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Global Tax Deal and Your Investments

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Starting with the Group of 7 Financial Ministers there is a movement to institute a global minimum tax on multinational corporations. The tax rate being pitched is 15% and the idea is that taxes will be paid where the company does business and makes sales instead of somewhere they merely set up a corporate office. The opinion of the International Monetary Fund is that [hundreds of billions in taxes](#) are lost due to such tax havens. Our concerns have to do with a global tax deal and your investments.

How Soon Do You Need to Worry about a Global Tax Deal and Your Investments?

The discussions about a global minimum tax took place at a meeting of the Financial Ministers of the Group of 7 which is the USA, Canada, the UK, Germany, France, Italy, and Japan. To a large degree these are the countries that are most hurt by current tax avoidance by multinational companies. They are also the strongest economies and the folks most able to force and enforce changes to tax codes around the world. The next stop will be the Group of 20 which includes Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Russia, South Africa, Saudi Arabia, South Korea, Turkey, and EU in addition to the Group of 7 members. As a consensus is built the power to enforce will grow but the tax deal itself may be watered down.

The problem with making this happen is that countries like Ireland benefit from offering a 12.5% corporate tax rate in return for lots of foreign investment. Places like the Isle of Man or other tiny jurisdictions that benefit greatly from their arrangements and have so much to lose. The point is that it will take quite a while for any changes to be negotiated down to everyone concerned including setting up ways to enforce any new rules. As such, it will likely be years before you have to worry about a global tax deal and your investments.

Tax Losses Due to Tax Havens

The IMF wrote about the issue of tax havens more than a decade ago. They noted that no one was very concerned about the issue until the Financial Crisis when it became apparent that there would have been more tax money available to deal with problems than if companies had not been finding ways to shift their tax liabilities offshore and away from where they worked, produced things, and sold things. They estimate a \$500 billion to \$600 billion yearly loss in global tax collections due to the use of tax havens by corporations and about \$200 billion a year by individuals hiding wealth in tax haven countries. Interestingly, they say that nearly \$200 billion in lost tax collections is from poorer countries making this issue more important for these countries than for the G7 or G20 members. That is pertinent because this information could speed agreement for institution of a global minimum corporate tax system.

How Could a Global Minimum Corporate Tax Affect Your Investments?

As we noted already, this is not an issue for 2021 and probably not 2022 but somewhere down the road this

might take place. The *Americans for Tax Fairness* website looks at Apple's setup with Ireland in which for years it paid little or no taxes on billions of dollars in income. The question for Apple investors is just how much of a hit in cash flow will the company take if it is forced to pay 15% in years going forward. Although Apple says it pays a tax rate in the 20+% range, the Tax Fairness folks say it is more like 6% if you factor in offshore profits that are taxed at much lower rate. Since cash flow has been the major driver in the rise of stock prices for companies like Apple that benefit from low offshore rates, you might expect lower share prices and lower dividend payments once a minimum global corporate tax comes into being.

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