

Causes and Impacts of Global Minimum Tax

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Abstract. To address remaining Base Erosion and Profit Shifting problems and challenges arising from the digitalisation of the economy, the OECD conceives an inclusive framework on the Two-Pillar approach, in which Pillar Two envisages a global minimum tax, also known as Global Anti-Base Erosion Rule, setting a floor for enterprises' tax-avoidance structures and jurisdictions' tax race to the bottom. This essay adopts study methods of literature review, case study, and data analysis, trying to make a comprehensive study on the causes, concrete rules, and potential impacts of the global minimum tax thus providing ideas for its implementation.

Keywords: BEPS, Digitalisation of Economy, Pillar Two, Global Minimum Tax.

1. Introduction

Under the digital economy, intangible assets show the characteristics of non-entity, the incommensurability of value, and uncertainty of income, which favors the trend that multinational enterprises avoid tax by using transfer pricing of intangible assets, and thus precipitates Base Erosion and Profits Shifting (hereinafter referred to as BEPS). Microsoft, with the tool of transfer pricing of intangible assets, had succeeded in moving almost half the sum of the US turnover from retail trade net income of \$21b to low-tax jurisdictions from 2009 to 2011 and saving taxes of up to \$4.5 billion, serves as a typical case:

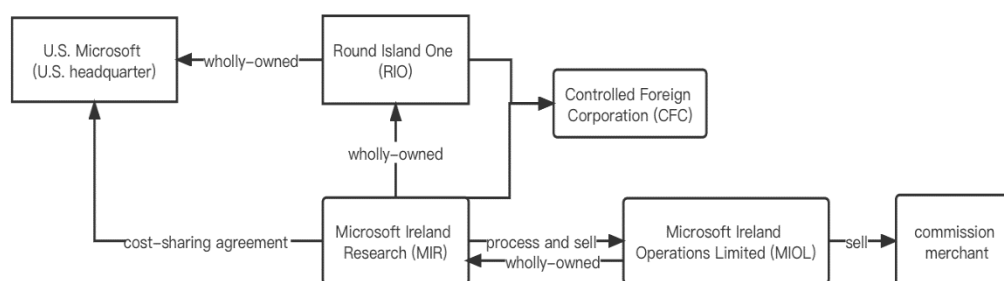


Figure 1. The mechanism of tax avoidance in the Microsoft case

U.S. Microsoft sets up a subsidiary, Round Island One (hereinafter referred to as RIO) in Ireland under Irish law, but its actual management institution is in Bermuda. Microsoft Ireland Research (hereinafter referred to as MIR), the wholly-owned subsidiary of RIO, locates its registered place and management institution both in Ireland.

On one side, Ireland adopts a single standard to determine the identity of taxpayers, that is, only corporations with actual management institutions in Ireland are taxpayers of Irish corporate income tax (herein after referred to as CIT). Therefore, RIO, though established under Irish law, cannot be identified as a taxpayer of Irish CIT, yet a non-resident enterprise instead. On the other side, pursuant to American law, RIO shall be recognized as an Irish taxpayer since it is registered by Irish law.

This leads to a situation worthy of note that RIO is identified as a non-resident enterprise under Irish tax law, while as an Irish taxpayer under American tax law. According to Irish tax law, if a non-resident enterprise (RIO) controls a resident enterprise (MIR) engaged in active business in Ireland and the non-resident enterprise (RIO) is controlled by a tax resident (U.S. parent company) of a country which has signed a bilateral tax treaty with Ireland, the non-resident enterprise (RIO) can enjoy the treaty treatment signed between Ireland and that country (US). Upon this, the bilateral tax

treaty can apply to transactions between RIO and MIR, and so it does between RIO and the U.S. parent company due to the fact that the U.S. tax law recognizes the RIO as an Irish tax resident.

Next, MIR can apply as a disregarded entity to the U.S. tax authority according to check-the-box regulations issued in 1997 so that MIR and RIO, as controlled foreign corporations (hereinafter referred to as CFC) can pay income tax alongside with U.S. parent company on a consolidated basis. Although under Irish tax law, RIO is regarded as a non-resident enterprise, and MIR is regarded as an Irish tax resident, transactions between RIO and MIR are disregarded as internal transactions of a taxpayer in the U.S. tax law.

