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Student Officer: Ali Fadıl Sukan

Issue: Ensuring proportionate taxation of multinational corporations (MNCs)

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I. Introduction

Taxing multinational corporations has been the spotlight of many long-lasting global finance discussions and research studies. It is a particularly difficult subject to tackle, for the reason that the responsibility of ensuring proportionate taxes for multinational corporations (MNCs)are paid puts governments in a very difficult position. Although lower tax rates and attractive tax regimes may revive global trade networks, it also erodes corporate income tax, a vital source of revenue for funding government expenses.

It is important to note that multiple studies on foreign direct investments have shown that taxation strategies have a significant impact on where the MNCs conduct business. Furthermore, MNCs appear to organize themselves in such a way that more of their profits are invested in jurisdictions with low tax rates. With the existing frameworks that are full of uncertainty and vagueness, MNCs can decrease their tax liabilities by changing the location and nature of their income across jurisdictions.

Another fundamental point of discussion is **tax havens**: there exist two widely used taxation systems, one being **the territorial approach** and the other being **the global approach**, the former argued to lead to the usage of tax havens by MNCs. Under the territorial approach, the home country only taxes income earned within its borders, therefore not regulating any of the foreign earnings of an MNC. Foreign countries do, of course, have the right to tax the earnings earned abroad; achieving capital import neutrality by taxing all revenue from domestic and foreign investments in a country at the same rate. If the foreign country in question has a lower tax rate than the home country, MNCs naturally divert their capital overseas to escape the domestic tax burden, inevitably creating tax havens.

Under the global approach, the MNC's worldwide income would be taxed by the home country, which is the country of origin of the MNC. By that means, the home country taxes both the domestic and foreign-sourced income of the MNC. The home country would tax the MNC's worldwide income, regardless of where it is made, under the global approach. That is, the home country taxes both domestically earned and foreign-sourced income. This method may lead to double taxation, and to avoid double taxation, the home country either gives credit or deducts foreign taxes paid on foreign-source income, which results in capital export neutrality. As a result, multinational firms based in their home countries deploy capital around the world based on economic reasons rather than tax considerations. Therefore, an international embracement of the global approach is expected to increase international efficiency in capital allocation. Further discussion about MNCs' taxation strategies, domestic and international taxation policies, and the involvement of global organizations will be made throughout the report.

II. Involved Countries and Organizations

The Organisation for Economic Co-operation and Development (OECD)

The Organisation for Economic Co-operation and Development, formerly known as the Organization for European Economic Co-operation (OEEC) was formed in 1948, following the events of World War II, initially to administer the Marshall Plan. In 1961, OEEC reformed into the OECD that we are familiar with and membership opportunities were extended to non-European states. It had a global outlook, and one of its goals was to achieve the highest sustainable growth possible, both for its own benefit and for the interests of developing countries.

The Convention on the Organisation for Economic Co-operation and Development was signed on 14 December 1960 by 18 European countries in addition to the US and Canada, and came into effect on 30 September 1961. The three main objectives that were outlined in the OECD Convention were to achieve the highest sustainable economic growth and employment as well as a rising standard of living in the Member States whilst maintaining financial stability, thus to contribute to the development of the world economy and trade on a multilateral, non-discriminatory basis in accordance with international objectives.

"*The OECD is a force for good in the world. All of us have a collective responsibility to use it to its full potential. Our core purpose, under our Convention, is to preserve individual liberty and to increase the economic and social well-being of our people. Our essential mission of the past – to promote stronger, cleaner, fairer economic growth and to raise employment and living standards – remains the critically important mission for the future.*" states Mathias Cormann, OECD Secretary-General.[1]

Despite the fact that the OECD lacks the authority to execute its judgments, which need a unanimous vote of its members, it is widely recognized as a powerful publisher of largely economic data through publications as well as annual evaluations and rankings of member countries. Currently, the OECD is actively working on new frameworks on international tax reforms, with the newest one including the joint collaboration of 130 countries and jurisdictions, representing 90% of the global GDP.

[1] "The OECD Creates Better Policies for Better Lives. Read the OECD's Main Figures to Find out More about Their Work." OECD, www.oecd.org/about/.

United States of America (USA)

It would be safe to say that the United States (US) is the main actor regarding this issue due to the country hosting numerous Silicon Valley giants which also happen to be the biggest and most influential MNCs worldwide. The US has been making considerable attempts at regulating their admittedly complex tax policies and has been subjected to criticism by professionals on the lack of competitive tax policies that would further boost MNC activity in the country. Many countries have sought to cut their corporate tax rates and define the tax base to attract foreign investment, meanwhile, the US federal tax rate continues to stay high at 35%. In addition, most nations have started to use the territorial approach, exempting foreign-source income of their MNCs, whereas the USA has preferred to impose a minimum tax on the earnings of MNCs in low-tax foreign countries, along with domestic tax rates. These criticisms lessened considerably with the introduction of the **Tax Cuts and Jobs Act of 2017 (TCJA)**.

