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CONTENTS

1. Progressive Taxation and Entitlement Theory <i>Aniruddh Panicker</i>	1-14
2. Taxing the Future: Navigating Goods and Services Tax for the Gig Economy with International Lessons <i>Nimisha Jha</i>	15-35
3. Complexities of Alcohol Taxation in India: A Constitutional and Judicial Analysis <i>Yug Raman Srivastava & Raman Nagpal</i>	36-54
4. Corporate Tax Reforms in the Digital Economy: International Coordination and Challenges <i>Adarsh Tripathi</i>	55-69
5. Depreciation Denied: Reviewing the Exclusion of Goodwill of a Business or Profession as a Depreciable Asset in the Income Tax Act, 1961 <i>Prabhav Tripathi & Kshitij Srivastava</i>	70-81
6. Taxing the Gig Economy in India: A Framework for Simplified Compliance and Social Security Integration <i>Sanvi Pipada & Lakshaya Singh Parihar</i>	82-105
7. The Global Minimum Corporate Tax: Impact on Multinational Companies and Developing Economies <i>Harsh Mangalam</i>	106-129
8. Comparative Analysis of the Welfare and the Minimal State from the Aspect of the Financial Activity of the State <i>Ana Naumoska</i>	130-146
9. Corporate Tax Evasion: Practices and Role of Taxation Laws In India <i>Dr. Manoj Kumar & Arpit Vihan</i>	147-160
10. Intergovernmental Taxation and Industrial Disruptions: Deconstructing the Constitutional Authority Over State-Imposed Green Energy Cess in India <i>Sai Shetye* Gungun Singh</i>	161-180
11. Judicial Activism or Revenue Reality? India's Approach to Substance Over Form Doctrine <i>Mohit Mishra</i>	181-192
12. Case Comment: New Noble Educational Society v. CIT, (2023) 6 SCC 649 <i>Santosh K. Sharma & Girjesh Shukla</i>	193-209

THE GLOBAL MINIMUM CORPORATE TAX: IMPACT ON MULTINATIONAL COMPANIES AND DEVELOPING ECONOMIES

Harsh Mangalam*

Abstract

The Global Minimum Corporate Tax aims to curb the practice of profit shifting, tax base erosion, and harmful tax competition by imposing a 15% minimum tax rate on multinational corporations, no matter where these profits arise. The need for this tax arose due to widespread corporate tax avoidance, where corporations shifted profits to low-tax jurisdictions, depriving governments of critical revenue, and "race to the bottom" in corporate tax rates led to economic imbalances, forcing nations to find alternative ways to fund public services. This paper comprehensively analyses the implementation of the Global Minimum Corporate Tax, its challenges, and its long-term implications, covering enforcement difficulties, responses from tax havens, and its impact on global economic relations. It also explores how the reform influences developing nations, foreign direct investment, and corporate tax strategies. Furthermore, the discussion highlights the future of international taxation, including digital tax frameworks and corporate transparency measures, emphasising the need for continued global cooperation and policy refinements.

Key Words: Taxation, International Taxation, Tax Havens, Digital Taxation, Global Tax Cooperation.

I

Introduction

The Global Economy and Financial system are ridiculed with a critical issue, where multinational corporations leverage the differences in tax systems across the various jurisdictions to minimise their tax liabilities, numerous global enterprises shift the profits of their businesses to low tax jurisdictions, commonly known as tax havens, which allows them to pay little to no corporate tax, this often results in massive loss in tax revenue for the original host nation¹. This phenomenon is referred to as Base

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¹ Jane G. Gravelle, *Tax Havens: International Tax Avoidance and Evasion*, 62 NAT'L TAX J. 6 (2009).

The Global Minimum Corporate Tax

Erosion and Profit Shifting², which costs governments worldwide hundreds of billions of dollars in lost tax revenue annually. In an attempt to attract businesses, countries have engaged in a “race to the bottom” by lowering corporate tax rates³.

Tax avoidance by multinational companies is not a novel challenge. Over the last century, businesses have expanded beyond national borders and found ways to take advantage of varying tax rates across different countries. In the mid-20th century, many companies used transfer pricing to shift profit between subsidiaries incorporated in other countries, minimising the taxable income in high-tax jurisdictions.⁴ By the 1900s and early 200s, the digital economy giants perfected tax avoidance strategies, taking advantage of the loopholes in the international tax laws. A technique popularly known as *Double Irish with a Dutch Sandwich*.⁵ It was quite popular amongst these corporations and was used globally. Though these strategies were legal, they created and harboured an unfair system for multinational corporations over local businesses, as these strategies allowed the highly profitable large global corporations to pay taxes, at the lowest possible rates, meanwhile the small local businesses had to endure the full force of the tax enforcement, and were often taxed at a higher rate than these global giants.⁶ The Organisation for Economic Co-operation and Development (OECD) and G20 have proposed a Global Minimum

² Ernesto Crivelli, Ruud De Mooij et. al., *Base Erosion, Profit Shifting and Developing Countries*, 72 FINANZARCHIV / PUB. FIN. ANALYSIS 2 (2016).

³ Rupan Bharanidaran, *Base Erosion, Profit Shifting and Developing Countries: Ending the Race to the Bottom*, 3 CHI. J. INT’L L. ONLINE 1 (2024).

⁴ George Cooper, *The Avoidance Dynamic: A Tale of Tax Planning, Tax Ethics, and Tax Reform*, 80 COLUM. L. REV. 3, 4 (1980).

⁵ Bhavna Pattanaik, *Problems of Double Irish Dutch Sandwich & the Case of Vodafone: Birth of the GAAR in the United Kingdom and India*, 2 IND. J. TAX L. 6 (2015). See also, Ambareen Beebeejaun, *The Double Irish and Dutch Sandwich Strategies and Tax Avoidance in Mauritius*, 24 J. MONEY LAUNDERING CONTROL 4 (2021).

⁶ The ever-increasing tax rates have led to the large corporations plan their taxes, and systematically avoid them, however, the same is not possible for the smaller business who do not possess the same class of resources, and are taxed at a considerably higher rate, as compared to their international counterparts. See, E. Gordon Keith, *The Impact of Taxation on Small Business*, 24 LAW & CONTEMP. PROBS. 10, 11 (1959). See also, Arjun Kapur & Swati Pawar, *The GMCT Revolution: Navigating India’s Future With The Two-Pillar Strategy*, GLOBAL BUS. L. REV., available at: <<https://gblrsclp.in/2024/12/03/the-gmct-revolution-navigating-indias-future-with-the-two-pillar-strategy/>> (last visited Mar. 21, 2025).

Corporate Tax of 15% to counter this tax avoidance.⁷ This framework, known as Pillar Two of the OECD's international tax reform, aims to prevent and disrupt international tax avoidance by ensuring that multinational corporations are made liable to pay a minimum level of corporate tax, no matter the location of the corporate entity that receives the ultimate profits. The primary object of this framework is to create a fair and just global tax system, preventing aggressive tax planning, and to equalise the playing field between economies⁸.

II

Understanding the Global Minimum Corporate Tax

The Global Minimum Corporate Tax represents a transformative approach in international tax policy, designed to ensure that large global corporations pay a fair share of taxes in the jurisdictions where they operate. The practice of profit shifting and tax avoidance allows corporations to minimise their tax liabilities in the jurisdictions where they primarily operate. These corporations use public funds, resources, and infrastructure to maximise profits. Yet, through various strategies, they actively deprive the nations supporting their growth of rightful tax revenues.

