International Taxation and Inequality

Sébastien Laffitte, CYU and Thema
Inequalities in Contemporary Societies, 2026

International Taxation and Inequality

- Economics studies the production, distribution and consumption of scarce ressources.
- A long-run movement towards equality (e.g. Piketty, 2021)
- A recent trend towards more inequality (e.g Piketty, Saez, Zucman, 2018, WIL, 2026). Graph
  - Multifactorial phenomenon but globalization has been central in these trends.
  - Why?
- Today: The role of the taxation of multinational firms

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International Taxation and Inequality

- Taxation is one of the key activity of governments
  - Taxation is consubstantial to governments' existence
  - Efficiency role: allows public good provision and correction of externalities
  - Equity role: allows to implement a vision of redistributive justice (ie. who gets what)
  - Determines many economic and social outcomes: helps controlling power asymetries in a society.

  $\longrightarrow$ How many taxes are paid and who pays them are central issues.

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International Taxation and Inequality

- Multinational firms are central actors of globalization
  - MNEs are firms that come from a headquarter country, have activities in at least one foreign country and sells in several markets. Profits from multinational activity are either reinvested locally or repatriated to the headquarter country
  - Few MNEs but large productivity and technological advantages.
    - Top 5k MNEs make $\approx \frac{1}{3}$ of all profits in the world.
  - Mobile across borders

$\longrightarrow$ Strategic actors with large bargaining power with respect to governments

MNE's taxation

- Territorial principle: Firms pay taxes in production countries, where "value" is created.
- Arm's length pricing should ensure it: firms must exchange between affiliates at market prices.

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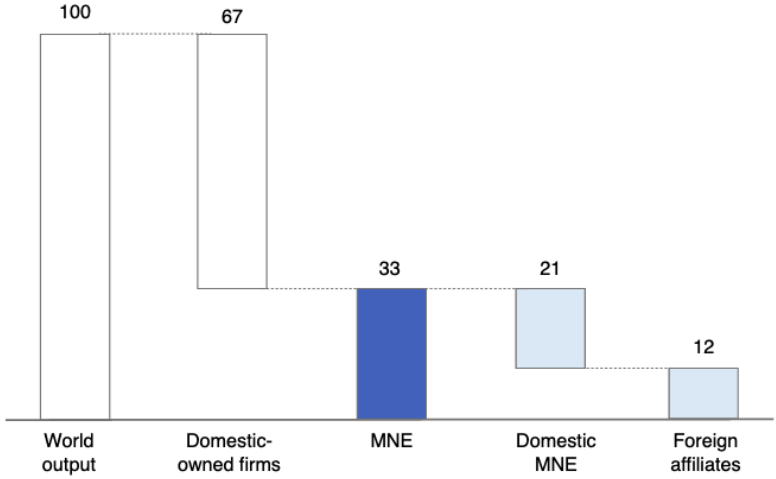
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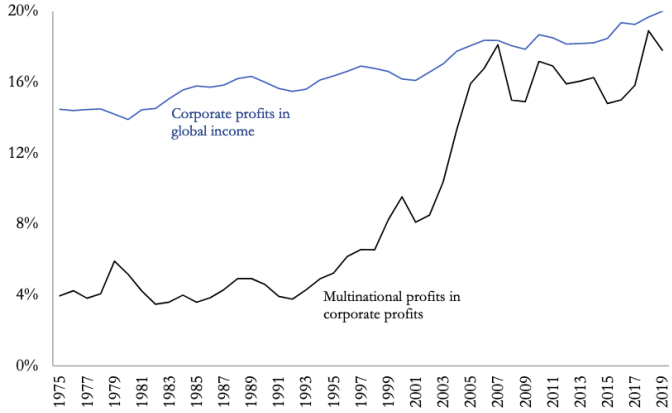
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Fact 1: MNEs in the global economy



