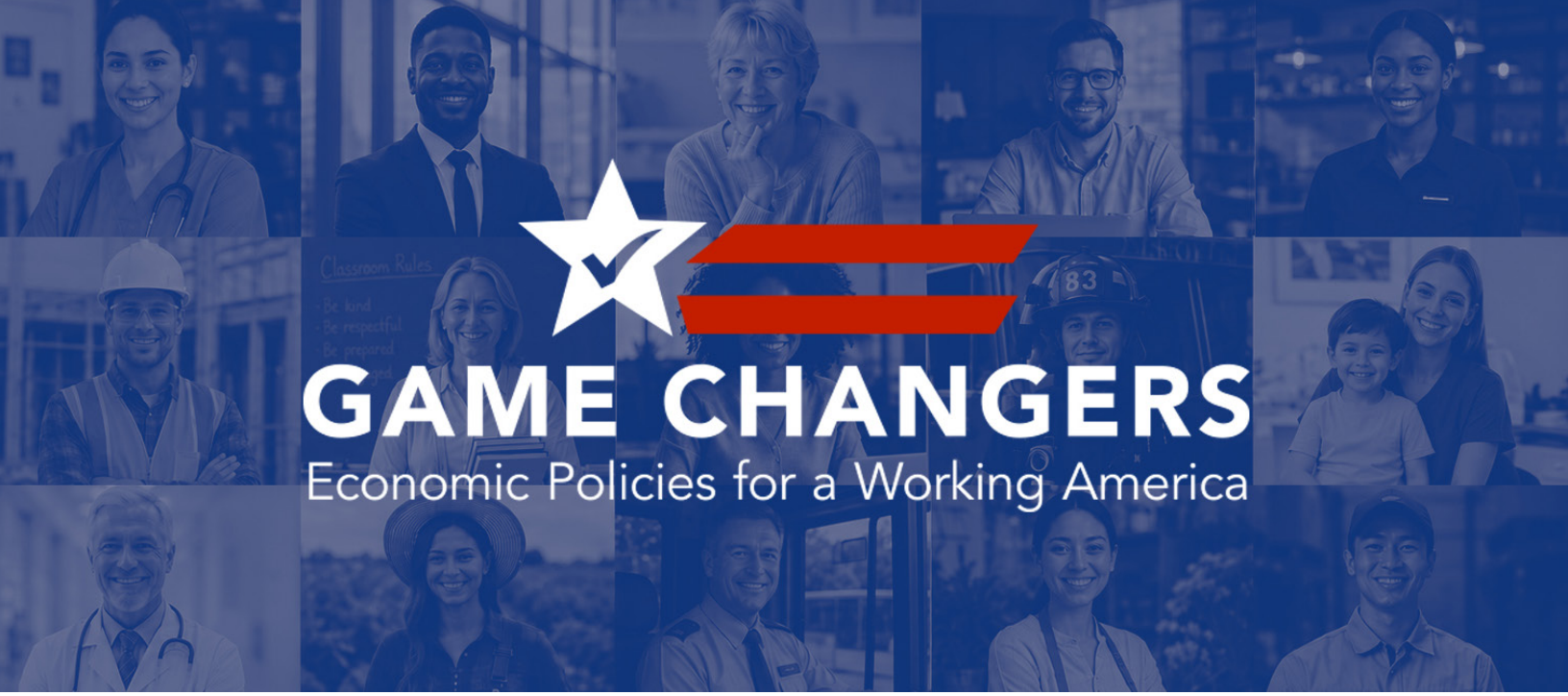

BACKGROUND PAPER / JULY 2026

International Tax Justice for a Democratic Economy

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International Tax Justice for a Democratic Economy

By Lauren Johnston and Thomas Liess[1]

"The triumph of tax injustice is, above all, a denial of democracy"
E. Saez and G. Zucman

