



Pillar 2: Implications and Impact

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Outline

Impact:
revenue, investment, tax competition

Remarks and recommendations

Global revenue estimates

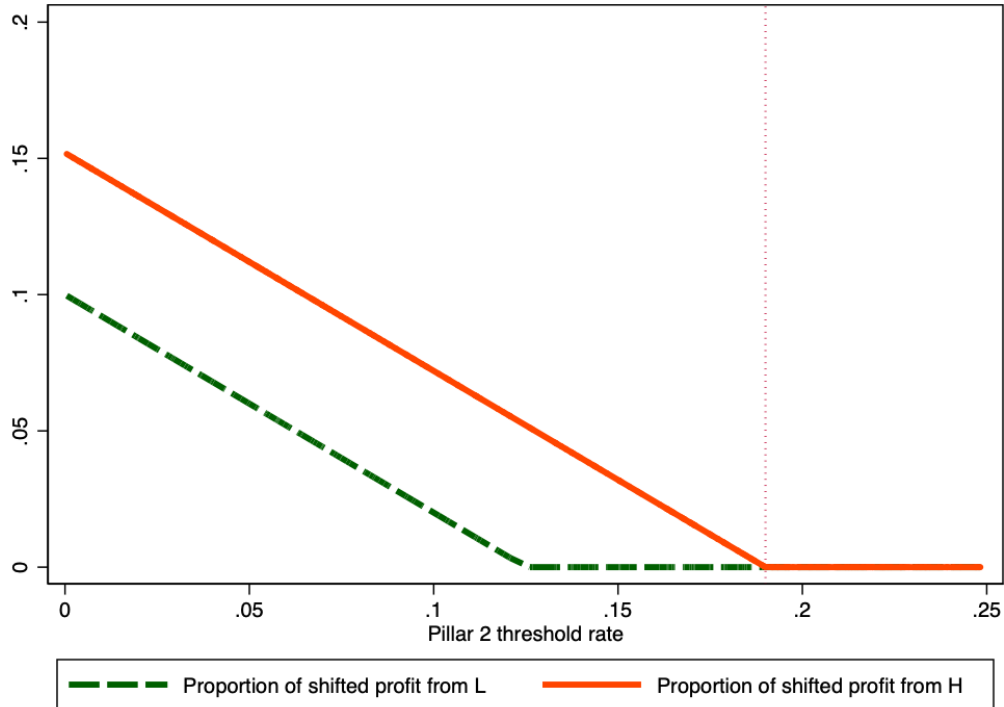
- Assuming revenue under IIR is collected by the ultimate parent, *largest countries* absorb most of the benefit.
- Largest “sources” of extra revenue: BVI, Puerto Rico, Ireland, Bermuda, Cayman Islands, Luxembourg, Netherlands, Singapore.
- Some of the predicted global revenue quantities:
 - Oxford CBT for Pillar 2, at 10% minimum tax rate: USD 32 billion.
 - OECD: Both pillars, USD 50-80 billion p.a. (mostly arising from Pillar 2).
- In the model, as the threshold tax rate rises, the rate of increase in additional revenue rises because:
 - Number of firms required to pay the extra tax increases.
 - Amount of tax paid by each of the multinationals rises.