What is Global Minimum Corporate Tax?

The Global Minimum Corporate Tax is a landmark initiative designed to address the rampant issue of corporate tax avoidance by global conglomerates, the system was proposed by the Organisation for Economic Co-operation and Development, and the G20, the proposed tax regime establishes a global minimum effective corporate tax rate of 15% to prevent companies from shifting their profits to low-tax jurisdictions.⁹ By setting a tax floor limit, the system ensures that these massive corporations cannot artificially exploit differences in national tax laws to lower their tax liabilities. Historically, this practice has deprived governments of substantial revenues for public services and infrastructure.¹⁰

⁷ ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, *Global Minimum Tax*, available at: <<https://www.oecd.org/en/topics/sub-issues/global-minimum-tax.html>> (last visited Mar. 18, 2025).

⁸ *Id.*

⁹ ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, *Global Anti-Base Erosion Model Rules (Pillar Two)*, available at: <<https://www.oecd.org/en/topics/sub-issues/global-minimum-tax/global-anti-base-erosion-model-rules-pillar-two.html>> (last visited Mar. 18, 2025).

¹⁰ *Id.*

The Global Minimum Corporate Tax

For decades, large corporations have engaged in Base Erosion and Profit Shifting (BEPS) strategies, where they move their profits to tax havens or low-tax jurisdictions despite generating most of their revenue in high-tax countries, this is achieved through mechanisms such as transfer pricing manipulation, intra-group loans, royalty payments, and intellectual property migration¹¹. For example, a multinational technology corporation, XYZ Ltd., incorporated in India, may establish a subsidiary, XYZ Ireland Ltd., in Ireland, where corporate tax rates are significantly lower. Instead of reporting all its profits in India, the parent company sells its software to its Irish Subsidiary at an artificially low price. The Irish subsidiary then acts as the primary seller for the software, selling it to global customers at market rates, allowing most of the profits to be booked in Ireland rather than India. Additionally, the company might register its patents and intellectual property in another low-tax jurisdiction, such as Bermuda, and require its subsidiaries in high-tax countries to pay royalties for these patents. These intra-group payments effectively shift taxable income away from high-tax jurisdictions, significantly reducing the corporation's global tax burden while depriving governments of substantial tax revenues. These strategies allow these massive corporations to pay little to no tax in the countries where they conduct significant business activities. This creates an unfair tax system that favours large corporations over smaller, domestic businesses¹².

To prevent these tactics and to counter the practices, the OECD has introduced a top-up tax mechanism, where if a corporation pays less than 15% in a given jurisdiction, its home country has the right to impose an additional tax to ensure that the effective tax rate reaches 15%¹³. This provision is enforced under the Income Inclusion Rule and the Undertaxed Profits Rule, allowing governments to collect additional taxes from their corporations if they are under taxed elsewhere, outside their domestic jurisdictions.¹⁴. Essentially, even if a company books its profits in a tax haven with a 5% corporate tax rate, its home country can impose a 10% additional tax to bring the total to 15%. This effectively removes the financial

¹¹ George Cooper, *The Avoidance Dynamic: A Tale of Tax Planning, Tax Ethics, and Tax Reform*, 80 COLUM. L. REV. 11 (1980).

¹² Arjun Kapur & Swati Pawar, *The GMCT Revolution: Navigating India's Future With The Two-Pillar Strategy*, GLOBAL BUS. L. REV., available at: <<https://gblrscclp.in/2024/12/03/the-gmct-revolution-navigating-indias-future-with-the-two-pillar-strategy/>> (last visited Mar. 21, 2025).

¹³ *Id.*, Note 7 ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, at 2.

¹⁴ *Id.*, Note 7 ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, at 2.

incentive for corporations to shift profits to tax havens, promoting a fairer and more transparent global tax system.

The Two Pillar Framework

The OECD developed the Inclusive Framework on BEPS to establish a fairer and more transparent international tax regime, addressing the challenges posed by digitalisation and profit sharing by multinational corporations. The framework consists of two primary pillars. Pillar One aims to tax the digital economy by reallocating a portion of the corporation's profits to countries where they generate significant revenue, even if they lack a physical presence¹⁵. This is particularly relevant for the large technological corporations, which often generate substantial portions of their revenues in multiple countries across the globe, without establishing a legal or taxable presence in those jurisdictions. The primary objective was to ensure that digital businesses contribute fairly to the economies where they operate, preventing them from shifting their profits solely to low tax jurisdictions¹⁶. However, with ongoing negotiations, implementing Pillar One has proven challenging, as it requires global consensus on profit allocation rules and tax nexus definitions¹⁷.

Pillar Two introduces the Global Minimum Corporate Tax of 15%, a direct approach to preventing and tackling corporate tax avoidance. This measure ensures that large corporations pay a minimum level of tax regardless of where they operate or book their profits¹⁸. Pillar Two establishes a global floor on corporate taxation and discourages countries from engaging in harmful tax competition. In this practice, nations reduce their corporate tax rates to attract businesses at the expense of global tax fairness¹⁹. The system applies to multinational corporations with annual revenues of €750 million (\$800 million), targeting the most prominent companies while excluding smaller enterprises²⁰. It is expected to generate over \$200 billion in

¹⁵ Rupan Bharanidaran, *Base Erosion, Profit Shifting and Developing Countries: Ending the Race to the Bottom*, 3 CHI. J. INT'L L. ONLINE 20 (2024).

¹⁶ *Id.*

¹⁷ Rupan Bharanidaran, *Base Erosion, Profit Shifting and Developing Countries: Ending the Race to the Bottom*, 3 CHI. J. INT'L L. ONLINE 21 (2024).

¹⁸ ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, *Tax Challenges Arising from Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project* 13, 61 (2021).

¹⁹ ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, *Minimum Tax Implementation Handbook (Pillar Two), OECD/G20 Base Erosion and Profit Shifting Project* 04 (2023).

²⁰ ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, *Tax Challenges Arising from Digitalisation of the Economy – Global Anti-Base Erosion Model Rules*

The Global Minimum Corporate Tax

additional annual tax revenue worldwide, strengthening the fiscal capacity of governments to invest in public services and infrastructure.²¹

Pillar Two is to ensure effective enforcement and compliance with several key provisions. The Income Inclusion Rule permits a company's home country to impose additional taxes if its foreign subsidiaries pay less than the 15% minimum tax in another jurisdiction²². The Undertaxed Profits Rule enables countries where a corporation operates to collect additional taxes if a subsidiary in another jurisdiction benefits from an extremely low tax rate²³. Additionally, the Subject to Tax Rule grants developing countries the power to impose withholding taxes on certain intra-group payments, which are taxed at lower rates elsewhere²⁴. These rules have created a multi-layered enforcement structure, ensuring corporations cannot escape the minimum tax through loopholes.

