Report

A fair distribution?

US Government set to raise 3x more than rest of the world combined in tax payments from four tech companies after Global Tax Deal

Raising Global Minimum Tax to 21% would see US Government raise an extra $2.5bn in tax from Apple alone

Summary and introduction

In June 2021 finance ministers of the G7 group of nations agreed on proposals to reform the way in which multinational enterprises are taxed. The agreement was the product of over 10 years of negotiations hosted by the OECD under the auspices of the Base Erosion and Profit Shifting (BEPS) programme.

When the deal was announced, the UK Government, which hosted this year's G7, trumpeted it as a "seismic agreement on global tax reform that will mean the largest multinational tech giants will pay their fair share of tax in the countries in which they operate."[1]

This paper presents an analysis of the deal, looking at the accounts of individual tech companies to demonstrate that the United States, where almost all major tech companies are headquartered, stands to gain billions of extra tax dollars from global tech giants as a result of the deal, whilst "the countries in which [tech companies] operate" stand to gain relatively little.

To do this we look at the gains that the US government can expect from imposing a global minimum tax of 21% on Facebook, Google, Apple and Microsoft. This would result in an extra $5.4bn in taxes from just these four companies, whereas we estimate the total additional tax these companies would pay in all other countries in the world under the terms of the G7 deal would be $2.5bn.

The figure of 21% is used because the stated intention of the US Government is to impose a global minimum of 21% on companies headquartered in the US, regardless of the minimum level set through the OECD led process.

1 G7 Finance Ministers Agree Historic Global Tax Agreement, *G7*, 05 June 2021, https://www.g7uk.org/g7-finance-ministers-agree-historic-global-tax-agreement/

Furthermore, we find that the US Government would further benefit from the removal of tax incentives on royalties received by US parents from overseas operating companies (the Foreign Derived Intangible Income incentive, or FDII). The introduction of the FDII in 2017 had already led to tech giants substantially restructuring their tax affairs. US companies have moved vast amounts of profits arising from sales outside of the US out of tax havens and back to the United States. This had expanded the US tax base at the expense of market jurisdictions in advance of the G7 deal. The removal of the FDII incentive is facilitated by the increase in global minimum taxation and therefore should be seen as a benefit of it.

We estimate that just four tech companies will see taxes increase in the US by $3bn per year as a result of the removal of the FDII.

Taken together, this means that the package of reforms will mean a yearly increase in US Tax of $8.4bn, as against a benefit of $2.5bn shared between all other countries arising from just four companies. What is significant is that both the global minimum tax and the FDII only impact profits that arise from revenues made overseas, in countries like the United Kingdom where sales are made. The analysis therefore demonstrates that the G7 / OECD deal resolves the question of who gets to tax the offshore billions of tech companies decidedly in favour of the United States.

This was not necessarily the outcome expected from the OECD led BEPS process.

Tax avoidance and the multinational

The problem that the BEPS programme set out to resolve was clear. Large multinational enterprises had accumulated trillions of dollars offshore by shifting profits out of “market jurisdictions” – the countries in which their customers or users were based, and into tax havens.

These tax haven entities were often an accounting fiction, generating billions in profits every year but with no staff, no offices and no discernable economic activity.

Although companies in all sectors have engaged in profit shifting, perhaps due to the particularly high profile of these companies, and the particularly aggressive stance they took towards the tax system, the behaviour of the tech industry has been a particular concern. In fact, the activities of tech giants warranted their own action point within the BEPS action plan.

The structure of the US tax system, where almost most global tech giants are headquartered, provided huge incentives for US based multinational corporations to move cash out of their international (non-US) markets and hoard it offshore, avoiding taxes on profits made in foreign jurisdictions and a US corporation tax charge that would accrue if they brought the cash home to the US.

A classic tax avoidance structure used by a US company would see intellectual property (i.e. trademarks, patents or software aka IP) developed in the United States sold to an offshore company in Bermuda, which would then licence the use of the IP to companies in Europe and other non-US

markets. Companies in these international markets would pay the offshore company high fees for the use of the IP leading to an accumulation of wealth offshore and the elimination of profit elsewhere.