Source: Cadestin et al., 2023

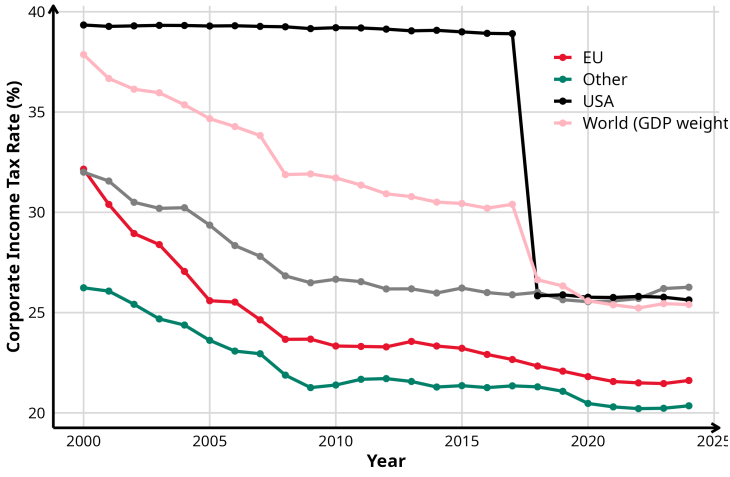
Fact 1: MNEs in the global economy



Note: the blue line shows the evolution of the share of global corporate profits in global income (defined as global GDP minus global depreciation). The black line shows the share of global multinational profits (as defined in the text) in global corporate profits.

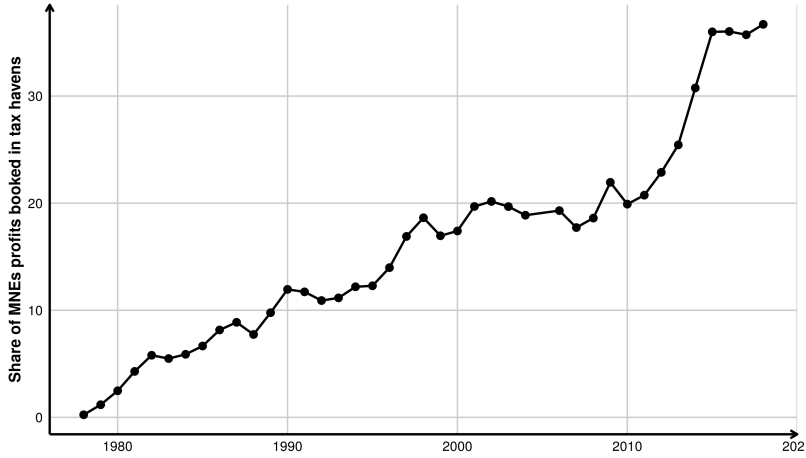
Source: for 1975–2015: Tørsløv et al. (2022a), Data Appendix Table C7; for 2016–19 figures: Data Appendix, Table 1.

Fact 2: Statutory corporate tax rates declined



Source: OECD, Corporate Tax Statistics, 2025

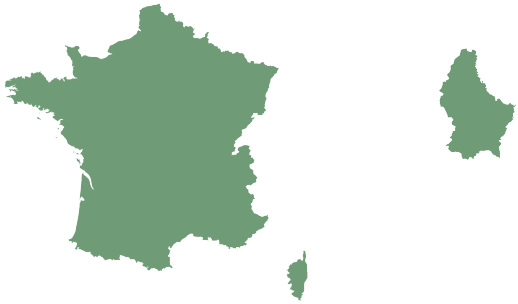
Fact 3: Cross-border profit shifting is sizable



Source: Wier and Zucman, 2022

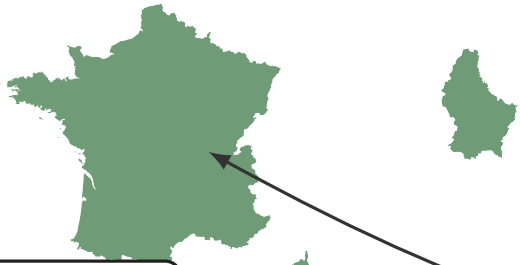
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How do firms avoid taxes?



