CENTRE FOR BUSINESS TAXATION

SAID BUSINESS SCHOOL

UNIVERSITY OF OXFORD

Business Location Decisions with a Global Minimum Tax

Michael P. Devereux

Oxford University Centre for Business Taxation and European Tax Policy Forum

with Francois Bares and İrem Güçeri

Key issues

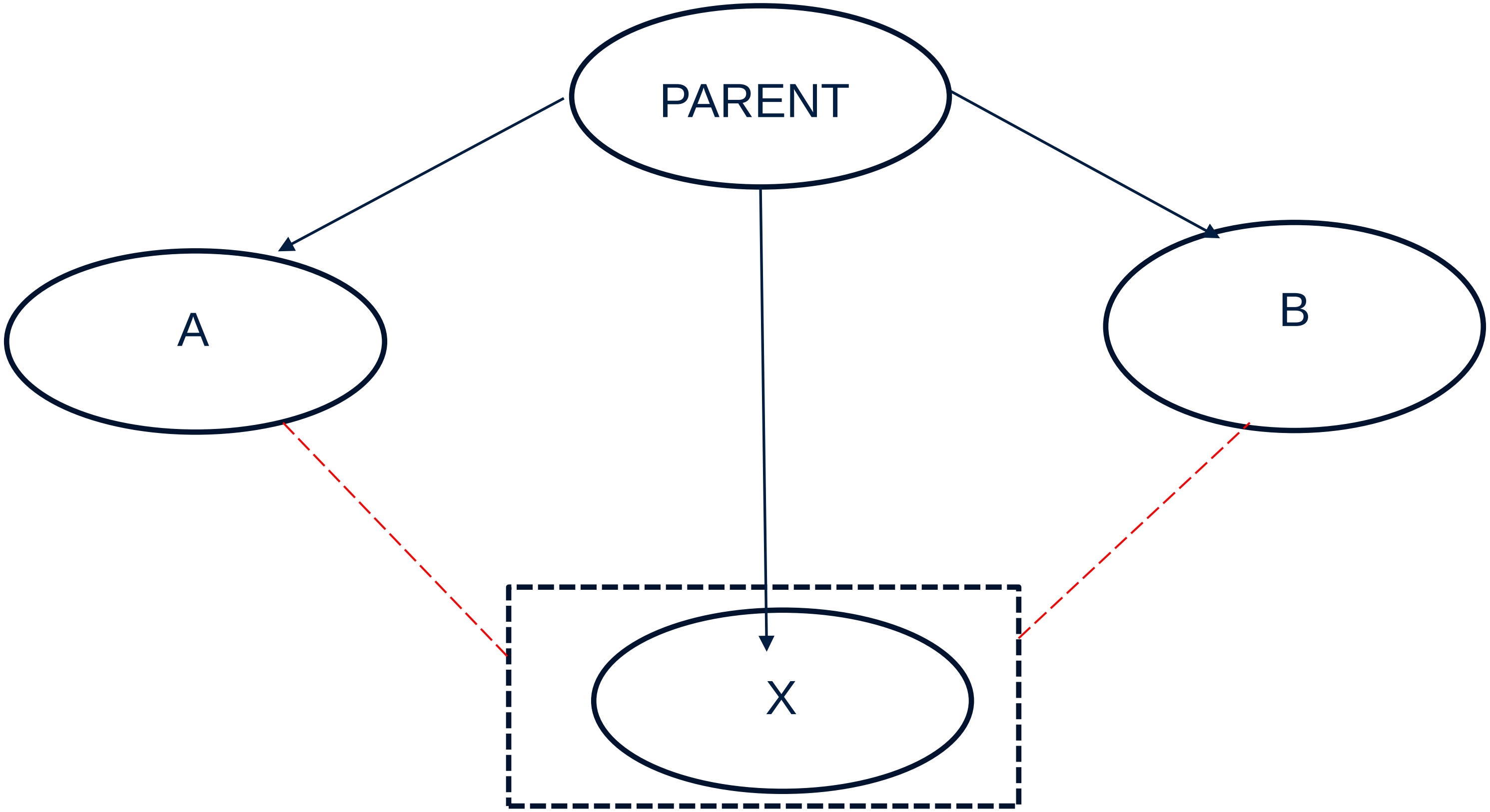
- What will happen to firm location decisions (and profit shifting) if Pillar 2 introduced and works as intended?

