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The G7's Global Minimum Corporate Tax Rate

A Good Deal for the African Continent?

The G7's announcement, in June 2021, of a new deal to tax multinational corporations was met with a combination of enthusiasm and scepticism. In the face of the Covid-19 pandemic, governments around the world are facing falling revenues combined with increased spending demands, and none more so than across the African continent where a debt crisis also looms. As such, interest has grown about the potential of the G7's tax proposal to help raise much-needed government resources.

This paper seeks to assess the G7's tax proposal and its potential impacts on African countries, including its likely consequences for women's rights. It concludes that the benefits for the continent will be sparse and suggests recommendations for alternative action.

1. Introduction

"In life, two things are certain: death and taxes, the saying goes.…
Unless you are a large multinational corporation, in which case, maybe not." IMF Blog[1]

The central role of tax in enabling states to fulfil their human rights obligations has resurfaced during the Covid-19 pandemic. Governments across the world have grappled with falling revenues as economic activity reduces, coupled with increased spending demands to mitigate the economic and social impacts of the pandemic. Nowhere is this more so than across the African continent where countries are also grappling with growing debt burdens.

The G7 announcement, in June 2021, of a global minimum corporate tax rate appeared to raise the prospect of increasing much needed government resources to respond to the pandemic. This briefing considers what this proposal means for African countries, and its likely consequences for women's rights and gender equality.

2. Unpacking the G7's proposal

The issue

Gaps in international tax laws mean that multinational companies are able to engage in 'profit shifting'. This is where profits are moved around on the company accounts to show up in a country with low taxes, rather than in the country with higher taxes where employment and sales occurred, and the profits were actually made. This restricts the ability of governments to increase their revenue from corporations, which is an important source of income for many countries.

The agreement

In June 2021, the G7 Finance Ministers agreed to new proposals on the taxation of multinational corporations.

The most significant, and more reported part of the proposal, was an agreement on a global minimum corporate tax which G7 leaders agreed should be at a rate of at least 15 per cent.[2] Essentially, if a subsidiary of a multinational corporation is taxed less than the minimum rate by one country, then the 'home' country, where the multinational is registered, can claim the difference in uncollected taxes.

Box 1: The origins of the global minimum corporate tax rate

A group of countries have been working together to prevent multinational corporations from artificially moving their operations to avoid taxes. Known as the OECD/G20 Inclusive Framework (IF) on base erosion and profit/shifting (BEPS), their membership is broader than the name suggests, comprising of 134 members.[3] However, most low-income countries were excluded from the original negotiations.[4]

The current G7 discussion on the global minimum corporate tax rate draws from their two-pillar plan to identify a long-term solution to address the tax challenges arising from the digitalisation of the economy. In May 2019, the group agreed to a 'Programme of Work for Addressing the Tax Challenges of the Digitalisation of the Economy'.[5] Pillar One seeks to provide for a more equitable distribution of profits and taxing rights among countries with respect to the largest multinational enterprises, with more revenue for market countries. Pillar Two seeks to introduce a global minimum corporate income tax that countries can use to protect their tax bases.[6]

The reaction from civil society

Civil society organisations have long been calling for fundamental reform to unfair international tax rules however many, such as the Global Alliance for Tax Justice (GATJ)[7] and Tax Justice Network Africa (TJNA)[8] were disappointed with the G7's announcement. There are three main criticisms coming from civil society. First, the proposals will not generate enough revenue. The global minimum rate of 15 per cent is set too low. Second, the benefits to low-income countries are limited. Most multinationals have their headquarters in the wealthiest G7 countries, who will therefore get the lion's share of increased tax revenues under this proposal, with 60 per cent of the revenue going to the 10 per cent of the worlds' population that live in OECD countries.[9] Third, the decision-making process, located primarily within the G7, undermines calls for a more democratic process under a UN body where the interests of all countries could be represented.[10]

These criticisms echo those of the experts on the Independent Commission for the Reform of International Taxation (ICRIT).[11] In addition, they point to the fact that the amounts lost to corporate tax abuse, which the IMF estimates at around US$600 billion a year,[12] far exceed the estimated US$150 billion in new tax revenues the proposal is supposed to generate.[13]

