The Broader Implications of the Global Minimum Tax

Regional Economic Models, Inc.

Zachary Schofield, Associate 1

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Agenda

About Us

We are the nation's leader in dynamic local, state and national policy modeling.

From the start, REMI has sought to improve public policy through economic modeling software that informs policies impacting our day-to-day lives.

We were founded in 1980 on a transformative idea: government decision-makers should test the economic effects of their policies before they're implemented.

At REMI, we're inspired by a single goal: *improving public policies*.

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REMI

At REMI, we're inspired by a single goal: *improving public policies*.

Our models are built for any state, county, or combination of counties in the United States.

Our Representative Clients

Our model users and consulting clients use REMI software solutions to perform rigorous economic analysis that critically influences policy.

UCONN
UNIVERSITY OF CONNECTICUT

Sandia National Laboratories

AARP

McKinsey & Company

NORTH CAROLINA Department of Commerce

European Commission

UNIVERSITY OF MICHIGAN

EY

ITEP
INSTITUTE ON TAXATION AND ECONOMIC POLICY

nea
NATIONAL EDUCATION ASSOCIATION

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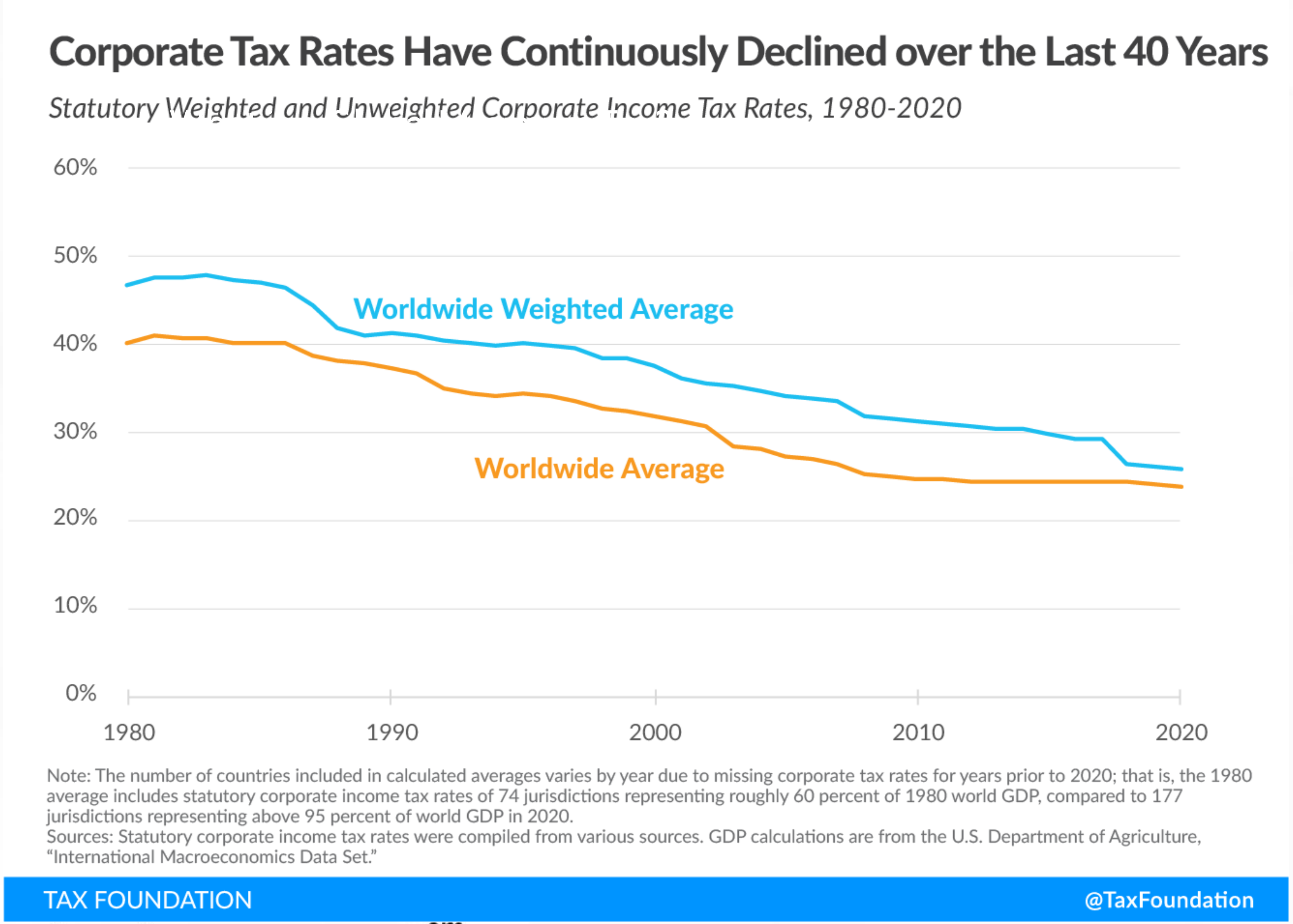
- REMI Introduction
- **Global Minimum Tax Background**
- Model Demonstration
- Net Positive Investment Results
- Net Negative Investment Results
- Conclusion
- Q&A

Pillar Two: A Global Minimum Tax

What is a Global Minimum Tax?	What is motivating This Idea?	Which Nations Have Agreed?
• Signatories agree to 15% minimum tax rate • Details on whether investments or hiring can be deducted are still being worked out • Part Two of the OECD's push to limiting tax base erosion and profit shifting (BEPS)	• Race to the bottom in corporate tax rates worldwide • Profit Shifting	• 132 of 139 nations agreed as of July 9th • Holdouts include Barbados, Estonia, Hungary, Ireland, Kenya, Nigeria, and Sri Lanka

Global Corporate Tax Rates Today



What is motivating the GMT?

