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The Current Corporate Tax Rate Competition and the Applicability of the Current Reform Proposal

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Abstract: Company taxation in the Member States of the European Union (EU) has not so far been harmonized. Serious differences exist not only in the assessment bases but also in the tax rates. The wide range of profit tax rates for companies in the EU, currently vary between 9% and 35%. These differences in tax burdens affect the cross-border investments in the European Single Market. This causes distortions in the choice of location, the nature of investments and their funding. An efficient allocation of resources cannot be achieved in this way. The tax differences within the EU leads to shifting the book profits to Member States with low profit tax rates. Loss of tax revenue and conflicts between Member States on the distribution of tax revenue are the consequences. Without a certain degree of coordination of Member States' tax policies in the field of company taxation, these problems won't be solved. An EU reform of the tax system may be the solution. Thus, the aim of this paper is to discuss the application of the current reform proposal and to examine it as a possible solution for tax competition.

Key words: corporate tax rate; harmonization; GloBE, tax competition
JEL codes: F6

1. Introduction

In order to be competitive in today's economy, it is essential to structure the company international. That's the reason why the economy and the associated companies increasingly go with the change of globalization. Thereby, administration expense, complexity and expertise requirements are constantly rising. The rising mobility of the production factors put the states under pressure to create attractive subsidiary conditions such as low tax rates. And the striving for better location conditions and the associated undercutting of the corporate tax rate is developing into corporate tax competition.

Beside the increasing competitive struggle, there is abuse about the opportunities and risks associated with these different tax systems. More and more companies use the opportunity to avoid tax. The limit between tax evasion and tax avoidance within tax optimization can be detected with difficulties. Again and again, there are so many headlines about paradise papers, tax haven, transfer of profit and this is the reason why the EU demands for a tax reform (Bennedsen, 2017). Besides the EU, the continuing competition and the resulting distorted focus of investment decisions give also the Member States reason to demand a sustainable solution. The loopholes in the

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international tax system make the participants dissatisfied (Council of the European Union, 2020). Thereof, the European governments, EU commission and Parliament try in co-operation with the Organisation for Economic Co-operation and Development (OECD) to make tax structuring even simpler and more transparent. The OECD tries to promote policy that improve the life of people in economic terms. This means that the present tax system, including the separate taxation of profit in the respective country, has to be harmonized (OECD, 2020). In order to reach the target, the present proposal for a new tax system will be questioned it in its applicability.

2. Research Framework

The aim of this thesis is to examine the corporate tax rate and the related competition. At the same time, the current reform proposal is discussed in terms of its applicability and its potential to curb competition. To achieve this goal, the theoretical basis is set. At the beginning, the development of the corporate tax rate is discussed and the emerging trend is analyzed. Approaches to explain this trend are formulated. Derived from this, the current competition of corporate taxation and the associated advantages and disadvantages will be discussed. After that the bases of a tax reform will be described until in the next chapter the harmonization of the corporate tax competition is dealt with. The development of the harmonization will be considered from 1960 to the present in order to get an overall view of possible ideas and measures. Based on this, the principle of a unification of the tax rate will be described and monetary effects between individual taxation within the EU and harmonization will analyzed. Following the basic understanding of the harmonization of the corporate tax rate, the published proposal will be described and critically examined for its applicability. Finally, a summary will be formulated and the possible need for research will be described.

The following research questions are formulated to achieve the goals of the thesis in a more focused way: How does the development of the corporate tax rate look like? To what extent can the current reform proposal minimize tax competition? And what is the applicability of the reform proposal?

3. Corporate Tax

3.1 Development

Corporate income tax is levied on profits from the business activities of certain companies. The rules are set by the national authorities and may differ in the individual EU countries. Due to the inconsistency of the rules in corporate taxation, the tax base, subsidies and tax rate may differ. This article deals purely with corporate taxation, so that a more in-depth and focused analysis can take place.