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How do firms avoid taxes?



Before Profit Shifting

French affiliate

Cost of input: 100

Sales: 120

Profits: 20

Tax (25%): 5

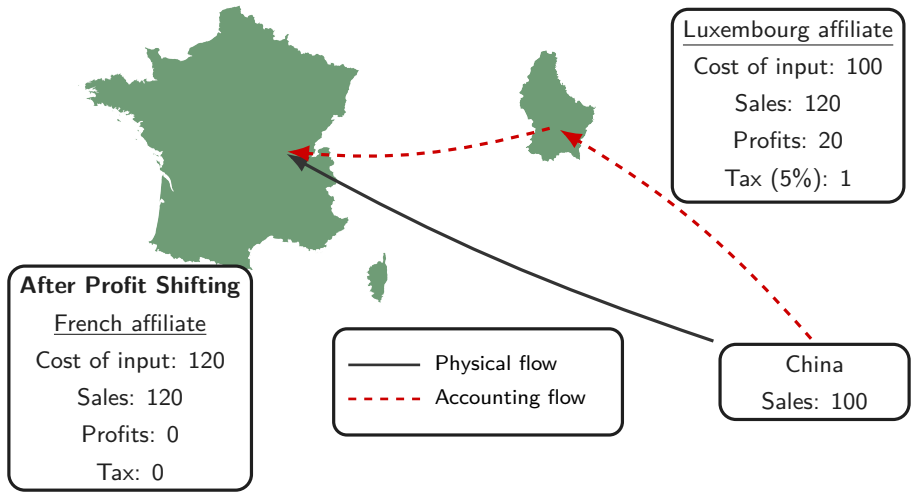
Physical flow

China

Sales: 100

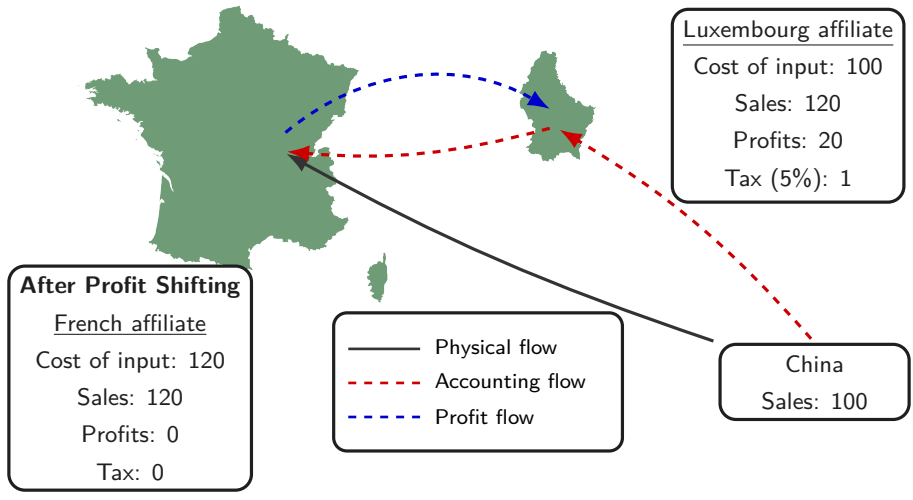
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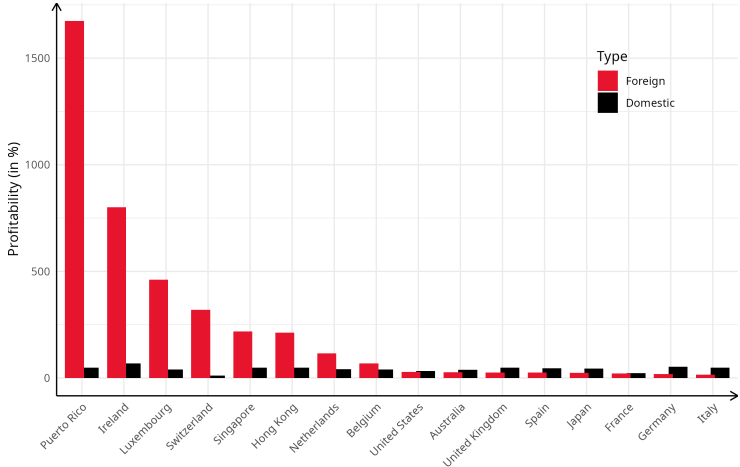
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Fact 3: Cross-border profit shifting is sizable

