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Impact of OECD's Minimum Tax Proposals on Corporations and Governments

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Summary

- Approximately 140 countries, led by the Organisation for Economic Co-operation and Development (OECD), are discussing a minimum tax to address corporate tax evasion, with the aim of reaching an agreement by mid-2021.

- The minimum tax is a measure by which the government of a country adds tax to the parent company in its home country when a multinational enterprise only incurs taxation at a level below the minimum tax rate by establishing a subsidiary in a country with a low tax rate.

- Behind the minimum tax proposal lies the problem that as the economy becomes increasingly digitized, and the value of intellectual property rights (intangible assets) that enable services to be provided over the Internet increases, some companies in Europe and the US are evading taxation by transferring intangible assets to tax havens.

- Most Japanese companies tend to be reluctant to engage in tax planning, and even if the minimum tax is introduced, few Japanese companies are expected to be subject to the additional tax. They may even improve their competitiveness (as measured by their ability to earn after-tax profits) compared to some US and European companies that are holding down their tax burdens.

- The OECD estimates that the introduction of the minimum tax (together with the digital taxation discussed in parallel) will increase tax revenues by $100 bil annually worldwide, and it is expected to cover a portion of the increased fiscal expenditures in each country following the Coronavirus crisis.

Attention
This report is a summary translation. The official document is only in Japanese, included in the DIR Research Quarterly Review (Vol.42).

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