- Race to the bottom in corporate tax rates worldwide
- Profit Shifting

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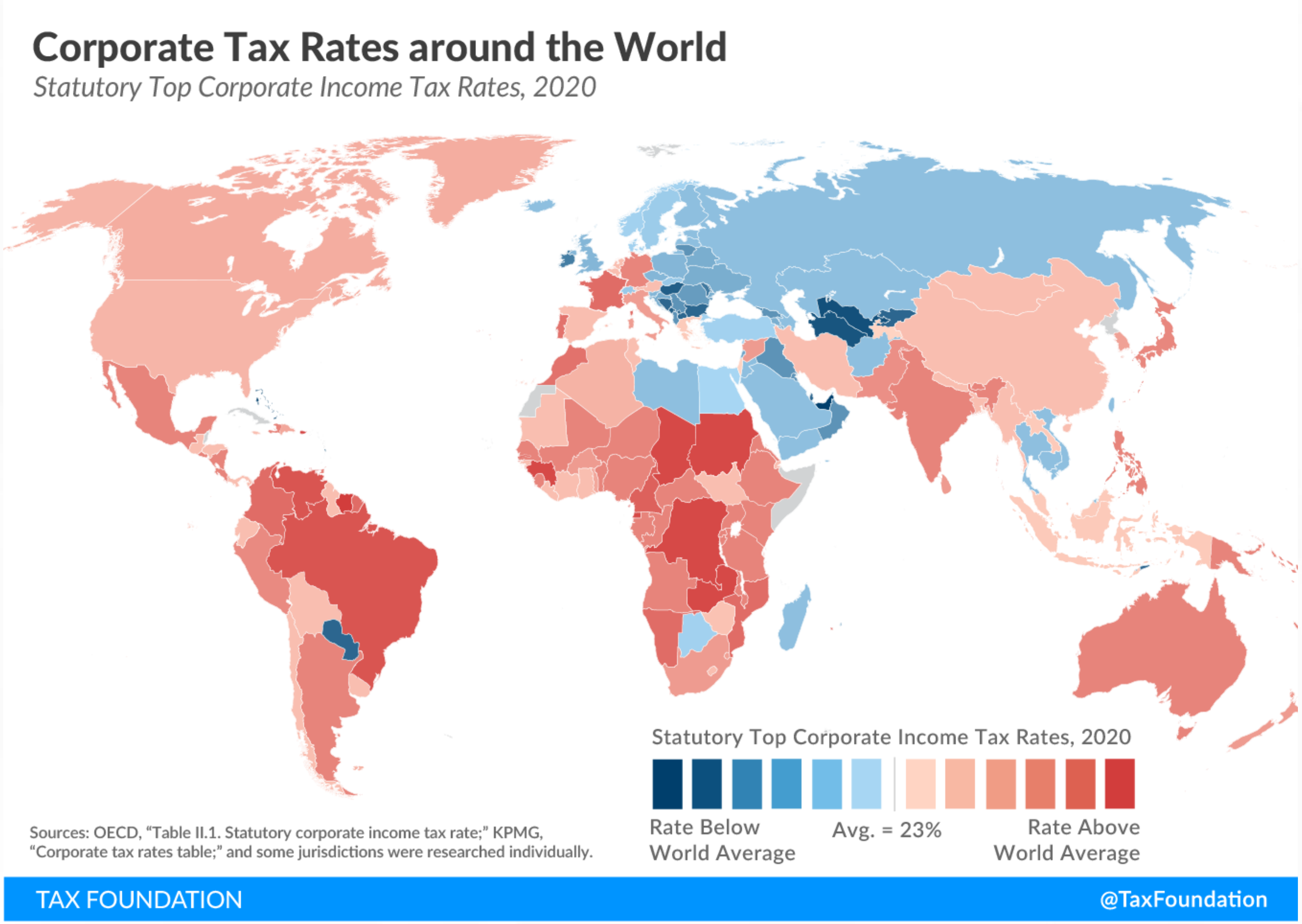

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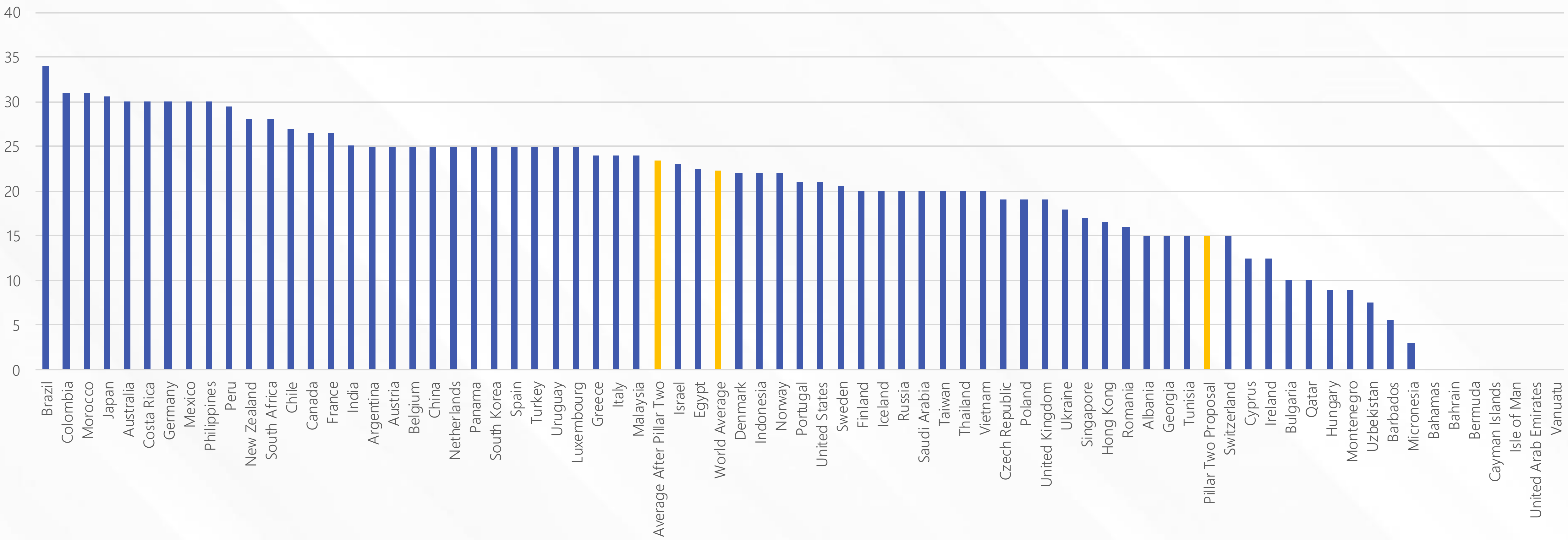
Current Global Corporate Tax Rates