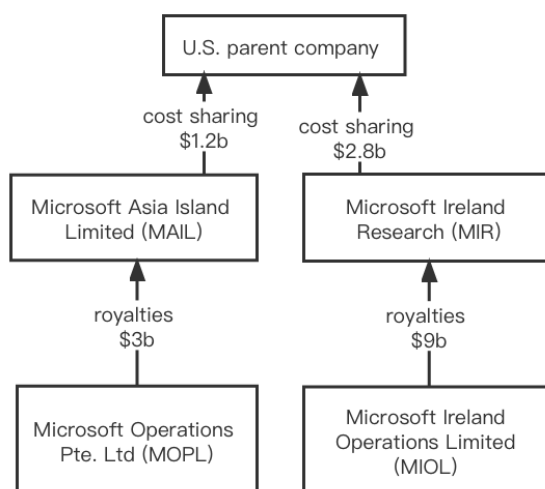


Figure 2. The mechanism of transfer pricing

Moreover, a worldwide cost-sharing agreement has been signed between Microsoft and its regional operation centers to circumvent Clause 367. Each engaged entity takes a portion of the R & D cost of Microsoft’s intellectual property in light of how much it accounts for in global revenue and obtains region-specific right to sell the products accordingly. Among those subsidiaries, MIR accounts for around 30%. Given under the cost-sharing agreement each entity enjoys the ownership of the developed intangible assets, Microsoft is able to transfer the intangible assets overseas, and meanwhile transfer the consequent income and profits abroad. After acquiring the intellectual property right, instead of participating in the production and sales, MIR authorizes the sales right to a lower-level affiliated controlled foreign company, known as Microsoft Ireland Operations Limited (hereinafter referred to as MIOL), which produces and sells Microsoft products to corresponding distributors, and then the distributors finally sell them to customers. Since royalties paid by affiliated controlled foreign companies to subsidiaries are not considered income under division F of the U.S. tax law, this portion of the profits can be exempt from U.S. tax.

Given the fact indicated from the case above that most of the clauses and rules targeting BEPS and preventing CFCs to transfer intangible assets are ultimately devoid of effectiveness and efficiency, a shift from process-oriented regulations to result-oriented regulations seems to be inexorable, in other words, introducing laws which address a bottom line of the effective tax rate is necessitated.

2. Background of global minimum tax

Against the background that the increasingly growing digitalisation of the economy has brought up challenges to the existing tax framework and opportunities for BEPS, the Organization for Economic Cooperation and Development (hereinafter referred to as OECD) proposed an Inclusive Framework on BEPS in 2019 [1]. Global minimum tax, also known as Pillar Two, is envisaged to solve the problems which BEPS Actions failed to deal with in an effective way.

2.1. Tax challenges resulted from digital economy

With the rapid growth of the Internet since its emergence in 1990s, digitalisation transformation is carried out in all aspects of life, imposing a powerful influence on how people interact, study, work, shop, offer and receive services, and on the model, place, time of transactions. The digital economy has become the driver of economic growth and societal development that during the three years, the added value of digital economy has expanded its share in global GDP from 40.3% in 2018 to 43.7% in 2020 and is estimated to reach 62% in 2023 (shown in Figure 3).

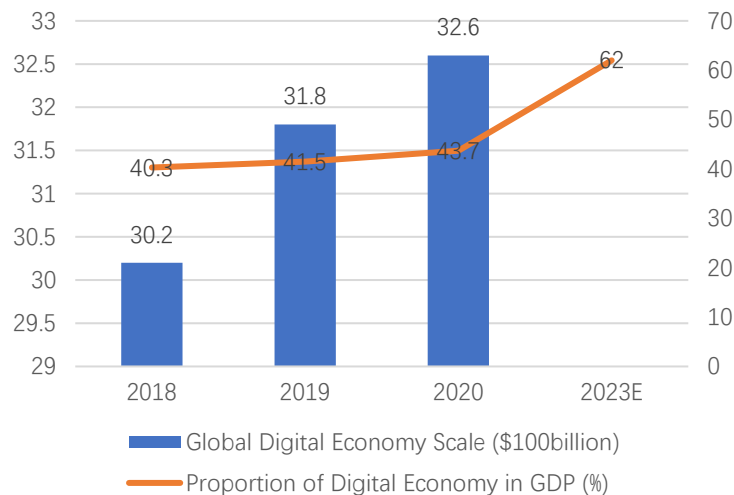


Figure 3. 2018-2023 Digital Economy’s Scale and Proportion in GDP of Major Countries in the World [2]

More significantly, under the shadow of the pandemic when the global economy, in particular the real economy, is stuck in such dire mire that the growth rate of global GDP in 2020 averages -3.6%, the digital economy maintains momentum to grow at an average rate at 3.0% and prop up the economic recovery (shown in Figure 4).

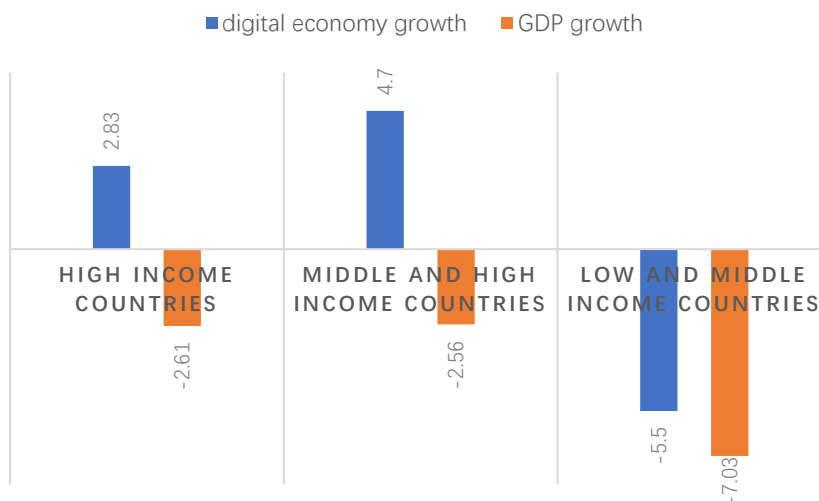


Figure 4. Comparison of the digital economy and GDP growth of countries with different income and development levels in the world in 2020 (%) [2]

What link the digital economy to tax and BEPS are several prominent features, which may or may not coexist in a particular business. They include:

- Mobility and intangibility, users and customers, business functions.