Background to the G7 proposal

The technical details of the proposal are based on a framework being developed by a group of countries known as 'OECD/G20 IF on BEPS' (see box 1). Primarily, however, the political momentum came from US President Joe Biden. On 31 March 2021, he unveiled his 'American Jobs Plan' which sought to increase public investments in infrastructure and other priority areas.[14] Biden stated that he would seek to offset the costs of this plan by proposing US corporate tax increases.[15] Recognising that the effectiveness of this solution would require other nations to also adopt strong minimum taxes on corporations, he called for a global minimum corporate tax rate of 21 per cent.[16] This was in an effort to avoid multinationals shifting their business from the US to lower tax jurisdictions. The US announcement reinvigorated longstanding discussions at the OECD on how to address tax challenges in relation to multinational corporations.[17]

What happens next

Although the G7 is made up of only seven countries, it frequently leads the way to further international agreement which will be necessary for the plan to work. The OECD/G20 group of countries working on tax reform (see box 1) endorsed the G7 tax agreement in July 2021.[18] The details of the tax agreement are due to be finalised in October 2021 with the expectation that the implementation plan to develop model legislation, guidance and a multilateral treaty will be concluded in 2022 and with the agreement coming into effect in in 2023.[19]

What governments say

As of September 2021, 134 countries have endorsed and agreed to join this new framework for international tax reform.[20] Eighteen African countries have endorsed the agreement, with Nigeria and Kenya the only two African country members of the OECD/G20 IF on BEPS yet to do so.[21] While there have been no official statements from the respective governments regarding their non-endorsement of the tax agreement, Nigeria is said to have indicated that the 15 per cent rate is too low and should be raised to about 30 per cent.[22] Kenya is uncomfortable with the clauses agreement, that will force it to drop its digital services tax of 1.5 per cent of sales which came into effect in January 2021.[23]

3. The potential impacts of the G7 tax agreement on Africa

Limited benefits for African countries

Comparatively, corporate income tax is a more important source of government revenue in low-income countries than it is for high-income countries. In Africa, for example, on average, corporate income tax revenue represents around 15 per cent of total tax revenues, compared to 9 per cent in OECD countries. [24] As a result, African countries have been working towards increasing tax revenue from corporates by introducing new measures to curb aggressive transfer pricing schemes by multinational enterprises that are looking to avoid tax by selling goods or services between divisions of the same company.[25]

What the African experts say

While statutory corporate income tax rates vary across the continent, most African countries have rates between 25 per cent and 35 per cent,[26] notably more than the 15 per cent global minimum corporate tax rate proposed by the G7. In January 2020, prior to the G7 tax agreement, the African Tax Administration Forum (ATAF) noted to the OECD that, "[i]f the minimum effective rate is substantially below these rates, we consider it…unlikely to lead to a change in taxpayer behaviour in respect of such profit shifting."[27] The ATAF proposed that a higher minimum effective tax rate be considered to limit companies' ability to engage in profit shifting to reduce tax bills. It is therefore questionable whether the G7's proposed 15 per cent global minimum tax rate will result in the reduction of incentives for multinational enterprises to shift profits from African countries to low-tax jurisdictions. ATAF have also laid out alternative proposals that would increase the amount that African countries could benefit from the proposal increasing market countries' ability to tax multinationals. [28]

4. The potential impacts of the G7 tax agreement on gender equality and women's rights across Africa

Tax revenue and women's rights in Africa

African countries lose billions of dollars every year as a result of corporate tax abuse and this reduces their domestic resource mobilisation, with the adverse effects disproportionately falling on women.[29] Tax revenue is critical for African governments' abilities to invest in key social sectors and public services such as healthcare, education, and social protection - all of which are important for the fulfilment of women's human rights. Women's lack of access to decent and paid work, in large part due to their disproportionate contribution to unpaid care work and various other discriminatory societal norms, means they are more reliant on government-funded public services. An inability to increase and direct resources into such key social sectors thereby further entrenches and perpetuates gender inequality in all its different forms across the continent.

