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Update: Overhauling of Global Tax System

Following the agreement reached by the G7 in June, officials from 130 countries agreed on July 1st to join a plan for overhauling the global tax system. The objective of the plan is to ensure that big companies pay a fair share of tax in the locations where they operate, with a minimum corporate tax rate of at least 15%. The 130 nations that have signed so far account for approximately 90% of the world economy. All G20 countries, including China, India, Brazil, Turkey, and Russia, backed the agreement. In addition, several low tax jurisdictions and investments hubs, including Switzerland, were among signatories to the deal. They are expected to lose significant revenues when the rules come into effect. A few countries have held out against the reforms, including three in the EU (Ireland, Hungary, and Estonia), which have at least some corporate taxes below the proposed minimum.

The announcement comes ahead of further talks on tax reforms expected to be held between finance ministers at G20 meetings in Venice on July 9th and 10th, with a plan for a final global deal to be agreed by October 2021 and implemented in 2023.

The agreement will apply initially only to the biggest companies with turnover exceeding €20bn. However, that threshold is expected to fall to €10bn after seven years. In addition, companies will have to reallocate 20% to 30% of their residual profit above 10% to market countries. This will ensure that tech giants, luxury goods groups and pharmaceutical companies will pay more tax in the countries where they do business. Companies in regulated financial services, mining and the oil and gas sectors are expected to be excluded from these provisions.

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