Implementation and Challenges

The OECD's Global Minimum Corporate Tax was formally agreed upon in October 2021, marking a historic step toward curbing tax avoidance by multinational corporations. Over 140 countries, including major economies such as the United States, the European Union, the United Kingdom, Canada, and Japan, committed to implementing the Pillar Two framework. However, the implementation has been gradual because of the complexity of aligning domestic tax laws with the global agreement. Between 2022 and 2023, countries focused on drafting and passing domestic legislation to integrate the new tax rules. In 2024, several jurisdictions, including the EU, UK, Canada, and Japan, are set to start enforcing the 15% minimum tax rule, with the expectation that by 2025 and beyond, more nations will fully implement the framework. The framework's success is highly dependent on

(Pillar Two): *Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project 09* (2021).

²¹ ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, *Revenue Impact of International Tax Reform Better Than Expected*, available at: <https://www.oecd.org/en/about/news/press-releases/2023/01/revenue-impact-of-international-tax-reform-better-than-expected.html> (last visited Mar. 19, 2025).

²² ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, *Minimum Tax Implementation Handbook (Pillar Two), OECD/G20 Base Erosion and Profit Shifting Project 05* (2023).

²³ ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, *Minimum Tax Implementation Handbook (Pillar Two), OECD/G20 Base Erosion and Profit Shifting Project 11* (2023).

²⁴ ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, *Minimum Tax Implementation Handbook (Pillar Two), OECD/G20 Base Erosion and Profit Shifting Project 40* (2023).

consistent enforcement and international cooperation, as adopting loopholes could further enhance the chances of tax avoidance.

The biggest challenge faced while implementing this framework has been the resistance from countries with low corporate tax rates, which have historically attracted multinational corporations through their corporate-friendly tax policies. Countries such as Ireland, the Cayman Islands, and the United Arab Emirates initially opposed the reform but eventually agreed under pressure from G20 nations²⁵. However, concerns remain that certain tax havens may still find ways to offer indirect tax incentives, undermining the effectiveness of the novel tax system. Additionally, political uncertainty in the United States poses a significant risk to global enforcement. While the Biden administration supports the tax, opposition from Republican lawmakers has delayed full adoption in the US²⁶. If the US fails to implement this system, it could weaken the global effort, as many American multinational companies would not be subject to the additional tax, thereby gaining an unfair competitive advantage over businesses in compliant countries.

The developing countries have highlighted their concerns regarding the fairness and effectiveness of the tax. These countries argue that the 15% minimum tax rate is insufficient and may not generate substantial revenue for economies that rely heavily on corporate taxes.²⁷ Developing nations are also concerned that the

²⁵ Padraic Halpin & Conor Humphries, *Ireland Agrees to Global Tax Deal, Sacrificing Prized Low Rate*, REUTERS, Oct. 8, 2021, available at: <<https://www.reuters.com/business/ireland-backs-global-tax-deal-gives-up-prized-125-rate-2021-10-07/>> (last visited Mar. 20, 2025). See also, Liz Alderman, *Ireland's Days as a Tax Haven May Be Ending, but Not Without a Fight*, N.Y. TIMES, Oct. 7, 2021, available at: <<https://www.nytimes.com/2021/07/08/business/ireland-minimum-corporate-tax.html>> (last visited Mar. 20, 2025).

²⁶ After the 2025 elections, the Republican government officials hours after taking the oath, pulled the United States out of numerous international agreements, one of them being the OECD's Global Minimum Corporate Tax deal, stating, any global measures that disproportionately affect American companies, will not be tolerated. See, David Lawder, *Trump Effectively Pulls US Out of Global Corporate Tax Deal*, REUTERS, Jan. 21, 2025, available at: <<https://www.reuters.com/world/us/trump-declares-oecd-tax-deal-has-no-force-or-effect-us-2025-01-21/>> (last visited Mar. 20, 2025). See also, THE WHITE HOUSE, *The Organization for Economic Co-Operation and Development (OECD) Global Tax Deal (Global Tax Deal)*, Jan. 20, 2025, available at: <<https://www.whitehouse.gov/presidential-actions/2025/01/the-organization-for-economic-co-operation-and-development-oecd-global-tax-deal-global-tax-deal/>> (last visited Mar. 20, 2025).

²⁷ INTERNATIONAL CENTRE FOR TAX & DEVELOPMENT, *A Global Minimum Tax: Is Pillar Two Fair for Developing Countries?*, available at: <<https://www.ictd.ac/blog/global-minimum-tax-pillar-two-fair-developing-countries/>> (last visited Mar. 20, 2025). See also, GLOBAL ALLIANCE FOR TAX JUSTICE, *Global Minimum Tax of 15% Would Only Benefit Developed*

The Global Minimum Corporate Tax

enforcement mechanisms favour the richer countries, as the Income Inclusion Rule and the Undertaxed Profits Rule give taxing rights primarily to countries where MNCs are headquartered, often in Europe and North America, rather than to the nations where economic activities take place.²⁸ Additionally, the corporations might restructure their financial operations to reduce their tax liabilities. A harmonious application and adoption of the framework must address these concerns through continued international coordination, monitoring of corporate tax behaviours, and potential adjustments to the framework to ensure a more equitable and effective global tax system.

III

Rationale Behind the Reforms

The Global Minimum Corporate Tax system was introduced to address global conglomerates' historical tax avoidance practices, using complex structures to shift profits to low-tax jurisdictions while conducting most of their businesses in high-tax countries. This practice has led to massive revenue losses for the government, significantly increasing the income inequality and placing a greater tax burden on individuals and smaller businesses²⁹. This novel system aims to level the playing field by ensuring that all large corporations pay a minimum of 15% in corporate taxes, promoting tax fairness and strengthening government revenues.

Addressing Tax Avoidance and Profit Shifting (BEPS)

The Global Minimum Corporate Tax primarily aims to eliminate the Base Erosion and Profit Shifting system, where multinational corporations manipulate tax rules to artificially shift their profits to low tax jurisdictions, even though no actual work is being conducted in that country. Large corporations often exploit gaps and mismatches in international tax regulations, using complex financial structures to

Countries, available at: <<https://globaltaxjustice.org/news/global-minimum-tax-of-15-would-only-benefit-developed-countries/>> (last visited Mar. 20, 2025).

²⁸ *Id.*

²⁹ Richard Rubin, *U.S. Companies are Stashing \$2.1 Trillion Overseas to Avoid Taxes*, BLOOMBERG, Mar. 4, 2015, available at: <<https://www.bloomberg.com/news/articles/2015-03-04/u-s-companies-are-stashing-2-1-trillion-overseas-to-avoid-taxes>> (last visited Mar. 24, 2025). Arjun Kapur & Swati Pawar, *The GMCT Revolution: Navigating India's Future With The Two-Pillar Strategy*, GLOBAL BUS. L. REV., available at: <<https://gblscclp.in/2024/12/03/the-gmct-revolution-navigating-indias-future-with-the-two-pillar-strategy/>> (last visited Mar. 21, 2025).

reduce their overall tax liabilities.³⁰ One of the most common strategies include the transfer price manipulation, where a corporation sets artificially high or low prices for goods and services traded between its subsidiaries to shift profits to tax-friendly locations; intra-group loans, where a subsidiary in a low-tax country lends money to another subsidiary in a high-tax country, allowing the latter to deduct interest payments from its taxable income, another method is the intellectual property (IP) migration.³¹, where companies register patents, trademarks, or copyrights in tax havens and charge subsidiaries in higher-tax nations for their use—these techniques drastically lower corporations' effective tax rates, depriving governments of substantial tax revenues.