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Modeling Framework

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Lost Profits

- Higher Taxes will cut into international corporations' profits
- This could result into lower investment or employment
- Spread over corporations' global footprint

Altered Tax Outlook

- Nations that were attractive with low taxes, may be less desirable
- Other factors like quality of infrastructure, or legal system could hold greater weight
- Some nations could see increase investment and employment

Model Simulation: Variables and Levers

	Scenario 1	Scenario 2
Intellectual Property Investment Spending	• Increased by $5 Billion • Spread between regions by output	• Reduced by $5 Billion • Spread by output
Tangible Asset Investment Spending	• Increased by $2 Billion • Spread between regions by output	• Reduced by $2 Billion • Spread by output
Consumer Prices	• Increased by 0.025%	

Input Methodology

1. OECD estimates that Profit Shifting results in a loss of $500-600 Billion in annual corporate tax income

2. OECD estimates that $70 Billion could be gained through Pillar Two Global Minimum Tax

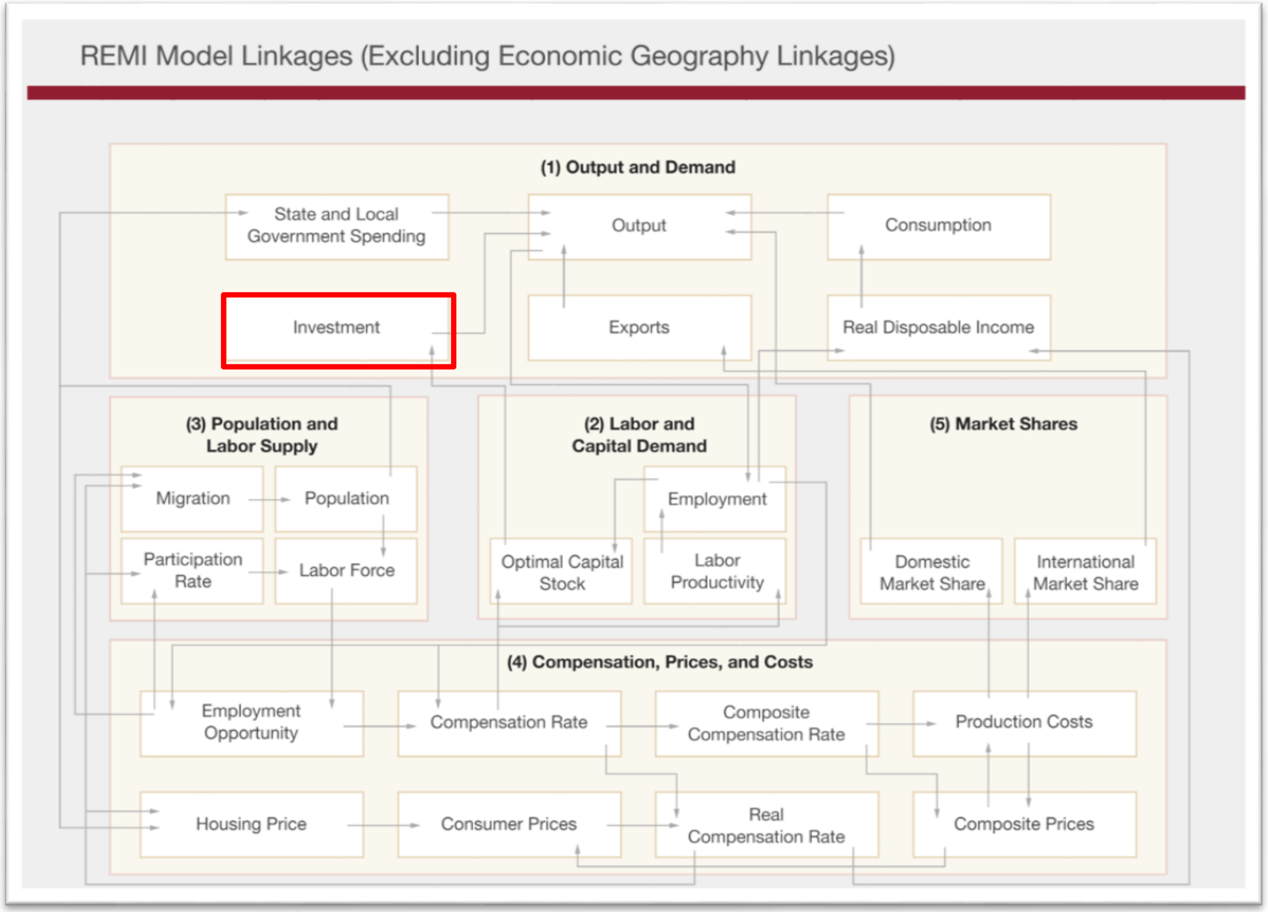
3. This is $70 Billion in lost profit for global corporations who will then react in a two possible ways
    1. Reduce investment or employment
    2. Shift investment to other nations