1. Introduction 1
2. Structural Drivers of International Tax Avoidance 2
2.1 The Rise of the Multinational Corporation 2
2.2 U.S. Multinationals and the Corporate Profits Boom 4
3. Tax havens and Profit Shifting: Mechanisms and Magnitudes 9
3.1 What is a Tax Haven? 9
3.2 How Multinationals Book Profits in Tax Havens 12
3.3 The Largest Tax Havens 13
3.4 How Much Profit is Shifted Annually? 15
3.5 Indirect Tax Revenue Losses 18
3.6 Global Distributional Effects 19
4. Corporate Taxation and Inequality in the United States 21
4.1 Tax Rates and Tax Revenue: Corporations vs. Individuals 21
4.2 Rising Income and Wealth Inequality 24
5. Taxing Multinationals Across Borders: Rebuilding the Corporate Tax System 28
5.1 Unitary Taxation with Formulary Apportionment 28
5.2 Corporate Income Tax of 35% with Throwback Rules 36
5.3 Expected Effects 39
6. Feasibility Considerations 40
6.1 Projected Revenue 40
6.2 Democratic Support for Tax Reform 41
7. Lessons from Existing Efforts 42
7.1 OECD BEPS Initiative 42
7.2 UN Tax Convention 44
7.3 EU Reforms and National "Radical" Agendas 45
7.4 Broad Public Support and the Missing Democratic Narrative 46
7.5 Implications for a Viable Reform Agenda 46
References 48
Appendix 50

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1. Introduction

The United States loses more money every year to corporate tax avoidance by multinationals than any other country. Nonetheless, it has refused to commit to international tax treaties that would bring back money from tax havens. This background paper outlines the scope of tax avoidance by multinational firms, the negative impact of race-to-the-bottom tax dynamics, and what the U.S. can do to support and even lead international reform efforts.

To put the size of the issue in perspective: the U.S. lost an estimated $574 billion in tax revenue between 2016-2021 due to corporate tax avoidance alone, due to multinationals moving their profits out of the U.S. and into tax havens.[2] That $574 billion in tax revenue loss is over $100 billion more than what the Federal Government spent on the Supplemental Nutrition Assistance Program (SNAP) over the same period.[3]

The steady lowering of the corporate income tax rate robs the U.S. tax base even further. In 1980, the corporate income tax rate on the most profitable corporations was 46%. Reagan lowered this top corporate tax rate to 35%, and it has since fallen to a flat 21% rate following Trump's 2018 Tax Cuts and Jobs Act. If the U.S. had maintained its pre-Trump tax rate of 35% on corporate income from 2018-2021, the total estimated tax revenue loss from profit shifting between 2016-2021 would reach $829 billion – about 0.65% of U.S. GDP.[4] Meanwhile, individuals in the top income tax bracket continue to pay 37% of their income in taxes.

The rise in the use of tax havens by U.S. multinationals and the historically high levels of income and wealth inequality have made corporate tax reform an important issue for at least some U.S. lawmakers. Other countries also struggle to defend their corporate tax base, and policymakers and citizens around the world have identified corporate tax abuse as a solvable issue as long as there is international coordination.

The most prominent reform effort so far has been the OECD's Base Erosion and Profit Shifting (BEPS) Action Plan, which has successfully mandated country-by-country reporting to tax authorities for multinationals earning over €750 million in annual revenue.[5] This means that high-earning multinationals must prepare reports for tax authorities that show the location of their real economic activity in every jurisdiction in which they operate (how much they pay in payroll, physical assets, etc.), as well as a breakdown of their total tax payment in every country. The EU mandated that these reports for fiscal year 2025 be made public by the end of 2026, following precedent set by Romania and Australia which have already required public country-by-country reporting by multinationals in their territories.

Additionally, the OECD's BEPS Pillar Two has instituted a 15% global minimum tax rate on corporate income, on a country-by-country basis, to which 140 countries have signed on – but noticeably not the

[2] The $574 billion estimate, taken from the Tax Justice Network, is conservative to the extent that it applies the 21% corporate income tax rate on estimated profit shifted out of the U.S. between 2018-2021. If the 35% corporate income tax were applied in the last four years, we estimate that the tax revenue losses from missing profits *alone* would amount to $829 billion between 2016-2021.

[3] The U.S. spent $452.7 billion on SNAP over the six-year period.

[4] U.S. cumulative GDP between 2016-2021 was about $128 trillion.

[5] for two consecutive years.

United States. Under this system, multinational enterprises are subject to a top-up tax in any jurisdiction where their effective tax rate falls below 15%, calculated separately for each country in which they operate, rather than on their global consolidated income. The United States, by contrast, has retained its own regime, which applies a minimum tax rate *below* 15% on a blended, global basis rather than on a country-by-country calculation.