The federal government now imposes different regulations on different forms of revenue earned by US resident multinational corporations in other nations as a result of the TCJA. Income from physical assets that represents a "normal return"—defined as 10% per year on the depreciated worth of those assets—is free from US corporate income tax. The law also eliminated the corporate alternative minimum tax mentioned above and replaced it with a single 21% corporation tax rate. The new law's statutory rate is 26.5% when combined with state and municipal taxes, which places the United States slightly below the EU's weighted average (26.9%).

In simpler words, the corporate tax rate was decreased and various related company deductions and credits were eliminated, from a tiered tax rate ranging from 15% to as high as 39% to a flat rate of 21%. In terms of corporate income tax, the Act shifted the United States from a global to a territorial tax structure: Rather than paying the US tax rate on income earned in any nation (minus a credit for taxes paid to that country), each subsidiary pays the tax rate of the country in which it is lawfully incorporated. In other words, the corporation saves the difference between the normally higher U.S. tax rate and the lower rate of the country where the subsidiary is legally incorporated under a territorial tax system.

"If we're incorporated in the United States [under the old global tax regime], we'll pay 35 percent taxes on our income in the United States, Canada, Mexico, Ireland, Bermuda, and the Cayman Islands, but if we're incorporated in Canada [under a territorial tax regime, proposed by the Act], we'll pay 35 percent on our income in the United States but 15 percent in Canada," Bloomberg journalist Matt Levine explained. The law, in principle, would lessen the incentive for tax inversion, which is currently utilized to get the benefits of a territorial tax system by relocating a company's headquarters from the United States. Multinational corporations in the United States have amassed about $3 trillion in offshore assets, the majority of which is held by subsidiaries in tax haven countries. Companies may be encouraged to bring money back to the United States at these lower rates as a result of the Act.

Some critics in the media and academia slammed the law, citing forecasts of negative consequences (e.g., higher budget deficits, higher trade deficits, greater income inequality, and lower healthcare coverage and costs), disproportionate impact on certain states and professions, and misrepresentations made by its proponents.

Germany

Germany has a competitive corporate tax regime. The average tax load is little less than 30%, with some municipalities offering rates as low as 23%. Corporate income tax applies to all corporations, including limited liability companies (GmbH), stock corporations (AG), and foreign permanent establishments in Germany. Corporate income tax, solidarity surcharge, and trade tax are the three main components of corporate income taxes.

On worldwide generated income, corporate companies based in Germany or with an executive board in Germany, such as limited liability companies (GmbH) or stock corporations (AG), are subject to corporate income tax. Dividends created and taxed outside of Germany may be free from taxation in Germany, or taxes paid outside of Germany may be deducted against taxation in Germany. Corporate income tax is only imposed on income generated within Germany for companies that are neither based in Germany nor have an executive board in Germany (e.g. via a permanent establishment, dividends or licenses).

Corporate income tax is imposed at a fixed rate of 15% of taxable corporate income across the country. The tax basis for corporate income tax is taxable income (i.e. annual business profit). The accrual basis accounting method is used to compute corporate company annual profit under German commercial law. This is documented in the annual financial statement and is used to calculate taxable income. However, German tax law offers a variety of accounting alternatives and income rectification procedures, resulting in taxable income that frequently differs from the annual profit calculated under commercial law in the financial statement

On July the 1st, Germany welcomed a global tax agreement that ensures huge firms pay a fair share of taxes as a "colossal step" toward "better tax fairness." More than 130 nations have agreed to a minimum company tax of 15%, which the Paris-based OECD estimates could generate an additional €125 billion ($150 billion) in revenue per year. "The worldwide effective minimum tax accord is a giant step toward more tax justice," German Finance Minister Olaf Scholz stated. "In competition, the race to the bottom has ended. Large firms will pay their fair share in financing our collective welfare in the future," he stressed.

Canada

Corporations based in Canada are generally subject to Canadian corporate income tax (CIT) on worldwide earnings. CIT is imposed on non-resident corporations on income obtained from doing business in Canada as well as capital gains deriving from the sale of taxable Canadian property. Unless the non-resident vendor has secured a clearing certificate, the purchaser of taxable Canadian property is normally obligated to withhold tax from the amount paid.

