Globalization, Multinational Firms and International Taxation

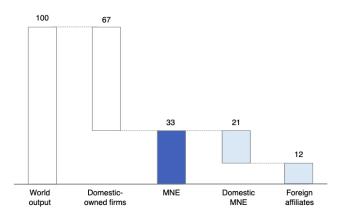
Is tax evasion inevitable?

Sciences Po - Saint-Germain-en-Laye, Fall 2025

1. Introduction

Multinational firms are important to understand globalization 1/2

Figure 3. Decomposition of global gross output by ownership status, 2014



Multinational firms are important to understand globalization 2/2

Figure 3: Global corporate profits and multinational profits, 1975-2019

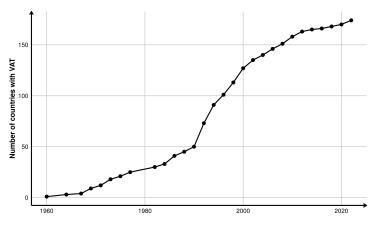


Note: the blue line shows the evolution of the share of global corporate profits in global income (defined as global GDP minus global depreciation). The black line shows the share of global multinational profits (as defined in the text) in global corporate profits.

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

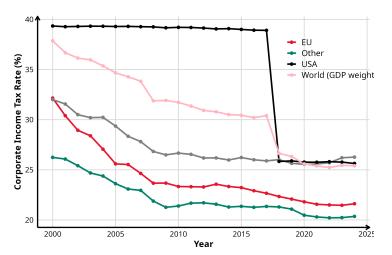
2. Four facts on globalization and taxes

Fact #1: The rise of consumption taxes



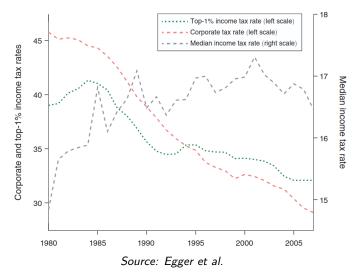
Source: OECD

Fact #2: Race-to-the-bottom of CIT rates

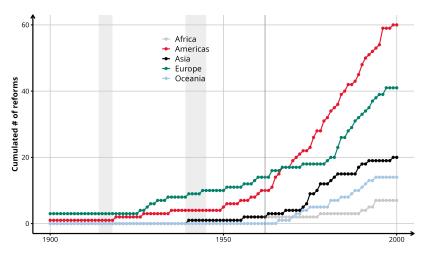


Source: OECD-Corporate Tax Statistics

Fact #2bis: The decrease of taxes on capital

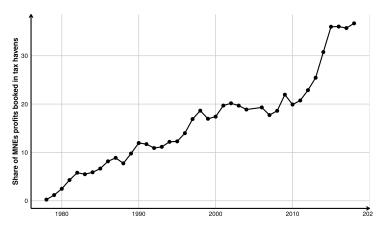


Fact #3: The rise of tax havens



Source: Laffitte

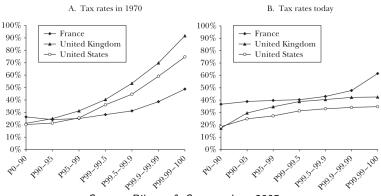
Fact #4: The rise of profit shifting



Source: Wier & Zucman

Fact #5: The slowdown of income tax progressivity

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



Source: Piketty & Saez, today=2005

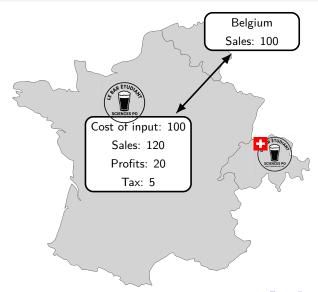
Why is it a consequence of facts 1 and 2?

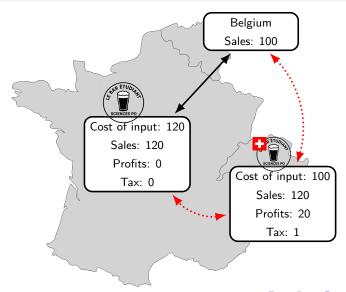


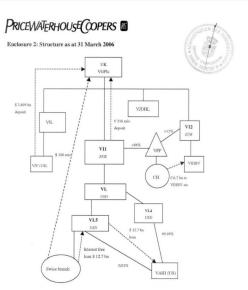
3. How do firms avoid taxes?







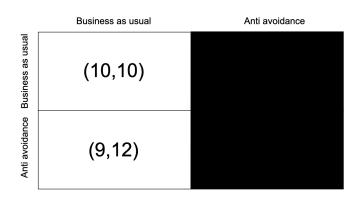




- Corporate tax competition pushed tax rates towards too low rates.
- → All countries would prefer to have larger rates, but incentives to deviate push them to a sub-optimal Nash equilibrium.
 - Similarly, it is hard to regulate international tax avoidance.
 - Doing it raises taxes of firms operating domestically.
 - Other countries have an incentive not to regulate to attract firms from regulated countries.