Finally, reform efforts are now being negotiated under the United Nations Tax Convention, reflecting the view that OECD-led initiatives have been insufficiently inclusive and have not gone far enough.

The United States has been a conspicuous obstacle in the path of international tax reform. It does not need to stay this way. We first address the questions: What is a tax haven, and how do U.S. multinationals legally avoid paying taxes? What are the annual revenue losses as a result of multinational tax evasion? And how does U.S. multinational tax abuse contribute to domestic and global inequality? We then explain why it is so difficult to enact tax reform at a country level and we suggest what the U.S. can do to support international collaboration.

We propose ambitious policies – specifically, unitary taxation with formulary apportionment for U.S. multinationals and foreign MNCs in the U.S. in combination with a minimum corporate income tax rate of 35% – which will significantly increase U.S. tax revenue as well as empower other countries to defend against tax avoidance. Finally, we explain why U.S. leadership on these issues would have a significant impact both nationally and globally.

The focus of this paper is on U.S. multinational corporations and multinationals operating within the US. Other important tax reform efforts that we do not discuss here include taxing private wealth that is shifted offshore, requiring that information about financial accounts be shared between countries, implementing various forms of a wealth tax, or closing domestic corporate tax loopholes.

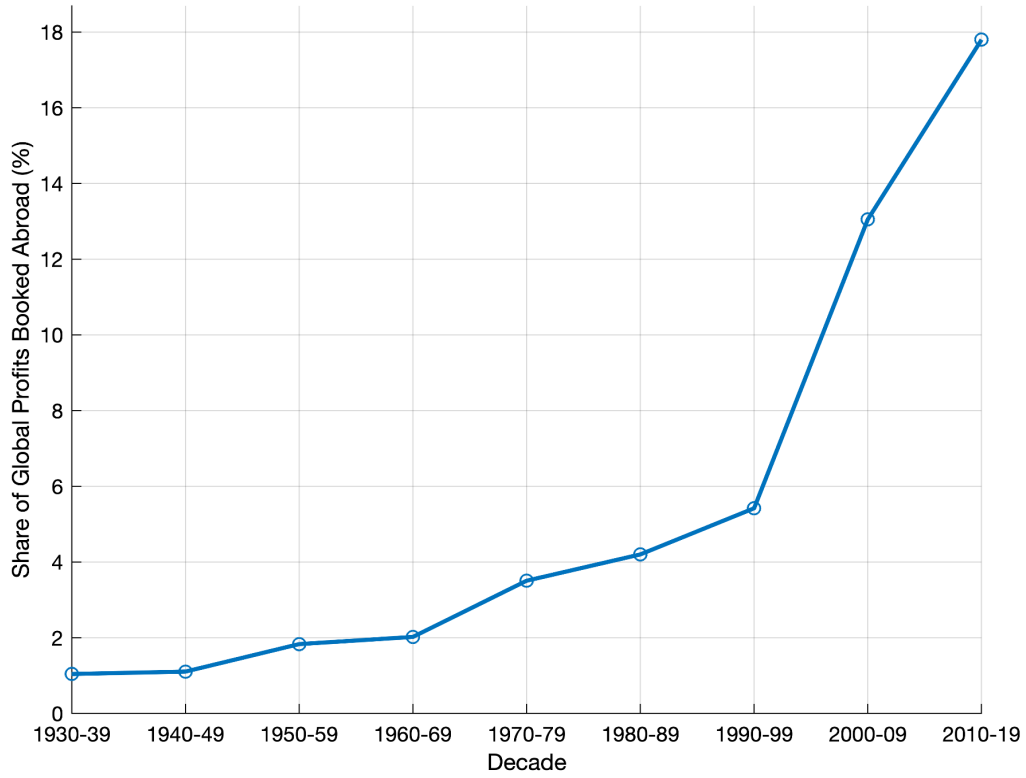
2. Structural Drivers of International Tax Avoidance

2.1 The Rise of the Multinational Corporation

The proliferation of multinational corporations over the past several decades has strained a porous international tax framework that came into existence in the early 1900s. Highly profitable multinationals such as Google, Apple and Microsoft have made headlines for maneuvers such as the “Double Irish with a Dutch Sandwich,” a formerly legal tax avoidance strategy that allowed companies to shift profits through two Irish subsidiaries and a Dutch shell company to completely avoid paying taxes on corporate income, i.e., profits. But how and why did this situation become possible?