How do firms avoid taxes? Misalignment between production location and profits location.

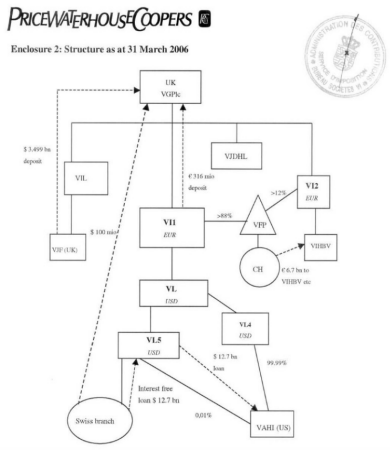


Note: Profitability = profits per employees. *Type* corresponds to the origin of ownership.

Source: Torslov, Wier and Zucman (2023)

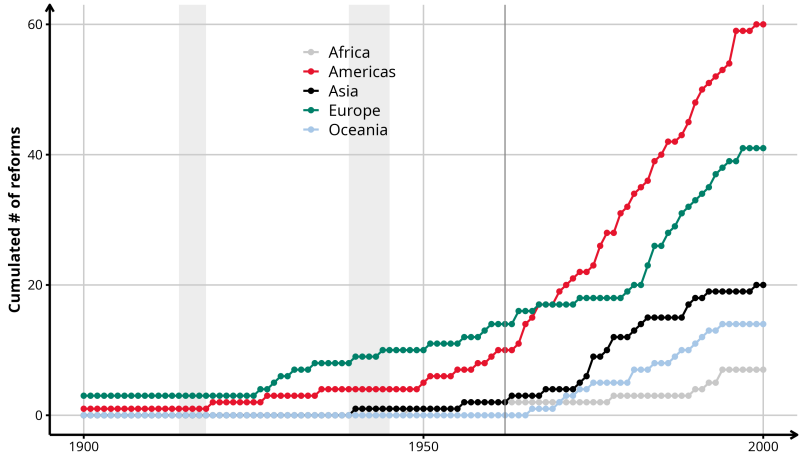
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How do firms avoid taxes *in reality*?



Source: LuxLeaks, 2014

Fact 4: The number of tax havens rose along the 20th century



Source: Laffitte, 2025

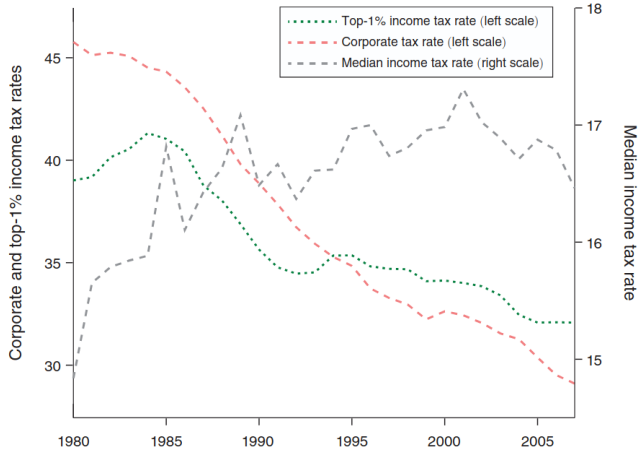
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Countries become tax havens through offshore market forces

- Tax havens are **suppliers** in a market for offshore services, not just low-tax locations.
- Entry is driven by **demand shocks** from high-tax countries and by historical shocks (including decolonization).
- They compete by adopting and diffusing **offshore legal technologies** (secrecy, legal vehicles, fiscal regimes).
- Becoming a haven raises local GDP per capita, but externalizes fiscal pressure onto non-haven countries.

