G7 SUMMIT: AGREEMENT ON THE GLOBAL MINIMUM CORPORATE TAX. WHAT'S NEXT?

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On Sat 5 June, in London, the G7 (US, Canada, UK, Japan, Germany, France, and Italy) finance ministers reached a broad agreement on the introduction of the global minimum corporate tax at a rate of at least 15 %. Also, the intention to tax multinationals at the aforesaid minimum rate would entail an option to tax 20% of their profits above a 10 per cent margin in the place where sales are made and, therefore, irrespective of the place where such companies are present through their permanent establishments (so as to affect digital economies). As a consequence, the G7 agrees on the need for proper coordination between the application of the new international tax rules and the removal of digital services taxes which, in the meantime, have been patchily introduced in some countries.

This is a milestone of paramount importance, both in the context of the ambitious tax reform under the so-called Made in America Tax Plan announced by the Biden Administration on 31 March 2021, and in light of the OECD/G20 Inclusive Framework's works on Pillar Two BEPS 2.0 for introducing a global minimum tax on the revenues of the multinationals (please, see our previous post for greater details).

As mentioned, now this agreement covers a few countries, although the world's wealthiest and steady economies. In this respect, it should be noted that the global minimum corporate tax rate aims to counter tax competition based on the decrease in the tax rate on corporate profits to thresholds that are unsustainable for large economies, but this does not require a global consensus from all the countries in the world. Indeed, to be effective a global minimum corporate tax requires a base of countries wide enough (to make it impossible, or at least very complicated, to obtain favourable arbitrages between the national tax rate and foreign ones). Therefore, the outcome of the summit to be held in Venice from 8 to 11 July with the participation of the finance ministers and the central banks' governors will be decisive – in terms of other nations joining the agreement reached by the G7.

The announcement of the agreement among the G7 finance ministers raised concerns for certain countries such as Ireland which, applying one of the lowest corporate taxes in Europe (i.e., 12.5 per cent) fears for its competitive advantage precisely built on countries competing over rates.

To conclude, there is still a long way to go to tighten things up in the field of international tax avoidance, with a view to charge a "fair price" to the big digital players, which will require trade-offs – as is the case in the arbitrariness of the choice to tax at 20 % any profit margins exceeding 10 per cent. However, as anticipated by US treasury secretary Janet

Yellen, this agreement is expected to end the "race to the bottom" in the field of company taxation, and to ensure fairness for the middle class and workforces in the US and across the world.

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