Economic Impact Assessment of the Global Minimum Tax: Summary

Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy

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Background

The Global Minimum Tax (GMT) represents a major step forward in international cooperation on the taxation of multinational enterprises (MNEs). It will ensure that MNEs with revenues above EUR 750 million are subject to a 15% effective minimum tax rate wherever they operate. The GMT, introduced by the Global Anti-Base Erosion (GloBE) Rules, is a key part of Pillar Two of the two-pillar solution. Agreed by over 135 member jurisdictions of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (Inclusive Framework on BEPS) in October 2021, the two-pillar solution is a historical agreement that aims to address the tax challenges arising from the globalisation and digitalisation of the economy. Since then, the implementation of the GMT has progressed with around 55 jurisdictions already taking steps toward implementation and with the rules coming into effect in 2024.

Methodology

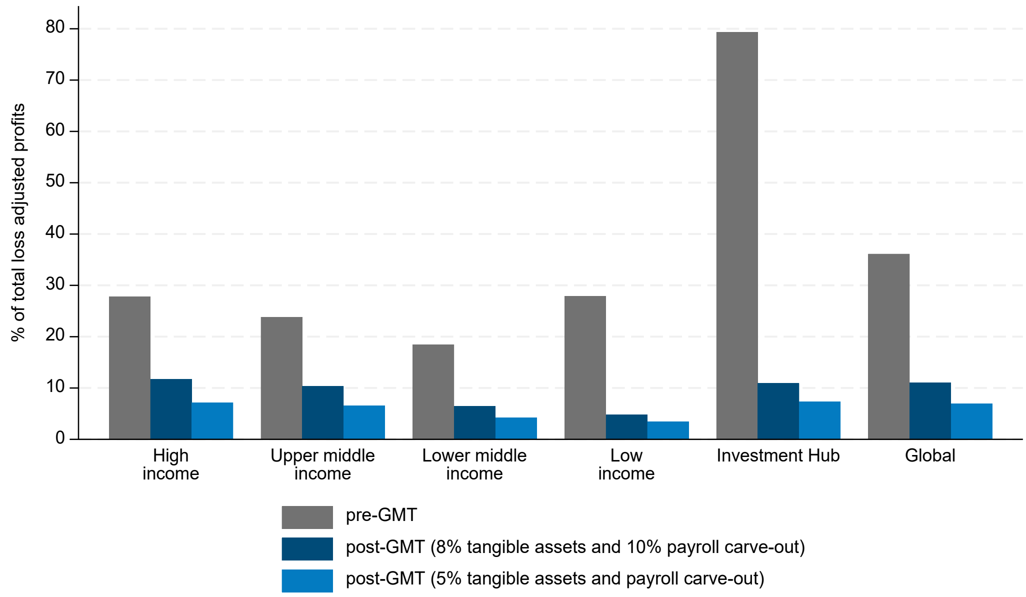
New OECD analysis examines the impact of the GMT on the taxation of MNEs, using new data on MNE worldwide activity and updated and more granular estimates of global low-taxed profit worldwide. The analysis updates and extends previous OECD work in several ways:

- **First, the analysis relies on data for the years 2017-2020** with improved coverage of the global distribution of profit and activities of large MNEs (i.e., those with revenues above EUR 750 million).
- **Second, the analysis reflects the agreed final design of the GloBE Rules.**
- **Third, the analysis better approximates the calculation of GloBE Income and the effective tax rate calculated under the GloBE Rules (GloBE ETR)**. In particular, the methodology performs adjustments to account for certain temporary book and tax differences in a manner consistent with the GloBE Rules.
- **Fourth, the analysis relies on a new methodology to build more comprehensive estimates of global low-taxed profit**. The new methodology shows substantial low-taxed profit in high tax jurisdictions. This improvement is key to modelling top-up taxes arising from the GMT in all jurisdictions.
- **Fifth, the analysis introduces updated assumptions regarding the implementation of the GMT**. The new assumptions capture governments' incentives to introduce Qualified Domestic Minimum Top-Up Taxes (QDMTTs) as well as various developments in the ongoing implementation of the GMT.

Results

The GMT is estimated to reduce global low-taxed profit by about 80%; from 36% of all profit globally to about 7%. This reduction stems from both the reduction in profit shifting and the application of top-up taxes. The remaining low tax profit mainly reflects the impact of the substance-based income exclusion. This reduction is present in all income groups, but largely concentrated in investment hubs (Figure 1). Remaining low-taxed profit is largely due to the presence of the substance-based income exclusion (SBIE), where the GMT takes account of the real economic activities of MNEs.