Source: Laffitte, 2025

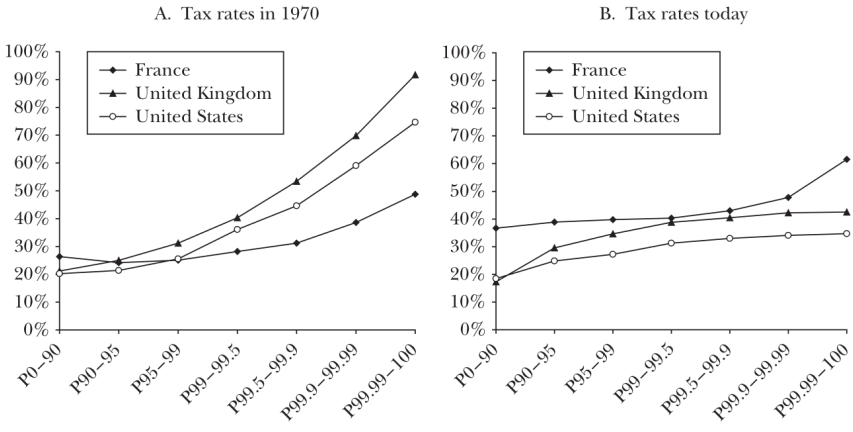
Fact 5: Tax burden shifts toward less mobile bases



Source: Egger et al., 2019

Fact 5: Tax burden shifts toward less mobile bases

Tax Rates in France, the United Kingdom, and the United States in 1970 and Today

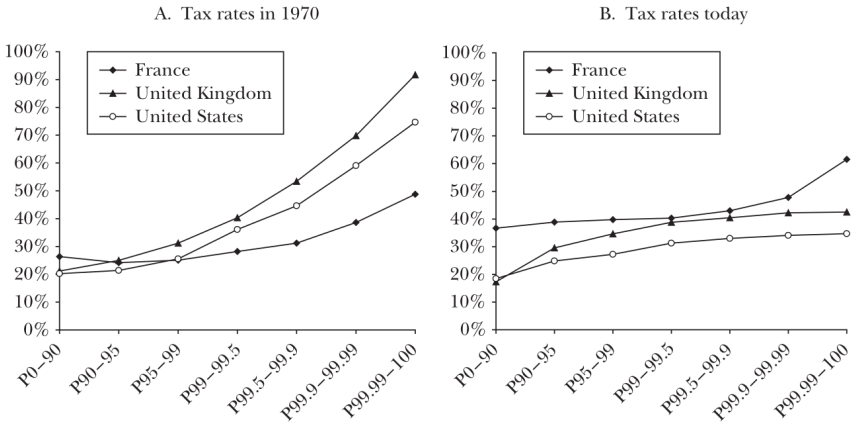


Source: Piketty and Saez, 2007

Why? Capital income disproportionately acrrues to rich people Graph

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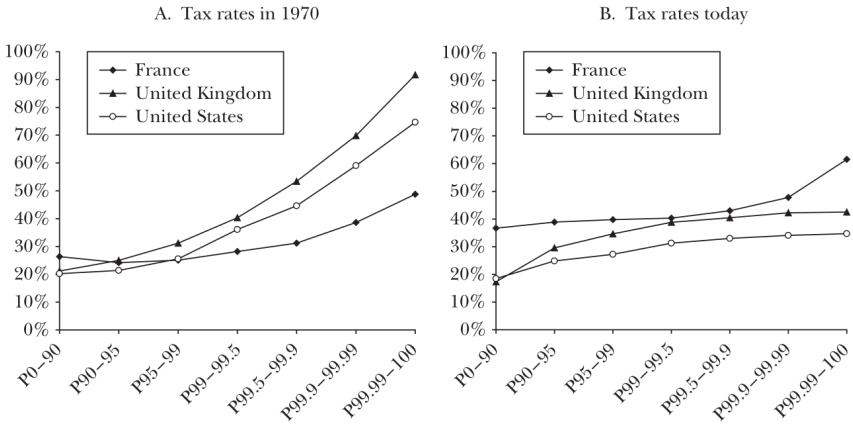