At a conference on June 4 and 5 to discuss taxation issues related to globalization and the digitalization of the economy, Canada's Finance Minister and the other G7 finance ministers decided to adopt a minimum worldwide corporate income tax rate of at least 15% on a country-by-country basis. This global tax would be imposed under Pillar Two of the OECD's proposed two-pillar strategy to address tax difficulties arising from the digitalization of the economy.

France

French firms and their 95 percent owned domestic subsidiaries might choose to submit a single tax return, allowing losses from one group corporation to be offset against profits from another. After various adjustments (e.g., neutralization/deneutralization of capital gain or loss on the sale of assets, provisions, and so on), CIT is paid on the aggregate income.

At a G20 finance ministers meeting on 10 July 2021, France proposed revising the regulations for cross-border company taxation. After G20 finance leaders publicly accepted the concept of measures to create new regulations for where corporations are taxed and set a global minimum corporate tax rate of 15%, key details are still being ironed out. Because of the rise of digital commerce, huge IT companies can now book profits in low-tax jurisdictions regardless of where their money is earned. The guidelines, which are expected to be finalized at a conference in Rome in October, would allow nations where revenues are obtained to tax 20-30% of a large multinational's excess profit - defined as profit exceeding 10% of revenue.

Italy

The G20's yearly presidency was held by Italy, which welcomed a proposal from the US Treasury Department for a global company tax of at least 15% on May 21, 2021. During international negotiations on May 20, Washington offered to accept a rate of at least 15%, far lower than its proposed minimum of 21% for U.S. multinational corporations. In a statement, Italian Economy Minister Daniele Franco said, "The possibility of establishing a global and consensus-based solution is now concrete." At a G20 summit in Venice in July, Italy will do "all possible" as president of the Group of 20 rich countries to broker an agreement on a global minimum corporation taxation level, Franco underlined.

Japan

Corporations that participate in economic operations in Japan must pay taxes on the earnings earned by their activities in Japan. However, steps have been taken to guarantee that the tax system does not impose unfair penalties on multinational firms conducting economic activity in Japan based on their form of corporate presence. Income of corporations established in Japan is subject to taxation regardless of where it was generated (i.e., the source country of income), with the exception of certain non-taxable and tax-exempt income. However, when that income includes profits earned in foreign countries that are taxed in the source countries of that income, foreign taxation deductions are available, allowing taxes paid in a foreign country to be deducted from Japanese income within certain bounds. To avoid international double taxation in Japan, methods such as just specific income being subject to taxation in Japan have been established for Japanese branches of foreign firms.

UK

Non-resident companies are subject to UK corporation tax on trading profits attributable to a UK PE, trading profits attributable to a trade of dealing in or developing UK land (regardless of whether there is a UK PE), gains on the direct and certain indirect disposals of UK property, and gains on the resale of UK property.

The application of a wide range of tax treaties, along with the dividend exemption, makes the UK corporation tax system more like a territorial system in practice for many corporations.

The Group of Seven (G7)

On June 5, 2021, finance ministers of the G7, meeting in London, agreed to combat tax evasion by requiring businesses to pay more in the countries where they operate. They also agreed in principle on a 15 percent worldwide minimum corporate tax rate to prevent countries from undercutting one another. Amazon and Facebook, both tech giants, are expected to be impacted.

The agreement between the United States, the United Kingdom, France, Germany, Canada, Italy, and Japan, as well as the European Union, might result in billions of dollars flowing to governments to pay off debts accrued during the Covid issue. It was negotiated over a long period of time and will put pressure on other countries to follow suit, notably at the G20 summit next month, which will include China, Russia, and Brazil.

The "historic" agreement on a global minimum tax, according to US Treasury Secretary Janet Yellen, will "stop the race to the lowest in corporate taxation and ensure fairness for the middle class and working people in the US around the world." The deal, according to UK Chancellor of the Exchequer Rishi Sunak, will make the worldwide tax system "ready for the global digital age." Olaf Scholz, his German counterpart, said it was "really good news for tax fairness and solidarity, but bad news for tax havens." "Companies would no longer be able to avoid paying taxes by posting earnings in low-tax jurisdictions," he declared.

Governments have long struggled with how to tax multinational corporations that operate in multiple countries. With the rise of large tech companies like Amazon and Facebook, this dilemma has intensified. Companies can currently establish local branches in countries with low corporate tax rates and claim earnings there. That implies they only pay the local rate of tax, even if their revenues originate primarily from sales outside of the country. This is both legal and customary practice. The agreement attempts to prevent this in two ways: Firstly, the G7 will work to have businesses pay more tax in the nations where they sell their goods or services, rather than in the countries where they declare their income. Second, they want a global minimum tax rate to prevent countries from competing on low tax rates.

