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G7 - Global Minimum Corporate Tax Rate of 15%

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Abstract

The additional tax on profits of international companies that participate in controlled transactions appears to be consistent with the transition from an arm's length to a fixed tax principle. The largest and most profitable international corporations will be taxed at a flat rate. Except for high-tech companies, which should pay lower taxes, the current decision appears to be consistent with the theory of cycle of money (or money cycle).

Keywords: *Global Minimum Corporate Tax Rate; High-Tech Companies; G7*

Introduction

Larger and international corporations typically save their money in external banks and economic havens. As a result, according to this theory, the tax authorities should levy an additional tax on these types of businesses to reduce economic losses. Furthermore, smaller businesses and freelancers should be taxed at a lower rate. It would be possible to boost the economy's dynamics. Factories, know-how services provided by large corporations, the healthcare system, and the educational system are special cases for the economy because they fall under the category of cases where taxes improve the economy's quality. Factories and large know-how companies increase the money cycle by not substituting the activities of small-medium businesses and freelancers. The educational and healthcare systems improve the economy's quality, which benefits the entire economy.

Tax authorities should keep taxes as low as possible. Small and medium-sized businesses should be protected by the government with extremely low taxes, while larger corporations should face higher taxes. However, there is a class of large and international corporations that should pay lower tax rates because their activities are not substituted for those of smaller corporations. These large corporations include factories and technological know-how firms. The main idea is to have a financial system with the best production allocation. Larger corporations should not provide similar products and services to smaller corporations because they can make investments in economic fields that smaller corporations cannot support. In this manner, an economic system achieves its peak performance (Challoumis, 2022). Furthermore, the concept of the money cycle shows that with the proper allocation of production units and taxes, money is cycled inside the economy, achieving maximum economic dynamics.

The methodology used is based on the analysis of the theoretical background of the theory of the cycle of money and the historically first determined clarification and determination by the scientific way and forecast about the need for a Global minimum corporate tax rate (Challoumis, 2021).

Transfer Pricing and Controlled Transactions

Transfer pricing is about the terms and conditions surrounding transactions within an international company. Companies of controlled transactions administrate the prices charged between associated companies established in different countries for their intercompany transactions. Transfer pricing refers both to goods and services. The prices are set by a third party within the international company (Engström et al., 2020; Herrington, 2015; Marenco, Strohschoen, & Joner, 2017; Naudé & Dimitri, 2020). According to that procedure, international companies achieve set prices that do not reflect an independent market price.

This concerns tax authorities that international entities may set transfer prices on cross-border transactions to diminish taxable profits in their jurisdiction. This has led to the rise of transfer pricing regulations. The Commission identified the increasing importance of transfer pricing tax problems as an argument of the internal market. EU countries recognize the merits of the OECD regulations, but the different interpretations of these instructions often give rise to cross-border disputes which create additional costs both for business and national tax administrations (Commission, 2021).

Arm's and Fixed-Length Principle

The arm's length principle has been for decades the compass for business income allocation in international tax. The principle permeates many of the provisions of the OECD regulations and those that concern the attribution of income to permanent establishments, the relationship between associated enterprises, and certain source tax limitations. Moreover, it is important that, within the OECD regulations, the arm's length principle is attributed, explicitly or implicitly, predominance over non-discrimination provisions.

The arm's length rules of the OECD regulations have been implemented in EU directives. In addition, the arm's length principle has become, even though in circumscribed instances, part of the VAT system. Then, some problems have arisen in the coordination of these principles with the fundamental freedoms guaranteed by the TFEU. The results reveal a strong bias in the distribution of profit toward countries with minimum tax rates (Viegas M., 2021).

The Court of Justice considered arm's length capitalization rules as being in breach of the freedom of establishment, then recognized that a difference in treatment between domestic and cross-border transactions could be implied under the purpose to prevent tax avoidance (Feinschreiber, 2004). Having framed national arm's length form legislation in the scheme of the abuse of law may endanger the effectiveness of such legislation. Simultaneously, seems that companies that proceed to international controlled transactions seek to find adequate remedies to avoid appropriate taxation (Rolle, 2012).