Beginning in the 1960s and accelerating since the 1980s, production has globalized. Firms operate their business activities across borders, organizing production through complex international networks of subsidiaries, contractors, and supply chains that are also known as global value chains. Multinationals oversee research and development, resource exploration and extraction, manufacturing, logistics, operations, sales and more across many different countries and are involved in multiple product lines. As a result, a growing share of corporate profits is now generated *outside* the country where firms are headquartered. By the 2010s, nearly one-fifth of profits generated by multinational firms were earned outside their home jurisdictions, as shown in Figure 1 below.

FIGURE 1. Share of profits earned abroad by multinational firms (% of profits made outside their home country).



Source: Authors' creation based on Tørsløv, Wier and Zucman (2018). Includes *all* countries (not just U.S. multinationals).

The fragmentation of production across borders has had numerous consequences for corporate income taxes, both in the United States and globally. First and foremost, it has demonstrated the weaknesses of the inherited international tax system, which was not set up to deal with complex production processes spanning multiple countries. The first international tax treaties were signed in the early 1920s, when international negotiators were concerned about taxing corporate income that accrued to the *owners* of foreign corporations (for instance, citizens who held stock in a foreign mining company and were paid income on that stock).

As time went by and production globalized, multinationals campaigned their countries' governments to protect them from the *double taxation* they might face as a result of uncoordinated international tax policy, such as the possibility that firms would pay taxes on the same income, but in two different jurisdictions. In the last 20-25 years, however, researchers, activists and policymakers have sounded the alarm about the prevalence of double *non-taxation*, which is when corporate income ends up going completely untaxed.

The reason why it is possible for corporate income to go completely untaxed – so called "stateless income" (Kleinbard, 2011) – is because multinational firms today are not treated as consolidated entities. Subsidiaries and affiliates of a single multinational firm are considered *independent* legal and

economic entities, pertaining to the country in which they operate. So a branch of Coca-Cola that operates out of Brazil is treated as a Brazilian company, subject to Brazilian tax law, even though Coca-Cola's headquarters is in the United States. Firms therefore prepare separate revenue, profit and loss statements for each subsidiary in each distinct jurisdiction.

Because multinationals operate across many tax jurisdictions, and because each affiliate is treated as an independent entity, MNCs are able to locate different stages of production where costs, regulatory conditions, and *tax regimes* are most favorable for each activity. MNCs therefore strategize about where to book profits for tax purposes as a logical step in their business operations. Differences in national tax systems create incentives for corporations to shift profits into affiliates located in low-tax jurisdictions or preferential tax regimes, reducing their effective tax burden and increasing their profitability. Meanwhile, nation-states are induced into competition with each other to continually lower their corporate income tax rates in a desperate bid to attract investments and prevent tax avoidance, or what has also been called *base erosion and profit shifting*, by multinational firms. The global average statutory corporate income tax rate has fallen from 49% in 1985 to 24% by 2018.[6]

Section 3 describes the processes by which multinationals shift profits between subsidiaries and *why* the international tax system is so ill-equipped to deal with the fragmentation of production across borders. Before, however, we outline the scale of U.S. multinational activity and ever-rising U.S. corporate profitability to show why this problem matters and why it is urgent to put corporate tax reform on the U.S. political agenda.

