Global Economy

OECD tax chief warns of trade wars if global deal is not implemented

Pascal Saint-Amans says last year's accord on taxing multinationals unlikely to enter rule books soon

The agreement followed years of painstaking negotiations led by Pascal Saint-Amans, who leaves the OECD on Monday © Horacio Villalobos/Corbis/Getty Images

Mary McDougall in London 9 HOURS AGO

The OECD's departing tax chief, who masterminded the most radical reforms to corporate taxation for almost a century, has warned that the US and Europe risk reviving trade wars and face hundreds of billions of dollars in lost revenue if they fail to implement last year's global deal.

Some 136 countries have backed a two-pronged deal that aims to address public outrage over multinationals not paying their fair share of tax. But progress on both pillars of the reforms has stalled, despite OECD calculations that show governments could collect more than $150bn in additional taxes annually from the world's largest corporates.

Pascal Saint-Amans, who was head of the tax department at the Paris-based organisation for the past decade, said in an interview with the Financial Times: "I see some serious risks of unilateral measures, and therefore trade sanctions, at a time when countries which are allies, in a difficult political context, may not want to trigger trade wars for a tax issue."

One of the measures, which seeks to force the world's 100 biggest multinationals to declare profits and pay more tax in the countries where they do business, is unlikely to achieve sufficient support in the US Senate to be implemented before an OECD-imposed deadline of mid-2023.

However Saint-Amans said that the US would eventually sign up, or it risked returning its Big Tech giants to a scenario in which they would face a web of separate digital services taxes from multiple countries.

"The alternative is so bad," he said, adding that he expected such taxes to extend beyond Big Tech to multinationals in other sectors such as the pharmaceuticals industry.

The US has in the past threatened to impose sanctions on European countries that introduced digital services taxes.

The other part of last year's deal, which imposes a 15 per cent floor on effective corporate tax rates affecting all multinationals with revenues over €750mn, has also stalled.

The US attempted to introduce it earlier this year but disregarded important elements of the rules, while Brussels has faced opposition from member states Poland and Hungary.

The EU has been attempting to bring the minimum tax reform into EU law, but this requires unanimous approval of member states and Budapest continues to object. Saint-Amans said the measure had been "held as hostage".

"It seems that Hungary seeks to unleash some EU funds which are blocked by the EU Commission because of rule of law issues," he said.

Many tax professionals are sceptical that the deal will make it into other national legal codes without the support of important jurisdictions such as the US and major European economies.

Saint-Amans said implementation was "not losing impetus" and that elements would start to be legislated for in Europe within "a couple of months". Hungary's refusal would not stop the bloc's biggest member states from going ahead with the plan by introducing their own national legislation.

"If there is no agreement, countries will move. They will move unilaterally, because they can. That's our legal and political assessment," Saint-Amans said. Germany has in recent months signalled it is willing to go it alone, if necessary.

He argued that investors would support a broader tax base, saying markets had sent a clear signal that former UK prime minister Liz Truss's attempt to turn Britain into a low-tax "Singapore-on-Thames" was "not the right thing to do".

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The deal followed years of painstaking negotiations led by Saint-Amans, who leaves the OECD on Monday.

He had originally planned to leave when the deal was reached last autumn, but stayed to help the new secretary-general, Mathias Cormann, appointed in June last year, launch the work of implementation.

Saint-Amans came under fire from the Financial Transparency Coalition, a network of campaign groups, after it emerged that he would join advisers Brunswick. Saint-Amans denied there was a "revolving door" between the OECD and the private sector, saying he was neither joining a tax firm nor working on behalf of clients with his soon-to-be former employer.

"What's the counterfactual — that I die on my job and I can't do anything else?" he said.

The deal is the most radical tax reform since the League of Nations developed its first model treaty to prevent double taxation in 1928. The OECD previously estimated it would bring in an extra $150bn a year in taxes from multinationals, but it will shortly publish updated estimates which Saint-Amans said would show "much bigger numbers".

Critics such as the Tax Justice Network pressure group have claimed the minimum tax rules discriminate against lower income countries, which have few major multinational companies headquartered there.

Saint-Amans argued the opposite, saying the minimum tax would generate "very significant revenue" for developing countries because it would force them to put an end to "wasteful" low-tax incentives to entice companies to set up there.

A central concern among companies and tax administrations is that the rules are fiendishly complicated. Auditor EY estimated that a company would need to source about 200 data points from subsidiaries around the world to work out if more revenue was owed under the global tax floor rules — a "huge amount of work", according to the group's tax policy leader Chris Sanger.

OECD officials are working on administrative guidance to simplify the implementation process, but have not produced estimates of how much it would cost companies to prepare.