4. These two competing factors will result in either a net gain or net loss in investment in the United States

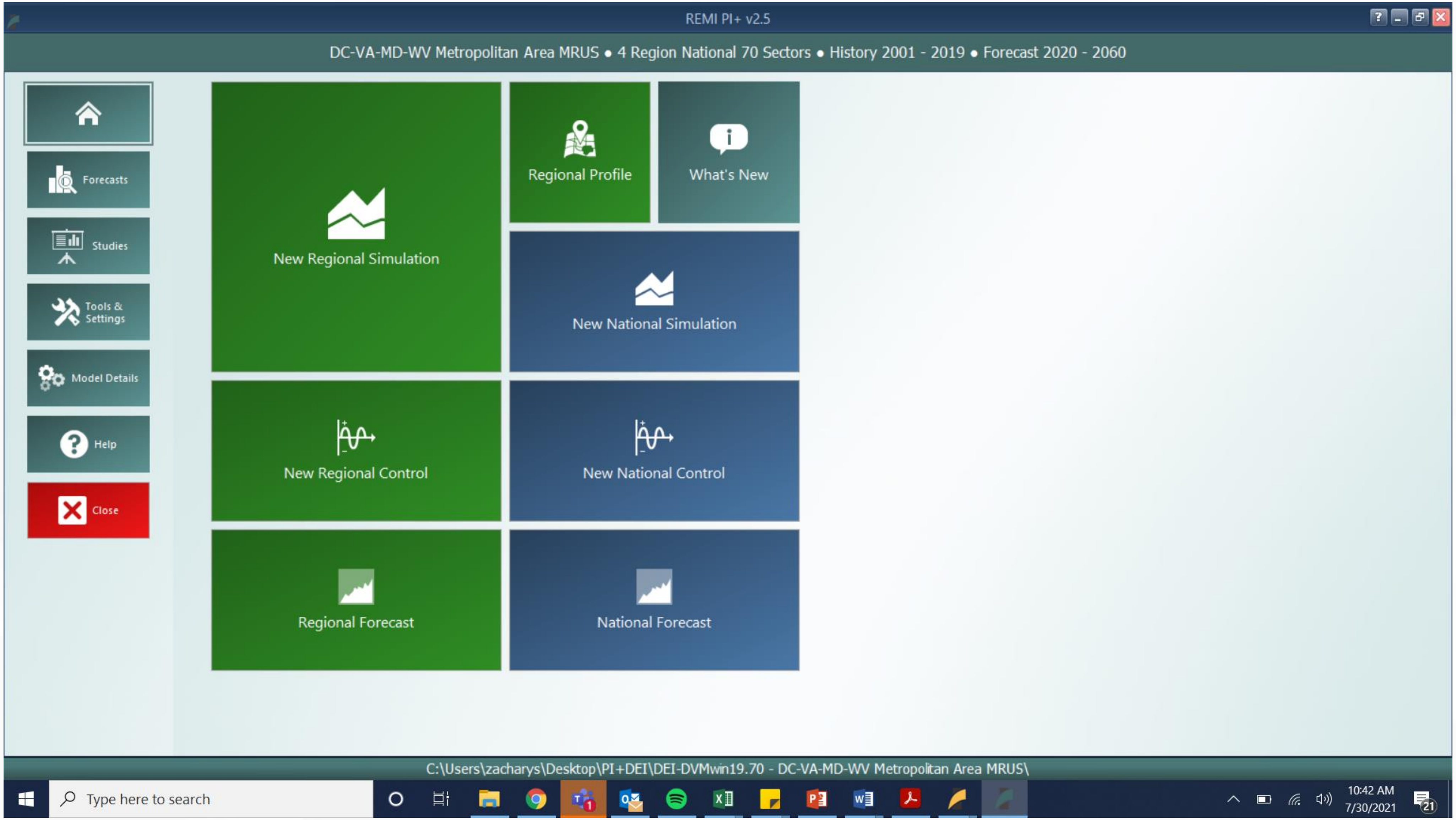
Model Simulation: REMI PI⁺

PI⁺ is the premier software solution for conducting dynamic macroeconomic impact analysis of public policy.

As our flagship model, PI⁺ specializes in generating realistic year-by-year estimates of the total local, state, and national effects of any specific policy initiative.