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Taxing multinational firms

Central tension in international taxation

- Corporate tax system not robust to tax avoidance strategies $\longrightarrow$ profits are increasingly mobile across borders
- Tax policy is national.

Key question

How do we tax globally mobile profits in a globalized economy?

- Practical attempts in Society of Nations (1920'), OECD (since 2010'), UN (since 2020').

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Why is unilateral enforcement unstable?

- Every government wants tax revenues and investment.
- Acting alone can increase domestic firms' effective burden.
- Non-cooperating jurisdictions attract mobile profits.

Game Theory Result

Tax competition leads to under-optimal corporate tax rates because of absence of coordination.

Reforming International Taxation

- Two possible directions for a coordinated change:
  - Change incentives to shift profits to tax havens.
    - OECD's Global Minimum Tax designed to impose a 15% minimum tax whatever the nominal rate. Detail
    - Decreases the tax differential with tax havens.

Reforming International Taxation

- Two possible directions:
  - Change incentives to shift profits to tax havens.
  - Change in the allocation of taxing rights
    - OECD's Pillar I departs from the territorial principle for a share of profits.
    - A share of largest MNEs profits are put in a common pot and taxing rights are allocated according to the destination markets of this firms. Detail
    - If a MNE makes 10% of its sales to country A, country A has the right to tax 10% of the common pot.
    - If profits are mobile, consumers are not. Useful to capture digital activities.

How do firms and countries react to the Global Minimum Tax? (Ferrari et al., 2025)

Expected firm reaction

- Less profit shifting
- Relocation of activities according to "fundamentals" (productivity, infrastructure, market access,etc.) rather than taxes.

Effects on tax revenues and optimal minimum tax

- At 15%, simulations for the U.S. show roughly +4% corporate tax revenues and about -36% to -38% profit shifting.
- Estimated global welfare-maximizing rates are above 15%.

Tax competition effects

- A global minimum tax moves the floor from 0% to 15%.
- It decreases race-to-the-bottom incentives.

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Can geopolitics derail coordination?

Donald Trump's return raises prospect of global tax war

Plans to levy higher rates on US multinationals could spur president-elect to respond with tariffs



Can geopolitics derail coordination?

US wins exemptions from global minimum corporate tax rules

Agreement that benefits US multinationals weakens 2021 deal brokered by OECD



Global policy and multilateralism

Domain	Climate	Trade	Banking Regulation	**Taxation**
Common problem identification				
Shared expertise source				
Results evaluation and adaptation				
Consensus on action principles				
Transparent reporting mechanisms				
Trusted institutions				

Table: Evaluation of coordination: Black = Deficient, Gray = Intermediate, White = Satisfactory,source: Pisani-Ferry & Papaconstantinou, 2025

What have we learned about globalization and taxes?

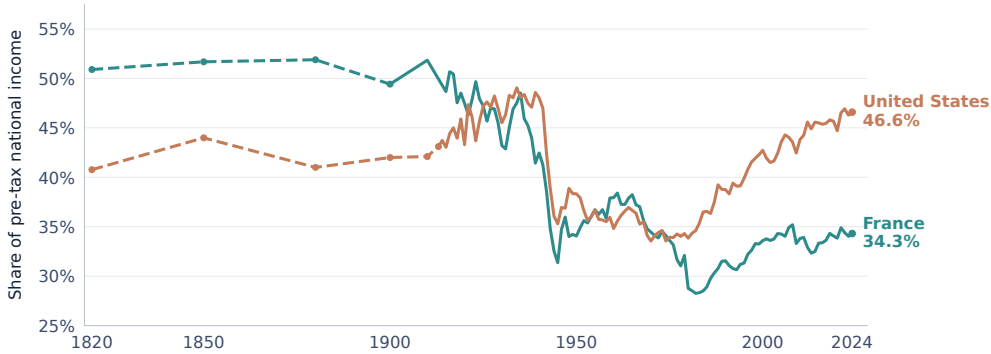
1. Globalization increased the mobility of profits and production factors.
2. National tax systems adapted by increasing the burden on immobile factors (median workers, consumptions, etc.).
3. MNEs are powerful actors that appeared as winners of this process.
4. Coordination emerged, but remains politically and technically incomplete because countries are willing to keep their soveignty in tax matters.

