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The global minimum tax rate is now a tax haven rewards programme

Originally, the OECD's idea of the new minimum tax was to make the international corporate tax system a little fairer. A few years later Switzerland was among the front-runners to implement the new GLoBE rules (Global Anti Base Erosion Model Rules). In a referendum last year, Swiss voters – not known for giving money away for no good reason - adopted the OECD pillar 2 with an overwhelming majority of 67%. Why was an infamous corporate tax haven so keen to introduce new international rules supposed to stop the race to the bottom?

Former Swiss Finance Minister Ueli Maurer, was one of the longstanding big figures of the nationalistic right-wing "Swiss peoples party". He made the calculation quickly: "If Switzerland doesn't take the extra money, others will."

What made the finance minister and obviously also a vast majority of the Swiss voters so sure to be on the right side of the balance sheet is called the "the national supplementary tax", the Swiss version of OECDs "domestic minimum top-up tax (DMTT)". This will see multinational enterprises (MNEs) in Switzerland, which have so far benefited from an effective corporate tax rate of less than 15 per cent, subjected to a top-up tax that will raise the effective tax rate to the OECD minimum of 15 per cent. A commodity trader like Glencore in the Swiss canton of Zug that has been enjoying a very low tax rate of 11 per cent will in the future have to pay a supplement of 4 per cent on its profits reported in Zug. So far so good. Much of this additional taxable income shouldn't be Swiss income in the first place though, given that it also includes profits shifted away from subsidiaries in countries where Glencore is operating its mines.

To make matters even more absurd, the minimum effective corporate tax rate of 15% actually allows corporations to continue paying less than 15% in tax – as long as they make use of loopholes such as the so-called "carve-outs".

What this means is countries currently losing out on tax revenue to MNEs using Switzerland's tax havenry services won't be empowered by the OECD's global minimum tax rules to recover that lost tax revenue.

Instead – shamefully – the OECD's new rules will reward Switzerland's decades-long harmful behavior while MNEs continue to underpay tax, particularly in the global south, as usual. In 2019, a study by the economists Petr Janský and Miroslav Palanský reported that at least about €80 billion in profits are being shifted annually from developing countries to low-tax jurisdictions like Switzerland.

The Swiss government instead is estimating, that the OECD's minimum tax will bring 1 to 2.5 Billion USD in additional revenue from corporate income tax. This adds up to the $112 billion in profits shifted to Switzerland by multinationals in 2022. 39 per cent of the $22.7 billion corporate tax revenue Switzerland collected came from profit shifted into the country. But due to the secrecy of the Swiss corporate tax haven we have to assume that not even Gabriel Zucman and colleagues are able to catch everything that flows into this small country in western Europe.

The question remains as to what Switzerland is doing with all the extra money that the minimum tax is pouring into its coffers. The answer should be obvious: it has found ways to give this tax revenue back to those, who it came from: the multinational companies themselves. The new OECD rules offer different ways to do this, as they contain mechanisms that are recognisable for what they are, even if they are for example called 'qualified refundable tax credit': Subsidies for the world's largest corporations, financed with additional taxation from shifted profits.

It is quite obvious: while Pillar 1 of the OECDs BEPS 2.0 Reform is very unlikely to ever enter into the state of implementation, also an implemented minimum tax under Pillar 2 doesn't make the global tax system more equitable at all. It is just a very, very complicated and therefore costly mechanism to keep everything there, where it already has been: low tax jurisdictions stay low tax jurisdictions, rich multinationals stay rich, poor countries poor and the SDGs underfunded.

The OECD has obviously not delivered. Now it's the UN tax convention's turn.

Glossary of OECD Country Tax Terms

OECD's global standard on Base Erosion and Profit Shifting (BEPS)
A non-global corporate tax standard which was, according to the OECD, "developed by 44 countries". The BEPS standard was adopted in 2015 and was presented as a simplification of the corporate tax rules. In reality, this agreement, which runs to almost 2000 pages, significantly increased the complexity of the (already very complex) OECD transfer pricing system.

Inclusive Framework
A non-inclusive framework set up by the OECD after the adoption of the 2015 BEPS agreement. While all countries have been invited to become members of the Inclusive Framework, it is on the condition that they commit to implementing the BEPS agreement, as well as to paying an annual membership fee of around 20,000 Euros to the OECD. As of today, 128 out of the 193 UN member states have chosen to join the Inclusive Framework while 65, or roughly one-third, have not. The official number of members of the Inclusive Framework is higher than 128 (namely 145). This is because the Inclusive Framework has jurisdictions such as the British Virgin Islands, the Cayman Islands and Jersey as individual members, even though they are territories of another member (ie, the United Kingdom). In 2019, the Inclusive Framework started negotiating another review of the corporate tax rules (the so-called Pillar 1 and Pillar 2). While the OECD has presented the Inclusive Framework as being 'consensus-based', the central agreement on Pillar 1 and Pillar 2 was adopted in October 2021 despite the fact that four developing country members of the Framework, namely Kenya, Nigeria, Pakistan and Sri Lanka, did not endorse the outcome.

OECD's global standard on automatic information exchange
A standard that was developed by the (at the time) members of OECD in collaboration with the G20 and a small group of additional countries. When a ministerial declaration to endorse the standard was negotiated and adopted in 2014, it was only signed by 44 countries and the EU. The standard failed to incorporate a number of elements that could have made it function better for developing countries.

Minimum effective corporate tax rate of 15%
OECD rules that allow corporations to continue paying less than 15% in corporate income tax. Due to loopholes (including so-called "carve-outs") in the agreement, corporations are in fact still able to reduce their effective tax rates to 0%.

OECD's Global Forum
A non-global forum working on tax transparency, including the implementation of the OECD's Automatic Information Exchange Standard. Of 193 UN member states, 152 are members of the Global Forum and 41, or over 20 per cent, are not. Meanwhile, the official number of members of the Global Forum is 171, which is due to the fact that the OECD has allowed jurisdictions such as the British Virgin Islands, the Cayman Islands, the Isle of Man and Jersey to become individual members.

Promoting international tax good governance
A deeply questionable type of tax governance exercised by the EU. This governance style includes "blacklisting" of so-called "non-cooperative jurisdictions", which roughly seems to mean jurisdictions that do not follow rules set up by the OECD and the EU. In accordance with the EU's rules for blacklisting, no EU Member State can be blacklisted by the EU.

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