The impact of shifting profits is reflected drastically on developing nations, which heavily rely on corporate tax revenues as compared to developed countries³². According to OECD estimates, tax avoidance through the various strategies costs governments globally between \$100 billion and \$240 billion annually³³, weakening public finances and reducing the ability of states to fund essential services such as healthcare, education, and infrastructure. The loss of these revenues shifts the tax burden onto individual taxpayers and smaller businesses, which do not have the same means to engage in sophisticated tax planning. The Global Minimum Corporate Tax system seeks to address this imbalance by establishing a global tax floor, ensuring that large corporations pay at least 15% in corporate taxes regardless of where they operate, an international tax floor limits the incentives for profit shifting to different jurisdictions, the system establishes a transparent and equitable tax system, further reducing opportunities for aggressive tax avoidance while strengthening government revenues worldwide³⁴.

Preventing Tax Competition and a "Race to the Bottom"

The rise of harmful tax competition has been a major driver behind introducing the Global Minimum Corporate Tax. Over the last few decades, numerous countries have engaged in a *race to the bottom*, progressively and competitively lowering their corporate tax rates to attract foreign direct investments and multinational

³⁰ Dinah M. Payne & Cecily A. Raiborn, *Aggressive Tax Avoidance: A Conundrum for Stakeholders, Governments, and Morality*, 147 J. BUS. ETHICS 473 (2018).

³¹ Simone De Colle & Ann Marie Bennett, *State-Induced, Strategic, or Toxic? An Ethical Analysis of Tax Avoidance Practices*, 33 J. BUS. ETHICS 59, 60, 61 (2014).

³² Ernesto Crivelli, Ruud De Mooij et. al., *Base Erosion, Profit Shifting and Developing Countries*, 72 FINANZARCHIV / PUB. FIN. ANALYSIS 269 (2016).

³³ ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, *Base Erosion and Profit Shifting (BEPS)*, available at: <<https://www.oecd.org/en/topics/policy-issues/base-erosion-and-profit-shifting-beps.html>> (last visited Mar. 20, 2025).

³⁴ *Id.*

The Global Minimum Corporate Tax

corporations.³⁵ Numerous countries across the globe don't have any substantial natural resources to support its citizens, nor do they have industries to provide jobs to the local populous, to provide basic facilities to its citizens, governments of such nations, reduce corporate tax rates as a way to boost domestic employment, encourage economic growth, and establish themselves as business-friendly jurisdictions.³⁶ This has led to the rise of tax havens and low-tax jurisdictions, such as Ireland, Singapore and the Cayman Islands, which offer attractive tax incentives to global businesses.³⁷ This establishes corporate subsidiaries in these regions, even if they conduct most of their operations elsewhere. This deprives nations with higher tax rates of their corporate tax revenue. It also establishes an uneven playing field, where businesses that operate domestically and pay full taxes struggle to compete with multinational firms benefiting from lower tax obligations abroad.

Low-tax policies have proven successful in the short term but undermine the global tax system in the long run. As more nations compete by reducing their corporate taxes, this negatively impacts the global tax revenues, forcing governments to compensate by raising tax rates on indirect taxes, wages, salaries, and small businesses³⁸. This tax burden shifting disproportionately impacts middle- and low-income households and individuals, further widening economic inequality³⁹. Furthermore, countries with already low tax rates often face pressure to lower them even further, creating a cycle of downward competition that weakens public finances worldwide. The Global Minimum Corporate Tax system mitigates this issue by incorporating a universal minimum corporate tax rate of 15%, ensuring businesses cannot escape taxation entirely by relocating to low-tax jurisdictions. This system reduces the incentive for countries to undercut one another on tax rates, fostering a more stable, fair, and cooperative international tax environment where all nations can compete based on economic fundamentals rather than tax incentives.

Increasing Tax Fairness and Revenue Collection

³⁵ *Id.*, Note 3, Rupam Bharanidaran, at 2.

³⁶ Thabo Legwaila, *Global Minimum Corporate Tax – Developing Countries Beware*, 45 *OBITER* 966 (2024).

³⁷ James R. Hines Jr., *Tax Havens* (2017) (Working Paper, Office of Tax Policy Research, Univ. of Michigan).

³⁸ Simone De Colle & Ann Marie Bennett, *State-Induced, Strategic, or Toxic? An Ethical Analysis of Tax Avoidance Practices*, 33 *J. BUS. ETHICS* 64, 65 (2014).

³⁹ Astri Warih Anjarwi, *Tax Burden and Poverty in Lower-Middle-Income Countries: The Moderating Role of Fiscal Freedom*, 12 *DEV. STUD. RES.* 3 (2025). *See also*, Simone De Colle & Ann Marie Bennett, *State-Induced, Strategic, or Toxic? An Ethical Analysis of Tax Avoidance Practices*, 33 *J. BUS. ETHICS* 64 (2014).

The Global Minimum Corporate Tax aspires to promote tax fairness by ensuring that the world's largest and most profitable multinational corporations contribute proportionally to the economies in which they operate. Numerous corporations are heavily dependent on public infrastructure, government-funded initiatives, and legal systems in high-tax countries to conduct their business activities. They benefit from roads, transportation networks, a well-educated workforce, judicial protections, and security services, all funded by taxpayers.⁴⁰ However, through aggressive and strategic tax avoidance techniques, such as profit shifting, transfer pricing manipulation, and intellectual property migration, these corporations pay little to no tax in the very jurisdictions that facilitate their success. This results in reduced government revenue, which can reduce funding for essential public services and shift the tax burden onto smaller businesses and individual taxpayers who do not have the same ability to engage in sophisticated tax planning.

Implementing a global minimum corporate tax rate closes the loopholes that allow corporations to escape tax liabilities and ensures that all businesses pay their fair share. This system aims to generate substantial additional tax revenue, strengthen government finances and enable increased public investment in critical sectors such as healthcare, education, and infrastructure development. OECD estimates that the new global tax rate could raise an additional \$150 billion in annual tax revenue worldwide⁴¹, benefiting developed and developing nations. In the lower-income countries, corporate tax revenues form a significant portion of the government treasury. This new system could establish a more equitable and sustainable fiscal system. Reducing reliance on regressive taxation methods, such as higher taxes on wages and consumption, could ensure a fair and equitable distribution of tax obligations and help build a more balanced and stable global economy⁴².

The Global Minimum Corporate Tax represents a landmark shift in international taxation, aimed at tackling the long-standing challenges of profit shifting, tax competition, and corporate tax avoidance. The initiative ensures that multinational corporations contribute fairly to the economies where they operate, reducing the

⁴⁰ Taxation serves as the primary form of revenue for the governments across the globe, to finance spending on essential services such as education, infrastructure and healthcare, corporate tax avoidance and evasion directly impacts the funding for these services, ultimately affecting the overall growth of the nation. See, Dinah M. Payne & Cecily A. Raiborn, *Aggressive Tax Avoidance: A Conundrum for Stakeholders, Governments, and Morality*, 147 J. BUS. ETHICS 473 (2018). See also, Grahame R. Dowling, *The Curious Case of Corporate Tax Avoidance: Is It Socially Irresponsible?*, 124 J. BUS. ETHICS 179 (2014).

⁴¹ *Id.*, Note 21, ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT at 6.

