MINIMUM TAXATION

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Basics

Ensuring tax liability of at least some minimum amount

- Usually though not always by computing on a broader base than normal regime: an "alternative minimum tax"
- Closely related to limiting deductions under regular tax

Focus here on corporate applications

Rationale:

- Limit use of tax preferences
- Limits profit shifting

'First best' is to address underlying sources—but if not…

Broadly two types of MT

- On income arising abroad: “outbound”

- On domestic income

  —including of foreign entities (‘inbound’)

- Inbound + outbound is ‘Pillar II’ of current discussion in the OECD’s Inclusive Framework

OUTBOUND INVESTMENT

Interest prompted by US reform

‘GILTI’ (Global intangible Low Taxed Income)

- Calculate foreign income in excess of 10 percent return on tangible assets
  - —On aggregate basis, not country by country
- Tax at half US rate (without deferral)
  - —with credit for 80 percent of foreign taxes paid

So tax on GILTI income of at least 10.5 percent

Protects revenue of residence country

Implications for ‘source’ countries

- Reduced rates/incentives less effective in attracting foreign investors
  - —Because offset by increased tax in residence country
- But this is mitigated if minimum applies overall, not country-by-country
  - —Because residence tax can be reduced by taking income in jurisdictions with lower tax rate

DOMESTIC INVESTMENT

Various forms

- Most often on turnover

Other dimensions

- What rate?
- Carry forward?
- If assets, net or gross?
- All sectors?

Simpler forms more suitable for small/medium entities

Types of Local Minimum Tax, 2018

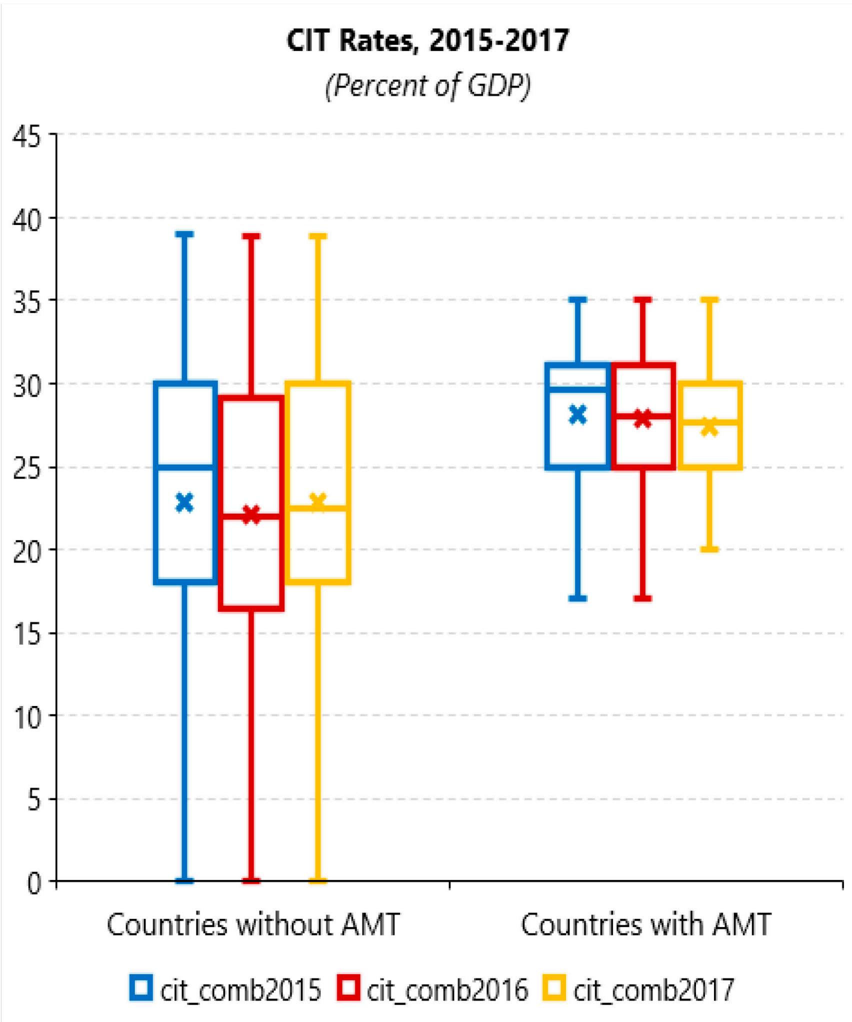
Base	No. of countries
Turnover	26
Assets	10
Modified Income	10
Total	46