Figure 1. Share of low-taxed profit as a percentage of total profit, by jurisdiction group

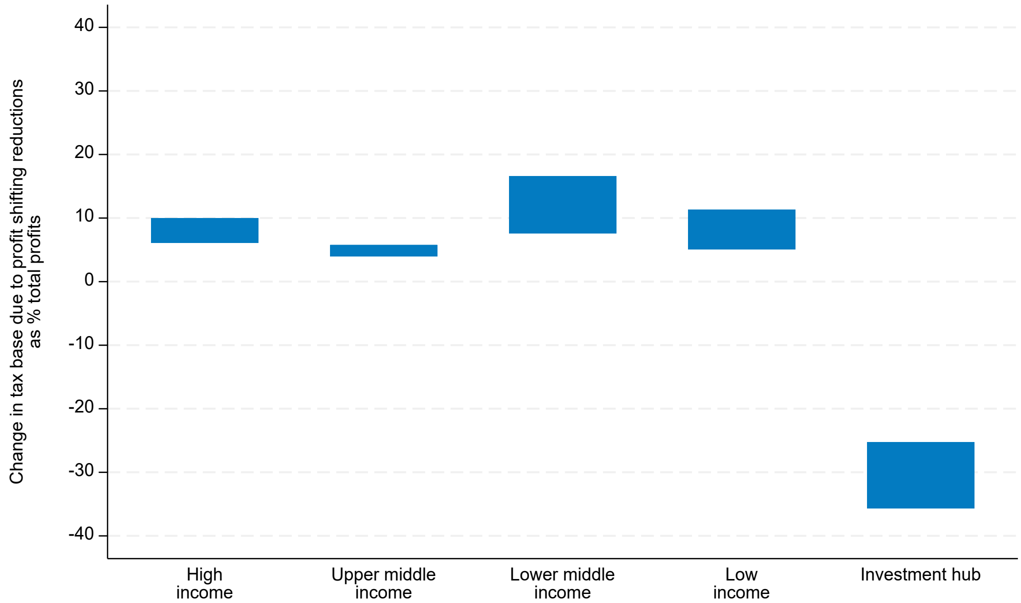


Note: The chart reflects the share of total profit that is low taxed by income groups. 'Global' refers to all jurisdictions. Low taxed profit is defined as profit taxed at loss-adjusted effective tax rates lower than 15%. The 'Pre-GMT' scenario reflects the current distribution of profit absent any GMT effects. The 'Post-GMT' scenarios capture the distribution of profit under reduced profit shifting and after the application of the GMT is accounted for. Two scenarios of the substance-based income exclusion (SBIE) are considered, aligning with the first and last years of the SBIE transitional period. Global low-taxed profit falls to 7% in a year-ten SBIE scenario and to 11% in the year-one SBIE scenario.

Under the GMT, shifted profit is estimated to fall by half due to strongly reduced profit shifting incentives, although these effects may take time to materialise. Reduced profit shifting means that more profit will be located where MNEs have significant economic activities, which may particularly benefit developing countries given that academic research has suggested they are more exposed to profit shifting. Investment hubs are estimated to lose approximately 30% of their tax base due to reduced profit-shifting, which translates into revenue gains for other jurisdictions (Figure 2).

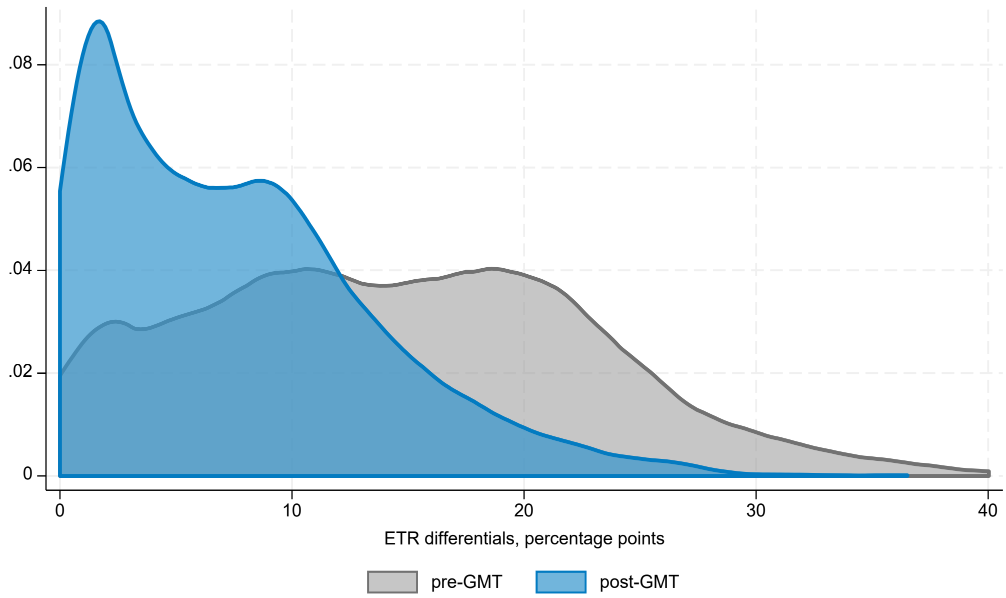
Differences in taxation between jurisdictions are estimated to fall, which will likely increase the importance of non-tax factors in influencing investment decisions and improving the allocation of capital globally. As a result of the increase in the taxation of low-taxed profit worldwide, the average tax rate differential across all jurisdictions falls by around 30%. The reduction in tax rate differentials between investment hubs and non-hub jurisdictions is even stronger. Figure 3 shows the distribution of tax rate differentials between investment hubs and non-hubs. While differentials are much higher before the GMT (in grey). Under the GMT (in blue) differentials shrink substantially, with a very high mass below 5%.