⁴² *Id.*, Note 37, James R. Hines Jr, at 10.

exploitation of low-tax jurisdictions and strengthening global tax revenues.⁴³ This reform enhances government finances and promotes economic fairness, preventing large corporations from gaining an unfair advantage over smaller businesses and individual taxpayers who lack access to complex tax planning strategies.⁴⁴

IV

Impact of the Global Minimum Corporate Tax on Multinational Corporations

The Global Minimum Corporate Tax is set to reshape the global tax landscape, significantly affecting how multinational corporations operate, structure their finances, and make investment decisions. The reform primarily aims to prevent tax avoidance and introduces new compliance requirements and administrative burdens for corporations. Companies historically relying on profit shifting and tax havens must reassess their tax structure and adjust their financial planning to align with the new minimum tax rate of 15%.

Compliance and Administrative Burden for Corporations

The system imposes a new compliance requirement on global corporations, requiring these companies to monitor and report their international tax obligations closely⁴⁵. Unlike the old system, the new framework demands greater transparency⁴⁶ in tax filings and financial disclosures. Corporations must track their effective tax rates in every country they operate in to determine whether additional top-up taxes apply. In some corporations, the framework requires extensive data collection, coordination between different subsidiaries, and adjustments to accounting systems, increasing administrative complexity. Additionally, corporations must align their tax and financial strategies with the ever-evolving domestic laws, as more countries integrate the Pillar Two framework into their local

⁴³ OECD holds that, the primary reason for a global tax floor is to de-incentivise the shifting of profits, which will ensure fairness amongst tax payers, an increase in tax morale, and may possibly lead to a broader taxpayer compliance. *See*, ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, *Tax Incentives and the Global Minimum Corporate Tax: Reconsidering Tax Incentives After the GloBE Rules* 54 (2022).

⁴⁴ Sara Dillon, *Tax Avoidance, Revenue Starvation and the Age of the Multinational Corporation*, 50 INT'L LAW. 324, 325 (2018).

⁴⁵ *Id.*

⁴⁶ ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, *Tax Incentives and the Global Minimum Corporate Tax: Reconsidering Tax Incentives After the GloBE Rules* 54 (2022).

tax regulations, the smaller corporations would be directly affected by these reforms, and may face higher compliance costs, as they lack the same resources as larger companies to manage complex tax reporting requirements.

Effect on Tax Havens and Corporate Restructuring

The Global Minimum Corporate Tax would massively impact tax havens, which have long benefited from offering low or zero corporate tax rates to attract multinational corporations. Countries such as Ireland, the Cayman Islands, Bermuda, and Luxembourg have historically served as key destinations for profit shifting; these countries allow companies to book profits in these regions without significant economic activity⁴⁷. The minimum tax floor aims to reduce the lucrative appeal of these countries, making them less profitable for corporations to shift their income to such jurisdictions artificially. Historically, corporations would exploit loopholes and mismatches in tax laws, taking advantage of preferential tax regimes and special arrangements to significantly lower their effective tax rates⁴⁸. However, if a corporation pays less than 15% under the new framework in a low-tax country, its home country will have the right to impose a top-up tax to bring the total tax paid up to the minimum rate of 15%⁴⁹. This reform aims to discourage companies from keeping profits in tax havens, as they would no longer gain the same financial advantage, over time, these reforms could erode the economic model of these low-tax jurisdictions, forcing them to re-evaluate their tax policies and potentially introduce alternative incentives to attract investment, such as subsidies or investment grants.

Consequently, the corporations would restructure their tax and business operations to align with the new global tax rules. Corporations might relocate their headquarters or transfer intangible assets to higher-tax jurisdictions where they conduct substantial business activities. This would result in a balanced global tax

⁴⁷ Countries such as, the United States (including three states, Delaware, Nevada, and Wyoming), the United Kingdom, the Netherlands, Denmark, Hungary, Iceland, Israel, Portugal, and Canada have been charged with having tax haven characteristics. A number of smaller countries or areas in countries, such as Campione d'Italia, an Italian town located within Switzerland, have also been characterized as tax havens, indicating, that this shift is not limited to a few nations, rather it affects a large number of countries that are heavily reliant on foreign investments. See, Jane G. Gravelle, *Tax Havens: International Tax Avoidance and Evasion*, 62 NAT'L TAX J. 731 (2009). See also, James R. Hines Jr., *Tax Havens* (2017) (Working Paper, Office of Tax Policy Research, Univ. of Michigan).

⁴⁸ Grahame R. Dowling, *The Curious Case of Corporate Tax Avoidance: Is It Socially Irresponsible?*, 124 J. BUS. ETHICS 175 (2014).

⁴⁹ *Id.*, Note 23, ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT at 6.

The Global Minimum Corporate Tax

system, ensuring that corporate profits are taxed where value is truly created rather than in artificial holding companies established for tax purposes. However, this new system might result in a more sophisticated form of tax avoidance where corporations may restructure their cost allocations, engage in more sophisticated transfer pricing strategies, or develop hybrid structures that combine multiple tax jurisdictions to maintain some level of tax efficiency. The former tax havens would also have to reallocate resources to support their competitiveness. This could be done by shifting to non-tax incentives like business-friendly regulatory frameworks, investment-friendly policies, or offering specialised financial and legal services.⁵⁰ Eventually, the Global Minimum Corporate Tax will weaken the dominance of traditional tax havens, leading to a more equitable distribution of corporate tax revenues worldwide, with profits being taxed more fairly in the countries where real economic activity occurs.⁵¹

Potential Shifts in Business Strategies and Investments

The Global Minimum Corporate Tax will likely massively impact business strategies and investment decisions. Historically, low tax rates have played a significant role in corporate decision-making, influencing the locations of the regional subsidiaries of multinational corporations, research and development centres, and financial hubs. Businesses strategically decide the area based on favourable tax regimes rather than economic fundamentals, concentrating corporate activities in low-tax jurisdictions such as Ireland, the Netherlands, and Singapore. However, the new tax floor reduces the profitability of tax havens, and companies may shift their priorities when selecting investment destinations. Instead of solely focusing on the tax benefits, the corporations may begin prioritising other factors, such as infrastructure quality, skilled workforce availability, political and regulatory stability, access to major markets, and the ease of doing business⁵². This shift would ensure a more

⁵⁰ Taylor Morgan Hoffman, *The Future of Offshore Tax Havens*, 2 CHI. J. INT'L L. 516 (2001). See also, THOMSON REUTERS, Global Minimum Tax (GMT): An Overview, available at: <<https://tax.thomsonreuters.com/blog/what-is-global-minimum-tax/#:~:text=The%20importance%20of%20global%20minimum,a%20rebalancing%20of%20taxation%20inequalities>> (last visited Mar. 24, 2025).

⁵¹ *Id.*, Note 37, James R. Hines Jr, at 10.

⁵² Felix Hugger, Ana Cinta González Cabral et. al., *How the Global Minimum Tax Changes the Taxation of Multinational Companies*, CENTRE FOR ECON. POL'Y RES., available at: <<https://cepr.org/voxeu/columns/how-global-minimum-tax-changes-taxation-multinational-companies>> (last visited Mar. 21, 2025). See also, UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT, *World Investment Report: The Impact of a Global Minimum Tax on FDI* (2022).

balanced global distribution of corporate activities, where investment decisions are based on long-term economic sustainability rather than short-term tax savings.