According to the theory of cycle of money, tax rates, and unstable tax rates imply that tax authorities make companies proceed to controlled transactions for goods and services, establish more profits, and have a better allocation of their prices through their transfer pricing methodologies. High taxes lead the companies of uncontrolled transactions to proceed to practices of controlled transactions. The tax authorities should keep a low tax rate for the local companies to maintain them in the economy, and to impose higher tax rates on companies of controlled transactions (application of fixed-length principle). Companies that take part in controlled transactions use a variety of methods to avoid taxes (Meier & Rosenbaum, 2000).

The fixed-length principle admits that constant additional tax rates should apply to the controlled taxations; the tax authorities can have higher total tax income, keeping at the same time lower taxes for the local companies and forcing them not to proceed to controlled transactions practices. In the case of control transactions in goods and services, the conclusions show that there are similar results for both. Therefore, an additional tax for the companies that take part in controlled transactions supports the overall tax income, and at the same time, the companies of uncontrolled transactions should have lower tax obligations.

The EU and the most advanced economies give a signal to the companies that fair tax rules are applied. Nowadays, a company that takes part in controlled transactions of transfer pricing can tackle tax issues using an adequate tax method. The decision of G7 changes the taxing rules. The methods of companies that proceed to transfer pricing services are similar to the transfer pricing of goods. The fixed-length principle applies an additional tax for controlled transactions and declines tax to uncontrolled transactions. The unstable tax environments force enterprises to proceed to controlled transactions (Challoumis C., 2019).

G7 Agreement

World's richest countries have agreed in principle to a global minimum corporate tax rate. The criticism to tax justice fellows is that the agreed-upon 15% tax rate is minimal, and the distribution of extra tax revenues would be unfair to the countries that do not belong to the stronger economies. According to Gabriela Bucher, Oxfam International's executive director, the global tax rate is too low, when the finance ministers of the G7 club, the U.S., France, U.K., Japan, Germany, Canada, and Italy, announced their agreement. The impact of this minimum tax rate will be insufficient on corporate tax and curtail which widespread use of tax havens (Meyer D., 2021).

The theory of the cycle of money is formed on the distribution of money in an economy revealing that it is plausible to have a positive effect on an economy by the appropriate public and tax policy. The dynamic of each economy is represented by the concept of the volume of transactions. The multiple times that money is used and reused in a country's economy, without getting out to external economies and banking systems, clarifies the robustness of this economy. Therefore, this scrutiny determines the appropriate tax policies in connection with the savings of companies of controlled and uncontrolled transactions. Then small and medium companies must have lower taxes than larger and international companies that substitute the activities of these companies. Additionally, the only international companies that should have low taxes are the factories and know-how technological companies (Challoumis C., 2020).

High-Tech Companies

The current agreement on a global minimum tax rate at the OECD does not work as an obligation on lower-tax countries like Ireland. But functions as leverage to increase pressure on the Irish 12.5 percent rate. The outlook is complicated by the US plan to impose a 21 percent global rate on the earning of its international companies, many of which have their headquarters in Ireland (Taylor, 2021). To conclude, formed on the cycle of money, high-tech companies offer services and goods that cannot be produced by other companies which do not participate in control transactions. The EU regulations should not imply high tax rates for these high-tech companies as the cons are much more than the pros.

Discussion

Tax authorities should keep taxes as low as possible. Small and medium-sized businesses should be protected by the state with extremely low taxes, while larger businesses should be burdened with higher taxes. However, there is a class of large and international companies that should pay lower tax rates because their activities do not supersede those of smaller companies. These large companies include factories and companies with technological know-how.

The basic concept is to have a financial system with the best distribution of production. Larger companies should not provide smaller companies with similar products and services, as they can invest in economic sectors that smaller companies cannot support. This is how an economic system reaches its peak performance. Furthermore, the concept of the money cycle shows that when production units and taxes are properly allocated, money circulates within the economy and maximum economic dynamism is achieved.

Conclusion

The additional taxation of the profits of international corporations involved in controlled transactions seems to be compatible with the transition from the arm's length principle to the fixed amount principle. The largest and most profitable international corporations are taxed at a flat rate. Apart from high-tech companies, which should pay lower taxes, the current decision appears to be consistent with the theory of the monetary cycle or circulation. Thus, this tests the appropriate tax policy related to corporate savings from controlled and non-controlled transactions. Small and medium enterprises should pay lower taxes than larger and international enterprises that replace the activities of these enterprises. In addition, the only international companies that should have low taxes are factories and know-how technology companies.

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