- Dependence on data, in particular, “big data” and user participation (shown in Figure 5 and Figure 6).

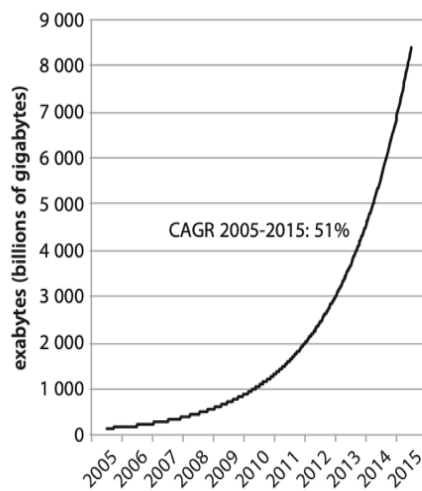


Figure 5. Estimated worldwide data storage [3]

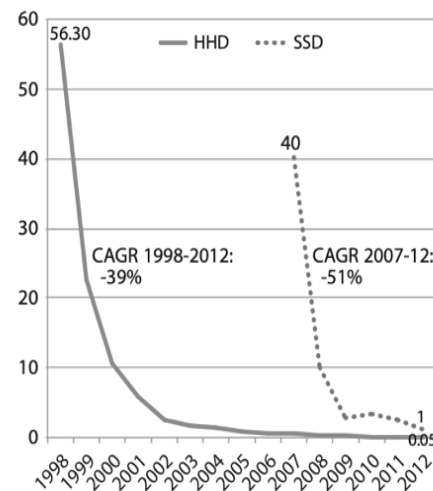


Figure 6. Average data storage cost for consumers 1998-2012 [3]

Network effects indicating that former users exert a direct influence on reception of later users.

Use of multilateral business models in which various sides in the market from different jurisdictions conduct businesses on an intermediary platform.

In some business models, the trend of monopoly or oligopoly depends heavily on the network effect.

Volatility because of easy access to entry and constantly developing technology [4].

Arising from the digital economy is a series of tax challenges, particularly among multinational enterprises with intangible assets such as Microsoft because digitalisation has digitalized goods and services, dematerialized assets, and disintermediated and virtualized trading activities which creates opportunities for BEPS to take advantage of.

2.1.1 Incompatibility with the principle of physical existence

For the taxation of non-resident taxpayers' domestic business profits, the income tax laws of most the countries usually stipulate that only if the business activities of non-

resident taxpayers possess a certain physical taxation connection point (such as the establishment of institutions, sites, or business agents for business activities within the country of origin) can the country of origin exercise the jurisdiction of taxation on such transnational income [5].

However, non-resident enterprises are able to set up virtual sales space in the commercial sales website composed of data and software on the server connected to the Internet through the digital media and virtual entities that undertake the core business functions so as to realize the purpose of selling their digital products or services in the market of any country and obtain cross-border business profits. Therefore, there is no need to set up substantive business institutions, places, or entrusted business agents and other transaction intermediaries in the country where consumers are located. This trading model lacks constitutive elements of substantive tax connection points so that the country where the buyer of digital products or services is located has no right to claim the exercise of source tax jurisdiction.

2.1.2 Ignored value generated from data

The digital economy favors the shift of value creation from value chain to value network and then to value store and promotes the reform of the consumer-centered business model. Consumers are engaged in the consumption of digital products and services while in turn participating in the process of value creation by providing feedback, namely data, in any form and source. Consumers, the producers of data and information, are redefined as "prosumers" and regarded as the driver of core values in the digital economy.

With the increasingly frequent interaction between users and users, users and platforms, users and enterprises, the consumption of data information itself is a kind of wealth. Take Amazon, one of the biggest third-party online trading platforms as an example. Online stores encourage users to provide public comments or feedback directly to the platform, thus, user participation is vital for the establishment of a credible platform where goods and services exchanges take place, which will further boost transactions and increase the platform’s revenue. The platform can sort out and analyze user preferences based on a substantial body of data and realize fixed-point delivery of advertisements to increase trading opportunities.

The traditional administration of tax collection mainly focuses on the value of intangible assets yet fails to pay attention to the value of data produced by users, which leads to a situation where the value is generated in the users’ country, but the profits belong to the digital exporting country or other third-party countries. The mismatch as such could put the fairness and sustainability of tax under threat [6].

