

Global Tax Reform – Roundtable Summary

On 7 July 2021, the APPG on Anti-Corruption & Responsible Tax hosted a virtual roundtable to discuss the current proposals for reforming global corporation tax. We were joined by a panel of leading policymakers, legislators, and experts in the field. Our panellists engaged in a thoughtful and lively debate that addressed many of the most pressing questions about the current agreement. With over 50 attendees, this was another successful event for the APPG despite being pulled together at short notice. As ever, we are grateful to our external partners and stakeholders for their engagement at this event and across our agenda.

Chair: Dame Margaret Hodge MP

Panel:

- Jesse Norman MP, Financial Secretary to the Treasury
- James Murray MP, Shadow Financial Secretary to the Treasury
- Alex Cobham, Chief Executive – Tax Justice Network

The Reforms

The way that multinational corporations are currently taxed is completely outdated for a digital and global economy. The largest companies, often the big winners during the pandemic - such as Amazon, Google, and Facebook - are able to take advantage of this system to avoid paying a proper share in the jurisdictions where they conduct their economic activities and earn their profits. Meanwhile, SMEs and non-digital businesses are less likely to adopt these artificial financial structures. Yet they are often hounded vigorously by the tax authorities.

The only way that changes will be effective at the national level is through agreement at the international level. But multilateral efforts to ensure that large corporations and tech companies do pay their fair share have so far failed. Negotiations have been ongoing for years through the OECD to secure international agreement on the reforms needed to stop the shifting of profits and to ensure that multinationals pay corporate taxes in the jurisdictions where they earn their profits. The previous attempts reached an impasse as countries could not agree on a route forward for reform.

An important opportunity to create a step change on global corporate taxation has arisen from the new US administration led by President Biden. The Americans have proposed a new set of reforms that could have a dramatic effect. These reforms have two pillars.

Pillar 1: the largest global corporations would be required to reallocate a certain proportion of their profits to other jurisdictions according to where their sales take place.

Pillar 2: a minimum global corporate tax rate would be set at 15%.

An initial agreement for these proposals was made by the G7 in June and then later in July 130 countries signed up to the deal as part of the G20 and OECD. Further rounds of negotiations are expected to take place in October.

Panellist Remarks

Jesse Norman MP

- The UK Government has played a central role in international negotiations for global tax reform going back a decade. The Government has supported the OECD project on tax reform since 2019.
- Refutes the idea that the Government has been a blocker of reform. Argues that the Government has worked hard to help drive the agenda on these latest proposals. They are passionate about fair and practical reform of the global corporate tax framework.
- Will not comment on the specifics of the ongoing negotiations. However, makes the point that both pillars are necessary to make the reforms work, they are interdependent. Many other

countries, including tax havens, had to be brought on side to support the proposals. As ever with complex multilateral negotiations such as these, the devil will lie in the detail.

- The new Pillar 1 proposals mean that the Government will drop its Digital Services Tax. The DST was always about more than revenue, it was about implementing new principles on digital taxation into the UK.
- States that the Government will always support the Overseas Territories and Crown Dependencies, but first will have to see what impact the proposals may have on these jurisdictions.
- The Government will look at Public Country-by-Country Reporting (PCbCR) when other jurisdictions do. It is a reporting standard in its infancy and should not be seen as a panacea.
- Applauds the bi-partisan approach taken by the APPG on this area, and across our agenda. However, was critical that the debate became what he viewed as political rather than technical.

James Murray MP

- States that these reforms really matter because of public anger at the current state of affairs in which huge corporations are able to avoid paying their taxes. It is a matter of fairness.
- It was deeply disappointing to see that the UK Government were internationally recognised as a hindrance to this latest round of negotiations and had to be bounced into supporting the reforms at the G7 in Cornwall. The UK's leadership role on tax has slipped.
- There are some big issues with the currently agreed proposals. The most significant of these issues is that the minimum corporate tax rate has slipped from 21% to 15%.
- PCbCR would allow us to determine whether or not these reforms are effective. The Government should follow the example set by the US and the EU and implement this corporate tax transparency standard.