- Global optimum: taxes should distort location decisions as little as possible
  - *Capital export neutrality (CEN)*

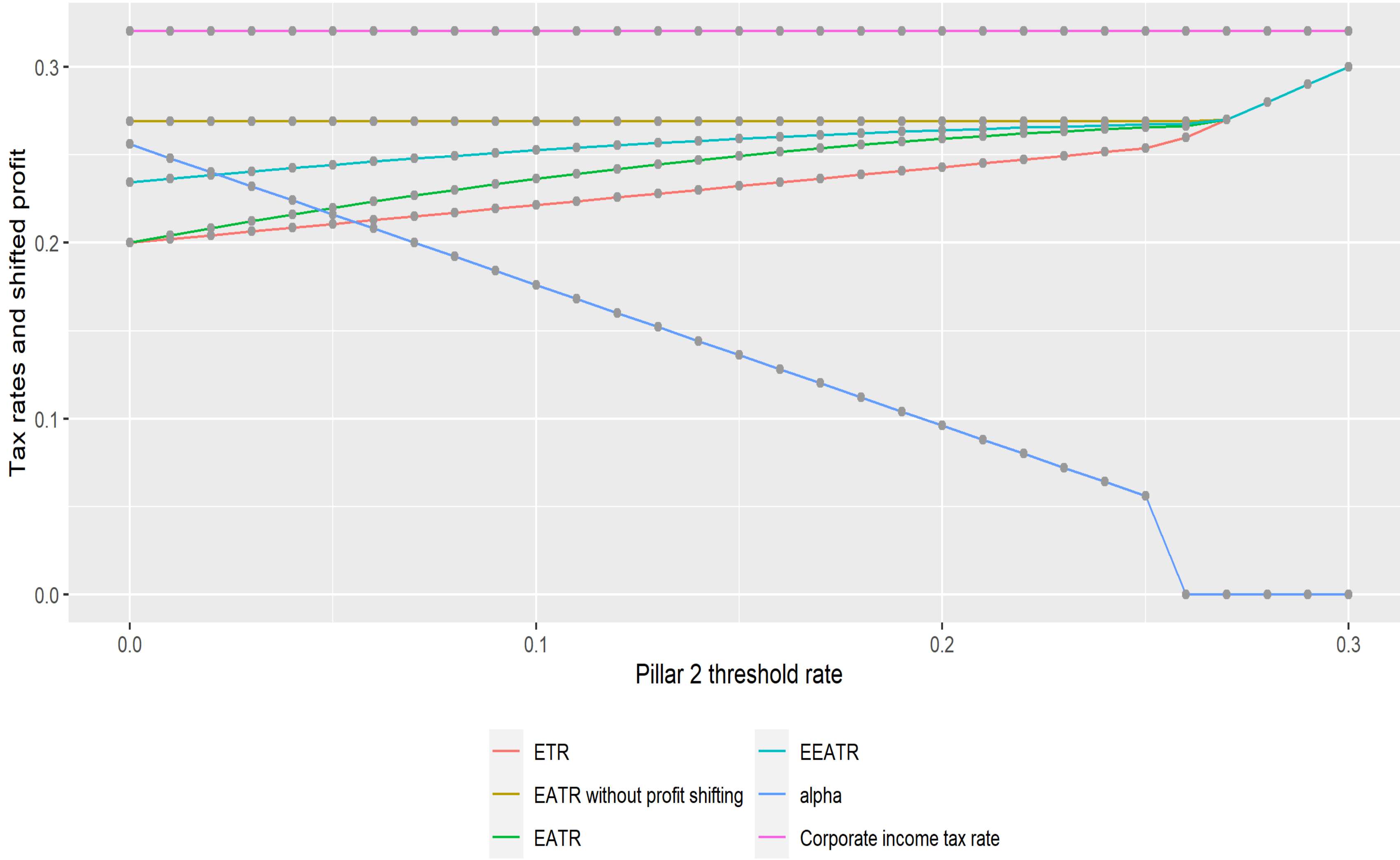
- Will a global minimum tax move system towards CEN?
  - A reduction in dispersion of effective average tax rates?
  - Would also tend to reduce tax competition
  - Need to take profit shifting into account

