

The Global Minimum Corporate Tax Rate: Framework, Implications and Policy Recommendations

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Abstract. The global minimum corporate tax marks a milestone in international tax reform under the Organization for Economic Co-operation and Development (OECD) / Group of Twenty (G20) Inclusive Framework. Pillar One reallocates profits to market jurisdictions, while Pillar Two introduces a 15% minimum effective tax rate for large multinational enterprises (MNEs). This paper compares the OECD framework with the United States (U.S.) Tax Cuts and Jobs Act (TCJA) and the Corporate Alternative Minimum Tax (CAMT), analyzing their impacts on capital neutrality and global tax coordination. Results show that the multilateral approach curbs harmful tax competition but raises compliance costs. For China, proactive participation in global rule-making and strengthening innovation-based competitiveness are key to safeguarding fiscal sovereignty and promoting fair global tax governance.

Keywords: Global Minimum Tax, OECD/G20, Pillar One, Pillar Two, Tax Competition, International Tax Governance, Fiscal Policy.

1. Introduction

In October 2021, the OECD/G20 Inclusive Framework adopted a two-pillar plan to address tax challenges arising from the digital economy. The reform introduces a global minimum corporate income tax rate of 15% for MNEs (multinational enterprises) with consolidated revenues exceeding €750 million, aiming to ensure fairer taxation where profits are generated (OECD, 2021). This historic agreement, endorsed by over 130 jurisdictions representing more than 90% of global GDP, marks a milestone in multilateral tax cooperation [1].

2. The Two-Pillar Package

The OECD's two-pillar framework seeks to restore fairness, certainty, and stability to the international tax system by addressing distortions created by digitalization and profit-shifting strategies. Pillar One reallocates a portion of residual profits from large MNEs—especially digital firms with significant user bases—to market jurisdictions where value is created, even in the absence of physical presence. This represents a major shift from the century-old “permanent establishment” principle toward a market-nexus-based approach, acknowledging that digital activities generate taxable value through data, users, and digital services [2].

Meanwhile, Pillar Two introduces a global minimum corporate income tax rate of 15% applicable to MNEs with consolidated revenues exceeding €750 million, thereby establishing a floor for global tax competition and curbing the erosion of national tax bases. Under the Global Anti-Base Erosion (GloBE) rules, jurisdictions apply a top-up tax if an MNE's effective tax rate (ETR) in a specific country falls below 15%, ensuring that the minimum level of taxation is achieved regardless of where profits are booked [2].

The implementation of Pillar Two operates through a hierarchical mechanism: the Income Inclusion Rule (IIR) applies to parent entities, while the Undertaxed Profits Rule (UTPR) allows other jurisdictions to collect additional tax when the IIR is not enforced. Furthermore, countries may adopt a Qualified Domestic Minimum Top-Up Tax (QDMTT) to retain taxing rights domestically before foreign authorities impose top-up taxes [3].

Together, these two pillars aim to ensure that MNEs are taxed in alignment with where their economic activities and value creation occur. This coordinated framework is expected to reduce aggressive tax planning, foster a more level playing field for global investment, and reinforce the legitimacy of international tax governance under the OECD/G20 Inclusive Framework [3].

3. Rationale for a Minimum Corporate Tax

3.1. From National Perspectives

Since the 1980s, corporate income tax competition has intensified as countries sought to attract foreign direct investment (FDI) and stimulate domestic growth. Governments often lowered statutory tax rates or introduced preferential regimes—such as patent boxes, offshore centers, and special economic zones—to lure MNEs [5]. This trend resulted in a steady global decline in corporate tax burdens. Between 2000 and 2020, the average statutory corporate income tax rate fell from approximately 27% to 20.2%.

Empirical evidence suggests that developed economies, including the United States, the United Kingdom, and Germany, recorded larger rate reductions compared with emerging economies like China, India, and Vietnam. These changes were partly driven by fiscal competition to attract capital and intellectual property, as well as by policy mimicry among OECD members seeking to maintain competitiveness [1].

Jurisdictions such as Ireland (12.5%) and Singapore (17%) have maintained structurally low rates, leveraging them as part of broader investment and innovation strategies. Ireland, for instance, became the European headquarters hub for numerous U.S. technology giants, while Singapore positioned itself as Asia's tax-efficient logistics and digital finance center [4]. However, such persistent low-tax regimes have created distortions by encouraging profit shifting rather than genuine capital formation.