2.2 U.S. Multinationals and the Corporate Profits Boom

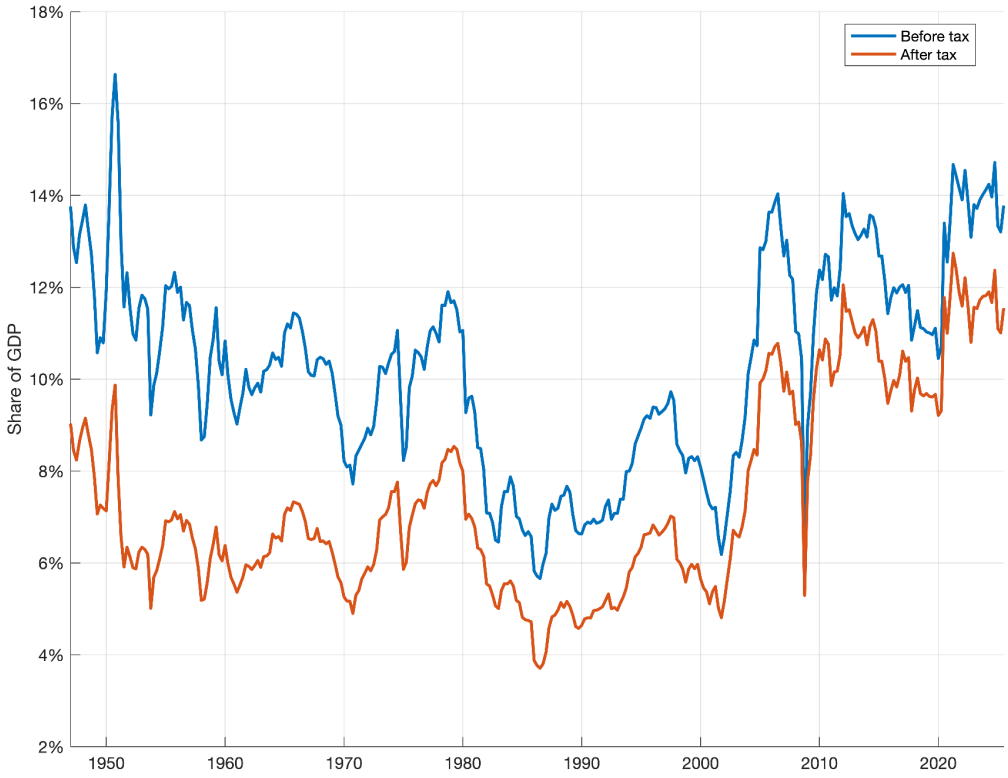
U.S. multinationals were among the first to set up production processes across borders, and they have a colossal international presence today. Multinationals headquartered in the U.S. employed 43.9 million workers globally in 2023, which is larger than the entire population of Canada.[7] In terms of revenue, U.S. multinationals produced $6.9 trillion in value-added in 2023. By comparison, Japan's 2023 GDP reached only $4.2 trillion.[8]

Unsurprisingly, U.S. MNCs have also contributed significantly to rising corporate profitability over the past 40 years. Figure 2 shows US corporate profits as a share of GDP between 1947 and 2025, distinguishing between profits before and after taxes. **After-tax profits as a share of GDP are at the highest they have ever been***,* peaking at 12.7% of GDP in April 2021. This share dropped only slightly to 11.5% by July 2025.

As shown in Figure 2, U.S. corporate profitability shot up in the early 2000s, without corporate tax revenues keeping up. The shrinking gap between the two series reflects fewer taxes paid by U.S. corporations. The flip side of rising corporate profitability has been a smaller and smaller corporate tax contribution to total U.S. tax revenues, as well as a constant lowering of the corporate income tax rate.

[6] Tørsløv, T., Wier, L., & Zucman, G. (2023). The missing profits of nations. The Review of Economic Studies, 90(3), 1499-1534.
[7] Source: US Bureau of Economic Analysis. 2023 is the most recent year for which data is available. Canada's population was 41 million in 2023.
[8] "Activities of Multinational Enterprises, 2023." US Bureau of Economic Analysis.

FIGURE 2. Corporate profits in the United States before and after taxes, 1947–2025.