Model Demonstration



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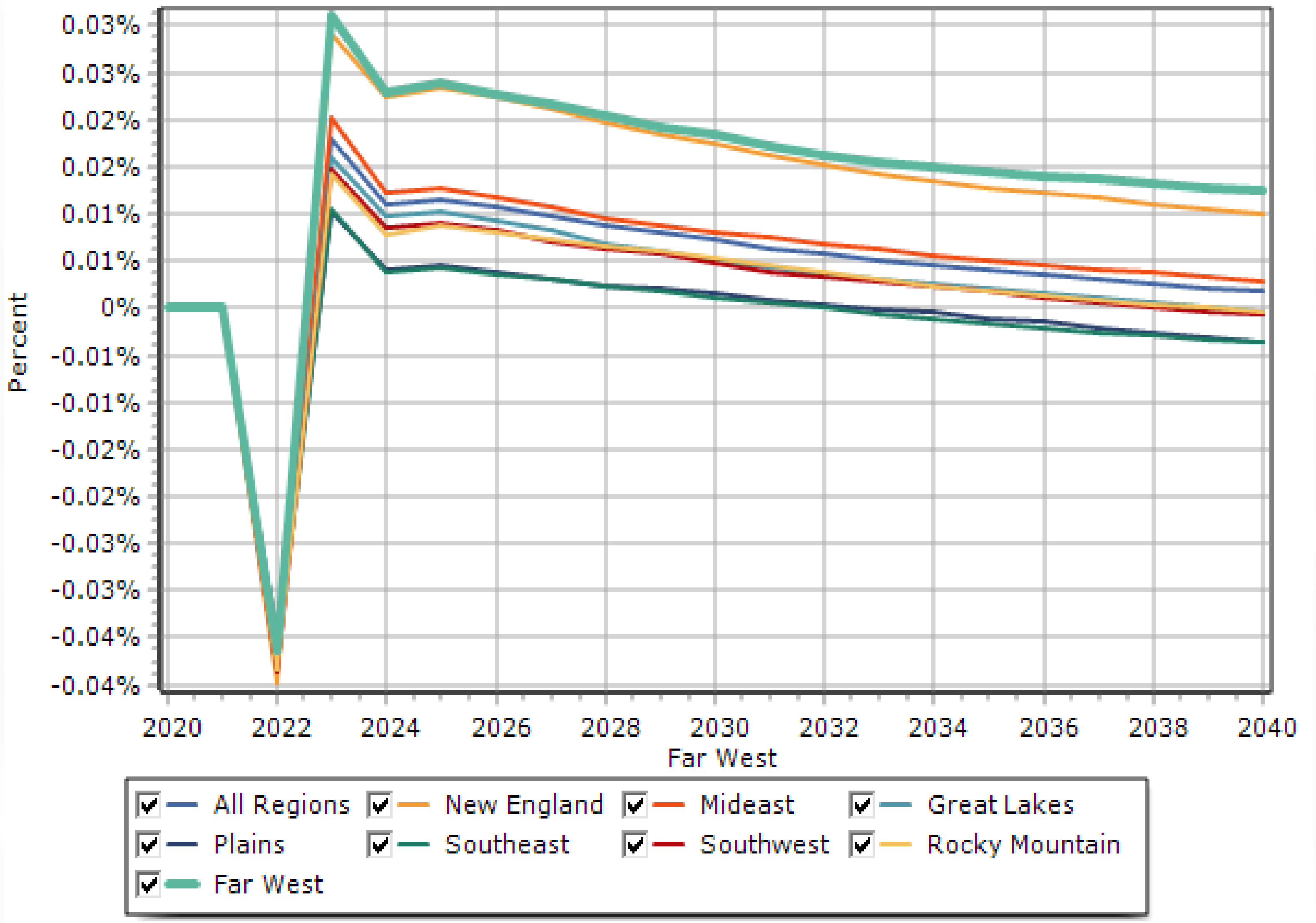
Employment by Region



