Business Location Decisions with a Global Minimum Tax

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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 (e.g., 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

Average EEATR and shifted profit vs. Threshold rate

- Average EEATR
- Average share of the shifted tax base
OECD: dispersion of EATRs
Conclusions

If Pillar 2 works as intended, dispersion of EATRs depend on 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