

A global minimum corporation tax rate is good news, but...

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Janet Yellen has, [according to the FT](#), called for a global minimum corporation tax rate. I welcome the move. I actually wrote a paper suggesting this in about 2008. After consultation I never put it out: at the time it was felt to be way too impractical to even propose. How times have changed.

This proposal is likely to gain traction. The OECD backs it. So too do civil society, which matters these days. But let me add a few words of caution.

First, the rate has to be high enough. Something approaching 20% would make sense, but may be optimistic given the considerable deductions available in many tax systems.

Second, that then hints at the second issue. What is going to be compared with what here? It needs to be based on economic substance and so must be related to accounting profit. But what profit? The group is a starting point but tax is not paid on a group basis, but by country. And what is known is that profit is shifted between countries. So the figure has to be group profit apportioned to country. Unsurprisingly country-by-country reporting can achieve this goal, but not using the OECD's data, which used aggregated and not consolidated accounting information by country, which means it can be gamed far too easily. The GRI version would provide a better result, but I declare an interest as I was on the committee that advised on it.

Third, there is the problem of determining what tax charge is to be considered. Deferred tax has to be ignored. It is quite literally made up and is, of course, never paid, so it must be discounted, entirely. But what we also know is that historically the current tax provision in most accounts is also overstated. I first noted this in 2006 and more recent evidence suggests that the trend continues. Companies over-provide for their current tax and then release their provisions when their tax avoidance proves to be effective. So the tax provision in the accounts of a company for any one country may also not be the right basis for determining an acceptable effective tax rate by jurisdiction.

Is cash paid the right basis, then? It may be, but critically this has to relate to a year

rather than be the sum paid in a year. This will take time to calculate, and be subject to revision. What time period for adjustment will be required? And how will time for resolution of audit issues be addressed, because this is a big issue?

None of these issues is in any way insurmountable. However, significant thinking is required and the mistakes that are such a feature of the OECD country-by-country standard must be avoided. Good sentiments have to translate into sound practice to deliver tax justice. There will be a lot to discuss. But let's still welcome this chance to get this right.