too low. The UK IPPR social justice research group told the *Financial Times* (FT) it "would not be enough to end the race to the bottom" in which countries cut their tax rates to attract global corporations.

Pointing to the wider geo-political concerns of Washington, an FT report on Monday said the tax deal was the "first substantive proof of revived international co-operation since President Joe Biden brought the US back to the negotiating table."

It stated that "privately" some ministers had indicated the urgency for a G7 deal in order to "demonstrate that rich countries still mattered, in a bid to show the world that the 21st century was not going to be dominated by rules set by China."

Notwithstanding the mutual backslapping, significant differences remain. They centre on the moves by countries to impose taxes on global corporations, in particular hi-tech firms such as Google, Facebook and Apple, on the revenues they raise in their markets.

These had been the subject of a major conflict with the US as the UK, France and Italy sought to force these companies to pay more tax on the revenue they raised even if they did not have a physical presence there.

In response to the moves for a digital tax, the Trump administration had announced a series of retaliatory tariffs against what it claimed was discrimination targeting American companies. These were suspended until the end of this year while negotiations took place.

Yellen then brought forward the proposal for the 15 percent minimum global tax and agreed that the largest global corporations with profit margins of at least 10 percent would have to allocate 20 percent of their profits to countries where they make their sales. This would overturn the previous regulation that companies were only taxed in countries where they had a physical presence.

Yellen pushed for European countries to immediately drop their new digital taxes in return for gaining tax rights under the new deal. But they have said they will abolish the taxes only when a global agreement is reached. Canadian finance minister Chrystia Freeland said after the G7 deal was announced that her government intended to go ahead with the digital tax as well.

The G7 communiqué did not provide a clear determination. It said: “We will provide for appropriate co-ordination between the application of the international tax rules and the removal of all Digital Services Taxes, and other relevant measures, on all companies.”

There are a number of barriers to cross before any final international deal is reached. Apart from securing agreement at the G20 and the international adoption of the new rules under the OECD negotiations, the definition of what constitutes the “largest and most profitable” global companies is still to be worked out.

There is also the question of whether countries which have tax rates below 15 percent will sign off. One of the most significant is Ireland, which has a 12.5 percent corporate tax rate and has become the headquarters for tax purposes of a number of major technology and pharmaceutical companies. The Irish government has said it wants to keep its low tax rate regime in place.

“Any agreement will have to meet the needs of small and large countries, developed and developing,” the Irish finance minister tweeted after the G7 deal was announced.

The biggest barrier could prove to be the US Congress. The *Wall Street Journal* noted that the new approach advanced by the Biden administration may run into congressional opposition “where some lawmakers are wary of moving before other countries.” Some proposals “could require the US Senate to ratify changes to tax treaties, which would take a two-thirds vote and at least some Republican support.”

And it is not even certain that the deal will result in higher levels of taxation on the most profitable companies because the proposed global tax regime of 15 percent may bring pressure for lower corporate taxes in some countries.

This was evidenced in the business reaction in Australia where the present corporate tax rate is 30 percent.

According to Business Council of Australia chief executive Jennifer Westacott, with a tax rate double the proposed 15 percent global minimum, Australia was “severely exposed in its ability to attract global capital.”

Australian Industry Group chief executive Innes Wilcox said the G7 agreement was the opportunity to have “a long-delayed discussion in Australia about business taxes.” He claimed that a tax rate of 30 percent and other regulatory measures meant Australia had “one of the very highest ratios of business income tax to GDP in the OECD.”

This reaction indicates that rather than halting the race to the bottom, the deal could give it a new twist.