April 14, 2021

Joe Biden's Radical Tax Proposals

President Joe Biden announced radical proposals last week to shake up both the US and the global corporate tax system. In particular, he proposed a global minimum corporate tax rate of 21% much to many people's surprise.

His wider plan is to invest US$2 trillion over 8 years into US domestic businesses and workers many of whom have been struggling due to Covid-19. Those to benefit would include infrastructure, broadband and clean energy companies as well as more traditional manufacturing businesses.

It is to be paid for by taxing big global businesses more. Corporation tax will rise from 21% to 28% and there will be significant efforts to stamp out tax avoidance by large companies often involving them shifting their profits to low-tax jurisdictions. His plan points out that profit shifting costs the country US$60 billion each year, two thirds of which is from US multinational companies. Biden believes that a global minimum tax is the best way to maximise tax revenues from such companies.

The Organisation for Economic Co-operation and Development (OECD) has been looking at ways to reform international tax rules to make them more suitable for the modern world of global and digital companies for some time. Their proposals are firstly to tax using a formula that allocates profits geographically. For example, if Amazon makes a sale in the UK, a corresponding share of profits should be taxed in the UK irrespective of where profits are shifted. Secondly, they propose having a global minimum corporate tax rate (which Biden wants to be set at 21%).

The global minimum corporate tax rate is intended to stop the incentive for large companies to shift their profits to low-tax jurisdictions. For example, if a company pays tax at less than 21% on profits in a low-tax jurisdiction it would then have to pay further tax on the profits in its home jurisdiction or the jurisdiction where the sales were generated to make up the effective rate to 21%. This would enable countries to increase their tax take from large US tech companies and multinationals that operate in those countries but pay little tax there.

Some European countries, including the UK, have already introduced a Digital Services Tax. The UK one applies a tax of 2% on the revenues derived from UK users of search engines, social media services and online marketplaces. The UK and other countries which have introduced such a tax have agreed to drop the tax if the OECD model is agreed and to adopt that instead.

Of course for the proposals to work, the cooperation of the world's largest economies both to agree the tax rate and to police the system would be needed.

If the proposals do get through Congress this will be a remarkable shift in policy by the US not least as it will be mainly US tech companies (such as Amazon, Apple & Facebook) and US global brands (such as Nike & Starbucks) which will be impacted by the changes the most.

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