



# Harvard Model Congress Boston 2024

## Global Minimum Corporate Tax Update

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In 2021, the Organization for Economic Cooperation and Development (OECD) facilitated an agreement, shared by around 140 countries, to implement a global minimum tax rate of 15%. Over the past few months, several countries have officially adopted the 15% minimum corporate tax rate into law with little difficulty. For instance, on November 10<sup>th</sup>, the German Bundestag overwhelmingly approved the implementation of a global minimum corporate tax with support from both the governing parties and the main center-right opposition (Martinez, 2023). In Vietnam, a country reliant on foreign investments, 94% of the country's Parliament adopted a resolution to bring the country's tax code into compliance with the OECD pact, albeit with proposals to maintain its appeal to multinational companies (Nguyen, 2023). In Switzerland, in a June referendum, around 80% of voters approved a raise of the country's corporate tax rates from 11 to 15% (Illien, 2023). Even in Bermuda, a so-called "tax haven" with a 0% corporate tax rate until now, the 15% minimum tax for multinationals has been approved (Bell and Finighan, 2023).

All these approvals would suggest that the global corporate tax pact is being increasingly adopted across the world. On October 23, 2023, however, the EU Tax Observatory published a report which noted that revenue generated by the minimum tax rate has decreased from a predicted 10% of corporate tax revenue worldwide to 5% (Wiseman, 2023). This underperformance can be attributed to loopholes in the Global Minimum Corporate Tax law, such as the idea that companies are allowed to pay taxes below the minimum rate of 15% under the condition that they mostly operate in low-tax countries (Feingold, 2023). Thus, it is imperative for the government to implement more detailed policies to prevent loopholes.

In July 2023, the OECD released a statement clarifying that certain tax credits are exempt from the global minimum tax rate (Semuels, 2023). Thanks to the Inflation Reduction Act, this means that green energy companies can pay taxes below the 15% threshold (Semuels, 2023). Therefore, another issue arises where governments need to balance their priorities between fighting climate change and generating tax revenue.

Aside from these challenges, the United States, home to many multinational corporations, has yet to sign onto the OECD's global tax framework this year. During her

trip to Luxembourg to meet with European finance ministers, current United States secretary-treasurer Janet Yellen emphasized that “there are some other matters that are important to the United States [...] that still must be resolved before the treaty can be signed” (Wiseman, 2023). The United State’s delay in signing the treaty has sparked concern as the framework is targeted toward many US-based tech companies (Zaretsky, 2023).

As for Europe, the European Union implemented a directive in 2022 calling for every member state to follow the minimum tax rate by the end of 2023 (The Global Minimum Tax and Investment Treaties: Exploring Policy Options, 2023). By December 1, 2023, 33 countries had begun the process of implementing the new legislation (Bunn and Bray, 2023). For example, Belgium has demanded that companies report more about their payments to tax havens (The Lates on BEPS and Beyond, 2023). Overall, countries including Cyprus, Croatia, Estonia, Finland, Ireland, Luxembourg, and Hungary have all released or submitted their legislation on Pillar Two of the BEPS document (The Lates on BEPS and Beyond, 2023).

Some developing countries, especially African ones, believe that the OECD framework isn’t inclusive and fair to them. Thus, on November 22<sup>nd</sup>, the Second Committee of the United Nations General Assembly adopted a resolution calling for a two-step process to negotiate a UN Framework Convention on International Tax Cooperation that takes into account the needs, priorities and capacities of all countries, in particular developing countries and countries in special situations. The resolution was adopted by 125 mostly developing countries while 48 mostly developed countries, including Britain, Germany, Japan and the United States voted against (Thomas, 2023).

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