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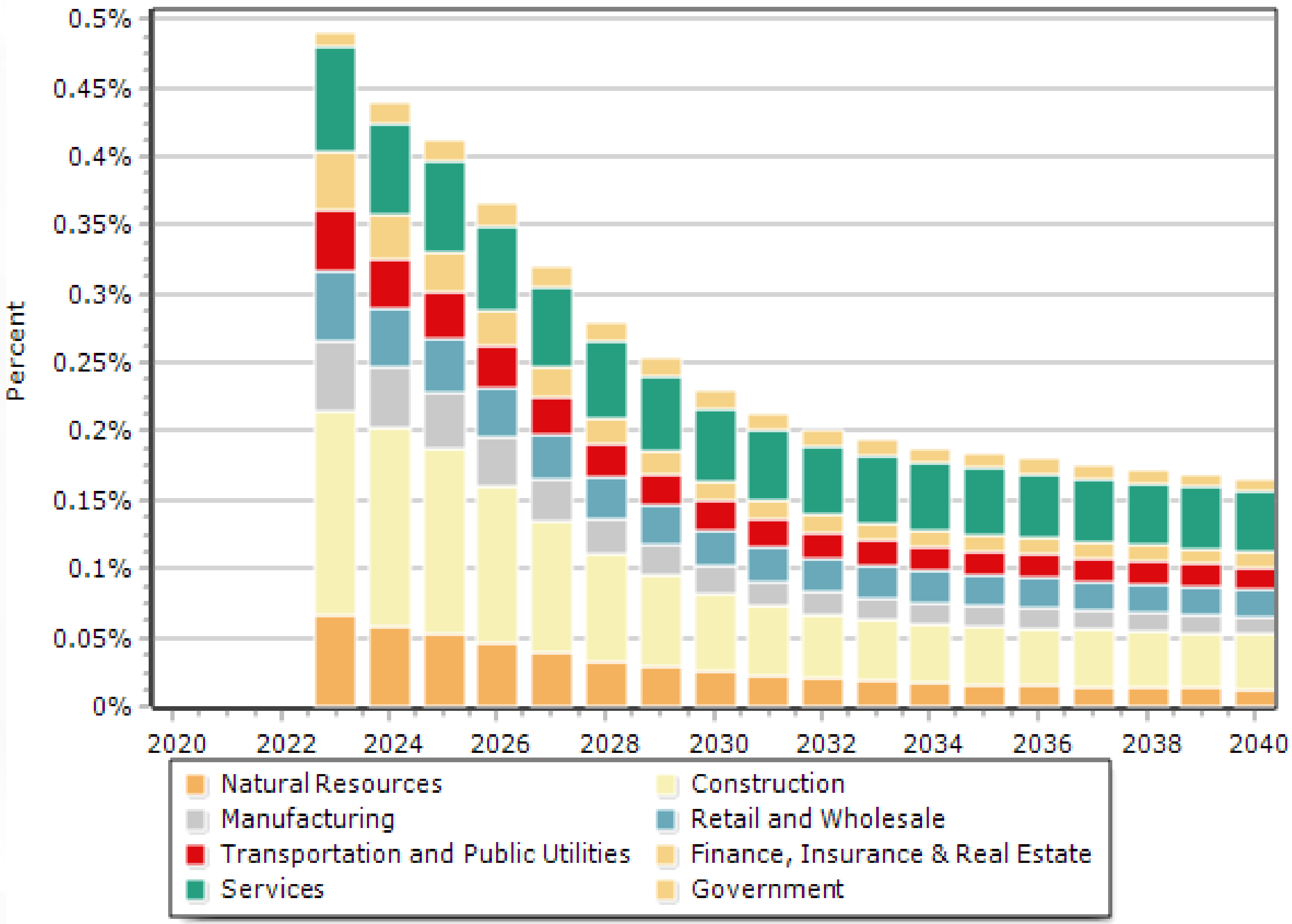
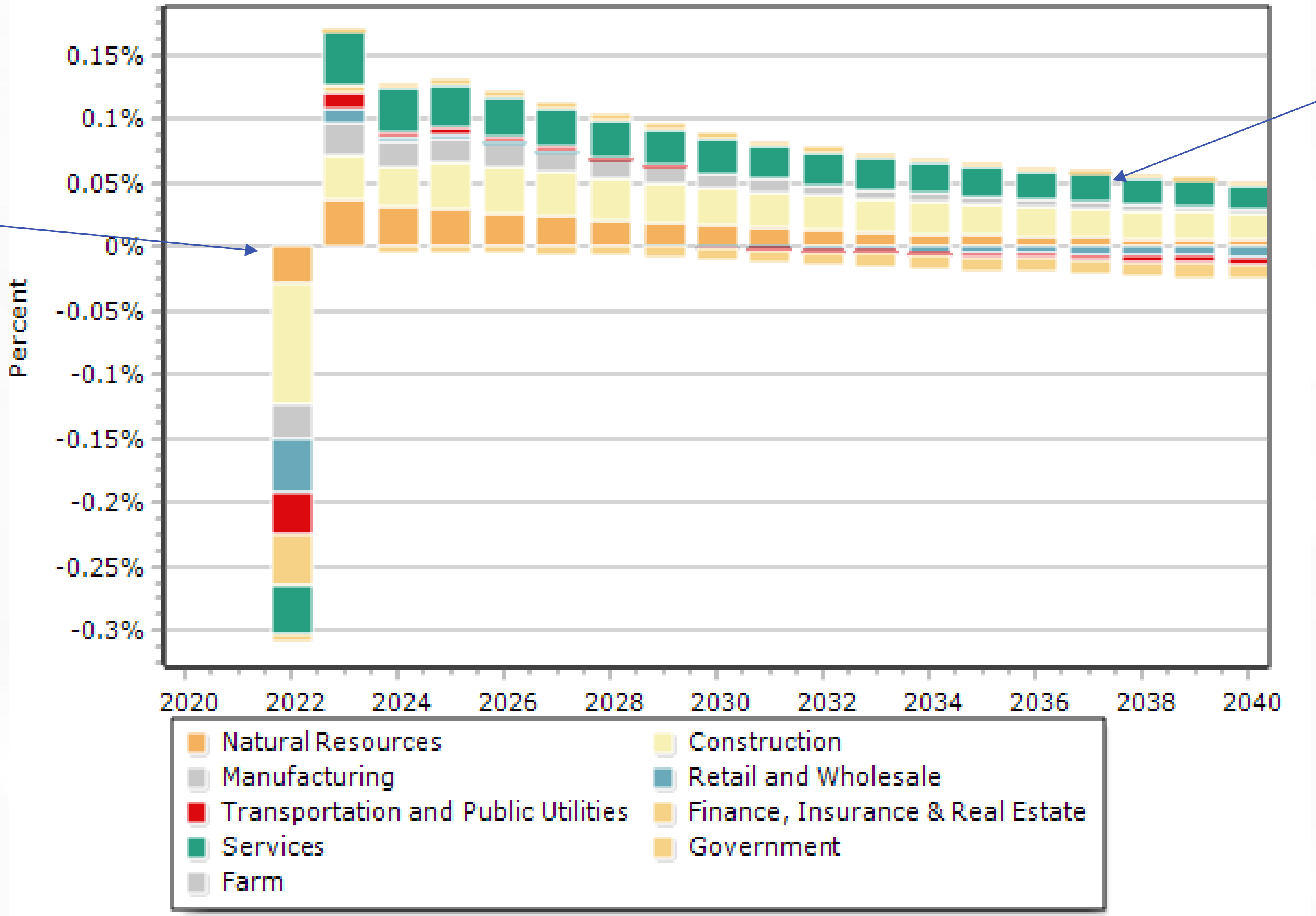
Output by Sector – No Inflation



Output by Sector - Inflation

Initial Drop caused by price increases, recovery follows as investment takes hold