According to the US research institute ITEP, fortune 500 companies alone had accumulated $2.6 trillion in profits offshore by 2017, when the Trump administration enacted far-reaching tax reform.[2]

The tax proxy wars

A key question facing tax policy makers was therefore whether or not the tax haven profits of US based multinationals and tech companies in particular should have been properly accounted for and taxed in the US, where the IP was developed, or in the "market jurisdictions" where services were sold to (predominantly European and other developed countries). All governments appeared to agree at least that shell companies with no staff and no physical operations should not have been considered to have "earned" any profits themselves.

The OECD's report which kicked off the Base Erosion and Profit Shifting programme that sought to reform the global tax system raised the question of whether more profit needed to be allocated to countries where sales are made. Under the heading "Jurisdiction to tax" the report contained the following passage:

> "In an era where non-resident taxpayers can derive substantial profits from transactions with customers located in another country, questions are being raised as to whether the current rules ensure a fair allocation of taxing rights on business profits, especially where the profits from such transactions go untaxed anywhere."[3]

However, perhaps unsurprisingly given the amounts of money at stake, neither the US nor Europe saw eye to eye on how profits accumulated offshore should be divided.

In the US, the IRS has attacked the way in which costs are divided between US entities and offshore entities. It has argued that the subsidiaries of US corporations based offshore, which typically have no staff and no costs, should contribute a greater amount to the costs incurred by their US based parents. In effect, bringing profits onshore to compensate the US entities for their role in developing IP.

In 2020, a US federal appeals court resolved a dispute that had been going on for years between the IRS and Altera, a US based chip maker. The court upheld an IRS regulation from 2003 that offshore companies owned by US multinationals should contribute to the cost of share options granted to employees in the US. As a result of this case, Google and Facebook alone set aside $2bn to comply with the ruling.[4]

2 Fortune 500 Companies Hold a Record $2.6 Trillion Offshore, *ITEP*, 28 March 2017, https://itep.org/fortune-500-companies-hold-a-record-26-trillion-offshore/

3 OECD, Key tax principles and opportunities for base erosion and profit shifting, February 2013, p.36

4 An obscure court ruling could play havoc with tech companies' earnings, *Marketwatch*, 18 July 2020, https://www.marketwatch.com/story/an-obscure-court-ruling-could-play-havoc-with-tech-companies-earnings-2020-07-16

In Europe, the European Commission launched a number of cases against governments, claiming that the favourable tax treatment which allowed multinationals to move money to low-tax jurisdictions breached state aid rules, and compelled European tax havens to levy taxes on profits either accumulated or passing through their jurisdiction.

Although from a European perspective, this has been seen as an albeit imperfect mechanism to claw back some tax which should have been due in Europe, US politicians have viewed EC action against tax avoidance as a raid on US profits.

When Apple was fined €13bn Euros by the European Commission for unpaid taxes arising from a scheme which saw profits transferred out of profitable European markets to a headquarters company that "only existed on paper",[5] Charles Schumer, one of the highest-ranking Democratic senators, said:

> "This is a cheap money grab by the European Commission, targeting US businesses and the US tax base.
>
> By forcing their member states to retroactively impose taxes on US companies, the EU is unfairly undermining our ability to compete economically in Europe while grabbing tax revenues that should go toward investment here in the United States"

This fundamental disagreement on who should have the right to tax held up progress on the digital economy workstream of the BEPS programme for years and in the interim, governments sought to enact unilateral reforms.

A number of countries sought to impose digital services taxes on the revenues of some tech companies. The UK's diverted profits tax sought to impose a higher tax rate on profits diverted using artificial structures.

Eventually an agreement was reached at the 2021 G7 Summit in Cornwall to co-ordinate tax policy. As we will explore later in this paper, this essentially resolves the question of who gets to tax big tech profits in favour of the US.

