

% TAXES



Izzat AlAyoubi

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The impact of tax on multinationals

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Overview:

Tax avoidance by multinationals reduced governments' abilities to address international challenges such as the global pandemic, climate change and rising inequality. It prevented the chance of achieving equality and distributive justice and led citizens around the world to lose trust in modern democracies.

Ending tax avoidance could have as a result the loss of 100 billion US dollars - 240 billion US dollars a year of multinational enterprises (MNE) profits. In other terms, this is the amount that avoidance robs public coffers annually.

Hence, there is an increasing need to develop global tax policies in order to reduce the obscene damages resulting from the multinational companies' stinging of large profits. Herein lies the problem: how to reconcile distributive justice on the one hand and not discouraging companies from investing and thus reducing job opportunities on the other hand.

In order to assess the impact of taxation on multinationals, it is crucial to see what's going on on the regulatory level.

A major development has occurred in the world of international taxation in the past year, aiming to address the tax challenges arising from the digitalization of the global economy and to help governments recover from the COVID-19 outbreak's repercussions on public budgets. It is the OECD's Base Erosion and Profit Shifting 2.0 agreement (BEPS 2.0) that will be introducing a global minimum corporate tax of 15% on large multinationals with profits exceeding 750 million euros per year.

The agreement that will enter into force by 2023 is backed by the leaders of the world's 20 major economies in addition of around 110 other countries representing 90% of the global economy. It is the first international agreement establishing a limit to how low tax rates can go.

This ambitious plan could put an end to harmful tax competition between countries and reduce the incentive for multinationals to shift profits to tax havens. Furthermore, this means that it could generate a minimum of 50 billion dollars in additional global tax revenues.

BEPS 2.0 is composed of two pillars: the first one tackles the distribution of profits and taxing rights of large MNE among countries by reallocating a part of these profits to the jurisdictions where sales arise, irrespective of their physical presence. The second pillar fixes a global minimum corporate tax at a rate of 15% applied to MNE with annual revenue over 750 million euros.

These rules will put pressure on companies, will affect their profits and will create additional burden like many layers of calculations, compliance and reporting. Needless to say, BEPS 2.0 would surely have as a result the shifting of power from multinational companies to national governments.

Furthermore, governments are considering the introduction of additional national taxes in the frame of their attempts to tax the digital economy. This will pose a series of significant

challenges for multinational companies as they will be faced with severe changes by the introduction of a series of new taxes like windfall taxes, digital services taxes and online sales taxes. This means that MNE will have to deal with additional tax compliance, transparency and internal evaluation in order to avoid potential liabilities.

On a brighter side and in a win-win frame, MNE may benefit from increased incentives to invest in infrastructure, innovation and carbon-reducing technologies.

Hence, the ambitious plan of taxing large multinationals might not have the desired outcome as the digitalization of the world's economy as well as new business models like Markets as a Service platforms (MaaS) and Distributed Ledger Technology (DLT) is way faster than the ability of tax departments in financial services organizations to understand these challenging models that will continue to allow MNE to develop high incomes in a country without paying any taxes.

To sum it up, a variety of factors – be it fiscal, governmental, sociological, economic and environmental – will influence how multinational corporations operate as the globe works to eradicate Covid-19, fight injustice and contribute to a greener environment in the long run.

Businesses risk losing large profits if they don't elaborate solid and strategic plans to keep pace with the new policies.

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