Sovereign authority is defined by the right to tax. That is why international cooperation is so difficult. For years, it has been the ambition of campaigners and, in particular, European finance ministers. Until the last six months, they would not have believed it was feasible. However, the necessity to replenish coffers depleted by the pandemic, as well as the entrance of the Biden administration in the United States, offered an opportunity. However, in order to get this through, there had to be a significant compromise. A 15 percent minimum company tax rate is quite low. Although European finance ministers were successful in inserting the phrase "at least 15%," which provides a path to increasing that figure. The fine print of continuing negotiations will determine how much bite this modification has. The action has been greeted positively by technology companies. Vice president Nick Clegg of Facebook said that it may involve the business "paying more tax, in different regions." There's also the issue of the rest of the world. This now extends beyond the G7 to the G20, which includes China, Russia, Brazil, and beyond...

III. Focused Overview of the Issue

Globalization is not new, but the rate at which national economies and marketplaces are integrated has accelerated dramatically in recent years. The free movement of capital and labor, the shift of manufacturing bases from high-cost to low-cost locations, the gradual removal of trade barriers, technological and telecommunication developments, and the growing importance of risk management and developing, protecting, and exploiting intellectual property have all had a significant impact on how cross-border activities are carried out. In many countries, globalization has boosted trade and increased foreign direct investment. As a result, it promotes growth, job creation, and innovation, and has helped millions of people escape poverty.

The corporate income tax regimes of countries are impacted by globalization. The League of Nations recognized as early as the 1920s that the interaction of domestic tax systems can result in double taxation, which has negative consequences for growth and global prosperity. Countries all across the globe agree on the importance of eliminating double taxation and the importance of doing so through clear and predictable international norms that provide assurance to both governments and companies. Hence, international tax law is a critical pillar in sustaining global economic growth.

Corporations became more globally integrated as the economy also became more globalized. Multinational corporations (MNCs) now account for a significant share of global GDP. Furthermore, intra-firm trade is becoming a larger part of overall trade. Globalization has led to a transition away from country-specific operating models toward global operating models based on matrix management organizations and integrated supply chains that centralize numerous tasks at a regional or worldwide level.

MNCs can now significantly reduce their tax burden as a result of these developments. Citizens have become more sensitive to concerns of tax justice. Many governments are dealing with lower revenue and more costs in order to assure compliance. Furthermore, Base Erosion and Profit Shifting (BEPS) jeopardizes the integrity of the tax system since the public, the media, and some taxpayers believe that reported low corporate taxes are unjust. In developing countries, a lack of tax revenue results in severe underfunding of public expenditure that may aid in economic progress. Overall resource allocation is not ideal, as it is influenced by tax-motivated behavior.

If their effective tax rate is perceived as being too low, MNCs may face severe reputational harm. At the same time, various firms may evaluate this risk differently, and failing to take advantage of legal options to minimize a company's tax burden can put it at a competitive disadvantage. Similarly, domestic-only enterprises, such as family-owned businesses or new inventive businesses, find it challenging to compete with multinational corporations that can shift profits across borders to avoid or cut tax. The distortions caused by BEPS impair fair competition.

1. The Importance of Taxation

Although taxation is at the heart of a country's sovereignty, the interaction of domestic tax rules can lead to gaps and frictions in some circumstances. Sovereign governments may not take the impact of other countries' tax policies into account enough while developing their internal tax rules. The interaction of several sets of rules enforced by sovereign countries causes friction, including the possibility of double taxation for multinational firms. It also generates gaps when corporate income is not taxed at all, either by the nation of origin or by the country of residence, or is merely taxed at nominal rates. Coherence is normally achieved in the domestic environment through the matching principle: a payment that is deductible by the payer is often taxable in the hands of the recipient unless explicitly exempted. Even though sovereign governments have cooperated to ensure coherence in a restricted sphere, notably to avoid double taxation, there is no corresponding notion of coherence at the international level, leaving lots of room for arbitrage by taxpayers.

International standards have attempted to resolve these conflicts in a way that respects tax sovereignty, but unfortunately, there are still gaps in the system. It has been recognized since the 1920s that the interaction of domestic tax systems might result in overlaps in the exercise of taxing powers, resulting in double taxation. Countries have long attempted to minimize double taxation in order to reduce trade distortions and impediments to long-term economic progress while reaffirming their sovereign right to determine their own tax policies. There are gaps and frictions in the tax systems of different nations that were not taken into account when the present standards were developed, and which are not addressed by bilateral tax treaties. In order to safeguard their tax sovereignty in the global economy, countries must coordinate on tax issues.