4. How do government react to tax avoidance?

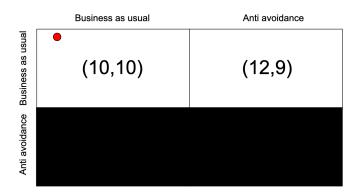
	Business as usual	Anti avoidance		
Business as usual	(10,10)	(12,9)		
Anti avoidance	(9,12)	(11,11)		

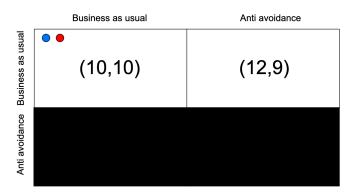


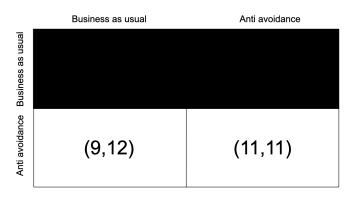




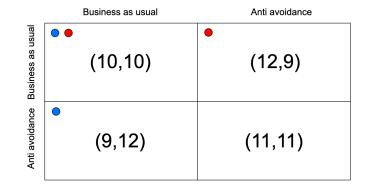












The Nash equilibrium is sub-optimal. What happens when we introduce a global minimum tax rate?

 Global cooperation prevents free-riding and moves the Nash equilibrium to the social optimum.

Global implementation and cooperation prevent free-riding.



Global implementation and cooperation prevent free-riding.



5. The role of global institutions

The limited governance of international taxation

- Problem is well identified but no consensus on the solutions
- OECD vs. UN?

Domain	Public	Climate	Digital	Trade	Macro &	Migration	Competition	Banking	Taxation
	Health				Finance			Regulation	
Common problem identification									
Shared expertise source									
Consensus on action principles									
Transparent reporting mechanisms									
Results evaluation and adaptation									
Trusted institutions									

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

International Negotiations at the OECD





- The OECD was mandated by the G20 in 2013 to conduct international negotiations around Base Erosion and Profit Shifting (BEPS) in an inclusive framework format (= with non-OECD countries)
- Around 150 tax lawyers (and a few economists) helping 154 countries designing a new tax system

2012-2015: BEPS 1.0 Negotiations

Coherence	Substance	Transparency / Certainty					
Action 2: Neutralising the effects of hybrid mis- match arrangements	Action 6: Prevention of Tax Treaty Abuse Minimum Standard – developing model treaty provisions to prevent abuse.	Action 11: Measuring and Monitoring BEPS – analysing data on the economic and fiscal effects of tax avoidance.					
Action 3: Controlled Foreign Companies – reducing incentives to shift income from markets into low-tax countries.	Action 7: Permanent establishment status – preventing artificial avoidance of PE status.	Action 12: Mandatory Disclosure Rules – requir- ing disclosure of aggres- sive tax planning arrange- ments.					
Action 4: Limitation on Interest Deductions — linking an entity's net interest deductions to its economic activity.	Actions 8–10: Transfer Pricing – guidance on aligning profits with value creation (intangibles, risks, and capital).	Action 13: Country-by- Country Reporting – en- suring MNEs report annu- ally for each tax jurisdic- tion.					
Action 5: Harmful tax practices – countering harmful preferential regimes and improving transparency.		Action 14: Mutual Agree- ment Procedure – mak- ing dispute resolution be- tween jurisdictions more timely and effective.					
Cross-Cutting Actions							

Action 1: Digital Economy – addressing the tax challenges of digitalisation.

Action 15: Multilateral Instrument – implementing BEPS-related treaty recommendations to fix vulnerabilities.

Source: OECD

2018-?: BEPS 2.0 Negotiations

- BEPS 1.0 was falling short on digitization
- Two-Pillars solutions based on two observations:
 - Issue with tax base definition ⇒ Pilar 1 aims at thinking of profit globally and allocate them according to the share of sales made in each country.
 - ② Issue with the tax rates \Rightarrow Pilar 2 seeks at setting a **Global Minimum** Tax at 15%.

Economic diplomacy: theory...and practice

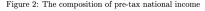


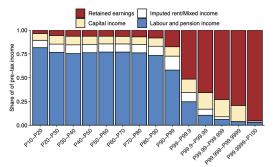
Source: Le Monde

6. Back-up slides

Income composition Back

- Capital income is concentrated on the right of the income distribution.
- The figure is for Netherlands but this is true among most countries in the world.





Source: Bruil et al., 2024

Effective tax rate in France, by percentile (Back)