2.1.3 Opportunities for BEPS in the era of digitalisation

Against the background of the digital economy, certain business models through tax and legal structures can be implemented to achieve BEPS by taking advantage of certain features of the digital economy in both direct and indirect taxation, with tools of transfer pricing in related transactions, signing the cost-sharing agreement, and granting parent licenses.

Take BEPS in direct taxation as an example. The 2013 Report [7] has generalized four elements from a large number of coordinated strategies involving BEPS as below (shown in Figure 7):

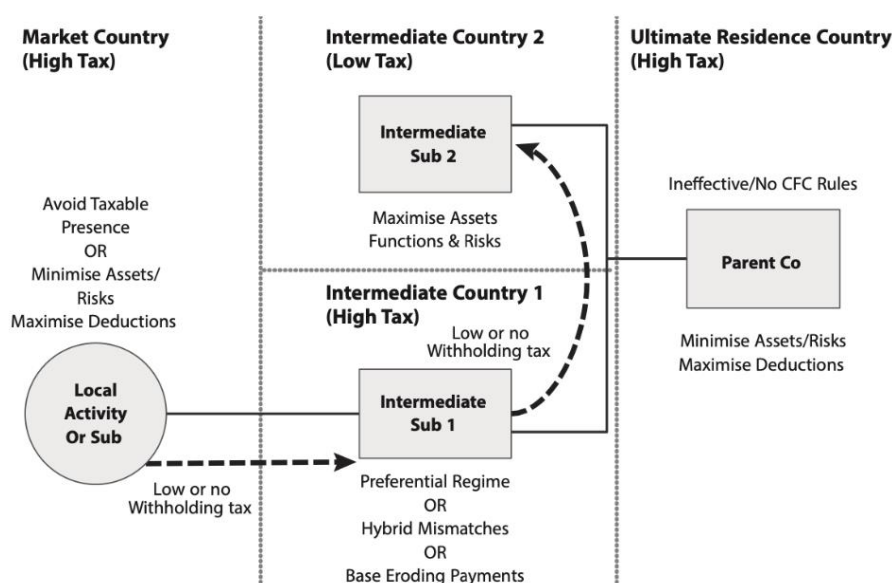


Figure 7. BEPS planning in the context of income tax [4]

Eliminating or reducing tax in the market country

The elimination or reduction in tax within the market country could be realized by the business model of avoiding taxable presence that a non-resident firm accesses to customers overseas and make profits through digital means without setting up a permanent establishment (hereinafter referred to as PE) in the country of residence. The ability to conduct business within a country without being taxed on profits made within that country is scaled up to a great extent in the digital economy, which raises concerns about BEPS. Even if a taxable presence is established, common techniques of optimizing income allocation to functions, assets, risks, and maximizing the number of deductible payments in means of interest, royalties, service fees, etc. can have the same effect.

Eliminating or reducing tax at the source

A company can interpose a shell company located in countries with favorable treaties which enable the company to reduce or be exempt from withholding. This kind of treaty abuse raises concerns about BEPS.

Eliminating or reducing tax in the intermediate country

Accesses to small amount of or zero tax in an intermediate country include the adoption of favorable tax regimes at home, the application of hybrid mismatch arrangements, or extra deductible payments paid to affiliated entities in low or tax-free jurisdictions.

Eliminating or reducing tax in the country of residence of the ultimate parent

In general, the tax avoidance mechanism in the market country and ultimate residence country is basically the same.

2.2. Remaining problems of BEPS Actions

From 1990s when the OECD started the agenda tackling the Harmful Tax Competition (hereinafter referred to as HTC), especially against tax havens, to 2015 when BEPS Action 5 Planning Report was issued, the fairness of tax competition has always been in the limelight. It took a long time till countries around the world reached a consensus on the standard of fairness: first, the preferential tax treatment enjoyed by an enterprise should depend on the sufficient commercial substance of the enterprise in the tax jurisdiction providing such treatment; Second, there should be enough tax transparency so that other countries can understand the actual situation [8]. Action 5 essentially redesigned the standard on harmful tax preference systems in the OECD 1998 report as the so-called “gateway” standard. When examining whether any system is harmful, it is necessary to determine whether low or zero tax rates should apply to income generated from easily mobile financial or service activities. If so, the relevant system should be checked if there are any key elements, including lack of transparency, no effective exchange of tax information, etc.

Although present anti-HTC and anti-tax avoidance have given consideration to both transparencies of information exchange and substance in low or zero tax jurisdictions, BEPS increasingly exacerbates, and global corporate tax continues to decline (shown in Figure 8).