For more than two decades, there has been an EU-wide trend towards decreasing corporate tax rates. Low corporate taxes are intended to keep and attract companies that have become more mobile, or to make their own state more attractive for investment. The development of the corporate tax reveals that, within the several countries, the international tax competition gets condensed. From 1981 until 2019 the corporate tax rate has been reduced dramatically by the authority. Since the mid-1990s, there has been an EU-wide trend towards decreasing corporate tax rates. The United Kingdom was the first and reduced the corporate tax rates from 52% to 35% between 1982 and 1986 (2019: 19%). This was followed by radical tax cuts in the northern European countries in the late 1980s and early 1990s. Denmark, for example, reduced its corporate tax rates from 50% to 30% in 1987 (2019: 22%), followed by Sweden and Norway in 1992 with reductions from 51% to 25% (2019: 21.4%) and from 52% to 28% (2019: 22%) respectively (Dyreng, 2017). The following table shows the current EU countries in their corporate tax development. The dotted cells represent the countries that joined the EU at a later date. The values are presented as percentages and the period covers the years 1981 to 2019 (European Commission, 2020).

Table 1 Corporate Tax Development in the EU

Country	1981	1990	2000	2010	2019
Austria			34	25	25
Belgium	48	41	40.17	33.99	29.58
Bulgaria				10	10
Croatia					18
Cyprus				10	12.5
Czech Republic				19	19
Denmark	40	40	32	25	22
Estonia				21	20
Finland			29	26	20
France	50	42	37.8	33.33	32
Germany	60	64.5	51.6	29.41	29.9
Greece	45	46	40	24	24
Hungary				20.6	10.8
Ireland	45	43	24	12.5	12.5
Italy	36.3	46.4	41.25	31.4	27.9
Latvia				15	20
Lithuania				15	15
Luxembourg			37,5	28.6	24.94
Malta				35	35
Netherlands	48	35	35	25.5	25
Poland				19	19
Portugal		40.2	35.2	26.5	22.5
Romania				16	16
Slovakia				19	21
Slovenia				20	19
Spain		35	35	30	25
Sweden			28	26.3	21.4
Average	**46.5**	**43.3**	**35.8**	**23.2**	**21.4**

The development shows that a strong reduction of the corporate tax rate has taken place so far. And some of the European Members advertise planning a further decreasing of the tax rate. The chart shows the average company taxation in detail by country and the EU average. Especially, the EU average shows that the corporate tax rate has almost halved from 1981 to 2019.

The decrease in the corporate income tax rate can be explained by different reasons in half of the cases. One of the main reasons is certainly the accession of further Member States in 1986, 1995, 2004, 2007 and 2013. In the new Member States the tax rates for companies were mostly even before joining the EU is considerably lower. With the Member States originating in Eastern Europe, which joined the EU in 2004, 2007 and 2013, having a significantly lower corporate tax rate than the existing Member States (Anesa, 2019). By holding on to the low tax rates, the opportunity was taken to offer investors for their country. Thus, between the old and new Member States developed intense competition for investment and capital. This reduced the relatively high average and increased the pressure on existing Member States to reduce their current corporate tax rates.

Another explanation for the reduction of the corporate tax rate could be a tax reform in a country that offers investment and attractive locational advantages. A tax cut could be due to the US tax reform in 1986. After the introduction of the reform, the corporate income tax rate at that time fell from 47.5% to 34%. The corporate income tax rate thus fell below the average for the EU. Over the years, the European average came closer and closer to the American average (Federal Ministry, 2019).

3.2 Current Competition

The financial and economic crisis in 2008/2009 brought stagnation in the tax rate reduction competition. Most EU countries were unable to record further tax rate cuts due to their limited budgets. These were therefore rather the exception in the first years after the outbreak of the crisis (Chytis, 2020). The fact that tax rate competition now seems to be picking up speed again after the recovery of the financial crisis has several reasons in addition to special events such as the Brexit. Increased competition in corporate tax rates is also to be expected because, above all, the growth of conservative governments is attempting to compensate for weak growth with corporate tax cuts.

Also, the globalization and the associated increasing international mobility of production factors is putting increasing pressure on states to create attractive locational conditions for companies and investors for example through low tax rates or advantageous tax systems. In the area of corporate taxation, there is an intense undercutting competition in the EU, as states use their tax policies strategically to attract companies with direct investment or tax substrate to their country. The reduction of corporate taxes or the introduction of a preferential tax regime increases the attractiveness of a location for investment and thus leads to competition between countries to achieve locational advantages. With the entry into force of the Tax Cuts and Jobs Act in the USA on 1 January 2018 and the reduction in corporation tax from 35% to 21%, as well as the announcement by several European states that they intend to reduce corporation tax over the next few years, the issue of international tax competition has become even more topical (Federal Ministry, 2018).

