How to make multinationals pay their share, and cut tax havens out of the picture

Nicholas Shaxson, the Guardian, Mon 27 Jan 2020.

In 2019 the central principles that have organised the international tax system for the last century began to publicly unravel[1]. A long OECD[2] consultation aimed at finding new set of ideas to govern the digital economy.

When a multinational from one country invests or sells in another, which nation taxes its profits? The old rules are supposed to give each nation a fair bite[3] of global profits by treating each subsidiary[4] of a multinational company as a separate entity, and allowing the host nation to tax it. UK subsidiaries of McDonald's, say, should pay UK tax.

The trouble is that large companies, helped by large accounting firms, game[5] this system by artificially sucking their profits into tax havens, where they pay little or no tax. Tax Watch UK, an investigative group, estimated recently that five big tech firms – Apple, Google, Facebook, Cisco and Microsoft – made an estimated £30bn in profit from UK customers from 2012 to 2017, but shifted most of these profits offshore for tax purposes, paying just £933m in UK tax between them: a rate of about 3%.

If foreign companies paid tax at the rates of their UK counterparts, the UK might earn an estimated £25bn more per year. Meanwhile, the French treasury reckons that digital giants pay a tax rate that is 14 % lower than the small and medium enterprises that tech giants are strangling[6] in the marketplace.

There is a fundamentally different way to tax multinationals: the unitary tax that could divide a multinational's total global profits among each country where it operates, using a formula based on the number of employees and the size of sales, turnover and physical assets in each place. Each country may then tax its portion at whatever rate it likes. So, if a multinational has a one-person booking office in Bermuda, the formula would allocate only a small share of the pot to that particular subsidiary.

Until last year the OECD, influenced heavily by multinational businesses, treated proposals for unitary tax with fury, contempt and fear. But it produced a consultation document in 2019 that for the first time embraced unitary tax as a potential solution.

[1] to UNRAVEL: se dévoiler

[2] OECD= Organisation for Economic Co-operation and Development

[3] a fair bite : une part équitable [4] a subsidiary : une filiale [5] to GAME :(ici) se jouer de