Tax Cuts and Jobs Act 2017

The most significant unilateral policy change enacted before the G7 agreement was introduced by the US government. The Trump administration's Tax Cuts and Jobs Act of 2017 (TCJA) fundamentally altered the incentives in place for US corporations to keep their cash offshore and paved the way for the G7 agreement.

These reforms came in several parts. A one off tax on accumulated offshore holdings, a new tax on profits allocated to intangible assets in tax havens (global intangible low-taxed income, or GILTI) and a

5 Comment: ECJ decision should not let Apple off the hook, *TaxWatch*, 15 July 2020, https://www.taxwatchuk.org/apple_ecj_ruling/

tax incentive on revenues from overseas accruing to intangible assets in the United States (foreign-derived intangible income, or FDII). By targeting foreign derived income, the United States was laying claim to the offshore profits accumulated by its multinationals.

Profits from outside the US accruing to intellectual property based in tax havens would be taxed for the first time under the GILTI regime, whereas, if that IP was brought back to the US, the FDII provided a discount on the tax paid on the profits accruing from revenues earned by that IP. The GILTI and the FDII are both set at a rate of 13.125% (assuming a 21% corporate rate) ensuring that there was no longer an incentive to keep IP offshore. Being set at the same rate means they also work together. If the FDII incentive was removed without also increasing the GILTI rate, then US corporations would simply move their IP offshore, as they had under the previous incentive structure.

As will be explored in more detail later in this paper, in the years following the introduction of the TCJA, US companies responded to the new incentive structure by repatriating intellectual property from offshore jurisdictions to the US.

This clearly shows up in macroeconomic data. A study published on behalf of the Irish Finance Ministry showed royalty payments from Irish companies to the US jumping from €8bn a year on average between 2014-2019 to €52bn in 2020.[6] Ireland is a key conduit used by US tech companies to move profits out of Europe.

The G7 deal

The current proposals endorsed by the G7 come in two parts. A new Global Minimum Tax, Pillar Two acts as an expanded GILTI charge, with jurisdictions that host the headquarters of multinational corporations placing a charge on the profits they accrue in tax havens.

The G7 has agreed that this should be set at a minimum 15%, however, as we have seen with the GILTI, countries can go it alone and tax the offshore profits of their corporations without international agreement. The US has said it will adopt a 21% rate and has encouraged others to do the same.

If raising taxes on profits accumulated offshore encourages companies to shift profits onshore, then jurisdictions also have more freedom to tax onshore profits.

As part of the Made in America tax plan President Biden has said that the US will scrap the FDII incentive which had already been declared a “harmful tax practice” by the OECD,[7] replacing it with a new, as yet unspecified, R&D subsidy.

The removal of the FDII will mean large increases in US taxation on royalties paid from market economies to the US.

6 Seamus Coffey, The changing nature of outbound royalties from Ireland and their impact on the taxation of the profits of US multinationals, Irish Department of Finance, https://www.gov.ie/en/publication/fbe28-the-changing-nature-of-outbound-royalties-from-ireland-and-their-impact-on-the-taxation-of-the-profits-of-us-multinationals-may-2021/

7 Harmful Tax Practices, *OECD*, August 2021, https://www.oecd.org/tax/beps/harmful-tax-practices-peer-review-results-on-preferential-regimes.pdf

On the other side of the coin, the limited actions by market jurisdictions to claw back some income from digital services companies through digital services taxes are replaced by a limited redistribution of income from large multinational enterprises (MNEs) via the second part of the G7 deal, the so called Pillar I proposals.

Under Pillar One, the world's largest companies see a portion of their global profits re-allocated to countries where they have a market which are then charged at the local corporate tax rate. Pillar One is limited to roughly the 100 largest corporations in the world.[8]

Under analysis undertaken by the OECD around the time of the publication of their blueprint for reform, the gains of the new system are weighted massively in favour of Pillar Two, with total gains from both pillars comprising between 2.3%-4% of global corporate income tax revenues and Pillar One accounting for between 0.2-0.5%.[9]

This is confirmed by our analysis in this paper, which shows that the real effect on four tech companies from the US plan to raise the GILTI rate to 21% and remove FDII is more than three times the additional tax those companies will see from Pillar One.