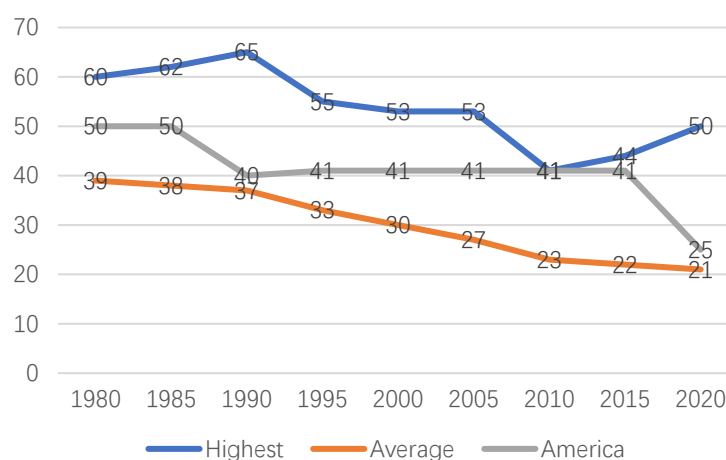


Figure 8. Global corporate tax rate changes (%) [9]

2.2.1 Malicious tax race to the bottom in low-tax jurisdictions

The current tax reform projects are all repairing the loopholes in the rules of anti-tax avoidance and avoidance of double non-taxation with the focus on information exchange and transparency, however, this patching-up method cannot prevent and control profits shifting to low tax jurisdiction in sound manner. Despite the close bond between BEPS and digital economy, admittedly, the existence of low tax jurisdiction itself is the underlying factor in profit transfer of MNEs [1]. The tax race to the bottom brings us \$100 billion to the US \$240 billion loss of CIT in the world every year, accounting for 4%-10% of the global CIT revenue [10].

2.2.2 Changes from profit transfer to substance transfer among multinational enterprises

In the era of BEPS 1.0, the consensus is that only harmful international tax competition should be obliterated for it encourages the transfer of profits without transferring physical substance. However, there is an obvious loophole in this logic. People holding middle or senior positions in the corporation

have sufficient skills to participate in the R &D, value promotion, maintenance, and use of intangible assets, thus should be regarded as qualified to distribute the excess profits on intangible assets. BEPS 1.0 rules can permit the transfer of billions of dollars of profits to jurisdictions with powerful tax competitiveness as long as some middle and senior positions are transferred to jurisdictions. As a result, jurisdictions such as Ireland, Switzerland, and Singapore which attract more senior management positions are deemed as winners of BEPS 1.0 [11].

BEPS projects are trying to solve problems from the perspective of process, that is, from the aspects of transfer pricing, enterprise structure, and financing structure so as to ensure that profit taxation is not evaded where economic activities and value creation occur. To conclude, although BEPS projects can deal with the competition for profits in tax havens in an effective way by curbing profit transfer, it is difficult to solve the capital competition in which enterprises transfer economic activities to tax havens.

3. Core rules of global minimum tax (Pillar Two)

In 2013, the OECD announced the BEPS Action Plan which contains 15 concrete actions at the eighth the Group of 20 (hereinafter referred to as G20) leaders' summit in St. Petersburg, Russia. In 2015 the G20 and the OECD released the Addressing the Tax Challenges of the Digital Economy 2015 Final Report [4], marking a milestone in BEPS Project. In 2018, Tax Challenges Arising from Digitalisation-Interim Report 2018 [10] came to the public to describe how digitalisation affects other areas of the tax system, how BEPS package was implemented and worked during past years, and the development of tax policies. In 2019, the OECD and G20 introduced the Two-pillar approach for the first time. On July 1st, 2021, the OECD released the Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy [12] in which a historical common ground on key elements was reached.

Broadly speaking, Pillar Two, addressing the remaining challenges of BEPS, prescribing a floor level tax on tax competition, is designed to make sure that large multinational enterprises (hereinafter referred to as MNEs) with annual revenue over 0.75b euros pay a minimum tax of 15%. The mechanism of applying the Global Anti-Base Erosion Rule (hereinafter referred to as GloBE) to the MNE Group is shown in Figure 9.