This “race to the bottom” dynamic, as extensively analyzed in international tax literature, has eroded national tax bases, constrained fiscal space for social and infrastructure investment, and exacerbated income inequality across and within nations. Clausing emphasizes that declining corporate tax revenues in high-income countries have contributed to widening gaps between capital and labor income, undermining redistributive fiscal policy [5]. As global mobility of capital continues to increase, unilateral tax competition risks further deepening global disparities, underscoring the necessity for coordinated reform.

3.2. From Global Perspectives

At the global level, declining corporate tax rates have produced both efficiency gains and severe coordination failures. On one hand, lower taxes can reduce investment costs, encourage cross-border capital flows, and enhance the efficient allocation of production factors. On the other hand, these policies externalize fiscal losses to other jurisdictions, undermining global welfare and leading to inefficient international equilibria [3].

The OECD's BEPS initiative documented the scale of these distortions. The share of profits booked by U.S. multinationals in low- or zero-tax jurisdictions rose from roughly 30% in 2000 to nearly 60% by 2020. Tørsløv, Wier, and Zucman estimate that nearly 40% of global MNE profits are shifted to tax havens annually, equivalent to around \$700 billion in foregone fiscal revenues worldwide [6]. The losses are disproportionately borne by high-tax economies, while small offshore centers accumulate large paper profits disconnected from real activity.

These dynamics highlight a classic collective-action problem in international taxation: while each country can benefit individually from attracting profits through lower tax rates, collectively this leads to global welfare losses [1]. Consequently, the OECD and G20 initiated the global minimum tax project as a coordinated response to mitigate such distortions. By setting a 15% floor under corporate tax competition, the reform seeks to stabilize revenue mobilization, improve transparency, and level the playing field between high- and low-tax jurisdictions [2].

Moreover, the global minimum tax aligns with the broader principle of taxing rights based on economic substance, reinforcing capital export neutrality (equal treatment of domestic and foreign investment returns). While implementation challenges remain—especially regarding developing countries' administrative capacity—the policy represents a significant advancement toward a more cooperative and equitable global tax architecture [4].

4. Fundamental Principles and Comparative Frameworks

4.1. Core Principles of the Global Minimum Tax

At the 2021 G7 Finance Ministers' Meeting, two key principles were reaffirmed as the foundation of the OECD/G20 Inclusive Framework on BEPS. Large MNEs must pay corporate income tax both at headquarters and in market jurisdictions, even without a physical presence. A global minimum effective tax rate of 15% should be applied to prevent profit shifting and protect national tax bases. These principles align taxation with economic substance and value creation, moving beyond the outdated "residence-source" rule that historically tied taxation to physical presence.

4.2. Evolution from BEPS to a Binding Framework

The G7's proposal expands on the OECD's prior BEPS initiative, which emphasized transparency and anti-profit-shifting measures but lacked an enforceable tax floor. The global minimum tax under Pillar Two operationalizes enforcement through a three-tier mechanism: The IIR requires parent entities to pay top-up tax when subsidiaries' effective rates fall below 15%. The UTPR allows other jurisdictions to collect residual tax if the IIR is not applied. The QDMTT enables countries to secure domestic revenue before other jurisdictions claim top-up taxes. This multilateral framework transforms voluntary cooperation into a cohesive global standard, reducing incentives for base erosion and tax undercutting.

4.3. Comparison with U.S. Tax Reform (TCJA 2017)

The U.S. Tax Cuts and Jobs Act (TCJA) of 2017 introduced domestic mechanisms to address profit shifting but remained unilateral in scope. Key features such as the Global Intangible Low-Taxed Income and the Base Erosion and Anti-Abuse Tax created partial minimum tax regimes targeting offshore income and deductible payments. However, these measures generated conflicts with foreign tax systems and risked double taxation, as they were not coordinated globally. The OECD/G20 model, in contrast, provides a multilateral consensus mechanism to harmonize national minimum taxes and prevent competitive distortions.