For companies subject to digital services taxes, the replacement of DSTs by Pillar One represents an effective tax cut.[10] [11]

The impact on US based multinationals of the TJCA the G7 deal and the Made in America tax plan

Now that several years have passed since the Tax Cuts and Jobs Act, the impact of the new incentive structure on US based corporations can be seen very clearly in corporate accounts. In this part of the paper, we look at several companies and see how they have responded to the changing incentive structures they face after TCJA. The analysis shows that although some companies have chosen to repatriate the majority or all of their IP to the US, causing large and dramatic changes in their profitability overseas, some appear to have hedged, keeping some intellectual property offshore.

8 The OECD state that "In-scope companies are the multinational enterprises (MNEs) with global turnover above 20 billion euros and profitability above 10%". A full explanation of which companies Pillar One applies to is available in the Statement on a Two-Pillar Solution to Address the Tax Challenges Arising From the Digitalisation of the Economy, *OECD*, 01 July 2021, https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-july-2021.pdf

9 OECD, Tax Challenges Arising from Digitalisation – Economic Impact Assessment, (Paris, 2020) see table 1.1 available from: https://www.oecd-ilibrary.org/docserver/0e3cc2d4-en.pdf?expires=1633339704&id=id&accname=guest&checksum=BB2899422231BC934DA03A1778EE8C89

10 This is also likely the case for other countries with their own respective digital services taxes. We have not however carried out an analysis on the effect for countries other than the UK.

11 Will the OECD's global tax deal raise more from tech companies in the UK?, *TaxWatch*, 27 September 2021, https://www.taxwatchuk.org/oecd_pillar1_analysis/

These companies will be impacted differently by the removal of the FDII and the increase in Global Minimum Taxation.

Shifting profits onshore

Google

In 2019 Google announced that it would no longer be licencing its IP from a Bermuda registered company, Google Ireland Holdings Unlimited Company, and instead would move its IP back to the United States.

The impact of this change on Google accounts was dramatic and immediate. The amount of profit Google declared in the United States (their US tax base) moved from $16.4bn to $37.6bn whereas the amount of profit Google declared outside of the US more than halved, from $23.2bn to $10.5bn.[12]

Income from continuing operations before income taxes consists of the following (in millions):

	Year Ended December 31,		
	2018	2019	2020
Domestic operations	$ 15,779	$ 16,426	$ 37,576
Foreign operations	19,134	23,199	10,506
Total	$ 34,913	$ 39,625	$ 48,082

Figure 1: Alphabet (Google) 2020 10K, showing US and non-US profits.

Google explains this saying “as of December 31 2019, we have simplified our corporate legal entity structure and now license intellectual property from the U.S. that was previously licensed from Bermuda resulting in an increase in the portion of our income earned in the U.S.”

12 Alphabet Inc. 10-K 2020, *SEC.gov*, https://www.sec.gov/ix?doc=/Archives/edgar/data/1652044/000165204421000010/goog-20201231.htm

	Year Ended December 31,		
	2018	2019	2020
Current:			
Federal and state	$ 2,153	$ 2,424	$ 4,789
Foreign	1,251	2,713	1,687
Total	3,404	5,137	6,476
Deferred:			
Federal and state	907	286	1,552
Foreign	(134)	(141)	(215)
Total	773	145	1,337
Provision for income taxes	$ 4,177	$ 5,282	$ 7,813

As a result of this shifting of profit to the United States, the amount of taxes paid to the United States Federal Government doubled, whereas the taxes paid to non-US governments saw a significant decline.