The companies would seek alternative ways to offset the impact of such higher tax liabilities, potentially passing on additional costs to consumers through price increases or reducing shareholder dividends to maintain profitability. The companies may also reduce their investments in certain regions, especially in countries where the new tax rates significantly raise their effective tax liabilities. To retain foreign investments and attract new investment, governments may introduce new incentives, such as investment grants, research and development subsidies, or infrastructure development programs to replace the lost tax advantages. These policy changes would drastically alter the global investment trends, where some economies will directly benefit from the increased corporate presence. In contrast, others struggle to adapt to the changing tax landscape.

V

Ramifications for Developing Economies

The Global Minimum Corporate Tax (GMCT) presents opportunities and challenges for developing economies. Many developing countries rely on foreign direct investment (FDI) and corporate tax incentives to attract multinational corporations to their jurisdictions. These countries use low tax rates, tax holidays, and special economic zones to attract businesses to set up operations, create jobs, and stimulate economic growth. However, the universal tax floor would massively diminish the effectiveness of these incentives, potentially altering the investment patterns.

Impact on Foreign Direct Investment

Historically, developing economies have heavily relied on foreign direct investments as a critical source of investment to fund economic growth, job creation, and infrastructure development.⁵³ To attract more foreign investors, these countries have adopted low corporate tax rates and tax holiday policies, which result in investment in the manufacturing, services, and technology sectors.⁵⁴ These strategies have positioned developing nations as attractive investment destinations, drawing businesses away from high-tax jurisdictions. However, with the

⁵³ ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, *Global Anti-Base Erosion Model Rules (Pillar Two)*, available at: <<https://www.oecd.org/en/topics/sub-issues/global-minimum-tax/global-anti-base-erosion-model-rules-pillar-two.html>> (last visited Mar. 21, 2025).

⁵⁴ *Id.*, Note 1, Jane G. Gravelle, at 2.

The Global Minimum Corporate Tax

implementation of the Global Minimum Corporate Tax, the effectiveness of such incentives is likely to diminish. Since corporations must pay at least 15% in taxes, regardless of where they operate, the competitive edge of low-tax jurisdictions in the developing world could be weakened, making some regions less appealing for tax-driven investments.

A potential decline in tax-incentivised countries would directly affect the countries that multinational corporations have chosen for their low tax rates, rather than the broader economic aspirations and fundamentals. Developing economies dependent upon special economic zones or free trade zones with ultra-low tax rates to attract investors or corporations may experience a decline in foreign investments. Countries that have continuously marketed themselves as regional business hubs with attractive tax incentives would have to reconsider their economic models to sustain foreign interest. If tax incentives are ineffective, governments in these economies must identify new ways to remain competitive in the global investment landscape.

Tax incentives are out of the way, and corporations may shift their priorities in deciding the place of investment, such as infrastructure quality, labour costs, political stability, regulatory efficiency, and market access⁵⁵. This mindset shift could encourage governments of developing nations to develop the fundamentals of their country, rather than rely entirely on tax-incentivised investments. Measures such as a strong legal system, robust public infrastructure, and accelerated human development could easily attract investments in the future. To further increase investment, countries may rely on non-tax incentives, such as investment grants, subsidies for research and development, regulatory flexibility, and preferential trade agreements. Developing countries create an investment climate based on economic fundamentals rather than tax avoidance, creating a more resilient, diverse, and long-term growth strategy, ensuring stability even as global tax policies evolve.

Tax Revenue Implications for Developing Countries

The biggest concern for developing nations is the impact of the universal tax floor, on their corporate revenues, developing countries have historically struggled with profit shifting, to low tax jurisdictions, and has resulted in significant revenue losses for the governments, depriving them of funds necessary for public services, infrastructure development, and economic growth initiatives. The Global Minimum Corporate Tax primarily aims to address this by ensuring that no matter the

⁵⁵ Id., Note 49, Grahame R. Dowling at 13.

corporations' practices, they are liable to pay at least 15% taxes globally.⁵⁶ A practical implementation of this tax system could relax the developing nations, help them recapture lost tax revenues and strengthen their fiscal positions, allowing for increased healthcare, education, and infrastructure investments.

The developing countries face another challenge, as the majority of the additional tax revenues generated by the new tax regime may flow to developed countries, rather than the economies where business activities occur.⁵⁷ Under the framework, the top-up tax is applied by the home country of the corporation, meaning that a where corporation pays less than 15% in a developing nation, the difference is taxed in the country where the headquarters of the company is situated, which is often a developed nation, this further raises concerns, that wealthier nations, rather than the host countries where the economic activities occur, will be the primary beneficiaries of the new tax system. To neutralise this imbalance, a growing demand for international tax reforms ensures that a greater share of tax revenues is allocated to developing economies.⁵⁸ This system would further strengthen global tax cooperation, and the modified revenue-sharing mechanisms would be crucial to ensure that developing nations receive their fair share of global tax collections, rather than continuing to be disadvantaged in the international tax system.

VI

Criticism and Challenges of the Global Tax Reform

The Global Minimum Corporate Tax represents a significant effort to reform the international tax system. Still, it is not perfect; the system's success depends on the effective enforcement, a broad global consensus, and the ability to close loopholes that corporations exploit. This section discusses the various criticisms and challenges arising from the implementation of the new tax regime.

⁵⁶ ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, *Global Minimum Tax*, available at: <https://www.oecd.org/en/topics/sub-issues/global-minimum-tax.html> (last visited Mar. 21, 2025).

⁵⁷ *Id.*, Note 27, ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT at 8.

⁵⁸ These concerns have been duly acknowledged by the OECD, and is actively working with developing countries to enhance their tax systems, with an aim to boost tax revenues and mobilise domestic resources in these nations. See, ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, *Tax and Development*, available at: <https://www.oecd.org/en/topics/policy-issues/tax-and-development.html> (last visited Mar. 21, 2025).

The Global Minimum Corporate Tax

Issues with Enforcement and Global Consensus

The most significant hurdle in effectively implementing the Global Minimum Corporate Tax system is the lack of a uniform enforcement mechanism across different jurisdictions. More than 130 countries have committed to the reforms, but adopting and implementing domestic legislation has been uneven.⁵⁹ Countries like the United States, which are riddled with strict political divides, have faced legislative roadblocks, delaying full compliance. The United States Congress has struggled to pass the necessary tax changes due to opposition from lawmakers concerned about the impact on American multinational corporations. After Donald Trump's re-election, the United States is officially out of this agreement.⁶⁰ Numerous low-tax countries have agreed to the reforms under pressure from the larger economies, and these countries may intentionally delay or weaken implementation to preserve their competitive advantage. This creates inconsistencies in the global application of the new system, making it challenging to ensure that all the multinational corporations duly comply with this framework.

The legislative implementation is not the only concern; monitoring and enforcing compliance across multiple tax jurisdictions is a highly complex and resource-intensive process, as many developing countries lack the administrative capacity to effectively trace the corporate tax payments, audit financial statements, and detect tax avoidance schemes. Tax authorities of these developing nations often struggle with limited access to the technical financial data of the corporations, making it even easier to engage in profit shifting without detection⁶¹. If the major economies fail to adhere to and enforce the new rules strictly, it could result in a fragmented adoption, where only some jurisdictions effectively implement the tax, allowing corporations to continue exploiting loopholes by operating in non-compliant countries. This issue

⁵⁹ Jeff Goldstein, *Delayed but Not Defeated: The Road Ahead for a Global Minimum Corporate Tax*, ATLANTIC COUNCIL, Aug. 24, 2022, available at: <<https://www.atlanticcouncil.org/blogs/econographics/the-road-ahead-for-a-global-minimum-corporate-tax/>> (last visited Mar. 24, 2025).