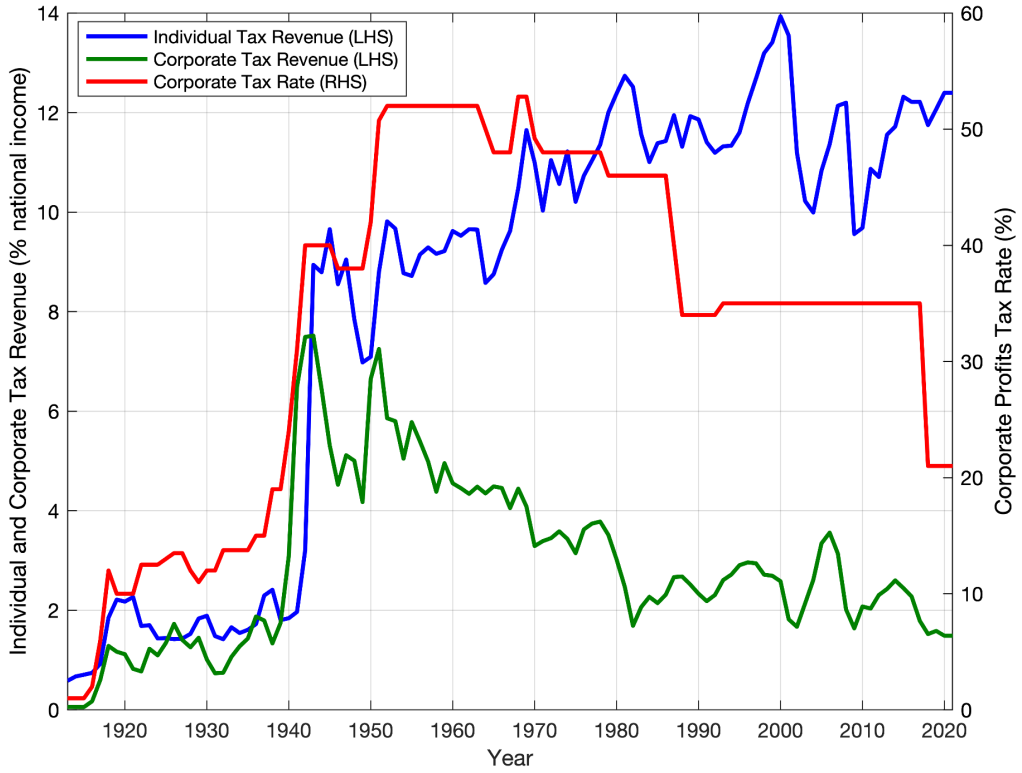


Sources: After tax: St. Louis FED. Before tax: St. Louis FED.

At the beginning of the 20th century, for example, the U.S. fiscal system relied much more heavily on taxing corporate profits and high-income individuals through the personal income tax system. Corporate tax revenue accounted for about 7 percent of national income during the mid-twentieth century (left hand scale of Figure 3). Since the 1980s, however, corporate tax revenues have fluctuated around 2 percent of national income. In contrast, taxes collected from individuals (including income taxes and payroll contributions) now represent the dominant source of federal tax revenue, contributing 12% of national income. The U.S. fiscal system has therefore shifted its reliance from taxes paid on corporate profits to taxes paid by households, particularly payroll and consumption taxes.

The right-hand axis in Figure 3 shows that the corporate income tax rate has fallen from over 50% in the 1950-1960s to a flat 21% rate in 2018, after President Trump signed the Tax Cuts and Jobs Act. As will be shown in Section 4.2, the fall in the corporate income tax rate has had regressive consequences on the income distribution in the U.S. and has contributed to escalating income and wealth inequality.

