International tax

136 nations agree to biggest corporate tax deal in a century

OECD-led pact sets 15% floor aimed at raising $150bn annually as US wins two-year ban on tech levies

The deal was finally agreed by the OECD in Paris on Friday, with all G20 and EU countries signing up © Angelo Carconi/EPA-EFE/Shutterstock

Chris Giles in London, **Emma Agyemang** in Copenhagen and **Aime Williams** in Washington OCTOBER 9 2021

More than 130 countries have signed up to a groundbreaking global deal on corporate tax reform aimed at eliminating tax havens while bringing in $150bn more a year from multinationals.

The 136 nations also agreed to a two-year ban on imposing new taxes on tech groups such as Google and Amazon while the Biden administration tries to ratify the deal in the US.

The agreement — the biggest corporate tax reform for more than a century orchestrated by the OECD — includes a 15 per cent global minimum effective corporate tax rate, plus new rules to force the world's multinationals to declare profits and pay more in the countries where they do business.

The number of nations prepared to sign up fluctuated on Friday, according to those close to the negotiations, with India agreeing at the last moment, and China and Brazil also reluctant signatories. Only Sri Lanka, Pakistan, Nigeria and Kenya held out.

The difficulties in implementing the deal became apparent when Janet Yellen, US Treasury secretary, urged Congress to “swiftly” enact the proposals by using the so-called reconciliation process, which allows bills to pass the Senate with a simple majority. She said the agreement was a “once-in-a-generation accomplishment for economic diplomacy”.

The stakes remain high for the US and those countries such as India that have levied digital services taxes on Silicon Valley tech groups. If Congress fails to implement the deal, those countries may go ahead with their digital taxes, sparking trade disputes with the US.

However, the deal gives the US space to ratify the agreement, specifying that “no newly enacted digital services taxes or other relevant similar measures will be imposed on any company from 8 October 2021” for two years.

The agreement is a triumph for the OECD, which has sought to curb corporate tax avoidance over many years of complex negotiations. Mathias Cormann, its secretary-general, said the deal would make the international corporate tax system “fairer and work better”.

Still, he acknowledged the difficulties in getting the agreement put into law, and urged countries to “work swiftly and diligently to ensure the effective implementation of this major reform”.

The deal finalised the details on sharing the profits of the largest multinationals so they pay more tax where they do business. Companies with turnover exceeding €20bn will be required to allocate 25 per cent of their profits in excess of a 10 per cent margin to the countries where they operate, based on their sales. The 10 per cent profitability margin will be calculated using an averaging mechanism, based on profit before tax.

Developing countries have complained about the lack of revenue they stand to make from the deal on fairer distribution of profits and taxing rights. They point out that this is worsened by the removal of digital service taxes, which was a deal-breaker for Nigeria and Kenya despite OECD estimates showing they would gain.

Other areas of the deal contained concessions enabling all G20 and EU countries to sign up to the minimum 15 per cent corporate tax rate.

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Ireland succeeded in its demand for the tax to have a maximum of 15 per cent, instead of the original wording of the deal that said "at least 15 per cent" and in contrast to the original 21 per cent first mooted by the Biden administration.

Hungary secured a longer transition period for the "substance-based carve-out", allowing it to offer a low rate of tax for tangible investments in its jurisdiction, such as car plants, for 10 years.

China also succeeded in having a clause inserted that will limit the effect of the global minimum tax on companies who are starting to expand internationally — because of concerns that its growing domestic companies would be clipped by the measures.