Large portion of gains lost with increased prices

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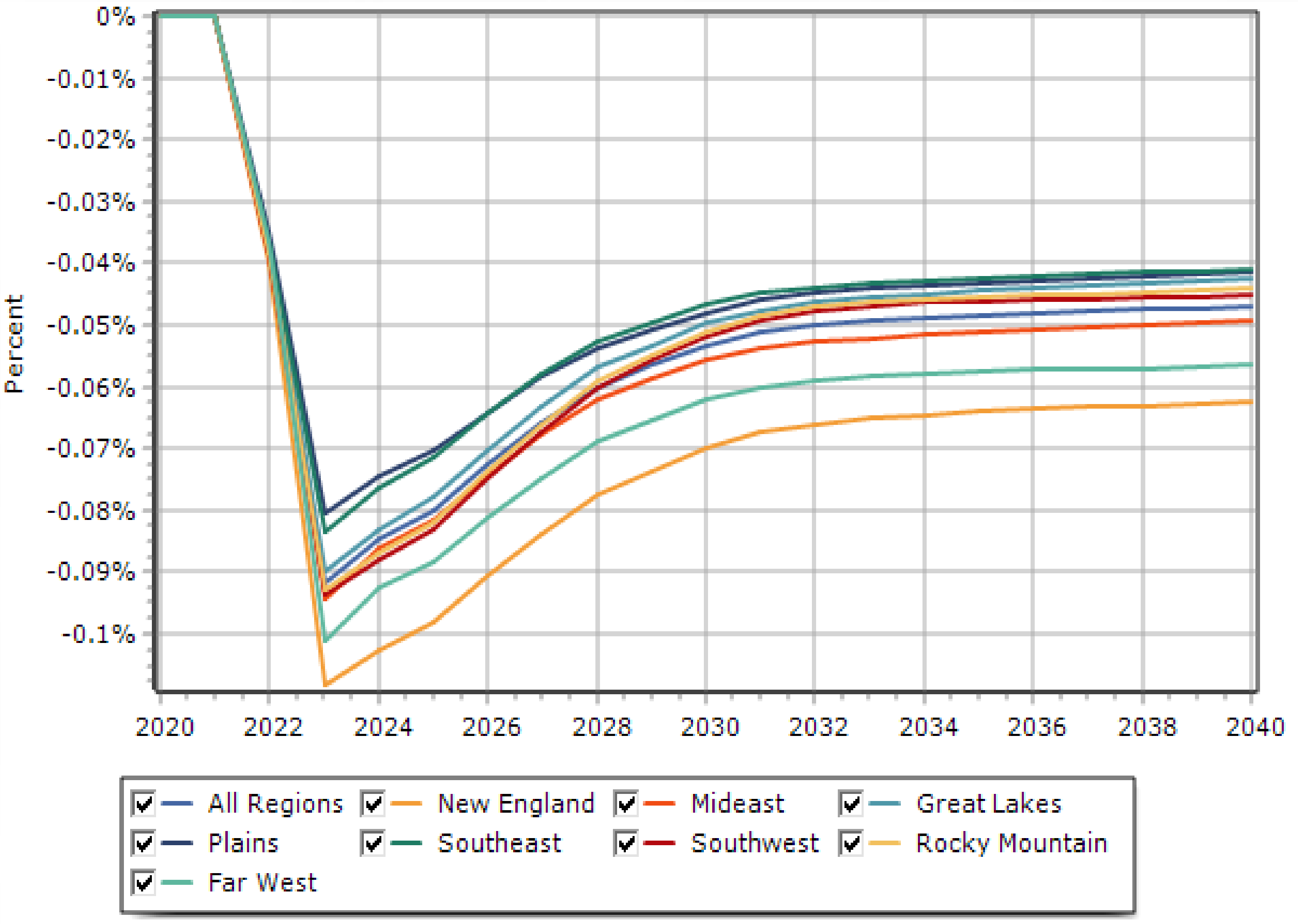

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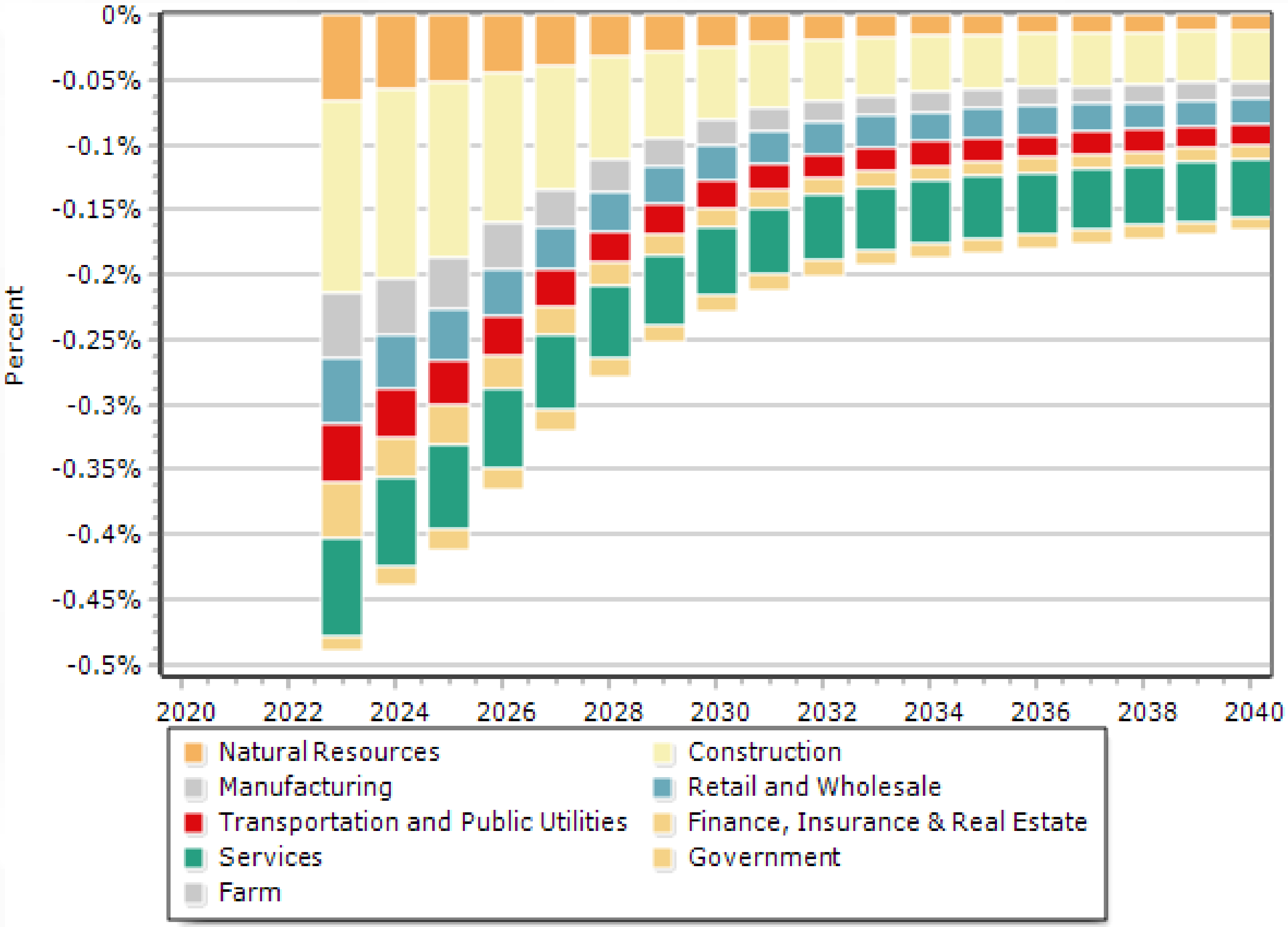