$\Longrightarrow$ Taxation is going to become more and more an economic weapon.

Top 10% income shares over the long run

Back

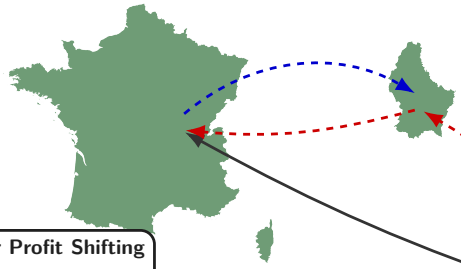
France and United States, 1820–2024



Pre-tax national income; adults aged 20+, income split equally within couples.
Source: World Inequality Lab, WID.world

Global Minimum Tax: who collects? Back

Minimum Taxation
10 of minimum tax to be collected. By whom?



Luxembourg affiliate
Cost of input: 100
Sales: 120
Profits: 20
Tax (5%): 1

After Profit Shifting
French affiliate
Cost of input: 120
Sales: 120
Profits: 0
Tax: 0

Physical flow
Accounting flow
Profit flow

China
Sales: 100

Allocating taxing rights

Back

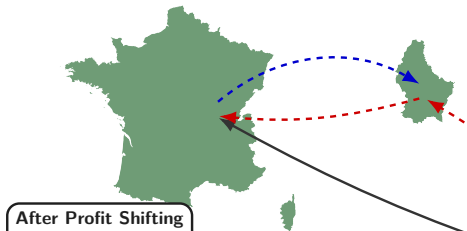
Formulary apportionment

Total Profits = 20

Share L in France = 95%

Tax in France = $95\% \times 20 = 19$

Tax in Lux = $5\% \times 20 = 1$



After Profit Shifting

French affiliate

Cost of input: 120

Sales: 120

Profits: 0

Tax: 0

Physical flow

Accounting flow

Profit flow

Luxembourg affiliate

Cost of input: 100

Sales: 120

Profits: 20

Tax (5%): 1

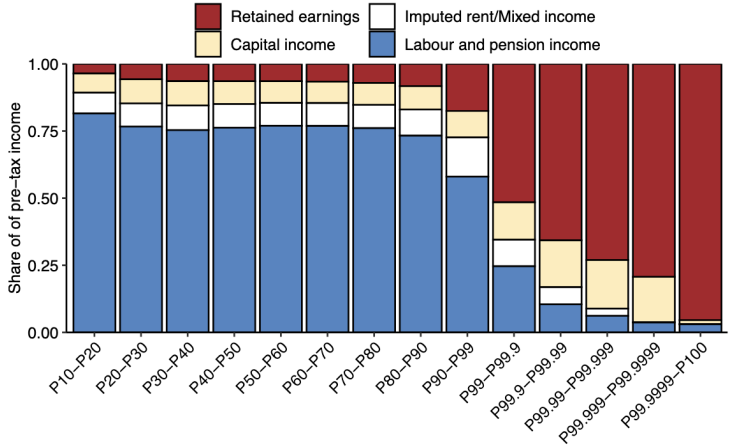
China

Sales: 100

How does income composition shape progressivity?

Back

Figure 2: The composition of pre-tax national income



Source: Bruil et al., 2026