2. MNCs: Tax Evasion, Profit Shifting, Tax System Mismatches

MNCs have various techniques to pay as little tax as possible. Most generally, they move towards decreasing their tax burden by taking advantage of foreign variances in corporate tax systems. One way to take advantage of these discrepancies is to transfer profits from nations with higher tax rates to countries with lower tax rates, effectively divorcing these profits from the generating economic activity. Profit shifting can be accomplished by manipulating intra-group "transfer prices," strategically concentrating intangible assets (and related revenue) in low-tax nations, or strategically concentrating internal and external loans (and hence interest payments) in high-tax countries. MNCs can also make use of tax system mismatches to achieve double non-taxation (for example, "hybrid" corporate entities that are tax residents of no country) or double deduction (e.g. expenses that are tax-deductible in two countries at the same time). They can also take advantage of favorable tax treatment for particular activities or profits, by putting their intellectual property in countries having preferential tax treatment (e.g., the "patent box"). Tax planning by multinational corporations has the potential to deplete government revenues while also raising concerns about economic efficiency.

All OECD and G20 countries have anti-avoidance rules in place to prevent tax avoidance. For example, while most statutes require intra-group trade to be conducted at market rates (the "arm's length" principle), paperwork and transparency requirements for transfer prices vary widely between nations. To limit the opportunity for strategic debt allocation, laws can impose restrictions on interest deductibility based on debt-to-equity ("thin capitalization") or interest-to-earnings ratios. General anti-avoidance regulations (GAARs) and controlled foreign company (CFC) rules are two other extant rules. Although withholding taxes on interest, dividends, and royalties are not strictly anti-avoidance provisions, they can have an impact on tax planning incentives. Empirical analyses reveal that strong anti-avoidance laws can limit profit shifting, based on a new classification of the strength of anti-avoidance rules and withholding taxes. These restrictions, on the other hand, are linked to decreased company profitability, which could be due to compliance expenses.

In comparison to comparable non-multinational enterprises, international tax planning reduces the effective tax rate of large MNEs by an average of 4-8½%. For smaller MNEs, the gap is smaller (1½-3½ percentage points). Profit shifting and mismatches between tax systems (including preferential tax treatment) have a cumulative effect on tax collections. Profit shifting redistributes the tax bases of corporations between countries. Because profit is taxed at a lesser rate (or not taxed at all) in the destination country, it results in a tax revenue loss overall.

3. Base Erosion and Profit Shifting (BEPS) Action Plan

The OECD and G20 countries initiated the BEPS program in 2013. Since then, a lot of work has been done to address multinational corporate conduct that can result in low tax rates. To address BEPS, the OECD worked on 15 different action items, the majority of which were completed with reports published in 2015. However, many countries were dissatisfied with the Action 1 report and suggestions related to tax issues arising from the digitalization of the economy. Since the publication of the Action 1 Report in 2015, an interim report in 2018 gave an update on the OECD's analysis of the tax difficulties posed by digitalization. Various proposals for introducing digital economy taxes were presented throughout 2018, including a European Union approach to digital services taxes and physical presence criteria that would encompass digital nexus. In addition, countries such as the United States, Germany, France and the United Kingdom, began laying out strategies for global adoption. The OECD produced a policy paper in January 2019 that included these suggestions, as well as the following consultation document. These policy papers, which were published under the name of Pillar 1 and Pillar 2, will be further discussed following the explanation of the Action Plan.

The Action Plan covers a number of important areas of endeavor, which are generally divided into two categories:

Establishing international tax coherence for corporations:

- Assessing the impact of domestic law inconsistencies that arise as a result of differing tax regulations in different nations for distinguishing between debt and equity, or businesses and partnerships.
- Examining domestic rules for controlled foreign corporations (CFCs), which allow governments to tax multinationals on passive/mobile income earned through foreign subsidiaries.
- Re-examining domestic rules governing interest deductions (e.g. thin-capitalization rules).
- Assessing domestic policies of nations that provide preferential treatment for specific sorts of income in a way that is detrimental to the international tax environment as a whole.
- Restoring the entire range of international standards' consequences and advantages.
- Preventing the abuse of tax treaties (for example, by investors who should not be entitled to tax relief under a treaty).
- Enhancing treaty "permanent establishment" provisions for assessing when a company has a taxable presence in another country.
- Improving "transfer pricing" rules (which ensure that related-party transactions are paid a market price) by ensuring that transfer pricing rules are in line with the creation of value, especially in relation to debt, financial transactions, intellectual property, contractual risk bearing, and management services.