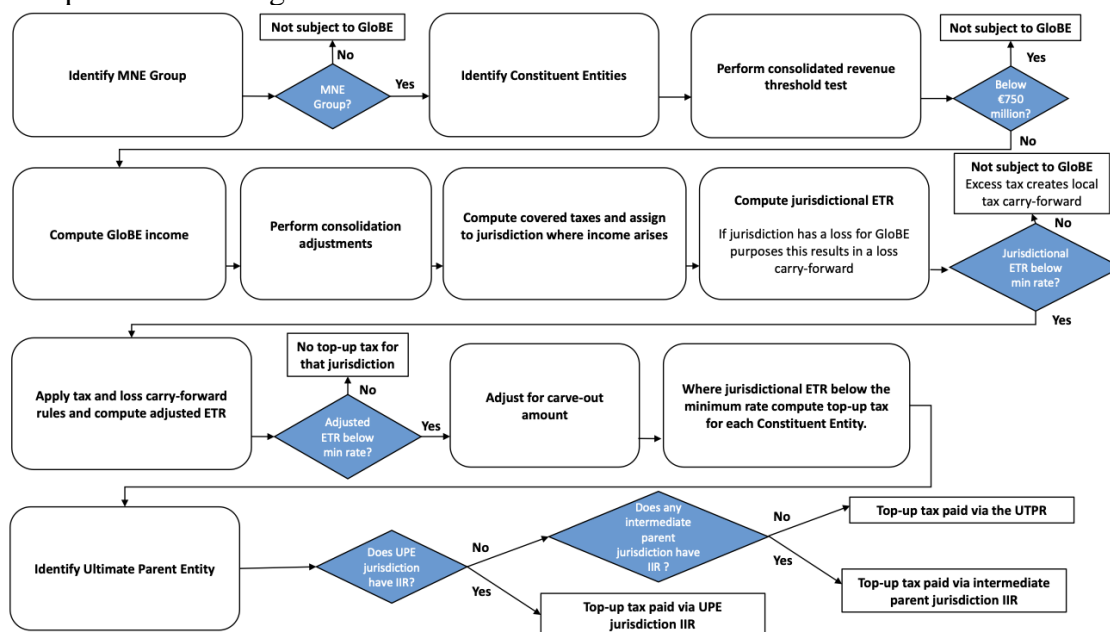


Figure 9. The application of GloBE rules to wholly-owned Constituent Entities [13]

Pillar two rules are composed of Income Inclusion Rule (hereinafter referred to as IIR), Undertaxed Payments Rule (hereinafter referred to as UTPR), Switch-over Rule (herein after referred as SOR), and Subject to Tax Rule (hereinafter referred to as STTR). Among them, IIR and UTPR constitute

GloBE rules of which the concrete implementation is decided by each country with regard to their tax law while SOR and STTR will be carried out based on tax treaties. The relationships between these rules are shown in Figure 10.

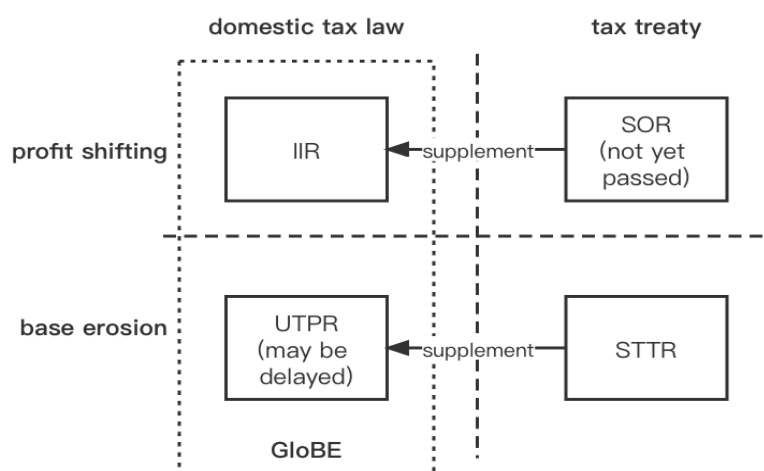


Figure 10. Relationships between IIR, SOR, UTRP, STTR

3.1. Income Inclusion Rule (IIR)

If a multinational enterprise passes the threshold test for consolidated revenue of 750 million euros, the GloBE rules will perform an effective tax rate (hereinafter referred to as ETR) test to determine whether a top-up tax shall be levied. In the case that the ETR paid by a constituent entity is less than 15%, the residence country where the ultimate or partially owned intermediate parent entity is located has the right to see the income as taxable and impose top-up tax at any time during a fiscal year. This is beyond the restriction of whether the profit is remitted back to the residence country. As for the concept of parent entity, located in a IIR accepted jurisdiction, it owns directly or indirectly the interest in another member of the same MNE group while is not controlled in any form by another constituent entity bound by IIR.

As an auxiliary rule of IIR, SOR is applicable to the situation that the parent jurisdiction has signed a bilateral tax treaty requiring the parent jurisdiction to exempt PE income, thus hindering the state of the parent’s residence from applying IIR. SOR is therefore needed to negate the hinderance and allow the taxation of minimum rate to PE. This rule also applies to the case where the local ETR on the profits and income obtained from overseas permanent institutions or real estate owned by non-resident institutions fails to reach the minimum tax rate [13].

3.2. Undertaxed Payment Rule

UTPR and IIR mutually constitute GloBE and share the same purpose of collecting a minimum tax and the same computation of ETR, while operating and functioning in different ways. IIR has priority over UTRP, providing a mechanism to tax the parent entity based on its whatever control of the low-tax constituent entities. However, UTRP supplements IIR by providing a mechanism for including the profits outside IIR, thus weakening the incentives for low tax-driven inversion. Compared with IIR, UTR has a relatively narrow scope of application for it only applies in the case that a low-tax constituent entity does not otherwise belong to IIR.