⁶⁰ Brenda Medina, *Trump Pulled the US Out of Global Tax Agreements and Negotiations. It May Backfire.*, INT'L CONSORTIUM OF INVESTIGATIVE JOURNALISTS, Feb. 13, 2025, available at: <https://www.icij.org/news/2025/02/trump-pulled-the-u-s-out-of-global-tax-agreements-and-negotiations-it-may-backfire/> (last visited Mar. 22, 2025). *See also*, Surabhi, *Trump Pulls Out of OECD Global Tax Deal, Putting Question on the Landmark Accord*, BUS. TODAY, Jan. 21, 2025, available at: <http://businesstoday.in/world/us/story/trump-pulls-out-of-oecd-global-tax-deal-putting-question-on-the-landmark-accord-461603-2025-01-21> (last visited Mar. 22, 2025).

⁶¹ Clemens Fuest & Nadine Riedel, *Tax Evasion and Tax Avoidance in Developing Countries: The Role of International Profit Shifting* (2010) (Working Paper, Centre for Business Taxation, Univ. of Oxford).

can only be resolved through stronger global coordination, enhanced tax transparency, and robust compliance mechanisms.

Concerns for Tax Havens

The loudest criticisms of the new international tax system hail from the countries that have historically relied on low corporate tax rates to attract foreign businesses, since this new system directly threatens to erode their economic models.⁶² Tax havens such as Ireland, the Cayman Islands, Bermuda, and Singapore have long positioned themselves as business-friendly jurisdictions by offering extremely low or zero corporate tax rates. Despite their small size, this strategy has attracted billions of dollars in foreign direct investment and established these nations as major financial hubs. However, the new tax regime directly challenges the position of these nations, as companies will now be subject to top-up taxes imposed by their home countries if they pay less than 15% in corporate taxes abroad. The low tax incentives are no longer as lucrative as they once were, drastically impacting their economies, which have historically relied on the multinational corporations and their investments, especially in the financial, insurance and technology sectors.

Most tax havens have agreed to the Global Minimum Corporate Tax due to pressure from major economies; however, concerns remain about how they will adapt to the new tax environment. These countries may use alternative methods to attract businesses and foreign investment, such as regulatory benefits, offering investment grants, or financial secrecy laws. There lies a possibility that some previously tax haven nations may pivot towards becoming global hubs for non-tax benefits, such as light-touch financial regulations, strong intellectual property protections, and lenient corporate governance structures, to continue attracting foreign investors⁶³. The long-term impact of these policies on these jurisdictions will depend on the strict enforcement of these new rules and whether global cooperation remains strong in preventing tax havens from finding alternative ways to maintain their status as corporate-friendly destinations.

⁶² Thabo Legwaila, *Global Minimum Corporate Tax – Developing Countries Beware*, 45 OBITER 972 (2024).

⁶³ For instance, Bermuda, a previous tax haven is considering to implement a refundable credit-based tax system, where the credits could be utilised to support investments in areas such as payroll, training, infrastructure, and green energy projects, aligning with OECD guidelines while enhancing Bermuda's competitiveness. See, Lauren Vella & Danish Mehboob, *Tax Havens Race to Lure Companies as 15% Global Levy Looms*, BLOOMBERG TAX, Dec. 6, 2023, available at: <https://news.bloombergtax.com/tax-insights-and-commentary/tax-havens-race-to-lure-companies-as-15-global-levy-looms> (last visited Mar. 22, 2025).

The Global Minimum Corporate Tax

Corporate Responses

Corporations may find novel ways to exploit the Global Minimum Corporate Tax system, using complex legal procedures or partnerships with developing nations, and the effect of the tax system would be massively undermined. The corporates may also look for alternate methods to neutralise the added expense of the global minimum tax, such as reducing employee benefits, increasing consumer prices, or limiting investments in certain regions to offset the additional tax burden. Governments will need to continually update and refine tax policies to close emerging loopholes and ensure that corporations cannot exploit weaknesses in the system.⁶⁴.

VII

Future of International Taxation

The Global Minimum Corporate Tax marks a historical shift in international tax policy, but it is only the beginning of a broader evolution in global taxation. As governments evaluate and adapt new tax structures, economic relations, investment flows, and corporate strategies will continue to evolve. The success of the Global Minimum Corporate Tax is heavily dependent on global cooperation and enforcement. Still, its long-term impact could extend far beyond a minimum tax rate; the countries may explore additional reforms, especially in digital taxation, wealth taxation, and environmental levies, to ensure a more comprehensive and equitable tax system.

Long-Term Impact on Global Economic Relations

Implementing the Global Minimum Corporate Tax is poised to reshape global economic relations by altering how nations compete for investment and engage with multinational corporations. Tax Havens, for ages, have attracted corporations through nearly zero corporate taxes; these policies have led to tax competition, where countries progressively lower their tax rates to remain competitive, often at the cost of domestic revenue. The new system aims to destroy this trend by ensuring corporations pay at least 15% in taxes, regardless of where they operate. This will result in a shift as low tax rates will no longer be lucrative, however, this shift will present both challenges and opportunities, for developing nations, even though

⁶⁴ Lauren Vella & Danish Mehboob, *Growing List of Loopholes Reducing the Impact of Global Minimum Tax Rate of 15%*, BALLIWICK EXPRESS, Nov. 3, 2023, available at: <https://www.bailiwickexpress.com/news-ge/growing-list-loopholes-reducing-impact-global-minimum-tax-rate-15/> (last visited Mar. 25, 2025).

these countries stand at a chance to lose the majority of their foreign investment, but this will present them with an opportunity to reform their national priorities, and build more sustainable, long-term economic growth models based on structural competitiveness rather than tax advantages⁶⁵.

Possibility of Further Tax Reforms

The Global Minimum Corporate Tax is unlikely to be the final reform in the greater international cooperation on taxation. In this ever-developing landscape, the primary reform is raising the minimum tax above 15%, as many policymakers and advocacy groups argue that the current threshold remains too low to achieve meaningful tax fairness. The various developing countries have voiced concerns that a 15% rate does not generate enough additional revenue to compensate for lost corporate tax revenues due to profit shifting. It has been proposed that the rate may be raised to 20% or higher, ensuring that the multinational corporations contribute a larger share of their profits to the countries where they operate, rather than primarily benefiting headquarters nations. However, achieving a consensus on a higher minimum tax rate will be challenging, as low-tax jurisdictions and business-friendly economies may resist further increases. Further, there are chances that corporations may respond by lobbying against such reforms or shifting investments to regions with more favourable tax treatment, which could reignite tax competition in new forms.

