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Behind the Global Minimum Corporate Tax

Even if an agreement to adopt a global tax code is reached, parity in the effective tax rate is unlikely.

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U.S. Treasury Secretary Janet Yellen during a press conference in London.

PHOTO: JUSTIN TALLIS/WPA POOL/GETTY IMAGES
Why have so many countries with so many conflicting interests joined the agreement? While the agreement sounds viable in theory, in practice taxable income, which is the base on which the rate is applied, is determined independently by each country, so the tax-code definition of taxable income can be adjusted to offset an undesirable tax rate.

The agreement also refers to the statutory rate, which differs from the effective rate that corporations actually pay. The 21% statutory corporate tax rate in the U.S. is illusory because it is manipulated by a phalanx of tax lawyers and accountants, resulting in an effective rate around 8%. Similar differences between statutory and effective rates exist in other countries.

Even if an agreement to adopt a global tax code is reached—an unlikely scenario—parity in the effective tax rate is unlikely to be achieved. Ensuring that multinational corporations pay their fair share requires abandoning easy-to-manipulate income as the
basis for the corporate tax and replacing it with corporations’ market value based on the price of their shares.

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