Sec. Janet Yellen Calls for Global Tax Rate on Corporations

JUAN FELIPE VÉLEZ

April 7, 2021

Europe has also considered implementing a global corporate tax on the profits of companies with sales above €50 million

In her latest meeting with the heads of the International Monetary Fund, Treasury Secretary Janet Yellen again proposed a global minimum tax on corporations in order to fund President Joe Biden's $2.3 trillion infrastructure plan.

"Competitiveness is about more than how U.S.-headquartered companies fare against other companies in global merger and acquisition bids, it is about making sure that governments have stable tax systems that raise sufficient revenue to invest in essential public goods and respond to crises," Yellen said at a press conference.

Biden has proposed reversing former President Donald Trump's tax reform and raising the corporate tax rate from 21% to 28%. He also plans to impose a 21% tax on the income of American companies abroad.

Should the global tax pass, the incentive for U.S. companies to export could decrease and the operating costs of foreign companies in the United States would increase. This tax would also impose a higher tax burden on U.S. companies abroad.

In Europe, a global corporate income tax on the profits of companies with sales over 50 million euros has also been considered, but so far only France, Spain and the United Kingdom have implemented such a tax. It is very likely that Yellen will approach her European peers to reach an agreement on how this global tax would work.

Why is Yellen pushing for a global corporate tax?

America has a stricter tax code towards its private sector than other countries, which has affected the competitiveness of companies in the U.S. relative to those in other countries with a looser tax system.

Because of the across-the-board corporate and capital tax hikes proposed by the Biden administration, a global corporate tax would be "necessary" to prevent U.S. companies from losing competitiveness to foreign companies in countries with a more competitive tax framework.

Despite Yellen's concerns about establishing a global corporate tax, some analysts see this policy as regressive. For economist Chris Edwards, of the Cato Institute, the global tax proposed by Yellen is a regressive policy: "Tax competition between countries is a good thing, not a bad thing as Yellen claims. The same way that competition between businesses promotes efficiency, tax competition creates pro-efficiency benefits between countries for the provision of government services."

"Without international competition, governments are monopolies, and all economists know that monopolies are bad. Yellen should known that. To an extent, tax competition reduces the monopoly power of governments," Edwards notes on the risks of global single tax.

The economist points out that the most serious thing about the global tax is that it disadvantages less developed economies: "Yellen's proposal is arrogant and bullying from the perspective of less developed countries. The corporate income tax is the least efficient tax base, and it makes sense for countries that want to attract investment and improve their standard of living to cut their corporate taxes. Just a few decades ago, Ireland was much poorer than Britain, but its implementation of a low corporate tax rate and other reforms has helped it grow strongly and almost catch up to Britain in living standards"