The problem with consumption taxes

In addition, low-income countries - including in Africa - are more dependent on corporate tax than higher income countries, and as corporate taxes decline there is a growing reliance on consumption taxes.[30] This reliance on consumption taxes, to make up for shortfalls in government revenue, has significant impacts on women's rights and gender equality. Consumption taxes such as Value Added Tax (VAT) are considered regressive because they fall more heavily on the poorest. While both the rich and the poor are taxed the same amount for goods and services, the poor spend a higher proportion of their income on consumption so are disproportionately negatively impacted by such taxes.[31] Pervasive gender inequalities mean that women make up the majority of the world's poor, and social norms dictate that they are more likely to be responsible for household budgets and food provision. Significant dependence by African governments on consumption or regressive taxes therefore promotes and entrenches inequalities, including between women and men.[32] Adopting a global tax deal that would genuinely enhance African countries' abilities to raise resources by addressing profit-shifting could contribute to the promotion of gender equality and women's rights.

5. Recommendations

While the G7's global minimum corporate tax agreement has been hailed as a landmark achievement for international co-operation, ultimately, it does not take into account African realities. With the continent's average corporate tax rate notably higher than that proposed in the G7's tax deal, its benefits are likely to be negligible with increased revenues instead going to G7 countries. Instead, a democratically devised agreement is needed which increases the ability of low-income countries to raise the revenue they need to promote gender equality and women's rights, along with other development objectives. In light of these concerns, below are a number of proposals that instead can help chart a positive path forward on the issue of global tax reform:

- **Substantially increase the tax revenue available to African countries**
  In recognition of the global economic, healthcare, and climate crises, and the extent to which multinational corporations have benefited from these crises, more ambitious proposals from African civil society should be adopted. On Pillar One, there should be an increase in both the rate of taxation and number of corporations eligible. The proposed rate of the global minimum corporate tax under Pillar Two should be increased from 15 per cent, and to ensure all countries get their fair share of tax revenues, TJNA has called for a system such as the Minimum Effective Tax Rate (METR) to be used.[33] The METR scheme would recognise the real location of profit generation and extraction, based on factors such as employees, physical assets and sales to customers,

rather than just benefiting the wealthy 'host' countries which house the corporations' headquarters.[34]

- **Establish a UN global tax body**
  Various experts and civil society groups have long called for an inclusive global tax body to be established at the UN that places all countries at the decision-making table and gives each a platform to express their concerns and interests. The current platform established by the OECD, while inclusive in name, does not adequately represent the concerns of its various members. TJNA has criticised the G7 proposal for undermining progress towards this goal arguing that: 'the process of global tax reform needs to be inclusive, democratic, just, and transparent. Neither the G7, the G20, nor the OECD are platforms in which the interests of developing nations, especially those from Africa, can be represented on an equal basis.'[35] This proposal for a UN global tax body was further reiterated in a 2021 report by the UN Financial Accountability, Corporate Transparency and Integrity (FACTI) Panel which advocated for the UN to take a leading coordination role in bringing together all relevant expertise in a single global forum.[36]

For more information

- Global Alliance for Tax Justice provides a useful glossary on tax and gender: https://docs.google.com/document/d/1OIocjNYybeHnXH3jIt6twItbPrd0uR-vaGzKI0lpYHA/edit
- Tax Justice Network Africa provides more information on international taxation rules: https://taxjusticeafrica.net/outreach/tax-and-the-international-financial-architecture/
- FEMNET, Nawi and many other African feminists lay out demands for a post covid-19 recovery, including tax reform: https://femnet.org/2020/07/african-feminist-post-covid-19-economic-recovery-statement/

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[7] See for example the Global Alliance for Tax Justice (GATJ) response at: https://www.globaltaxjustice.org/en/latest/gatjper centE2per cent80per cent99s-secretariat-reaction-g7-tax-deal

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The Gender and Development Network (GADN) brings together expert NGOs, consultants, academics and individuals committed to working on gender, development and women's rights issues. Our vision is of a world where social justice and gender equality prevail and where all women and girls are able to realise their rights free from discrimination. Our goal is to ensure that international development policy and practice promotes gender equality and women's and girls' rights.

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