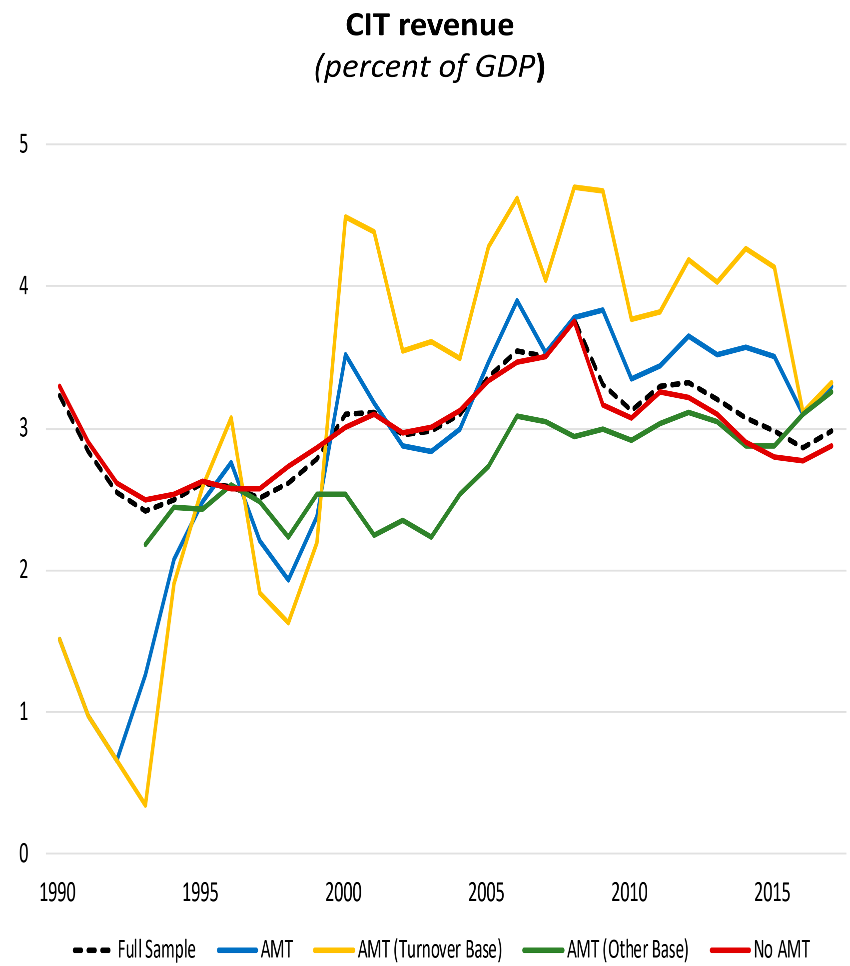
Some examples

	Base	Rate (percent)
Algeria	Fixed amount (DZD 100,000)	
Colombia	Net assets	3.5
India	Book profits	18.5
Honduras	Turnover	1.5/0.75/1 (at successively higher gross incomes
Hungary	Turnover (less income from PEs)	9
Panama	Alternative minimum (larger enterprises only)	4.67
Pakistan	Turnover	1.5
Philippines	Turnover	2
Tanzania	Turnover (for loss-making companies)	0.5

Source: IMF compilation

Higher rates, higher CIT revenue





Sources: IMF World Economic Outlook (*GGRTIC*) and staff calculations.
Notes: Based on time-varying sample of countries with minimum taxes between Jan 1, 1990 and Jan 1, 2019.

Design issues

Simple MTs often recommended for lower capacity countries, but to weigh against revenue protection:

- Potential distortions:
  - —turnover taxes can be particularly distortionary
- Compliance costs
  - —US evidence (corporate AMT abolished 2017)
  - —Carry forward reduces distortions, but adds complexity
- To maximize creditability in residence country, credit regular income tax against the minimum

With foreign investors in mind

- Focused on profit shifting rationale:

- Interest prompted by US BEAT (Base Erosion Anti Abuse tax):

  For large companies, 10 percent on base that adds back deductions for cross-border payments to affiliates that are not part of the costs of goods sold

Limits as part of the regular tax system

- May appeal where capacity is limited, and withholding tax rates constrained. E.g.:
  - —Cameroon caps the sum of expenses on HQ, technical, financial, and accounting services at 5% of taxable income;
  - —Ivory Coast denies intragroup royalties and service fees exceeding 5% of turnover
- Perhaps in combination with simple minimum
- Only when not subject to minimum tax in hands of recipient
  - —putting onus to establish that on taxpayer?
- Care needed in legal construction
  - —e.g. should be residence-based and non-discriminatory