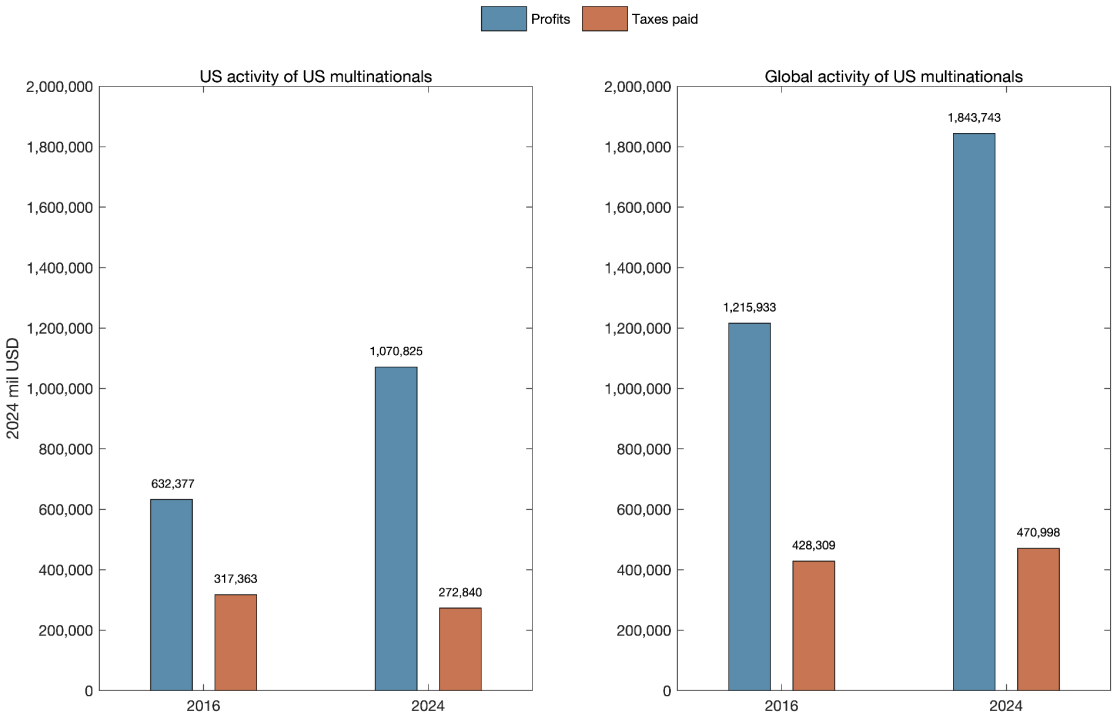
FIGURE 3. US corporate tax rate and tax revenue from corporations and individuals as a share of national income, 1913–2021.



Source: Milberg, W., Liess, T., & Tedesco, M. (2024)

U.S. multinationals are particularly problematic about not paying taxes on corporate income. Figure 4 (below) shows that the taxes paid by U.S. multinationals domestically has *fallen* over the past 10 years, even though profits have increased, while taxes paid by U.S. MNCs internationally have barely increased at all while profits have shot up by 50%.

FIGURE 4. U.S. multinational profits vs. taxes paid domestically and globally, 2016 vs. 2024

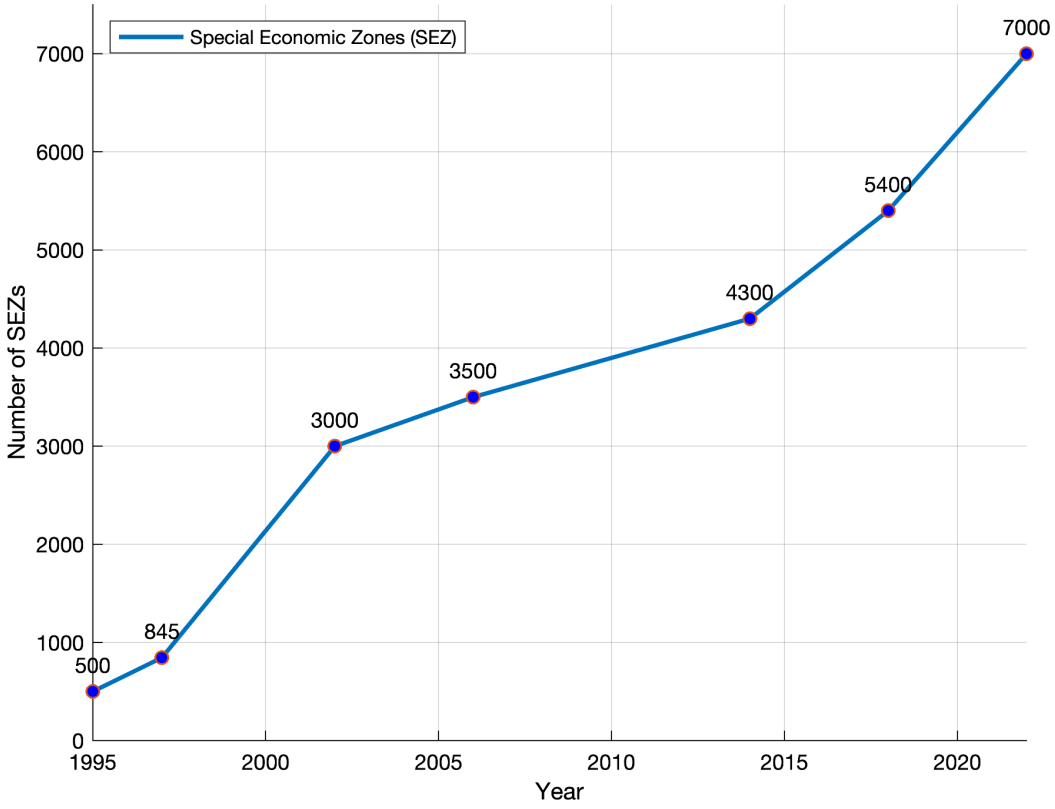


Source: The State of Tax Justice, 2025 (figure recreated by authors).