Through denying deductible intra-group payments, UTRP targets base erosion. As GloBE Model Rules (Pillar Two) launched in 2021 explains, the application of UTRP refers to:

Constituent Entities of an MNE Group located in [insert name of implementing-Jurisdiction] shall be denied a deduction (or required to make an equivalent adjustment under domestic law) in an amount resulting in those Constituent Entities having an additional cash tax expense equal to the UTPR Top-up Tax Amount for the Fiscal Year allocated to that jurisdiction. [14]

Subject to tax rule (STTR), as a supplement to UTPR, takes the benefits of developing countries that account for a large proportion of the Inclusive Framework’s membership into consideration. Developing countries tend to have more need to attract investment and business activities through preferential tax incentives. According to STTR, for transnational interest payments, royalties and other specified payments, the country of origin is entitled to withholding income tax at the lowest tax rate, which will be 9%. In this way, STTR prevents entities from abusing tax treaties through deductible payments in developing countries, hence protecting developing countries’ tax base from being eroded.

Table 1. Comparison between IIR, SOR, UTPR, and STTR

Rule	Tax collector	Object of taxation	Min %	Ways of taxation
IIR	Residence country	Income from low-tax constituent entity	15	Levy top-up tax
SOR	Residence country	Intra-group payments	-	Use credit method
UTPR	Origin country	Intra-group payments	15	Denial of deductible payments
STTR	Origin country	Cross-border interest, royalties, etc.	9	Collect withholding income tax

4. The impact of global minimum tax

The global minimum tax, a result-oriented rule different from past process-oriented rules, gives rise to substantial changes to the international tax system, affecting related parties including MNEs, governments of both developing countries and developed countries, different tax jurisdictions in investment, tax structures, effective tax rate (shown in Figure 11), and ultimately tax bases and tax Revenue.

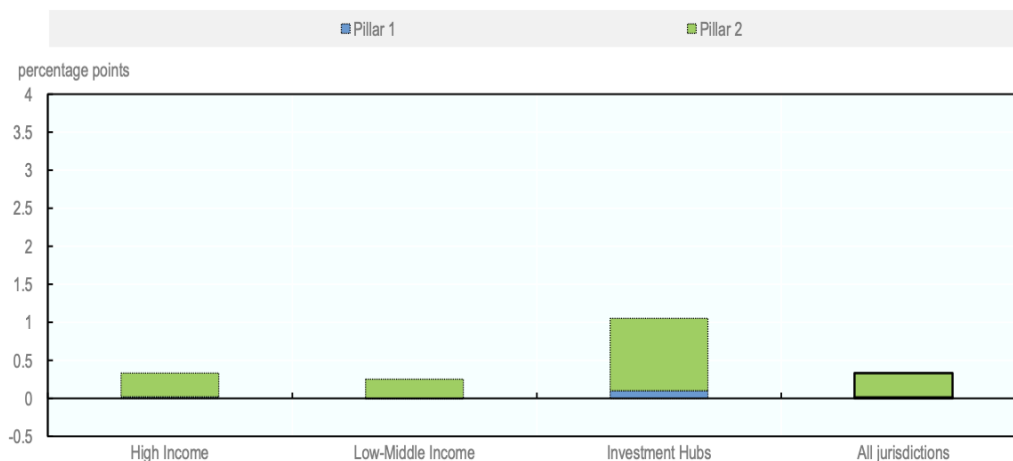


Figure 11. Effective average tax rates [14]

As for the overall economic impact on tax gains, the OECD assesses the profit shifting reduction, revenues generated from IIR, UTPR, and GILTI under four scenarios:

Scenario 1 is a “static” scenario in which Pillar Two is assessed separately without consideration of its interaction with Pillar One and the behavioral reactions of MENS and governments.

Scenario 2, to put it simply, equals scenario 1 plus the interaction between Pillar One and Pillar Two.

Scenario 3 rests upon Scenario 2 by taking account of the behavioral reactions from MNEs to Pillar Two of reducing profit shifting intensity.

Scenario 4 rests upon Scenario 3 by adding the response of certain low-tax jurisdictions [15].

Under scenario 3 which includes interaction with Pillar One and MEN reaction, it is estimated that the global revenue gains from Pillar two (including U.S. MNEs) will be 2.7%-4.6% of the global CIT revenues as is shown in Table 2.

Table 2. Global revenue gains from Pillar two (including U.S. MNEs), in % of global CIT revenue [15]

Minimum tax rate	10%		12.5%		15%	
Carve-out	No carve-out	10% carve-out on payroll and depreciation	No carve-out	10% carve-out on payroll and depreciation	No carve-out	10% carve-out on payroll and depreciation
Effect of reduced profit shifting	0.5%-0.7%	0.5%-0.7%	0.8%-1.1%	0.8%-1.1%	1.1%-1.5%	1.1%-1.5%
Revenues from IIR and UTPR	0.7%-1.3%	0.6%-1.1%	1.0%-1.9%	0.9%-1.7%	1.3%-2.6%	1.2%-2.3%
Revenues from GILTI	0.4%-0.8%					
Total	1.5%-2.8%	1.5%-2.7%	2.1%-3.8%	2.0%-3.6%	2.7%-4.9%	2.7%-4.6%

4.1. Impact on multinational enterprises

Subject to GloBE rules, large high-tech enterprises such as Microsoft, however designing global tax avoidance structures, will have to bear the minimum tax so that the minimum tax rate to some extent decreases the incentives for MNEs' tax avoidance framework driven by tax benefits for the more complicated the framework is, the more cost enterprises have to take. Under the premise that the complex tax avoidance structure cannot provide significant tax reduction for enterprises, the implementation of the Pillar Two is likely to trigger multinational enterprises to simplify and reconstruct their organizational structure on a large scale. However, Pillar Two can act as nothing more than a floor that ensures multinational enterprises bear the minimum tax burden, it is not able to eliminate the tax rate imbalance between sovereign countries. Therefore, the tax rate imbalance between countries will still be one of the pushing factors for multinational enterprises to design their tax framework, to which non-tax factors, such as scientific and technological innovation, industrial clusters, business environment, and market scale, may be more attractive to multinational enterprises' investment [16].