Increasing assurance and predictability while maintaining transparency:

- Establishing methodologies and finding data sources that will enable countries to analyze the impact of base erosion and profit shifting, as well as track the impact of any solutions.
- Developing best practice guidelines requiring taxpayers to disclose tax arrangements or transactions that are aggressive.
- Enhancing transfer pricing documentation and requiring multinational corporations to disclose which countries they pay tax in, get information from, and conduct business in.
- Improving the effectiveness, efficiency, and accessibility of treaty dispute settlement mechanisms.

Keeping this framework in mind, the newest policy proposal of OECD, also known as Pillar 1 and Pillar 2 will be explained in detail.

4. Pillar One

Pillar One suggests reallocating, between countries, several types of profits earned by MNCs in the digital age. The concept divides worldwide MNC profits into three categories: Amounts A, B, and C.

When an MNC has "sustained and significant involvement in the economy of a market jurisdiction," Amount A would create a new method for allocating global corporate profits and thus imposing the corporate tax. The OECD uses revenue thresholds in each market to define the level of an MNC's involvement and thus its exposure to profit reallocation in favor of the market jurisdiction, or country where I operate. Depending on the industry, different levels would be used to define the MNC's deemed "routine profit." Any profits over this "routine profit" would be declared "nonroutine or residual profit." Pillar One grants each market jurisdiction the ability to tax a portion of this "nonroutine profit," known as Amount A.

Pillar One requires that the criteria for establishing nonroutine benchmarks and procedures for reallocating revenues between jurisdictions be agreed upon by the end of 2020—a tall and unlikely task. The revenues earned by distribution and marketing activities would be dealt with in amounts B and C. [3] The OECD recognizes the importance of resolving interactions between Amounts B and C, as well as their relationships with Amount A, in order to avoid double taxation of the same tax base. There are complex laws in the works, which will excite tax accountants and lawyers.

Amount A is the most divisive part of Pillar One from a political standpoint. It has the potential to redirect a significant portion of the income of successful US companies—such as Google, Apple, Amazon, and Facebook—away from the US Treasury and into the tax bases of other countries. From the US perspective, in order to fund new programs, Democratic presidential hopefuls expect increased business taxes while Republicans want that “residual profits” be taxed in the United States through systems like GILTI and BEAT rather than being handed over to foreign finance ministries.

If the OECD countries reach an agreement, each country would have to enact complex statutes to redefine its corporate tax base and then renegotiate bilateral tax treaties in order to implement Pillar One.

5. Pillar Two

The OECD's Pillar Two approach attempts to ensure that MNC group profits pay a minimum tax rate to both home and host nation tax collectors, say 12.5 percent. For example, if an MNC's existing global effective tax rate—which includes taxes paid to both the home and host countries—is 10% of global profits, the proposal requires the MNC to pay an additional 2.5 percent corporate tax to the home country.

This plan resembles elements in President Donald Trump's first year in office's tax reform bill, which included two clauses aimed at seizing offshore profits of large US-based corporations. The US Tax Cuts and Jobs Act of 2017 (TCJA) established two new tax obligations: the Global Intangible Low-Taxed Income Tax, or GILTI, and the Base Erosion and Anti-Abuse Tax, or BEAT. The Trump administration has backed Pillar Two since it is consistent with those provisions.

Other countries' tax regulations would have to be changed as well. Pillar Two, assuming a 12.5 percent minimum tax rate, would contribute 2.7 percent to worldwide corporate tax revenues by boosting the minimum tax on global profits paid by some MNCs, according to the OECD's latest estimate.

IV. Key Vocabulary

Multinational Corporations (MNCs): A multinational corporation (MNC) operates in at least one country other than its home country and has facilities and other assets there. A multinational corporation typically has offices and/or factories in various countries, as well as a centralized headquarters where worldwide management is coordinated. These businesses, often known as multinational, stateless, or transnational corporate organizations, have budgets that exceed many countries with small GDPs.

Foreign Direct Investment: A foreign direct investment (FDI) is a financial investment made by a company or individual from one country into a company in another one. In general, FDI occurs when a foreign corporation develops overseas business activities or acquires foreign business assets. FDIs, on the other hand, are distinct from portfolio investments, in which an investor simply buys equities in foreign-based companies.

Tax haven: In general, a tax haven is an offshore country that provides foreign individuals and businesses with little or no tax liability in a politically and economically stable environment.