Both empirical and theoretical studies on tax competition show that there is a strong competitive pressure in corporate taxation (European Commission, 2019). In principle, states compete for foreign direct investment. The basic idea was that corporate taxes are used for investment in the quality of public infrastructure, labor costs, education and training levels or the existence of important sales markets. Empirical studies usually conclude that lower taxes lead to an influx of foreign direct investment (Edwards, 2016).

3.3 Opportunities and Risks of Corporate Tax Competition

Tax competition is without doubt the most politically controversial issue in European tax policy. The debate on tax competition has intensified in recent years. Tax competition is a process driven by the strategic behavior of companies and governments. In principle, the concept of tax competition is usually negatively afflicted, but there are nevertheless opportunities. From a macroeconomic perspective, the following chapter discusses the opportunities and risks of tax competition.

A positive effect of tax competition is the containment of arbitrary tax increases by politicians. Politicians like to pursue the goal of tax maximization to provide the state budget with a framework for investment. Due to tax competition and the transparent comparison with other states, politicians are restricted in their actions.

Through the existing tax competition, companies benefit from the limited tax autonomy of politicians. This means that the Member States strive for an efficient state. It arises primarily from the fact that tax competition gives the Member States an incentive to keep the costs of fulfilling their tasks as low as possible.

The next opportunity of tax competition is the recruitment of foreign companies, which can lead to more prosperity in the own country. Through tax competition within the EU, the own country also has the opportunity to attract more taxpayers in an international comparison through attractive factors such as a low tax rate, a good infrastructure or other aspects. As a result, the state generates higher revenues, and the individual entrepreneur has to pay less.

Where there are opportunities, there are usually also risks. As a result of the race to lower the level of taxation, the players are in a downward spiral. In this context, the principle of the “race to the bottom” is often discussed, which is based on a game theory in the form of the prisoner dilemma. However, it will not come to the point where the state will reduce taxes to zero because of tax competition and will no longer offer services. Because both residents and businesses are interested in the state taking over certain tasks.

Furthermore, the fairness principle represents a challenge. A state budget needs a certain amount of money to be able to operate. However, if corporate taxation falls drastically, the state cannot meet its financial obligations. The consequences of profit shifts can take different forms in the Member States. In this case, a high-tax country weakens the location in the sense that local, immobile factors, such as possibly the labor force or even the industrial space, suffer productivity losses, which are accompanied by income declines, loss of value or even unemployment or vacancies. The loss of tax revenue can be compensated by increasing taxation to less mobile factors. So that the state budget has its required quota available.

In addition, tax competition may lead to market distortions in favor of low-tax countries. Due to the large differences in corporate taxation, there is a risk that companies in low-tax countries will migrate and thus pursue a policy of tax avoidance (Glaeser, 2019). Guided by the goal of tax minimization, book profits are a strong incentive for states. The empirical literature shows that international tax planning and thus the systematic exploitation of international tax burden differences is common practice in multinational companies (Clifford, 2019; Heckemeyer, 2017). Companies mainly use profit shifting of book profits to high tax countries and book losses to low tax countries to reduce their overall tax burden. Under the given rules of international taxation, multinational companies can shift their profits relatively easily (Wilde, 2018). Through transfer prices between parts of the company and excessive debt financing, they are able to generate profits in tax-efficient countries and to claim allocable costs in high-tax countries (Beer, 2015). In this way, they can minimize their tax burden without having to relocate real production sites.

4. Tax Reform

The following chapter describes the principles of tax reforms and the associated competition. In order to be able to conduct a more in-depth discussion, a uniform understanding of the corporate tax reform is necessary at the beginning. Since there is no globally valid definition, a self-formulated definition is used here. A tax reform is a major or fundamental change in the tax system or an individual tax law in a country. A tax reform proposal describes a concrete model or concept for changing the tax law in the context of a tax reform.

