EU Tax Symposium

“On the Road to 2050: A Tax Mix Fit for the Future”

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Dear Commissioners, Ministers, Colleagues,

Having been asked to talk about « the future of corporate taxation: beyond the global agreement », I feel I should note right upfront that as we speak, we have not yet arrived in the place ‘beyond the global agreement’.

It is of course important, in fact necessary, to continue to think ahead.

But we must make sure we bed down the historic deal that was struck just over one year ago, by 137 countries and jurisdictions, to make our international tax arrangements fairer and work better in a digitalised, globalised world economy.

I know that there continues to be much conjecture on whether or not the OECD Two Pillar Agreement can or ultimately will be implemented.

Let me say right upfront that I remain cautiously optimistic.

I am pleased to report some good progress on advancing the technical implementation of the agreement.

On Pillar One, the Inclusive Framework has agreed the release of a second batch of model domestic legislation, focused on ensuring tax certainty and providing for administrative implementation rules.

From our end, at the OECD, we will be able to finalise the draft Multilateral Convention to be signed by mid-2023.

To ultimately get there substantively though, we will need a continued preparedness for compromise on all sides.

If we were not to get this done, we would see more uncoordinated and unilateral tax measures which in turn could trigger further damaging tax and trade disputes.

Surely this is something we all want to avoid in this era of increasing global economic uncertainty.

On Pillar Two, the Model Rules are ready and we can see momentum building on implementation.

Switzerland, the UK, Indonesia, Canada, the United Arab Emirates and Singapore are well underway in progressing implementation of this Pillar.

After reaching the agreement in October last year, we were very pleased that the European Commission moved very quickly in putting the necessary directive for the implementation of Pillar Two on the table.

Our preferred scenario remains of course that the EU Council provides the necessary unanimous support.

However, if an EU wide consensus cannot be reached, we are pleased to know that at least five major EU countries - France, Germany, Italy, Spain and the Netherlands, have pledged to pursue implementation of the global corporate minimum tax irrespective of whether an EU Directive is implemented.

We encourage others across the EU to join them.

Once a reasonable number of countries have legislated the global corporate minimum tax, it will become self-perpetuating.

That is because it will not be in any country's interest to leave money on the table for other jurisdictions to collect at their expense.

For a long time international approaches to tax policy were fragmented.

The 'international tax fairness focus' was mostly on the avoidance of double taxation.

However in the context of the globalisation and digitalisation of the world economy, the corporate landscape changed significantly.

Base erosion and profit shifting by multinational companies was weakening tax bases and leading to a fundamental mismatch between the location where some companies do business and where they were all being taxed.

At the same time, falling statutory tax rates in almost all OECD countries are putting corporate tax systems under pressure.

On average, corporate tax rates in the OECD fell from 32% in 2000 to 23% in 2022.

This race to the bottom reflected the increased competition between countries for mobile tax bases, such as corporate income, savings and other forms of capital income.

The twin pressures of base erosion and profit shifting on the one hand, and falling corporate tax rates on the other required a coordinated policy response.

This is the area where the OECD has been able to provide significant global leadership.

Our reforms are not about removing international tax competition.

They are about putting multilaterally agreed limitations on that competition, to end the race to the bottom, while also working to create a global level playing field for that competition.

And our reform effort in this space did not just start with the global two-pillar tax deal.

Earlier reforms helped make our international tax system fairer and work better, for example:

Through the OECD-hosted Global Forum on Exchange and Transparency of Information for Tax Purposes, which has an inclusive membership of 165 jurisdictions.

That forum helped end bank secrecy and ensured the most mobile tax bases are transparent.

Indeed the development of the Common Reporting Standard and the automatic exchange of information has been a critical tool in the fight against international tax avoidance.

Since 2015, the OECD-G20 Base Erosion and Profit-Shifting project, with fifteen specific multilaterally agreed and domestically implemented action items, has helped to eliminate many of the most egregious tax avoidance behaviours

The European Union has been a strong and very active supporter of all these reform efforts.

And these reforms are delivering tangible results:

- Last year, information on 111 million financial accounts were exchanged among 100 jurisdictions, relating a total value of more than USD 11 trillion.
- Since the start of automatic exchange of information it has already contributed more than EURO 112 billion in additional revenues to governments globally.

Of course we need to continue to respond to developments in the global economy.

Last month, the we presented a new global tax transparency framework on the reporting of crypto-assets to the G20 – the first of its kind to address tax evasion through crypto-asset transactions.

We are also stepping up our capacity building work to ensure that developing countries can take full advantage of the reallocation of taxing rights and the global minimum tax.

Looking ahead - future-oriented tax systems will need to balance their investment promotion and revenue needs.

While it's important to stem revenue losses and to ensure that corporate tax systems are sustainable, the impact of these taxes on investment and growth should not be underestimated.

Since the Global Financial Crisis, investment has been sluggish around the world.

More recently, small- and medium-sized enterprises have been struggling to recover from the pandemic.

We need to promote tax settings that facilitate, encourage and incentivise the post-COVID recovery and investment.

But we have not always seen the boost in investment that we might have expected from the continued decline in corporate tax rates.

To design future-oriented corporate tax systems, governments will need to better target business tax reductions and incentives, to target them where they will make the most difference.

Like towards smaller firms, which face higher constraints on their liquidity.

To be most effective, tax incentives should be directed at activities that will generate the greatest benefits for society.

One such area is investment in research and development, where incentives, such as R&D tax credits, can harness investment to support innovation and boost productivity.

Another is climate investment, where tax incentives can be used to attract investment in the development of clean energy technologies to reduce emissions.

The OECD recently published a report on Tax Incentives and the Global Minimum Corporate Tax, which provides guidance for policy makers, particularly in developing countries, on how to ensure that their tax incentives remain fit for purpose after the implementation of Pillar Two.

International tax policy has an important role to play in international efforts to tackle climate change.

Indeed our response to climate change requires effective global solutions.

More and more countries around the world are committing to the net zero emissions by 2050 objective.

However, we must translate those commitments and that ambition of individual countries into globally effective action and outcomes.

Without proper global coordination of effort, action to reduce emissions in one jurisdiction may simply result in a shift of activity, jobs and emissions to another part of the world.

To better coordinate our efforts, we need better, more comparable data and we need better information sharing on policy pathways to net zero and their impacts.

And we need better dialogue between advanced, emerging and developing economies.

In June this year, at our annual Ministerial Council Meeting, chaired by Italy, we launched the OECD's Inclusive Forum on Carbon Mitigation Approaches.

It seeks to leverage our experiences with the Inclusive Framework on BEPS.

It recognises that different parts of the world, with different starting positions, in different circumstances and with different opportunities will use different policy approaches and policy mixes to make their best possible contribution towards global efforts to reduce emissions.

Its objective is to take stock of the diverse range of carbon mitigation approaches across the world.

To provide a platform to jointly improve the assessment and common understanding of different carbon mitigation approaches, their impacts and comparative effectiveness.

To learn from each other based on a data-driven, technical and objective analytical process.

And ultimately to work together to avoid counterproductive negative spill-overs across borders that may result from uncoordinated action – such as the risk of carbon leakage.

It is a data-driven, technical and objective analytical process.

We are very grateful to the European Commission for its support for this important initiative.

If I can leave you with one final thought.

Finally, before closing, just a reminder that our corporate tax systems do not exist in isolation.

Our future tax agenda will need to look well beyond corporate taxes to other major sources of revenue, such as value-added taxes and taxes on labour.

This broad perspective will help ensure that all parts of the tax system kick policy goals in the same direction.

And deliver growth friendly, efficient, fair, sustainable and modern tax systems.