The (simple) model:

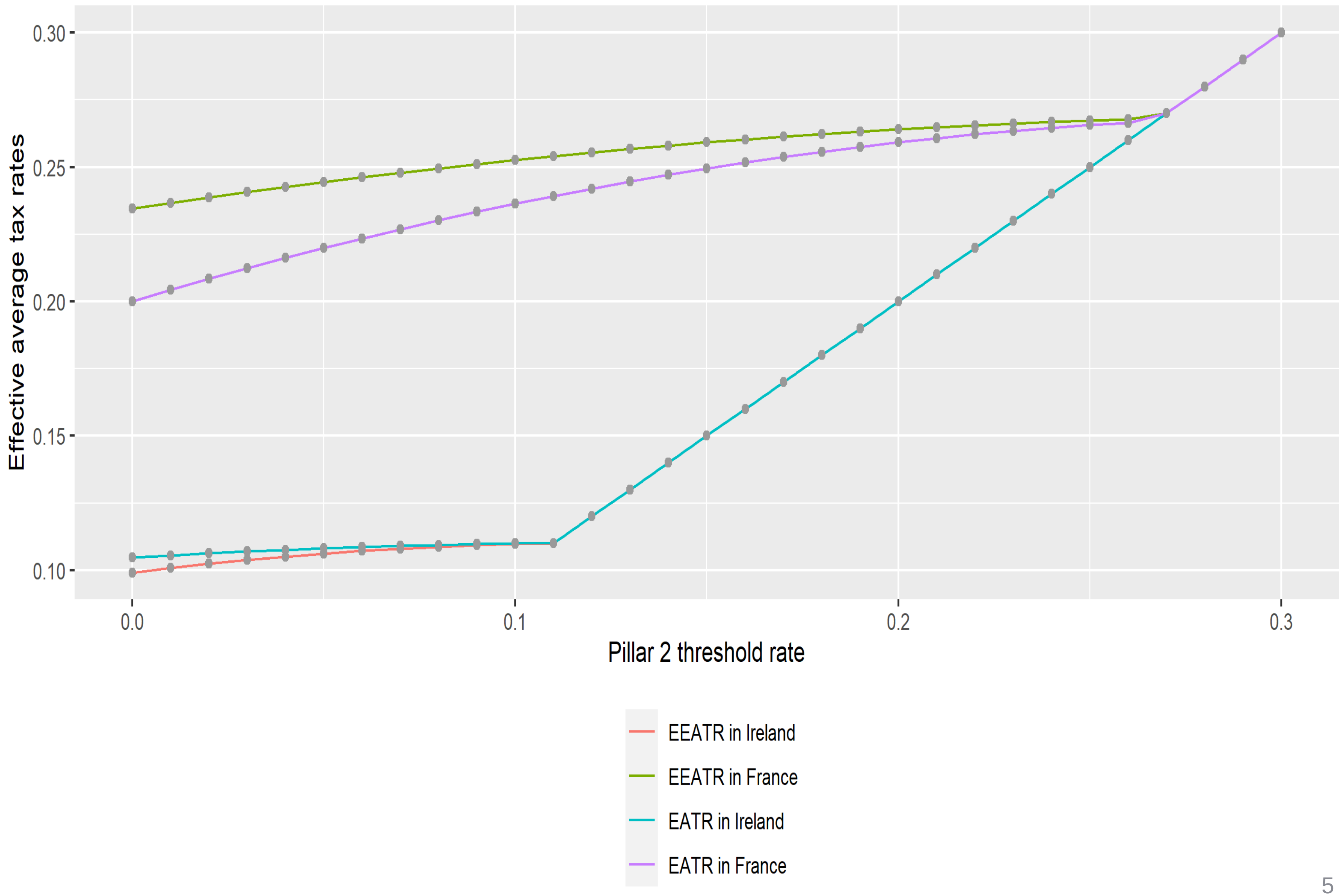
- Parent chooses between countries (eg. A or B) for real investment, while shifting some profit to a zero-rate jurisdiction (X)
- Choice depends on EATR + costs (EEATR)