	Year Ended December 31,		
	2018	2019	2020
U.S. federal statutory tax rate	21.0 %	21.0 %	21.0 %
Foreign income taxed at different rates	(4.4)	(4.9)	(0.3)
Foreign-derived intangible income deduction	(0.5)	(0.7)	(3.0)
Stock-based compensation expense	(2.2)	(0.7)	(1.7)
Federal research credit	(2.4)	(2.5)	(2.3)
Impact of the Tax Cuts and Jobs Act	(1.3)	(0.6)	0.0
European Commission fines	3.1	1.0	0.0
Deferred tax asset valuation allowance	(2.0)	0.0	1.4
State and local income taxes	(0.4)	1.1	1.1
Other adjustments	1.1	(0.4)	0.0
Effective tax rate	12.0 %	13.3 %	16.2 %

Figure 2: Alphabet (Google) 2020 10K, showing effective tax rates

The tradeoff that Google has made between a discount on its tax bill through the use of offshore companies, with the discount on the FDII shows up in Google's tax reconciliation. In 2019, Google saw a 5% decrease in its effective tax rate through declaring income outside the US. In 2020, this almost disappeared, and instead the company saw a 3% reduction in its effective tax rate as a result of the FDII. This 3% is worth over $1.4bn.

In comparison, we calculate that under Pillar One, Google is likely to face an additional tax charge of just $307m.

Facebook

Turning our attention to Facebook, we see the same story again, with US profits increasing almost five fold from 2019 to 2020, while non-US profits more than halve.

	Year Ended December 31,		
	2020	2019	2018
Domestic	$ 24,233	$ 5,317	$ 8,800
Foreign	8,947	19,495	16,561
Income before provision for income taxes	$ 33,180	$ 24,812	$ 25,361

Figure 3: Facebook 2020 10K, showing US and non-US profits.

In 2020 Facebook saw a 1.9% reduction in its effective tax rate resulting from "foreign-derived intangible income", a tax break worth some $630m, whilst at the same time the effect of "non-US operations" fell from 5.8% to 2.4%.

	Year Ended December 31,		
	2020	2019	2018
U.S. federal statutory income tax rate	21.0 %	21.0 %	21.0 %
State income taxes, net of federal benefit	0.8	1.8	0.7
Research and development tax credits	(1.3)	(0.8)	(1.0)
Share-based compensation	0.2	4.5	0.3
Excess tax benefits related to share-based compensation	(1.6)	(0.7)	(2.6)
Foreign-derived intangible income deduction	(1.9)	—	—
Effect of non-U.S. operations	(2.4)	(5.8)	(5.9)
Non-deductible FTC settlement accrual	—	4.5	—
Research and development capitalization	(3.0)	—	—
Other	0.4	1.0	0.3
Effective tax rate	12.2 %	25.5 %	12.8 %

Figure 4: Facebook 2020 10K, showing effective tax rates

It is also remarkable that the dramatic changes in where these companies locate their profits, is almost tax neutral, with Facebook's effective tax rate being 12.8% in 2018, before their IP was repatriated, falling to 12.2% in 2020. The larger payment in 2019 can largely be attributed to a one-off increase in costs associated with "share based compensation" likely to be the impact of the Altera ruling.

Nike

For completeness, we can see that the impacts of the TCJA extend beyond the tech industry by looking at sports brand Nike, where US profits increased by almost 400%, from $593m in 2019 to almost $3bn

in 2020. As this is happening, Nike's previously profitable non-US business goes from a profit of $4.2bn in 2019 to a loss $67m in 2020.[13]

Income before income taxes is as follows:

(Dollars in millions)	YEAR ENDED MAY 31, 2020	2019	2018
Income before income taxes:			
United States	$ 2,954	$ 593	$ 744
Foreign	(67)	4,208	3,581
TOTAL INCOME BEFORE INCOME TAXES	**$ 2,887**	**$ 4,801**	**$ 4,325**

Figure 5: Nike 2020 10K, showing US and non-US profits

While US profits increase, we see an 8.1% reduction in the effective income tax rate as a result of "Foreign-derived intangible income benefit related to the Tax Act". Nike state in their accounts that "This benefit became available to the Company as a result of a restructuring of its intellectual property interests". What this means is that as a result of Nike bringing its IP back to the US, rather than sitting offshore. This 8.1% reduction is worth some $234m to Nike.[14]