Besides the explanation of what a corporate tax reform is, the reasons for it should also be considered. The elimination of too high or too low taxation of certain tax components will be eliminated, thus ensuring greater tax justice. This also includes the discussion on the reduction of tax concessions considered unjustified and the demands for the alignment of tax rates. In addition, the simplification of tax law and the increase of transparency will be pursued (Nebus, 2019).

However, the increased mobility of companies and high earners, combined with intensified global tax competition, considerably reduces the scope for government action in this area. In addition, attempts are being made to prevent a creeping tax increase (cold progression) through the interaction of creeping inflation and progressive tax rates. As a last aspect, changes in tax law are justified on the basis of case law, e.g., in response to rulings of the European Court of Justice, the Federal Finance Court or the Federal Constitutional Court (Avi-Yonah, 2018).

Due to the fact that all countries want to be competitive, they are in constant comparison with each other. This constant pressure for improvement stimulates competition in the European Union, but also worldwide. In the long run, this creates a vicious circle, which is illustrated in the figure below.

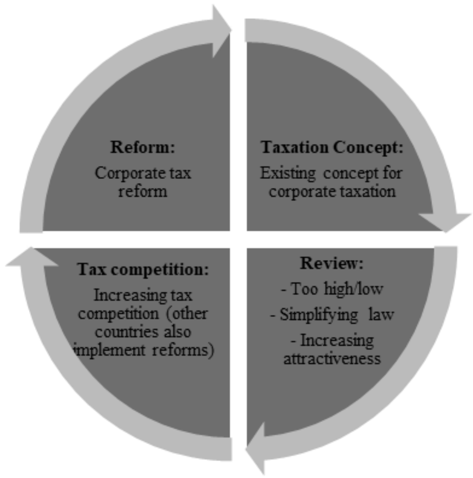

Figure 1 Vicious Circle Corporate Tax Reform

5. Harmonization of the Corporate Tax Rate

5.1 Development

The reasons for the tax burden differential between the EU member states are complex. They lie in the many differences between the national tax systems. However, it has been shown that the tax burden on corporate profits is of utmost importance. Harmonization of the corporate tax rate would therefore in itself make a significant contribution to reducing distortions in companies' location, investment and financing decisions. However, this would mean giving up a central element of national tax sovereignty. The problem has already been recognized in the past and countermeasures have been developed. The initiatives and reform proposals that play an important role in the concept of the corporate tax rate are discussed below.

The early work of the EU Commission and the Committees was driven by the idea of a far-reaching harmonization of national tax systems, sometimes down to the last detail. This basic trend was already clearly expressed in the Neumark report of 1962, which emphasized the need to eliminate tax differences between the Member States. A few years later, this ambitious overall program culminated in proposals to harmonize corporate tax systems, but without success (European Commission, 2001).

Various proposals and guidelines were developed between 1975 and 1988, but due to a lack of acceptance they were not even presented. The final report of the Ruding Commission, which was presented 30 years later in 1992, also came to comparatively far-reaching conclusions. The core elements of the recommendations are a minimum corporate tax rate between 30% and 40%, a partial approximation of the rules for determining taxable income and the integration of local trade taxes into income and corporate taxes. In the long term, a common corporate income tax system is also necessary. In the end, the EU Commission's initiatives were not successful. The Neumark report did not produce any significant results. For example, the proposal for a directive to harmonize corporate tax systems was withdrawn and the proposal to harmonize the rules for determining taxable income did not even get beyond the draft stage. The recommendations of the Ruding Commission were received with great reserve and did not trigger any concrete measures. The reasons for this failure are complex. For one, the EU Commission and the groups of experts failed to point out perspectives for the further development of international corporate taxation in the internal market. This is because the measures on corporate tax systems, tax types, tax rates and the tax base primarily concern national taxation. However, no clearly defined model for international taxation has been developed. Without approximation to such a model, major tax obstacles to cross-border business activities cannot be removed. On the other hand, the proposals implied far-reaching encroachments on national tax sovereignty, which met with considerable political resistance. Especially, since the extent of welfare gains that can be realized through tax harmonization is difficult to quantify and individual Member States may also suffer welfare losses as a result of harmonization (European Commission, 2001).

