As is so often the case in multilateral matters, America holds the key. When Janet Yellen, its Treasury Secretary announced earlier this year that it was time to end the "global rate to the bottom" on corporate tax, her remarks supercharged sputtering talks over a global deal to overhaul how much tax multinational companies pay, and where.

Talks are focused on two main changes: reallocating taxing rights towards countries where economic activity takes place, rather than where firms choose to book profits. Second is setting a minimum global tax rate, likely to be in the region of 15%. Finance ministers from the G7 group of rich countries are set to signal their approval at a meeting on June 4th-5th. The broader G20 could agree terms as soon as July, spurring the other 120 or so countries and territories involved in the talk to fall in line. Last week, Germany's finance minister predicted a "revolution" in global tax rules "in just a few weeks".

All revolutions have winners and losers. In this case the clearest victors would be large economies where multinationals make lots of sales, but book relatively little taxable profit, thanks to tax-planning that siphons income to low-tax jurisdictions. This mismatch has grown along with the rise of digital giants like Amazon, Apple and Google -the assets of which are largely intangible. The most obvious losers will be the tax havens that, starting more than half a century ago, took increasing advantage as globalization made capital more footloose, offering what they saw as much-needed tax competition, and what many others saw as beggar-thy-neighbour economics.

A study in 2018 concluded that around 40% of multinationals' overseas profits are artificially shifted to low-tax countries. One official closely involved in the current talk thinks the deal taking shape could "all but kill the havens". However, those places classed as tax havens come in various shapes and sizes, from tax-less Caribbean paradises to merely tax-light hubs in Europe and Asia. Things look bleak for the palm-fringed, zero-tax territories such as Bermuda, the British Virgin Islands (BVI) and the Cayman Islands. But then Ireland, having come to rely on its 12.5% tax rate to attract foreign investment, is nervous too. Hungary, Cyprus, Malta, Switzerland and Singapore are part of the tax-light countries that also stand to lose if global tax reform requires them to raise taxes to an agreed higher level.

So what it to be made of this? On the one hand, expecting the largest corporations on Earth to pay their fair share of tax seems reasonable. But legislating minimums tax rates is a dangerous precedent. Countries are, by geography and demography, asymmetrical, and it is entirely reasonable that smaller countries should be allowed to use tax policy to make up for the advantages of scale, location and resources that big countries enjoy. More, once a minimum tax rate is set, it establishes the precedent that large economies can then re-set the rate whenever they choose. This encourages financial profligacy on the part of tax-and-spend governments who now are no longer required to introduce government programs within the constraints of their domestic tax base. A rate of 15% today, could very well be 20% or 25% tomorrow. Most important to consider in this matter, is that whatever the tax rate is set at, corporations pay no tax when it comes right down to it. A corporation is not a person, it is a relationship -one between workers, managers, stockholders and consumers. Relationships don't pay taxes, instead the cost is born by all those participants in that relationship. So while any reforms that come from the G7 meeting next week look at first like a win for David over Goliath, the reality is that costs will be borne by the little-guy when all is said and done. For more on this, an article from Forbes magazine <here> summarizes the case against global minimum tax rates.

Be safe, be well!

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