Funding the Future

Winning on the corporate tax rate argument is not done ...

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The FT has noted this morning that:

Europe's low-tax nations have responded positively to the Biden administration's plans for a radical reform of global corporate taxation, even though they will lose out – but signalled that Washington can expect a fight over much of the detail.

My response would be that this is exactly what diplomacy requires, of course. Ireland, the Netherlands, Luxembourg, Cyprus and Malta were never going to tell the US where it might put its tax plan. That's not the way the world works.

But, crucially, nor does this require that they cooperate with the OECD or the US on this issue. Instead they will argue. There will be a number of areas that will be easy picking for them.

First, they can argue on the tax rate. This might go on endlessly.

Second, they can argue on the calculation of the effective tax rate and how that might be calculated. Debate on allowable deductions for things like capital allowances could bog this down.

Then they might argue on the nature of a sale and where it might be located. This is vital since the suggested method suggests profits will be apportioned based on the location of a sale.

After that there will be disputes on time scale, since any required calculation will take time to resolve given that audit will be involved.

That then opens the issue of ensuring payment is settled, especially if long after the event and even more so if redistribution of payments already made in the wrong place is required. The opportunities in this are endless.

The point is that these are all games. And they show that agreeing the principle is one thing. Where the OECD is also going to need serious political support is in agreeing on these processes as well.

This one is not over yet, but has to be won.