4.2. Impact on low-tax jurisdictions

For the EU low tax countries represented by Ireland, the minimum tax will bring about more negative effects. Therefore, they strongly opposed the introduction of the minimum tax at the beginning. Taking Ireland as an example, its CIT rate is 12.5%, which is one of the lowest CIT rates in developed countries. For a long time, Ireland has attracted many high-technology enterprises such as Microsoft, Google, Apple, and Amazon to establish subsidiaries here by virtue of its low tax advantage. These enterprises have also succeeded in avoiding substantial taxation through the "Double Irish" model. Once the global minimum tax is implemented, Ireland's low tax advantage will be greatly weakened. The Irish finance minister has also repeatedly expressed considerable reservations about the current agreed global minimum tax rate and Ireland will maintain a tax rate of 12.5% for a long time because small countries do not have the advantages of scale and resources owned by large countries, which need to be compensated by legal means such as preferential tax policy. Any agreement should take into account large and small countries, developed and developing countries, etc. Therefore, low tax jurisdictions had rejected the Pillar Two until October 8, 2021, when Ireland, Hungary, Estonia, and other EU low tax countries and regions finally agreed to join Pillar

Two after intensive negotiations and reached common ground on the minimum tax rate's being no higher than 15%.

4.3. Impact on developing countries

Pillar Two is more beneficial to countries of residence, that is, capital and technology exporting countries to some extent, while most developing countries, as countries of origin, are at a relatively disadvantaged position in the global minimum tax rules which put more focus on the interests of developed countries.

On the one hand, Pillar Two compresses space for tax benefits of the country of origin. The IIR uses a top-down approach to determine the subject entity and jurisdiction of the imposition of top-up tax. The top-down approach first will select the ultimate parent company of multinational enterprises. As a result, when the jurisdiction where the ultimate parent company is located tends to choose to adopt IIR, the top-up tax arising from low ETR due to the tax preference provided by the country of origin will be paid by the ultimate parent company to the country of residence. In other words, the tax preference originally provided by the country of origin to attract external investment is finally transferred to the country of residence.

On the other hand, the minimum tax makes the tax sovereignty which is embodied in setting tax rates and formulating preferential tax policies under limit. As capital importing countries, developing countries often formulate preferential tax systems to attract foreign investment. Therefore, the proposal of the minimum tax actually interferes with the tax rate setting power of capital importing countries and constrains their ability to attract investment. In addition, the tax rate-setting power is instrumental for developing countries in economic development. A study on the data of 199 countries and regions in the world from 2005 to 2018 shows that in countries and regions with small market scale and in the low-income stage, due to the difficulty of improving the institutional environment in the short term, reducing the tax rate policy is an effective competitive strategy for foreign direct investment.

However, in general, for developing countries, the overall advantages outweigh the disadvantages. First, developing countries generally have high CIT rates, which contributes to a large sum of tax revenue, and additionally, they are more reliant on labor and resource advantages in attracting foreign investment rather than low tax rates. Second, STTR rule gives developing countries special tax rights, which helps to protect countries with low tax collection and management levels from greater BEPS.

5. Conclusion

Firstly, the essay analyzes Microsoft's tax avoidance case and leads to the necessity of introducing a global minimum tax. Compared with the previous anti-BEPS rules by patching up loopholes, the global minimum tax solves the problem from the perspective of the result.

Then the global minimum tax rule is analyzed from three aspects: the background, core rules, and impacts of GloBE. In the background chapter, two aspects underlie the emergency of global minimum tax. Basically speaking, it is the rapid growth of the digitalisation of the economy creating opportunities for BEPS that makes the global minimum tax necessary. Multinational enterprises take advantage of the features of digital economy such as immobility, intangibility, reliance on data, etc. to arrange tax avoidance structures around the world and realize the purpose of transferring assets and profits. The remaining problems of BEPS Actions are a more direct cause of GloBE that in the era of BEPS 1.0 harmful tax competition between low-tax jurisdictions and changes from profit transfer to substance transfer of MNEs arise and pervade. In the third chapter, the concrete content of IIR, SOR, UTPR, STTR, and the relationships between them are elaborated. The fourth chapter analyzes the positive and negative impacts of GloBE in light of three related parties, low-tax jurisdictions, MNEs, and developing countries, trying to provide ideas for Pillar Two's implementation in these regions and countries.

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