Profit shifting: Profit shifting is a technique used by multinational corporations to pay less tax than they should. It entails a multinational corporation moving profits made in the country where it manufactures products or sells goods and services to a tax haven. By relocating profits to a tax haven, a multinational corporation underreports the value of its profits in the countries where it manufactures or sells goods and services, resulting in lower or no taxation in those countries. Profits transferred to a tax haven are then taxed at a very low rate or not at all, depending on whether the tax haven has a very low corporate tax rate or no corporate tax rate.

Controlled Foreign Corporations (CFCs): A controlled foreign corporation (CFC) is a corporate entity that is registered and does business in a jurisdiction or country other than the controlling owners' residence. For example, in the United States, control of a foreign company is defined by the percentage of shares owned by US citizens. Controlled foreign corporation (CFC) laws, in conjunction with tax treaties, govern how taxpayers declare their foreign earnings. A CFC is advantageous for businesses when the cost of establishing a business, foreign branches, or partnerships in a foreign country is lower—even after accounting for tax implications—or when global exposure could help the business grow.

Historically, the CFC structure was created to aid in the prevention of tax evasion, which was accomplished by establishing offshore companies in jurisdictions with little or no tax, such as Bermuda and the Cayman Islands. Each country has its own CFC laws, but most are similar in that they tend to tax individuals rather than multinational corporations.

Deferral: A deferral is any account in which the income or expense is not recognized until a later date (accounting period), such as annuities, charges, taxes, income, and so on. Depending on the type of deferral, the deferred item may be carried as an asset or a liability.

Capital export neutrality: Capital export neutrality occurs when the tax burden on capital owned by inhabitants of a country is the same whether the capital is invested domestically or internationally.

Capital import neutrality: Capital import neutrality means that all investments in a given country are taxed at the same marginal rate, regardless of the investor's residency. This means that all commercial activity in a country is taxed at the same rate across the board.

Gross Domestic Product (GDP): The total monetary or market worth of all finished goods and services produced inside a country's borders in a certain time period is known as GDP. It serves as a comprehensive scorecard of a country's economic health because it is a wide measure of entire domestic production.

Foreign Derived Intangible Income (FDII): Foreign-derived intangible income (FDII) is the formulaically calculated portion of a domestic corporation's intangible income that is earned from serving foreign markets.

Tax regime: A unique mechanism for establishing the elements of taxation or exemption from the requirement to pay various taxes and fees is provided by the tax regime. It is composed of rules and regulations to oversee the traffic of tax payments in a nation, consisting of both individual and corporate taxes.

Trade network: A system of roads or paths through which trade can occur. Some examples of trade networks include The Silk Road, British-Indian Spice Trade, Trans-Saharan Trade, Saudi Arabian-US Crude Oil Trade, and Incense Route.

Corporate income tax: A corporate tax is a tax imposed on a company's profits. Taxes are levied on a company's taxable income, which includes revenue minus cost of goods sold (COGS), general and administrative (G&A) expenses, selling and marketing, research and development, depreciation, and other operating costs.

V. Important Events & Chronology

Date (Day/Month/Year)	Event
12.02.2013	A publication of an initial report on the BEPS was published by the OECD. It detailed the magnitude of base erosion and profit shifting and highlighted global developments in the corporate tax domain.
19.07.2013	The "BEPS Action Plan" was published with the aim of tackling the weaknesses in the existing international taxation principles. The plan was backed by the Finance Ministers of G20.
October 2013	The UN took action on BEPS by establishing the UN Subcommittee on BEPS, following the G20 and OECD moves. Its fundamental goal is to incorporate developing countries' perspectives and ideas into the Action Plan.
16.09.2014	A set of recommendations addressing the first 7 points in the BEPS action plan was published by the OECD.
28.01.2016	The European Commission published its proposal for a Council Directive on tax avoidance practices in the EU. The OECD's guidelines are the basis for the presumably Anti-BEPS Directive.
2.11.2017	President Donald Trump signed the Tax Cuts and Jobs Act of 2017 (TCJA) into law, amending the Internal Revenue Code of 1986.
8.11.2019	Global Anti-Base Erosion Proposal ("GloBE") - Pillar Two was published by the OECD, a policy proposal that could be regarded as the continuation of BEPS.
9.11.2019	Global Anti-Base Erosion Proposal ("GloBE") - Pillar One, the second part of Pillar Two was published by the OECD.

VI. Past Resolutions and Treaties

- United Nations handbook on selected issues in protecting the tax base of developing countries /

Effective tax regimes are essential for mobilizing domestic resources for long-term development investment. This paper tackles a number of problems that are particularly important and relevant to developing nations in terms of protecting and increasing their tax bases in order to raise tax revenue. The final findings of the OECD project on BEPS (tax base erosion and profit shifting) as well as the latest advances in the work of the United Nations Committee of Experts on tax base protection for poor countries are included in this second edition of the Handbook.