Digital Taxation

The future taxation system would be heavily focused on digital taxation, driven by the rise of tech giants. These companies have revolutionised global commerce, but their ability to operate across borders without a significant physical presence within the country has exposed major flaws in traditional tax frameworks. Historically, corporate taxes have been based on where a company is physically headquartered or conducts business operations. Still, digital businesses generate substantial revenue from users in countries with no physical footprint⁶⁶. Consequently, governments across the globe have struggled to tax these profits fairly, leading to widespread concern over tax base erosion. To counteract this, several countries have introduced unilateral Digital Services Taxes imposed on digital companies' revenues from users within a given jurisdiction⁶⁷. For instance, France and the UK have implemented DSTs targeting advertising revenue, digital marketplace

⁶⁵ Thabo Legwaila, *Global Minimum Corporate Tax – Developing Countries Beware*, 45 OBITER 972 (2024).

⁶⁶ EU TAX OBSERVATORY, *Digital Service Taxes* 3 (2023).

⁶⁷ WORLD BANK, *Digital Services Tax: Country Practice and Technical Challenges* 14 (2021).

The Global Minimum Corporate Tax

commissions, and user data monetisation, requiring major tech firms to pay taxes based on revenue earned in their markets rather than relying solely on profit allocation mechanisms⁶⁸.

These unilateral measures have created global tensions, particularly in the United States, where most tech giants are headquartered. OECD's Pillar One framework aims to reallocate taxing rights to the countries where digital services generate significant revenue, even if the company has no physical presence there⁶⁹. Despite being accepted and supported universally, the implementation of Pillar One has faced delays due to political disagreements and technical complexities, with countries struggling to agree on how profits should be redistributed.⁷⁰ To achieve actual results, countries must develop more sophisticated digital taxation policies that accurately capture revenue from various online activities, including e-commerce transactions, cloud computing services, and monetisation of personal data. Given the rapid expansion of the digital economy, it is likely that digital taxation will remain a significant point of contention in international tax negotiations, requiring a coordinated global approach to prevent tax disputes and ensure a fair distribution of tax revenues.

Corporate Transparency and the Future of Tax Disclosure

Governments continuously push for more financial and tax-related data disclosure to counter tax avoidance and profit shifting. Corporations globally have engaged in opaque accounting practices, using complex corporate structures to shift profits to low-tax jurisdictions while minimising tax liabilities in the countries where they generate revenue, this lack of transparency has made it difficult for the tax authorities to trace income flows and detect aggressive tax planning strategies, ultimately depriving governments of significant tax revenues⁷¹. OECD and EU to counter these have introduced public country-by-country reporting mechanism,

⁶⁸ KPMG, *Taxation of the Digitalised Economy: Developments Summary* 71 (2025).

⁶⁹ ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, *Multilateral Convention to Implement Amount A of Pillar One*, available at: <<https://www.oecd.org/en/topics/sub-issues/reallocation-of-taxing-rights-to-market-jurisdictions/multilateral-convention-to-implement-amount-a-of-pillar-one.html>> (last visited Mar. 22, 2025).

⁷⁰ REUTERS, *OECD Still Sees '100% Commitment' to Finalise Global Tax Pact*, Sept. 20, 2024, available at: <https://www.reuters.com/markets/oecd-still-sees-100-commitment-finalise-global-tax-pact-2024-09-19/> (last visited Mar. 22, 2025).

⁷¹ Spencer Feingold, *Global Minimum Corporate Tax Deal 'Dramatically Weakened' by Loopholes, Report Warns*, WORLD ECON. FORUM, Oct. 25, 2023, available at: <<https://www.weforum.org/stories/2023/10/loopholes-weaken-minimum-global-corporate-15-percent-tax-eu/>> (last visited Mar. 25, 2025).

which mandate large corporations to disclose key financial data, including revenue, profits, and taxes paid in each jurisdiction where they operate⁷², this aspires to increase tax accountability by making it harder for corporations to hide profits in tax havens and ensuring that tax contributions are aligned with real economic activity.

As an effective enforcement and investigation tool, the automatic exchange of tax information between tax authorities is on the rise, reducing the confidentiality that enables tax avoidance. OECD's Common Reporting Standard mandates that governments share financial data, allowing tax authorities to detect inconsistencies and hold corporations accountable for underreporting income⁷³. Further, digital technologies such as AI and blockchain-based tax compliance systems are being explored to enhance transparency and streamline tax enforcement processes.⁷⁴ Upon proper implementation, these measures will transform corporate taxation into a more transparent and regulated environment, where real-time financial reporting and cross-border cooperation make aggressive tax avoidance strategies less viable.

However, challenges remain, particularly in balancing transparency with concerns over data privacy and corporate confidentiality. As the push for greater disclosure gains momentum, governments must establish clear regulatory frameworks to ensure corporate tax transparency initiatives are effective without discouraging legitimate business activities.

Conclusion

The Global Minimum Corporate Tax is a landmark in international taxation, aiming to address significant challenges such as profit shifting, harmful tax competition, and tax base erosion. By setting a 15% global minimum tax rate, the reform ensures that multinational corporations contribute their fair share of taxes, reducing

⁷² OECD under BEPS Action 13 mandates all large multinational enterprises to prepare a country-by-country report of its tax activities across all the jurisdictions of its operations, this report is further shared with the tax authorities, to ensure compliance. See, ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, Country-by-Country Reporting for Tax Purposes, available at: <<https://www.oecd.org/en/topics/sub-issues/country-by-country-reporting-for-tax-purposes.html>> (last visited Mar. 22, 2025).

⁷³ *Id.*

⁷⁴ Debbie Berkovitch, *Unlocking Efficiency: The Impact of AI on Tax Compliance and Reporting*, REUTERS, Mar. 4, 2024, available at: <<https://tax.thomsonreuters.com/blog/unlocking-efficiency-the-impact-of-ai-on-tax-compliance-and-reporting/>> (last visited Mar. 22, 2025). See also, PWC, *How Blockchain Technology Could Improve the Tax System*, available at: <<https://www.pwc.co.uk/issues/futuretax/assets/documents/how-blockchain-could-improve-the-tax-system.pdf>> (last visited Mar. 22, 2025).

The Global Minimum Corporate Tax

incentives for aggressive tax avoidance. However, the reform also presents significant enforcement challenges, requiring universal cooperation among nations and strict monitoring mechanisms to prevent loopholes. The framework's influence on corporate restructuring and investment decisions will be substantial, as companies shift their focus from tax-based incentives to market potential, infrastructure, and workforce quality.⁷⁵ Tax havens, which have long benefited from low or zero corporate tax rates, face substantial economic adjustments, with many considering alternative incentives such as subsidies or regulatory benefits to maintain their attractiveness to foreign investors.⁷⁶

The Global Minimum Corporate Tax is very ambitious; however, its effectiveness remains uncertain, mainly due to gaps in enforcement, geopolitical tensions, and the evolving nature of corporate tax strategies. Issues such as the 15% insufficient to prevent tax avoidance meaningfully, or that developing nations may not benefit equitably due to the top-up tax collected primarily by developed economies. The new framework will likely pave the way for further global tax reforms, including potential minimum tax rate increases, the expansion of digital taxation frameworks, and enhanced corporate transparency measures.

⁷⁵ Le Quoc Hoi, Nguyen Thi Hoai Thu et. al., *The Impact of the Global Minimum Tax on Vietnam's Foreign Direct Investment Attraction*, 4 ASIA & GLOBAL ECON. 4 (2024).

⁷⁶ *Id.*, Note 47, ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT at 13.