One of the first major measures was the adoption of the Code of Conduct for Business Taxation in 1997. In 1999, an initiative of the Council of Ministers was carried out, in which it conducted an analytical study on company taxation in the European Union. It was published in 2001 with results on the extent of differences in taxation. At the Vienna European Council in 1999, further efforts were decided upon, focusing on the fight against tax competition. The result was that a harmonization of the tax rate within the EU is not possible because fair competition is restricted (European Commission, 2001).

In 2001, the European Commission is preparing a new initiative to harmonize the European tax system, which will focus on increasing capital market efficiency. The main theme was to improve the internal market and cross-border activities for multinational companies. The main point of discussion was the violation of the European Commission in introducing a consolidated tax base, while a harmonization of corporate income tax is not planned (European Union, 2016).

In the presentation of the development of the harmonization of corporate tax rate, it becomes clear that many ideas and proposals have been submitted, but no acceptance has taken place. The reasons for rejection are far-reaching. With the current reform proposal, the previous reasons for rejection are to be avoided and the application critically questioned.

5.2 Concept and Design

In the recent past, Member States have had sovereignty to shape their corporate taxation. This independence of the Member States has not existed for a long time. In fact, tax competition now has the power to shape corporate taxation. This results in a wide range of levels of company taxation. The common feature that can be observed in the EU is the downward trend that each country has experienced on its own. This constant undercutting and the attempt to withstand the pressure of tax cuts is harmful to the EU and destroys competition.

The harmonization of company taxation currently represents a possibility to be discussed for the reduction of the related tax competition. In order to create a common basis, the concept of harmonization is presented at the beginning. Harmonization of the corporate tax rate is understood to mean the establishment of an uniform corporate tax rate. This does not automatically mean that everyone must use the same tax rate, but that everyone must pay the same tax rate. The financial impact associated with the uniform tax burden is shown in a simplified way in the following example.

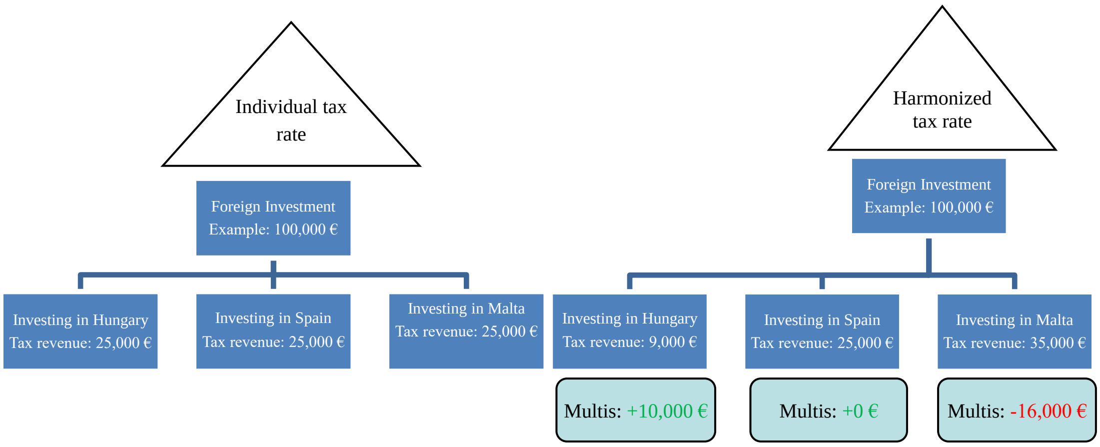

Figure 2 Monetary Comparison Between Individual and Harmonized Corporate Tax Rates

The figure shows that the different corporate tax rates create an additional incentive to invest abroad. In this example over 100,000 €, the difference between the corporate tax rate in Malta and Hungary is €26,000. This means that the company investing in the low-tax country has a tax burden reduction of 26%. This distorts competition and influences the criteria for investment decisions.

In comparison, the harmonized tax burden which assumed an uniform tax rate of 25%, the multinational companies have a tax saving in Malta of over €10,000 and a tax burden increase in Hungary of €16,000. In relation to Spain, there would be neither an increase nor a decrease. By harmonizing the tax burden, the incentive of tax savings is smoothed. The company's sales policy and strategic factors are again at the forefront of investment decisions.

In order to achieve this goal, the Member States need an uniform regulation from a superordinate organization. An agreement on the harmonization of company taxation between the EU Member States represents a major challenge. The EU is not a homogeneous pursuer of interests vis-à-vis the rest of the world. In order to implement an agreement successfully and to guarantee its correct application, time-consuming renegotiations within the EU are necessary.