	YEAR ENDED MAY 31, 2020	2019	2018
Federal income tax rate	21.0 %	21.0 %	29.2 %
State taxes, net of federal benefit	0.8 %	1.0 %	0.8 %
Foreign earnings	5.9 %	-1.1 %	-19.2 %
Foreign-derived intangible income benefit related to the Tax Act	-8.1 %	— %	— %
Transition tax related to the Tax Act	— %	— %	43.3 %
Remeasurement of deferred tax assets and liabilities related to the Tax Act	— %	— %	3.7 %
Excess tax benefits from share-based compensation	-7.2 %	-3.6 %	-5.3 %
Income tax audits and contingency reserves	-1.4 %	1.3 %	2.9 %
U.S. research and development tax credit	-1.8 %	-1.0 %	-0.6 %
Other, net	2.9 %	-1.5 %	0.5 %
EFFECTIVE INCOME TAX RATE	**12.1 %**	**16.1 %**	**55.3 %**

Figure 6: Nike 2020 10K, showing effective tax rates

Remaining offshore

Although it is clear that there has been a very significant shift of profits from offshore back to the US, it appears that some US companies are hedging their bets and either only repatriating a portion of their IP, or continuing to keep all of their IP overseas.

13 Nike 10-K 2020, *SEC.gov*, https://s1.q4cdn.com/806093406/files/doc_financials/2020/ar/NKE-FY20-10K.pdf

14 The increase of 43.3% to the effective tax rate in 2018 is a result of the one-time mandatory transition tax on deemed repatriation of undistributed foreign earnings, part of the Tax Cuts and Jobs Act 2017.

Microsoft

Microsoft's latest 10-K form contains the following statement:

> "In the fourth quarter of fiscal year 2019, in response to the TCJA and recently issued regulations, we transferred certain intangible properties held by our foreign subsidiaries to the U.S. and Ireland. The transfers of intangible properties resulted in a $2.6 billion net income tax benefit recorded in the fourth quarter of fiscal year 2019, as the value of future tax deductions exceeded the current tax liability from foreign jurisdictions and U.S. GILTI tax."

The reference to the one off tax benefit show that Microsoft expect that moving their IP to Ireland and the US will result in a lower tax bill in the future.

As a result of this, whereas Micrsoft's non-US profits made up 68% of their total profits in 2018, by 2020, this had fallen to 55%.

The Microsoft tax reconciliation shows that in 2021, the company still had a substantial tax benefit arising from earnings taxed offshore of 2.7%, whilst also claiming a 1.3% deduction on their effective tax rate due to the FDII.

Effective Tax Rate

The items accounting for the difference between income taxes computed at the U.S. federal statutory rate and our effective rate were as follows:

Year Ended June 30,	2021	2020	2019
Federal statutory rate	**21.0%**	21.0%	21.0%
Effect of:			
Foreign earnings taxed at lower rates	**(2.7)%**	(3.7)%	(4.1)%
Impact of the enactment of the TCJA	**0%**	0%	0.4%
Impact of intangible property transfers	**0%**	0%	(5.9)%
Foreign-derived intangible income deduction	**(1.3)%**	(1.1)%	(1.4)%
State income taxes, net of federal benefit	**1.4%**	1.3%	0.7%
Research and development credit	**(0.9)%**	(1.1)%	(1.1)%
Excess tax benefits relating to stock-based compensation	**(2.4)%**	(2.2)%	(2.2)%
Interest, net	**0.5%**	1.0%	1.0%
Other reconciling items, net	**(1.8)%**	1.3%	1.8%
Effective rate	**13.8%**	16.5%	10.2%