- Committee of Experts on International Cooperation in Tax Matters: report on the 22nd session (virtual session, 1-28 April 2021)

In this recent session of the Committee of Experts on International Cooperation in Tax Matters, issues related to the update of the United Nations Model Double Taxation Convention between Developed and Developing Countries, taxation and Sustainable Development Goals, and Review and possible update of the Manual for the Negotiation of Bilateral Tax Treaties between Developed and Developing Countries were discussed in detail and laid out extensively in the report.

- Report on the 6th session of the Open-Ended Intergovernmental Working Group on Transnational Corporations and Other Business Enterprises with Respect to Human Rights

This is a report of the Human Rights Council, tackling the issues of human rights concerning the operation of multinational corporations, a perspective that is often overlooked in MNC discussions. The report gives in-depth information about the thought process of the parties involved on agenda item 3.

VII. Failed Solution Attempts

Since the taxation of MNCs is a fairly novel subject, it is nearly impossible to have a failed solution attempt regarding the issue due to the fact that on the surface level, there is nothing to solve. To the blind eye, MNCs continue to pay taxes and operate successfully. However, it is also an issue where many countries have the same goal and share very similar opinions –a rare phenomenon. Individual policy changes rather than global approaches could be examined in terms of inspecting unsuccessful attempts at regulating local MNCs, such as the USA's TCJA. Although it seems like an extremely efficient economy-booster strategy in the short run, its long-term effects may be detrimental to the US economy. Countries might think that reviving local investments made by MNCs will lead to long-lasting economic prosperity, however, corporate income taxes are an enormous part of a country's GDP, and cutting off 10s of a percent from said taxes may result in countries being indebted to the IMF or the World Bank for years to come. It is important to calculate with great attention the consequences of lowering corporate tax rates and shifting to territorial approaches with the aim of boosting MNCs. A great amount of moderation and foresight is required to both provide the necessary support to the MNCs as well as protecting government tax revenues.

VIII. Possible Solutions

OECD's BEPS and the following policy proposals (Pillar One and Pillar Two) are excellent frameworks to regulate this issue, in theory. In order for any kind of financial framework to work smoothly, global cooperation is needed. Therefore, whilst constructing appropriate guidelines for the Member States to follow, it is important to be aware of the structural differences between the jurisdictions of the countries and act accordingly. For example, rather than setting a base corporate income tax for any and all Member States to comply with, a more personal approach can be taken by proposing a certain percent increase or decrease of the country's existing corporate tax that would be in accordance with the rest of the world.

The inconsistencies between the countries' own jurisdictions are often used by MNCs to successfully evade taxes, therefore legal advice for the Member States could be supplied to strengthen the domestic frameworks. A subcommittee for this issue, similar to the Experts on Tax Matters, could be formed to be disposable for legal commentary and research.

The importance of bilateral tax treaties between developed countries and developing countries shouldn't be underestimated. Most MNCs tend to exploit the low tax rates and weak legal frameworks of developing countries to not face the domestic tax regulations of their own developed countries. With the help of concrete and binding treaties, the MNCs would have a much harder time trying to find loopholes in the system.

MNCs' interests in their home country should always be kept alive. Treaties and conventions can only be efficient if the domestic tax frameworks have also been regulated enough to keep the MNCs investing domestically, therefore also complying with the national tax regulations. The USA might have not been successful in the first try, but that does not mean that countries should refuse to reevaluate their own tax policies. This is an issue that could only be solved by global cooperation and willingness to reform the now outdated policies.

IX. Useful Links

- Action Plan on Base Erosion and Profit Shifting: This is the original BEPS document that has all the explanations for the actions, their meanings, and ways to implement them.
- Public consultation document: Secretariat Proposal for a "Unified Approach" under Pillar One (9 October - 12 November: This is the infamous Pillar One, the controversial part of the recent policy proposal.
- Public consultation document: Global Anti-Base Erosion (GloBE) Proposal - Pillar Two (8 November - 2 December 2019): Pillar Two, the more government-friendly counterpart of Pillar One that is regarded positively by the many Member States, it is only a matter of time that it is put into practice by the majority.
- Base erosion and profit shifting: OECD's interactive site has simplified and visualized explanations on the recent developments regarding the BEPS plan.
- https://www.elibrary.imf.org/downloadpdf/journals/001/2018/168/article-A000-en.pdf: An extensive report by IMF authors that centers around tax avoidance.

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