5.3 Current Corporate Tax Reform Proposal

The G20 finance ministers are striving for fair taxation of internationally active companies. The OECD Secretariat published a proposal which consists of two pillars. The first one focus on an "Unified Approach" and was published on 9 October 2019. This will address the challenges of digitization, which is neglected in this paper. Followed by the consultation document on the "Global Anti-Base Erosion Proposal" (GloBE) under the second pillar which was published on November 8, 2019. The concept of the GloBE mainly refers to a global and effective minimum taxation (OECD, 2019). As the work progresses, we will limit ourselves to the second pillar. The GloBE concept consists of four components, which are summarized in the table below.

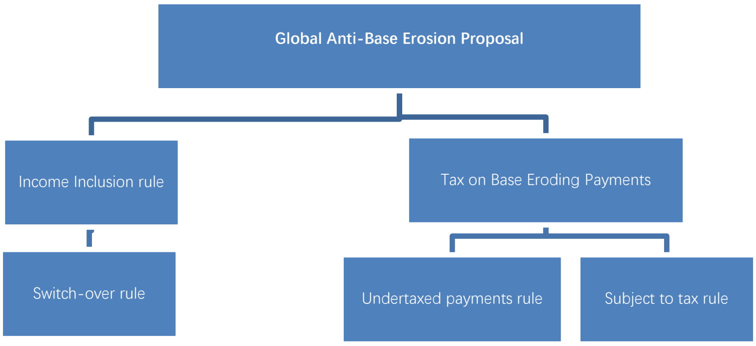

Figure 3 Globe Concept

The first rule, the Income Inclusion rule, requires taxpayers to subject to domestic taxation income that has been taxed below average or not at all via a foreign subsidiary. In the country where the parent company is located, the leading corporate tax rate. Under this scheme, tax equalization refers to the tax rate only and not to the type of income or the net asset value. In order to clarify the described regulation, an example is given for illustration. A company headquartered in Malta has a subsidiary in Hungary. The taxation of the subsidiary's profits is based on the tax rate of the Hungarian Member State, namely the 9%. According to the principle of the present proposal, the tax authorities of Malta are now entitled, assuming a minimum tax rate of 25%, to tax the deferred profits with the missing 16%. The application of the Inclusion Rule interrupts the separation principle which applies to corporations.

The inclusion rule shall be supported by the Switch-over rule. The aim is to subject not only the profits earned by foreign corporations but also foreign operating profits to the minimum tax rate. The same principle is applied (Schmidt, 2020). The Switch-over rule applies if, for example, the Malta-based company does not have an independent legal entity in Hungary but is active on the market through a permanent establishment or a branch office. The inclusion rule would not apply in this case, as the company is not a corporation.

The second measure is the introduction of a Tax on Base Eroding Payments, which should serve to protect the tax base. This measure contains two rules: The Undertaxed payments rule and the Subject to tax rule. Below is the second part of the GloBE proposal. It starts with the Undertaxed payments rule, which regulates the tax deduction restriction for payments to related parties abroad. A group based in Hungary has a subsidiary in Malta. The subsidiary in Malta significantly reduces its tax payment in Malta by transferring a large portion of its taxable profits as royalties to, for example, a Hungarian subsidiary, which taxes royalties at a particularly low rate. As a result, according to the present proposal, the Maltese tax authorities are entitled to disregard license costs as a business expense (Schmidt, 2020).

The second pillar of Tax on Base Eroding Payments is the Subject to tax rule. It contains rules which may prohibit certain treaty advantages in the source state, such as the reduction of withholding taxes on interest and royalty payments, if the income is not subject to minimum taxation in the state of residence of the payee (OECD, 2019).

5.4 Applicability

An important point of criticism is that the minimum taxes restrict the fiscal sovereignty of low-tax locations. In fact, with the introduction of minimum taxes, a country loses the ability to set the effective tax burden on profits below a certain limit. However, it is questionable whether in the current situation the low-tax countries have already taken sovereignty away from the high-tax countries. To this extent, the minimum tax could represent a compromise between the current situation and the optimal situation. A design of the tax rate is still conceded, but the extreme tax concessions by means of a low tax rate represent limits.