Figure 7: Microsoft 2020 10K, showing effective tax rates

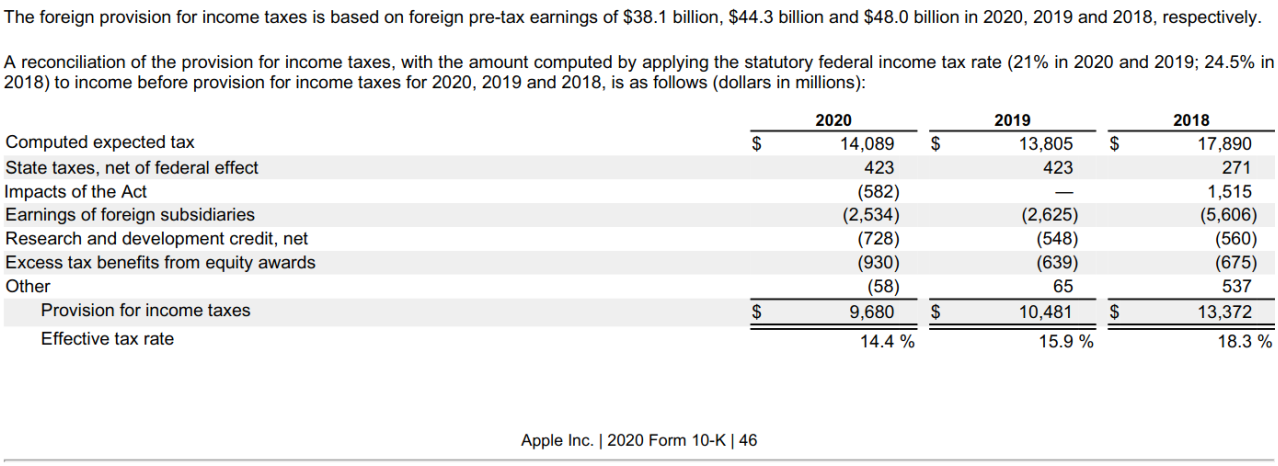
This reconciliation table suggests that if the global minimum rate is raised to 21%, then Microsoft will have to pay an additional $1.9bn in taxation. The removal of the FDII would mean an additional $900m to pay.

Apple

Apple is another company that has seen some shift in profits to the US, but appears to be continuing to keep a substantial amount of IP offshore. In 2018, the company earned $48bn in pre-tax profit overseas (66% of total profit), this fell to $38.1bn in 2020 (57% of total profit).

The current tax rate on Apple's non-US profits was just 8.3% in 2020.

The company stated that as a result of declaring earnings overseas, it saw a reduction in its tax bill of $2.5bn against the standard US corporation tax rate. This fell from $5.6bn in 2018 (which included a period US corporation tax rates were higher). The company does not appear to claim anything under the FDII.



The foreign provision for income taxes is based on foreign pre-tax earnings of $38.1 billion, $44.3 billion and $48.0 billion in 2020, 2019 and 2018, respectively.

A reconciliation of the provision for income taxes, with the amount computed by applying the statutory federal income tax rate (21% in 2020 and 2019; 24.5% in 2018) to income before provision for income taxes for 2020, 2019 and 2018, is as follows (dollars in millions):

	2020	2019	2018
Computed expected tax	$ 14,089	$ 13,805	$ 17,890
State taxes, net of federal effect	423	423	271
Impacts of the Act	(582)	—	1,515
Earnings of foreign subsidiaries	(2,534)	(2,625)	(5,606)
Research and development credit, net	(728)	(548)	(560)
Excess tax benefits from equity awards	(930)	(639)	(675)
Other	(58)	65	537
Provision for income taxes	$ 9,680	$ 10,481	$ 13,372
Effective tax rate	14.4 %	15.9 %	18.3 %

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Figure 8: Apple 2020 10K, showing effective tax rates

Where now?

For years multinational companies accumulated trillions of dollars in tax havens at minimal or zero tax rates. Although multinationals from all jurisdictions and in all sectors have been to some extent guilty of these practices, it was always the digital disruptors, almost all of which are headquartered in the United States, that attracted the most attention. This is recognised in the fact that the current proposals put forward by the OECD have been framed as dealing with the challenges of the digital economy, when in reality the proposals will impact a wide range of multinationals regardless of the sector they are in.

In 2017, the US government laid claim to the offshore dollars of US headquartered multinationals, directly taxing the profits they had accumulated overseas and changing their policy framework to encourage them to bring their IP onshore. This has already raised billions from the offshore cash piles of US based multinationals and seen tens of billions of dollars of profit shifted to the US from overseas, substantially increasing the US tax base.

