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International Tax Bulletin

G-7 Tax Plan: Finance Ministers of G-7 countries agreed on 15% Global Minimum Corporate Tax Rate

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Finance ministers of G-7 countries announced historic agreement on global corporate tax before leaders' summit in the UK. The finance ministers of the G-7 countries agreed on a minimum global corporate tax rate of 15 percent on 5th of June.

G-7 countries have been trying for years to collect more taxes from companies like Google, Amazon and Facebook since these companies' overall tax burden is perceived as quite low according to G-7 Countries. Many large companies, especially in the field of digital technology and services, were also moving their headquarters to countries with low corporate taxes or tax havens.

In 2017, OECD was assigned by G20 on the determination of the necessary methods for the fair distribution of taxes. With the change of power in the USA, this topic gained a new momentum. US President Joe Biden has proposed a global tax rate of at least 15 percent. In addition, the global coronavirus pandemic and the search for new sources of income to support the economies of countries accelerated the process.

On 20th of May, leaders from the Office of Tax Policy at the US Department of the Treasury participated in meetings with the Steering Group of the Inclusive Framework on base erosion and profit shifting (BEPS) as part of the Organization for Economic Cooperation and Development (OECD) / G20 international tax negotiations.

The US Treasury Department proposed to the steering group that the global minimum tax rate should be at least 15 percent, and it was emphasized that this rate is a base and should be increased.

On 5th of June, Finance ministers of G-7 countries agreed on principle regarding applying 15% minimum global corporate tax rate. They also committed to reaching an equitable solution on the allocation of taxing rights, with market countries awarded taxing rights on at least 20% of profit exceeding a 10% margin for the largest and most profitable multinational enterprises.

According to the proposal, which will lay the groundwork for a more comprehensive global agreement to be discussed at the G20 summit next month, corporate tax reliefs and privileges provided by countries to attract giant companies will end. Thus, countries will be able to close their debts due to the pandemic by increasing their tax revenues.

While leaders and finance ministers of G-7 countries seems to be thrilled by this preliminary consensus by stating that these developments are "historic" or "revolutionary", there are also questions raised whether this would lead to a "fair" taxation considering that many developed economies already have more than 15% corporate tax rates.

According to said criticisms, this rate might be too low and should be increased even further since it may result in diminishing corporate tax rates to 15% by some countries to attract taxpayers as well as it may encourage taxpayers to choose countries already having "low" tax rates such as Singapore, Ireland, and Switzerland. It seems that this issue will be a hot topic in G-20 Summit this year.

Kind Regards,

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