Challenges can arise, for example, in the context of double taxation. A Hungarian corporation has a share in a Maltese company. And thus, to be classified as fiscally transparent from the perspective of its state of residence. If the domestic view is considered, it is presented as a corporation. The income earned by the Maltese company is subject to taxation in the foreign state directly at shareholder level due to its transparent view. From the Hungarian point of view, a further tax burden is already incurred when the Maltese company distributes profits to the corporation. Since the Maltese company itself does not pay any taxes, GloBE in its version of the inclusion rule could even trigger additional taxation and thus aggravate the already existing double taxation.

Added to this are the increased tax compliance costs. For the purpose of calculating the relevant foreign tax burden, the tax base must be determined in accordance with national tax regulations. In the case of deeply staggered participation structures, the calculation effort can increase significantly. It is also questionable whether the new extended taxation rights will only apply to large multinational enterprise groups. This is because the raising of capital and resources and the associated bureaucratic burden by small and medium-sized enterprises could pose an existential threat.

To ensure successful implementation of the regulation, clear and complete formulation is an essential criterion. If the application is not defined, a uniform application in different Member States cannot be guaranteed. Especially, a simple and concrete description of the procedure contributes to a successful implementation. If successfully introduced, corporate taxation would be subject to a minimum tax. This would set a lower limit to global tax competition and set limits to the competition for capital, companies and book profits. A minimum tax reduces the differences in tax rates and thus makes the international allocation of capital more efficient.

Taxes are a determinant that should not be underestimated and contribute to the choice of location. The reason for this is the pursuit of profit maximization of investments, which would be distorted by different tax rates. A minimum taxation would level the incentive to include the tax rate as a determinant in the choice of the investment (Kubick, 2020). Complete incentive neutrality of external influences cannot be guaranteed with a minimum tax rate, but it reduces the obvious false incentives.

Another positive effect of the GloBE proposal and the associated minimum taxation removes the incentives to shift profits to low-tax countries in order to achieve a lower tax burden. Various studies show that the extent of profit shifting is far-reaching from a global perspective (Alexander, 2020; De Vito, 2020; Jacob, 2020).

The last positive effect is seen in tax competition. Minimum taxation would reduce tax competition. On the one hand, countries with medium and high tax rates are given the option of imposing a higher tax rate, as there is no possibility of shifting profits. At the same time, the elasticity of the tax base is reduced. On the other hand, the low-tax countries can raise their tax rates in order to increase the country’s welfare. An increase up to the minimum tax rate would have no external effect. This is because they must pay the minimum tax rate either to their own tax authorities or directly to the invested country.

6. Conclusion

The present paper was used to investigate the development of the corporate tax rate. It quickly became clear that the trend is an annual decrease in corporate taxation and that the bottom has not yet been reached. Thus it is evident that tax competition will continue until the undercutting of the tax rate calms down. In addition to the aspect of tax competition, which is mostly negatively affected by the media and discussions, there are also opportunities that can be exploited. However, from a community perspective, the risks outweigh the benefits.

The analysis shows the desire for reform and the need to curb corporate tax rate competition. It is also clear from the development of tax rate harmonization that many initiatives, analyses and ideas have already been conceived, but the disadvantages and the dissenting voices have been too great. The description of the GloBE proposal and the discussion of its applicability will help to assess the current reform proposal.

The introduction of a global minimum taxation would trigger a paradigm shift in international corporate taxation with significant implications for business practice. A well-designed, comprehensive and internationally coordinated minimum tax would have enormous advantages and could significantly increase the efficiency of international taxation. Minimum taxes thus have the potential to achieve growth through an improved allocation of capital, curb inefficient profit shifting and minimize tax competition.

Although there are still many doubtful questions to be clarified in the details, a company-specific analysis of the potential effects is already advisable at present on the basis of the basic conceptual system.

The GloBE proposal offers only a concept, but still leaves many questions unanswered with regard to the concrete design. Aspects that still need to be clarified in the detailed design are to what extent the application will take place? Which companies are affected by this rule, what control influence must exist at the subsidiary? What is the minimum tax rate? Further developments regarding GloBE should be closely monitored.

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