Figure 2 Change in tax base due to profit shifting reductions, % of total profit



Note: Average changes in total profit by income group following the implementation of the GMT. Bounds are constructed using six scenarios with different assumptions regarding profit shifting reductions. Data includes non-Inclusive Framework member jurisdictions. Profit from funds as ultimate parent entities is assumed to be unaffected by the decline in profit shifting incentives as they are excluded from the GMT. Total profit is profit before accounting for profit shifting.

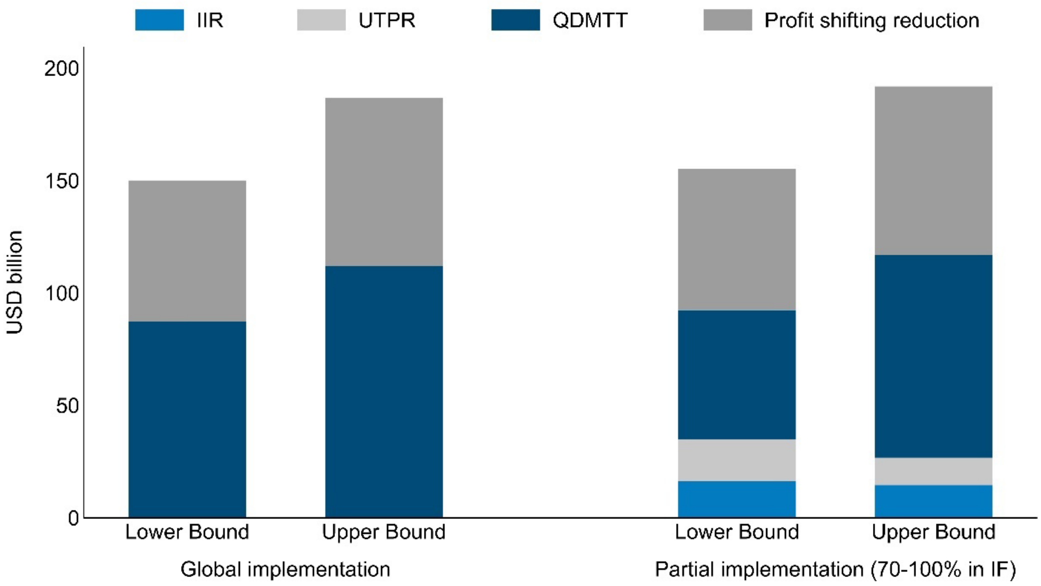
Figure 3 Size of effective tax rate differentials with investment hubs, before and after the GMT



Note: Effective tax rate differentials are calculated as the absolute difference between each unique jurisdiction-pair in the sample averaged over 2017-2020.

Global corporate income tax (CIT) revenues are estimated to increase as a result of the application of top-up taxes and reduced profit shifting. The GMT is estimated to raise additional CIT revenues of USD 155-192 billion globally each year or between 6.5% and 8.1% of global CIT revenues (**Error! Not a valid bookmark self-reference.**), with one third of these gains coming from reduced profit shifting. Estimated revenue gains are expected to accrue to all jurisdiction groups, with the distribution of revenue gains depending on the assumptions on governments' implementation and MNEs' behavioural reactions. The analysis highlights that the implementation of QDMTTs can be an important tool for jurisdictions to collect top-up taxes from low-taxed profit arising in their own jurisdiction.

Figure 4 Global revenue gains by implementation scenario



Note: The estimates are presented as an average of the 2017-2020 results. Estimates are presented for Inclusive Framework (IF) member jurisdictions only. Estimates include both direct and indirect revenue gains and account for variation in the sensitivity of profit shifting. Estimates for the 'partial implementation' scenario assume that 70-100% of all IF member jurisdictions implement the Income Inclusion Rule (IIR), the UTPR, and the QDMTT, except for zero-tax jurisdictions who (i) do not have any corporate income tax infrastructure and (ii) have not taken any public steps to implement the GMT as at 27 October 2023. Non-IF member jurisdictions are assumed to not implement. Estimates for the 'global implementation' assume that all IF and non-IF members implement. Estimates are presented for the SBIE year-one scenario (10% on payroll and 8% on tangible assets). Estimates are presented net of any lost revenue from controlled foreign company (CFC) regimes modelled.