TAXPAYERS PROTECTION ALLIANCE

AMERICANS for TAX REFORM FOUNDATION

December 15, 2020

We, the undersigned 23 organizations, representing taxpayers and consumers across the globe, strongly urge you to oppose any and all attempts to curb international tax competition and impose a *de facto* global minimal corporate tax through the Organization for Economic Co-operation and Development's (OECD) "Two-Pillar Approach to Address the Tax Challenges Arising from the Digitalization of the Economy." If enacted, these proposals, which run counter to the OECD's own advocacy of more efficient tax systems with lower corporate tax rates, would undermine economic sovereignty of nation states, disproportionally hurt smaller economies, and hinder opportunities for companies to innovate and invest in research and development. It would also prevent developing countries from pursuing policies to boost their economies and lift people out of poverty. In addition, as the world struggles with an international recession due the impact of Covid-19, increasing the tax burden would significantly prevent nation states' abilities to enact pro-growth policies to stimulate and help rebuild their economics. Now more than ever countries need to reduce the tax burden to allow for rapid economic growth and increases in employment, whereas these proposals would do the exact opposite.

The OECD proposals mainly consist of two pillars, which, combined, are estimated to increase global tax revenue by $100 billion US annually. Pillar I covers the reallocation of taxing rights across jurisdictions, and while initially designed to cover digital companies, appears to have significantly expanded to apply to other industries. Pillar II is the specific creation of a global minimum tax on corporate profits. Combined, these two proposals would represent a significant rearrangement of the international corporate tax system, while representing a shift in funds from open economies to countries with large degrees of corruption, state intervention, and violations of human rights such as China, Russia, and Argentina, which, while not members of the OECD, are part of the broader Framework "Base Erosion and Profit Shifting" (BEPS).

The entire premise of this two pillar approach is based on a fundamentally flawed and deeply misguided understanding on international tax competition which posits that tax competition forces rates below optimal levels. The reality, however, is quite the opposite. Per the nonpartisan Tax Foundation: "Tax competition can help to keep taxes closer to their optimal level, constraining wasteful government excess. Taxes will not be driven to zero through competition, as moving capital and labor abroad does come at a cost." As such, international tax competition is vital for the continuance of a vibrant and dynamic international economy, and in ensuring efficient levels of taxation across member states. Different countries have different approaches to vitalize their economies. Tax competition for countries such as Ireland and Luxembourg is key to their economic strategy and success and applies much needed pressure to certain high tax countries like Germany and France. This healthy process of tax competition will be minimized if not eliminated following the OECD's approach.

Despite rhetoric on how tax harmonization as envisaged under these two pillars would create a "level playing field," this proposal would significantly hurt smaller countries, who do not have the intrinsic advantages and economies of scale that comes with larger population bases. Lower

corporate tax rates are the only way in which such nations are able to overcome their competitive disadvantage caused by their smaller size and attract vital investment and compete against countries with larger capital markets. For this reason, high tax jurisdictions are primarily large countries, whereas low taxing jurisdictions are almost exclusively small and open economies. Through the imposition of such a regime, investment would be directed away from smaller countries who will therefore be placed at a considerable relative disadvantage as, in the words of The European Centre for International Political Economy, "the shift in effective taxing powers would undermine small countries' attractiveness to international businesses and, in addition, induce domestic businesses to relocate to larger countries with the economic gravity of larger market."

In additional to unfairly targeting smaller economies, these proposals would also seriously jeopardize the opportunities for developing countries to pursue a pro-growth agenda and boost their economies, thereby depriving them of the opportunity to increase economic growth and therefore improve living conditions. As the OECD recognizes, "research that compares the experiences of a wide range of developing countries finds consistently strong evidence that rapid and sustained growth is the single most important way to reduce poverty. A typical estimate from these cross-country studies is that a 10 per cent increase in a country's average income will reduce the poverty rate by between 20 and 30 per cent." Given that, as noted once again by the Tax Foundation, "Cutting corporate tax rates leads to increased investment, productivity gains, and, in turn, increased economic growth, output, and higher standards of living," any policy that would hinder developing countries ability to enact such policies would effectively entrench the dominance of highly developed economies, and would have significantly greater effects than any additional revenue benefits the OECD posits developing nations may achieve through attempts to limit "profit shifting" under Pillar II. It is noted that the BEPS framework includes 135 countries, and is not limited to OECD members, and as such many will be impacted by this through pressure brought upon them by the OECD. In addition, poorer OECD member states, such as Poland which has a GDP per capita three times lower than richer nation states such as Germany, would similarly be negatively affected. Doing so is a highly immoral approach, and one that would lead to significant levels of poverty that would otherwise be ameliorated. By preventing developing countries from pursuing polices to lift them out of poverty, and put them closer to parity with wealthier nations, these proposals would continue to perpetuate global inequality and further entrench the "north-south" divide.

Furthermore, it is noted that ultimately corporations don't pay tax, individuals do. Taxes will ultimately be passed down to the consumer level, harming individuals in addition to depressing economic growth further through higher costs leading to lower demand. Similarly, increases in tax rates will also hurt individuals who rely on dividends for retirement savings, with particularly devastating consequences given current global economic uncertainty.

In conclusion, the foundational principles of both Pillar I and Pillar II are based on a fundamental misunderstanding of the operations of international tax competition, and the benefits it brings in ensuring optimal levels of taxation. Not only do these proposals undermine fundamental principles of democratic sovereignty and accountability in member states, through the effective transfer of taxation power from elected legislatures to unelected bureaucracies, they would have little impact on their stated goals of improving the global allocation of capitol. More disturbingly, these proposals would also have severe negative unintended consequences harming smaller economies and preventing developing countries from boosting their economies and reducing poverty. In addition, they would seriously set back efforts to recover from the Covid-19 pandemic through

stifling economic growth, an inevitable consequence of any increase in corporate taxes. As such, we strongly urge you to oppose these proposals in their entirety.

Sincerely,

David Williams
President
Taxpayers Protection Alliance

Grover Norquist
President
Americans for Tax Reform Foundation

Steve Pociask
President / CEO
The American Consumer Institute

James Taylor
President
The Heartland Institute

Graham Young
Executive Director
Australian Institute for Progress

Marko Horg
Global Coordinator
IGO Watch

Robert Alt
President & CEO
The Buckeye Institute

Andrew Langer
President
Institute for Liberty

Scott Hennig
President & CEO
Canadian Taxpayers Federation

Seton Motley
President
Less Government

John Hinderaker
President
Center of the American Experiment

Dr. Jameson Taylor
Senior Vice President
Mississippi Center for Public Policy

Andrew F. Quinlan, President
Dan Mitchell, Co-founder
Center for Freedom and Prosperity

Paata Sheshelidze
President
New Economic School - Georgia

Jeffrey Mazzella
President
Center for Individual Freedom

Paul Gessing
President
Rio Grande Foundation

Iain Murray
Vice President for Strategy
Competitive Enterprise Institute

Svensk Tidskrift
Chairman
Svensk Tidskrift

Thomas Schatz
President
Council for Citizens Against Government Waste

John O'Connell,
Chair & President
World Taxpayers Associations

Jason Pye
Vice President of Legislative Affairs
FreedomWorks

James L. Martin, Founder/Chairman
Saulius "Saul" Anuzis, President
60 Plus Association

Federico N. Fernández
President
Fundación Internacional Bases