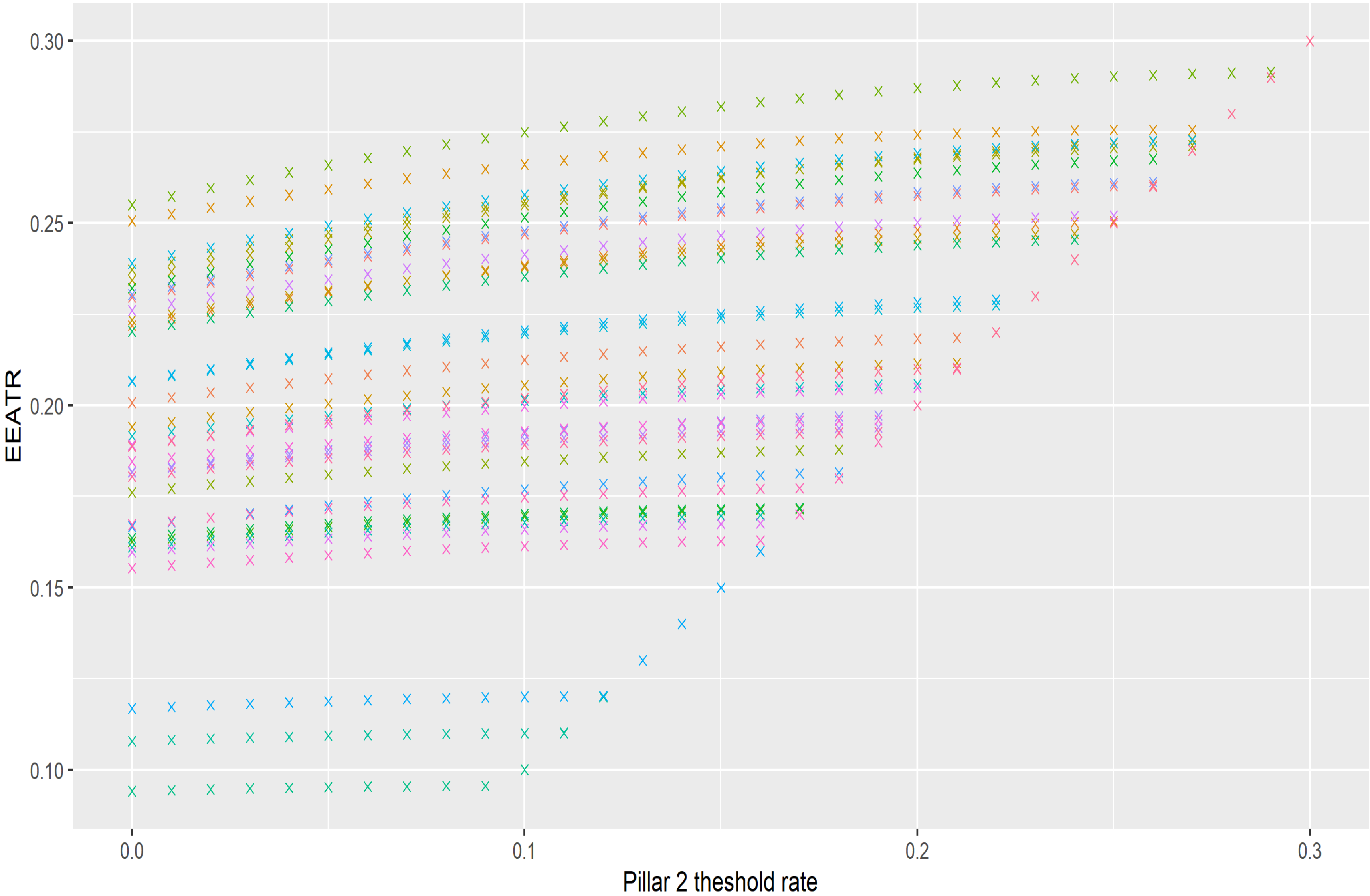
Example: France



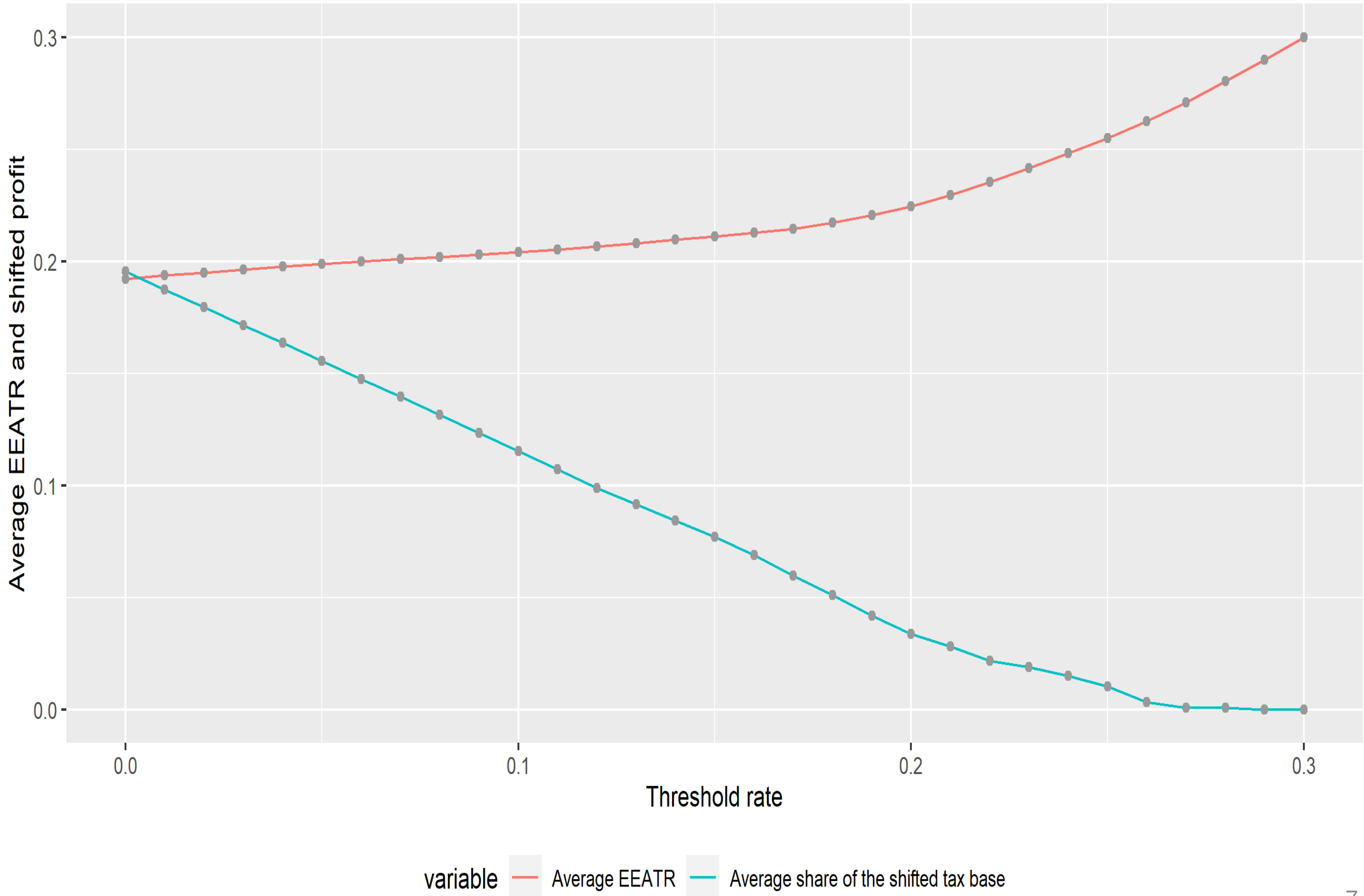
France v Ireland: effective tax rates



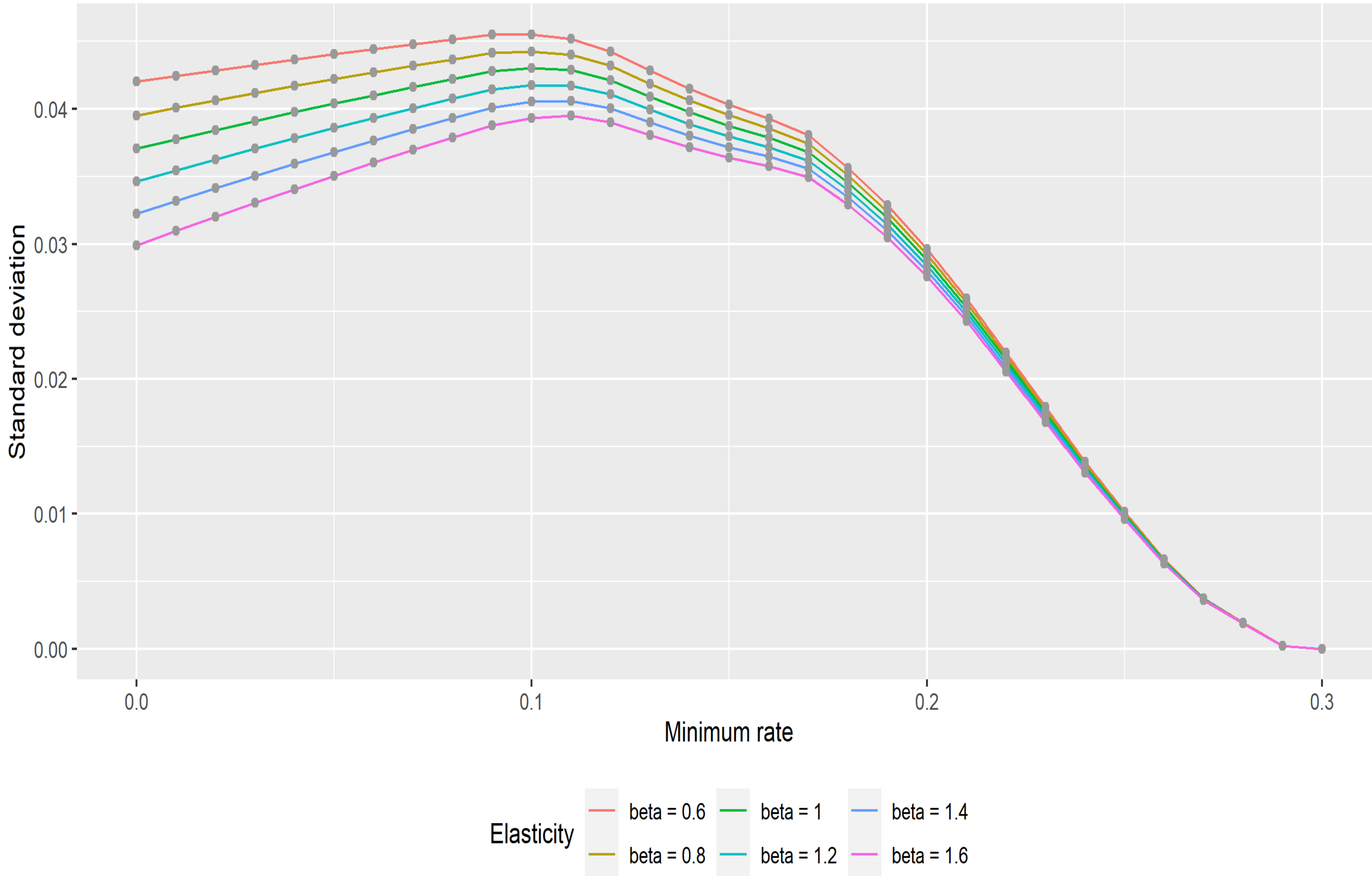
OECD effective tax rates



OECD averages



OECD: dispersion of EATRs



Conclusions

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If Pillar 2 works as intended, dispersion of EATRs depend son the threshold:

- At 15%, dispersion is largely unaffected
- So economic efficiency of location decisions also largely unaffected

Of course:

- The cost of capital rises, so negative impact on investment overall
- Profit shifting falls