The G7 deal reached on global tax reform largely accepts this position. Countries that host multinationals get to tax the tax haven profits of companies in their jurisdiction, with a small amount of profit from larger companies redistributed to "market" jurisdictions.

For global tech giants, almost all of which are headquartered in the US, this will mean billions of extra tax dollars for the US government – all of which arises from profits on the sales of goods and services overseas.

We calculate that an increase in the global tax rate to 21% would mean that Microsoft would pay an additional $1.9bn in taxation to the US Federal Government, Apple an additional $2.5bn, Google an extra $144m and Facebook an additional $796m based on their latest annual accounts.

The removal of the FDII, which would also see the profits arising from royalties paid from overseas taxed at the current US tax rate of 21%, would mean an additional $1.4bn in tax paid by Google to the US Federal Government, an additional $630m in taxes from Facebook and $924m from Microsoft.

In total, this means that the US will see an increase in tax on profits derived from overseas sales of $8.4bn from just these four companies. By comparison, we would expect all other jurisdictions in the world receive an additional $2.7bn combined from these companies under the Pillar One agreement.

Given the history of the debate around tax avoidance over the last 10 years, which has focused on tech companies in particular removing profits from market jurisdictions, it is remarkable that the response from Finance Ministries in other developed economies to this obvious inequality has been muted. The US appears to have won the argument that the profits arising from from the customers of US companies overseas should largely be taxed in the US.

It is the case that G7 countries will also be able to raise more from multinationals based in their home countries. For example, in the UK, the new proposals would prevent the kinds of controversial profit shifting arrangements that have been used by British companies like Vodafone to keep non-UK profits offshore, and this may well be why developed nations have accepted the Biden proposals.

However, they have done so at the expense of other market jurisdictions. Developing countries, which host very few multinationals, will see relatively little benefit from the deal. As Nigeria's ambassador to the OECD has said "What I understand, with the . . . rules as currently being developed, is that developing countries may get next to nothing."[15]

Data for Facebook, Google, Apple, and Microsoft based on 2020/21 10-K filings

15 Biden's global tax plan could leave developing nations 'next to nothing', *Financial Times*, 10 May 2021, https://www.ft.com/content/9f8304c5-5aad-4064-9218-54070981fb4d

2020 Data	Facebook	Google	Apple	Microsoft	Totals
Revenues	$85,965,000,000	$182,527,000,000	$220,747,000,000	$168,088,000,000	$657,327,000,000
Total Income	$33,180,000,000	$48,082,000,000	$67,091,000,000	$71,102,000,000	$219,455,000,000
Margin	38.60%	26.34%	30.39%	42.30%	33.39%
Provision for income tax	$4,034,000,000	$7,813,000,000	$9,680,000,000	$9,831,000,000	$31,358,000,000
Effective tax rate	12.16%	16.25%	14.43%	13.83%	14.29%
Pillar 1 profit pool	$1,897,703,786	$1,571,550,951	$2,736,334,884	$4,593,254,850	$10,798,844,473
Pillar 1 tax charge	$474,425,947	$392,887,738	$684,083,721	$1,148,313,713	$2,699,711,118
Benefit of non-US jurisdictions	2.40%	0.30%	N/A	2.70%	N/A
Non-US in $	$796,320,000	$144,246,000	$2,534,000,000	$1,919,754,000	$5,394,320,000
Benefit of FDII	1.90%	3.00%	N/A	1.30%	N/A
FDII in $	$630,420,000	$1,442,460,000	-	$924,326,000	$2,997,206,000
Tax reform – US Benefit	$1,426,740,000	$1,586,706,000	#VALUE!	$2,844,080,000	$8,391,526,000
Tax reform RoW Benefit	$474,425,947	$392,887,738	$684,083,721	$1,148,313,713	$2,699,711,118

Notes

1 'Income' refers to what is in US 10-K filings as 'income before provision for income taxes'. In UK company accounts this often referred to as something along the lines of 'profit on ordinary activities before taxation'. This is simply taxable profit.