Alex Cobham

- Started by providing a technical summary of the most recently agreed proposals.
- Pillar 1 is a small step and is a long way away from the real goal of full apportionment, which would see tax redistributed according to real economic activity, including sales and employment.
- Pillar 2 is where the ambition remains and where the most revenue will be raised. But 15% is still far too low for the minimum tax rate. It is notable that the UK stepped from initial opposition to a minimum corporate tax rate. If the framework is effective, then the rate should be ratcheted up over time.
- The proposals are deeply unfair to lower income countries. It is the "home country" of a multinational corporation that will be able to charge the minimum rate on it. That disadvantages developing countries where far fewer global companies have their headquarters. These current proposals "bake in" these disadvantages and will be very difficult to change.
- The UK has gone backwards on PCbCR. Not only has the Government failed to implement this measure in the UK unlike our allies, they have also stopped publishing aggregate CbCR data.
- Points out that raising questions about CDOTs and PCbCR is not 'political', these are the very questions currently being asked by international bodies such as the World Bank and the IMF.

Audience Recommendations and Comments

Nigel Mills MP

- The reforms are promising even if there are technical shortcomings. They might lead to behavioural change from corporations which could stop the worst profit-shifting and aggressive tax avoidance.
- Putting the framework in place is the biggest challenge, the rate can creep up over time.

Matt Stringer, Head of International Tax – Grant Thornton

- The headquarters principle means that the UK might not raise much from Pillar 2.
- Rather than the rate, the focus should instead be on the base. Both 15% or 21% of not very much is still not very much.

George Turner, Director – Taxwatch UK

- Their research is showing that the reforms will raise less in the UK from the Big Tech companies than the existing Digital Services Tax. It's 'not politics, just maths.'

APPG Responseⁱ

We are very grateful to our panellists and to everyone who joined us at this virtual roundtable. As ever with our online events, the discussion was thought-provoking and the audience made valuable contributions. Tax is always contentious, especially when the reforms in questions are so complex and significant. Unsurprisingly, the debate at the event was therefore very passionate. However, it was encouraging that there was also much that our speakers and members could agree upon throughout the discussions.

These reforms have the potential to fundamentally shift the way that the biggest global companies are taxed. After a decades long race to the bottom, we now have a once-in-a-generation opportunity to put a stop to the worst corporate tax avoidance. The reallocation of some profits through Pillar 1 will, for the first time, see a fairer framework for international tax that begins to address the challenges of taxing the digital economy. Meanwhile, the minimum global corporate tax rate – long a holy grail for the tax justice community – will raise much needed revenue as well as signalling the end for the corporate tax haven model.

There are, however, serious flaws to the deal as currently agreed. The 15% minimum tax rate is simply too low to be effective and to truly end the global race to the bottom. Across both pillars, there are various thresholds and restrictions that seriously limit the scope of each measure and, ultimately, the tax revenue that they will raise. The exclusion of the finance sector from Pillar 1 sets a worrying precedent. Moreover, it will be concerning to taxpayers that the UK may not be able to raise more from the Big Tech companies as part of this deal. Finally, the reforms are deeply unfair to Global South countries.

There is still much to be done to ensure that these new reforms truly deliver on the historic promise that they offer. The APPG will be working with various stakeholders to campaign for the UK Government to address these technical flaws in all upcoming negotiations. We will also be campaigning for the UK Government to adopt the PCbCR corporate tax standard so that we can transparently see, once implemented, whether or not these new reforms are effective.

The APPG also wants to stress in response to various comments during the session that we always strive for political impartiality. We are a cross-party, non-partisan group and so we aim to have speakers from across the political divide at our events. The group intends to hold more technical discussions on this topic in future as part of our exciting agenda of autumn events.

See an opinion piece from our Chair, Margaret Hodge MP, for further thoughts on the global tax reforms [here](#).

ⁱ This is not an official publication of the House of Commons or the House of Lords. It has not been approved by either House or its committees. All-Party Parliamentary Groups are informal groups of Members of both Houses with a common interest in particular issues. The views expressed in this summary are those of the group.