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RE: Taxation (Multinational—Global and Domestic Minimum Tax) Imposition Bill 2024 [Provisions] and related bills)

Dear Committee Chair,

I, Shumi Akhtar (Associate Professor at the University of Sydney), would like to thank the committee for lodging this significant submission on Taxation. My research focuses on multinational corporations and taxation (Akhtar 2005, 2009, 2016, 2017; Akhtar et al. 2019). I have contributed to several Senate Economic Reference Committee submissions with invitations [Akhtar 2016 (submission #126); Akhtar 2018 (submission #4); Akhtar 2020 (submission #17); Akhtar 2021 (submission #11); Akhtar 2024 (submission #21)] and participated in Senate Public Hearings on multinationals, tax, and foreign investments as an expert witness in the field (2016, 2020, 2021). This submission addresses the consequences of these bills and offers recommendations for ensuring a level playing field for multinationals and Australia, along with suggested revisions to the Taxation (Multinational—Global and Domestic Minimum Tax) Imposition Bill 2024.

Firstly, I extend my gratitude to the Senate Economics Committee for actively aligning with the OECD's tax rules, which have been evolving over the past decade. The Taxation (Multinational—Global and Domestic Minimum Tax) Imposition Bill 2024 promotes stability, enhances corporate reputations, and aligns large corporations with global standards. For medium corporations, it levels the playing field, supports growth, and reduces uncertainties. Small corporations benefit from fair competition, improved public infrastructure, and a fairer market environment.

Australia should be praised for implementing the global minimum tax rate of 15%. This initiative aims to maintain a level playing field for multinational corporations (MNCs). By introducing the Global Anti-Base Erosion (GloBE) rule, Australia and other participating countries are expected to generate revenue not only from the application of these rules but also from increased corporate income tax revenues. This increase is anticipated due to a reduction in profit-shifting activities by MNCs operating in Australia and Australian-domiciled companies operating overseas that adopt the global minimum 15% tax rule. The introduction of a jurisdictional effective tax rate of 15% represents a significant increase from Australia's historically low rates on foreign source income of MNCs. This change is a substantial move towards ensuring fair taxation and curbing tax avoidance practices, promoting a more equitable and competitive economic environment for both domestic and international businesses. The implementation of this tax rate underscores Australia's commitment to global tax reforms and its proactive stance in addressing profit-shifting issues.

Overall, the Bills foster equity, stability, and competitiveness across businesses of all sizes. However, it is crucial to balance these objectives with maintaining Australia's competitiveness

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and ensuring that the increased tax burden on multinationals does not adversely affect consumers and job opportunities. As Australia revises the bill, it must balance fair taxation with nurturing the digital technology, AI, quantum innovation, and job opportunities that MNEs provide, which are crucial for post-pandemic economic recovery and an increasingly digitalized global economy.

For instance, increased taxes can reduce profitability, limiting innovation and job creation. New regulations introduce hefty compliance costs, straining finances. Potential global restructuring disrupts operations and supply chains, which is critical as we recover from high inflation and COVID-19. MNEs face a competitive disadvantage, falling behind firms in lower-tax regions. The bill must avoid double taxation to ensure fair play globally. Balancing fair taxation with nurturing digital technology, innovation, and job opportunities is essential for post-pandemic economic recovery.

Ensuring that multinationals contribute fairly to the tax system can create a more competitive business environment, benefiting local businesses and entrepreneurs. To achieve this, Australia must collaborate with international partners to implement similar tax measures globally, preventing tax avoidance through profit shifting to low-tax jurisdictions. Some possible recommendations for Australia in Revising the Taxation Bill:

- *Transition Period:* Provide a reasonable transition period for businesses to adapt, ensuring smooth implementation.

- *Clarity and Simplicity:* Design clear and straightforward regulations to minimize compliance costs and administrative burdens.

- *Economic Competitiveness:* Balance tax fairness with maintaining Australia's attractiveness for investment, fostering innovation, job creation, and economic growth.

- *Global Coordination:* Collaborate internationally to prevent tax arbitrage and maintain fair competition.

- *Safeguards Against Double Taxation:* Implement measures to prevent double taxation, ensuring fairness and preventing profit taxation in multiple jurisdictions.

By focusing on these possible resolutions, Australia can create a fairer tax environment, support local businesses, and promote sustainable economic growth in a post-pandemic world.

I have three specific comments/suggestions on the current form of the Bills, addressing gaps that could create future loopholes:

1. *Special-Purpose Acquisition Companies (SPACs*): Multinationals may use SPACs to minimise tax. To prevent this, the bills should explicitly include SPACs within the definition of "entity" (p.13, Part 3, Division 1, Section 13(1)).

2. *Digital vs. Physical Presence*: The Bills should address digital businesses operating without physical presence, especially subsidiaries in tax havens. Sections 18(1), 18(2),

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and 19 should clarify "permanent establishment" to include digital presence (p.15, Part 3, Division 1).

3. *Government-Owned MNCs*: The Bills need clarity on taxing MNCs owned or controlled by foreign governments to avoid tax exemption exploitation. Adjustments are needed in Section 20(1) to prevent tax avoidance (p.17, Part 3, Division 2).

Thank you for the opportunity to contribute to this crucial national and international tax matter, which is vital for our economic growth, revenue generation, and international trade and investment.

Sincerely,
Shumi

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