Top 10 receiving countries – I

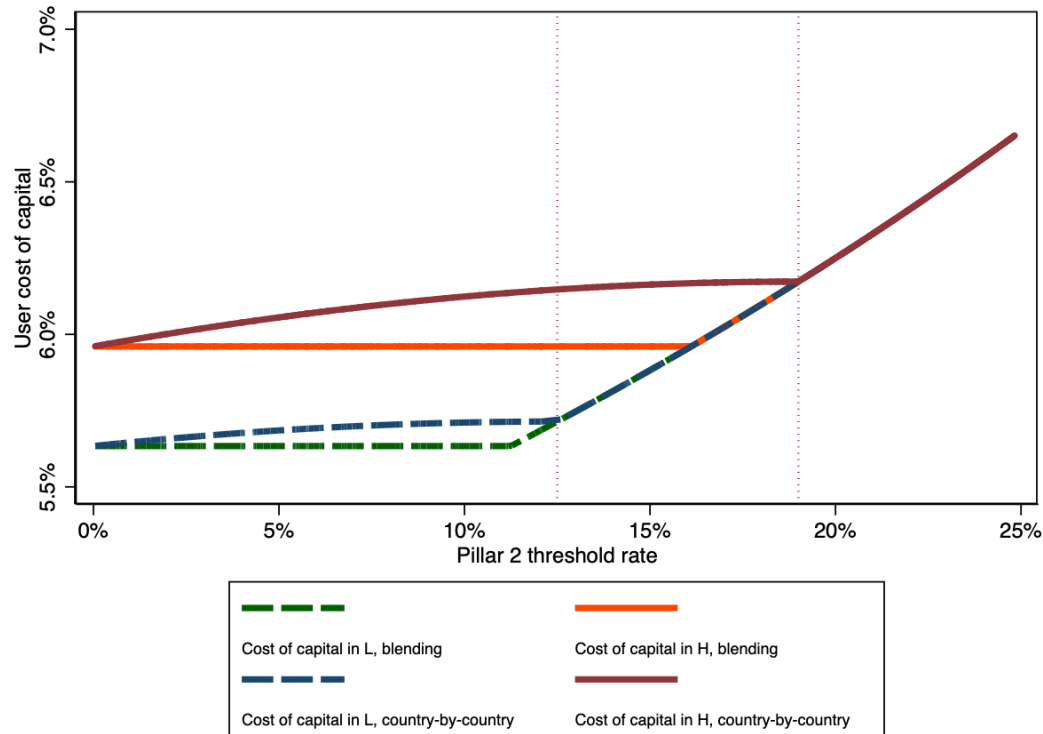
Rank	Ranked by total revenue	\$million	Ranked by revenue as proportion of total taxes on profit	% of total tax revenue
1	China	4 803	Estonia	10.9
2	United States	3 177	Latvia	9.5
3	Hong Kong	1 579	Hungary	7.9
4	Panama	1 508	Slovakia	5.0
5	France	1 437	Czech Republic	4.3
6	Germany	1 151	Slovenia	3.4
7	United Kingdom	1 123	Poland	3.3
8	Mexico	1 063	Mexico	2.8
9	Netherlands	969	Chile	2.8
10	Saudi Arabia	807	France	2.8

Note: The US estimate of around \$3.2 billion takes the \$235 billion estimate of aggregate MNE profit. A higher estimate using the \$650 billion from US tax return data brings the revenue prediction up to \$9 billion; similar to the estimates on revenue from GILTI. Final two columns exclude tax havens.

Impact on incentives to shift profits



Impact on incentives to invest



Source: Oxford CBT study of the impact of Pillar 2 (Devereux et al., 2020)

Possible behavioural responses

Assumptions of current model

- No carve-outs,
- No changes in investment,
- No changes in individual country policies,
- Internationally harmonized and universally adopted reform.

Change in estimates under behavioural responses:

- a) Reduced global investment and other activity → lower revenue gains.
- b) Prices → there is a risk of passing the burden to users.
- c) Distortions → location of investment and other ‘real activity’ may be distorted without a substantial revenue gain.
- d) Countries **will** respond; they may move to the minimum rate or defect.

Recommendations

- Our report argues that it is necessary to **agree on a harmonized form**, in rate, measurement, and also in policy details.
- Focus on stimulating investment through a **favourable investment environment** and science/tech infrastructure.
- Develop **in-house capacity** and expertise in the mechanics of both Pillars.
- **Measurement:** remember that without **full information**, implementation will not be effective: $Tax = \frac{\tau \times \pi}{1 - \alpha} < \tau \times \pi$
- Invest in **data collection** and contribute in discussions of how the tax base can be measured internationally.



THANK YOU!

for questions and comments:

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