4.4. Comparing Pillar Two (CMT) and U.S. CAMT

While both the Pillar Two Corporate Minimum Tax (CMT) and the U.S. Corporate Alternative Minimum Tax (CAMT) apply a 15% rate on book profits, their structure diverges substantially:

Scope: CMT applies to MNEs with revenues \geq €750 million; CAMT covers U.S. firms with profits \geq US\$1 billion.

Methodology: CMT uses a country-by-country effective tax rate, restricting cross-crediting and deferred tax use. CAMT allows global averaging and broader offsets, easing compliance but diluting global neutrality.

Carve-Outs: CMT includes a 5% carve-out for tangible assets and payroll to recognize real economic activity. CAMT excludes such adjustments, favoring administrative simplicity.

Enforcement: CMT employs the UTPR to ensure multilateral enforcement; CAMT relies solely on domestic U.S. tax authority.

These design differences illustrate contrasting policy objectives: the U.S. regime focuses on domestic revenue protection, while the OECD's Pillar Two emphasizes international coordination and equitable taxation.

4.5. Policy Implications and Global Governance

The convergence of G7 principles, OECD enforcement architecture, and U.S. policy reforms represents a critical evolution from national tax sovereignty toward cooperative fiscal governance. The coordinated 15% minimum tax is expected to reduce harmful tax competition, enhance transparency, and provide stable revenue for both developed and developing countries. However, implementation challenges persist—especially in ensuring consistent adoption by low-tax jurisdictions and addressing compliance costs for emerging economies. Despite these issues, the reform marks a transformative shift in international taxation, creating the foundation for a fairer, more stable, and rules-based global fiscal order.

5. Implications for Economic Efficiency and Policy

The implementation of both the Pillar Two Global CMT and the U.S. CAMT has important implications for economic efficiency, tax neutrality, and policy coordination. While both systems seek to align effective tax rates across jurisdictions, they differ in their economic impact and long-term strategic significance.

5.1. Economic Efficiency and Neutrality

Both the CMT and CAMT improve capital-export neutrality by reducing discrepancies in tax treatment between domestic and foreign operations, ensuring that investment decisions depend more on productivity than tax arbitrage [3].

The Pillar Two system introduces complex calculation mechanisms, such as country-by-country ETR assessments and top-up tax adjustments. This complexity increases compliance costs, especially for mid-sized multinationals with limited tax resources. In contrast, the CAMT's more consolidated structure reduces administrative burdens but achieves less cross-border coordination [6].

Start-ups and high-growth firms benefit more under CAMT, which allows loss carry-forwards and greater flexibility in recognizing deferred tax assets. The book-income-based approach under CMT, however, may penalize firms in early investment phases by accelerating tax liabilities. Moreover, CMT's limited carve-outs can distort investment allocation by favoring labor-intensive industries over capital-intensive or R&D-driven sectors.

While a global minimum tax strengthens fiscal stability and curbs tax-base erosion, it may also reduce the competitive incentives for developing economies that traditionally relied on preferential regimes to attract FDI. According to Tanzi [9], this could re-shape global capital flows, prompting emerging markets to shift toward non-tax competitive advantages such as infrastructure, governance, and innovation ecosystems.

Despite these trade-offs, the multilateral structure of Pillar Two provides a more sustainable framework for reducing harmful tax competition and stabilizing the global fiscal system, even if it introduces new inefficiencies and short-term compliance challenges.

5.1.1. Strategic and Policy Recommendations

We should closely follow the evolving legislative process of the global minimum corporate tax and actively participate in international rule-making under the OECD and G20 frameworks. Such engagement is vital for safeguarding national tax sovereignty, promoting fair and reasonable global tax governance, and ensuring that multinational enterprises operating in China bear their tax obligations in accordance with the principles of fairness and mutual benefit.

Instead of relying primarily on preferential tax policies, the government should further optimize its institutional environment by strengthening intellectual property protection, and improving innovation capacity. This approach reflects China's transition toward high-quality, innovation-driven development, consistent with global trends emphasizing fairness, efficiency, and sustainability in taxation.

Through constructive participation in global negotiations, China can better demonstrate its role as a responsible major country, contribute Chinese wisdom and solutions to the reform of the international tax system, and help build a fairer, more just, and rules-based global economic order. Such efforts will also accelerate China's shift from tax-based competition to innovation-led growth, fostering long-term stability and sustainable integration into the world economy [10].

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