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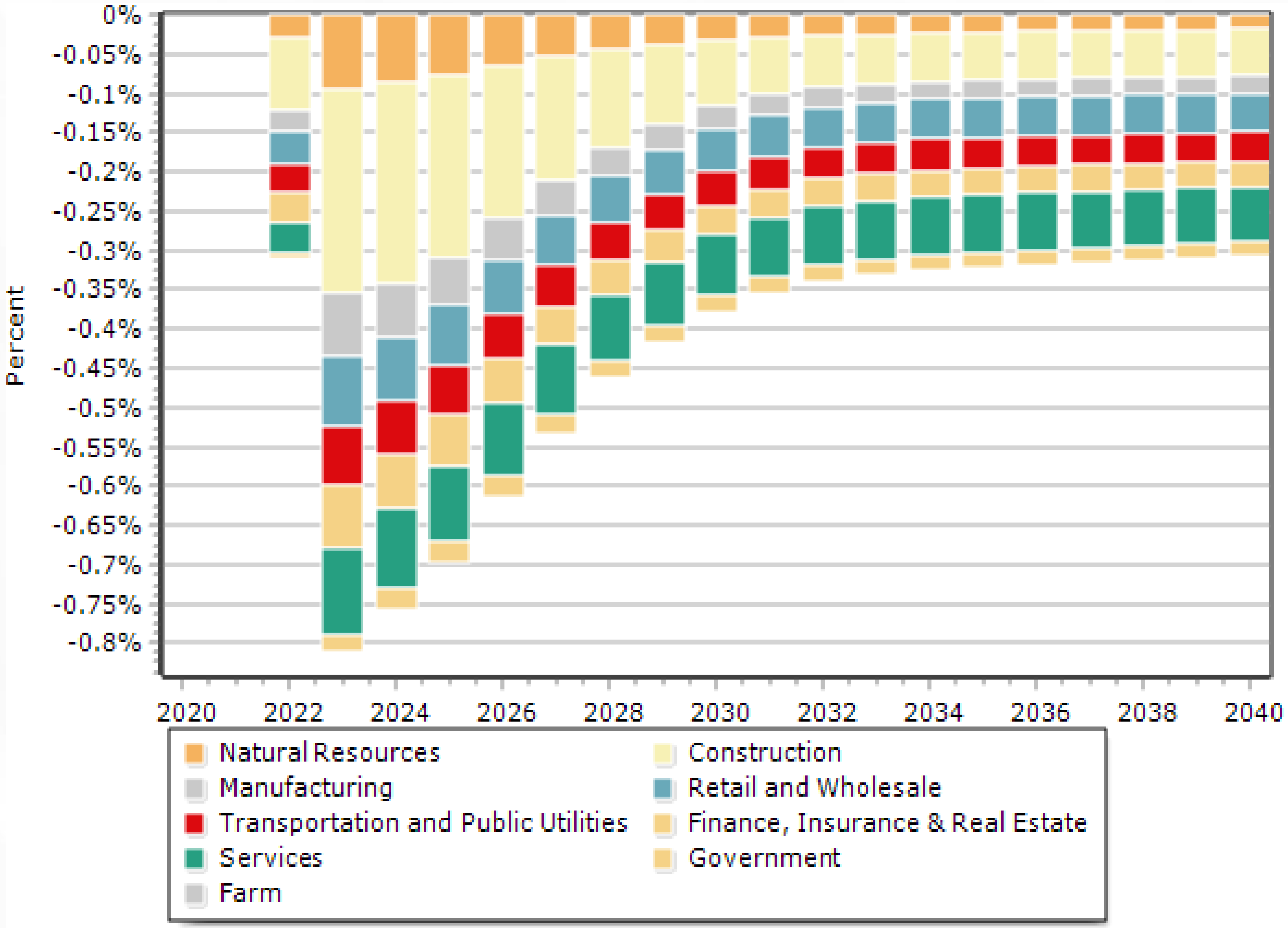
Output by Sector – Inflation



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Conclusions and Notable Results

Employment and Output

- Not likely to cause boom or recession
- Future updates to GMT could change this outlook

Impact Concentrated in Intangible Assets

- Software Development, Research and Development, Computer System Designs
- Secondary Effects muted given low linkages to construction and natural resources

Outlook depends on firm level response

- Whether net change is positive or negative will determine US economy impact
- Magnitude of response will also determine impact

Agreement Details are Important

- Exempting investments in employment and capital will change outlook
- Number of countries that agree will impact power of global tax

Economic Modeling: Why does it matter?

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Clarify

- Understand economic, fiscal and demographic implications of policies before implementation
- Ensure that public policy serves the broad-based interests of the public

Predict

- Make predictions about the effects of policies before implementation
- Avoid unwanted negative impacts
- Make effective use of resources

Inform

- Inform policy with standard metrics rather than ideology or intention
- Address stakeholders with evidence that communicates how policy benefits or disadvantages their communities broadly

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Thank you for attending!

For more information, please contact
info@remi.com

References

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4. Hansen, Sarah. (2021, July 1) *130 Countries Agree to Biden-Backed 15% Global Minimum Tax*, Forbes. https://www.forbes.com/sites/sarahhansen/2021/07/01/130-countries-agree-to-biden-backed-15-global-minimum-tax/?sh=2d0aa6a45958