U.S.-headquartered multinationals were already the most aggressive about using tax havens before 2016. Researchers estimated that 50% of all profits shifted into tax havens in 2015 came from U.S. MNCs. More recent estimates suggest they are responsible for 30-50% of total global profit-shifting. The United States is simultaneously the largest domestic market for other countries' multinationals, so in fact, over half of all profits shifted *out* of the U.S. and into tax havens are shifted out by foreign multinationals operating in the U.S.

The dynamics of international tax competition are favorable to multinationals and reduce corporate tax takes via other means as well. For example, export processing zones (EPZs) and other special economic zones have proliferated since the 1990s. These special tax zones are offered by countries seeking foreign direct investment from MNCs, and typically offer tax incentives, regulatory exemptions, and reduced labor protections for firms willing to invest. While originally designed to promote industrialization and export-led growth, EPZs also create opportunities for multinationals to lower their overall tax burden. They embody the tax competition that takes place between countries and obstructs them from enacting tax reform on their own. The United States, with its enormous domestic market and multi-trillion dollar multinationals, is the only country which could enact tax reform unilaterally.

FIGURE 5. Number of Special Economic Zones (SEZs), 1991–2022



Source: Authors' creation based on UNCTAD (2019).

Finally, intangible assets – such as intellectual property, patents, and trademarks – have become another key instrument for multinationals to enhance their profitability. These assets facilitate the trend of tax-avoidance, because intangible assets are difficult to value and can be easily transferred across subsidiaries. Firms shift the location of profits away from the location of real economic activity by housing intangibles in locations where their revenue streams go untaxed.

This phenomena points to the more general problems of strategic transfer pricing, tax avoidance and tax evasion strategies that firms use to lower their effective tax rates, which will be discussed in Section 3 in detail (see Box 1 for definitions and examples of these key terms). Understanding how the fragmentation of production and the expansion of multinational corporate structures interact with national tax systems is essential to analyze tax avoidance in the global economy and what the U.S. can do to stop it.

BOX 1. Definition of Key Terms

Tax Avoidance
The use of legal strategies to reduce tax liabilities by exploiting gaps, deductions, or mismatches in tax laws across jurisdictions.

Example: A multinational locates the legal ownership of its patents in a subsidiary in Bermuda and charges other subsidiaries licensing fees, allowing profits to accumulate in a jurisdiction with little or no corporate tax.

Tax Evasion
The illegal non-payment or underpayment of taxes, such as by hiding income, falsifying accounts, or failing to report taxable profits.

Example: A company deliberately underreports its revenues to tax authorities by keeping part of its income in undisclosed offshore accounts.

Profit Shifting
The practice by which multinational corporations move profits from high-tax jurisdictions to low-tax or no-tax jurisdictions, often using legal mechanisms such as transfer pricing, strategic location of intellectual property, intra-firm loans, or royalty payments. Profit shifting reduces the overall tax burden of the multinational group without necessarily relocating real economic activity.

Example: A multinational registers its intellectual property in a subsidiary located in a tax haven. Operating subsidiaries in higher-tax countries must pay royalties to this entity for the use of the intellectual property, shifting profits to the low-tax jurisdiction even though production and sales occur elsewhere.

Transfer Pricing
The prices charged for transactions between related entities within a multinational firm. Manipulating these prices can shift profits across countries and reduce the firm's global tax burden.

Example: If a U.S. company sells something to its Irish subsidiary at a very low internal price, the Irish subsidiary can then sell it at the normal market price and report most of the profit in Ireland (where taxes are lower). Similarly, if the Irish subsidiary charges the U.S. company very high prices or fees (for inputs, services, or intellectual property), this also shifts profits into Ireland.

3. Tax havens and Profit Shifting: Mechanisms and Magnitudes

3.1 What is a Tax Haven?

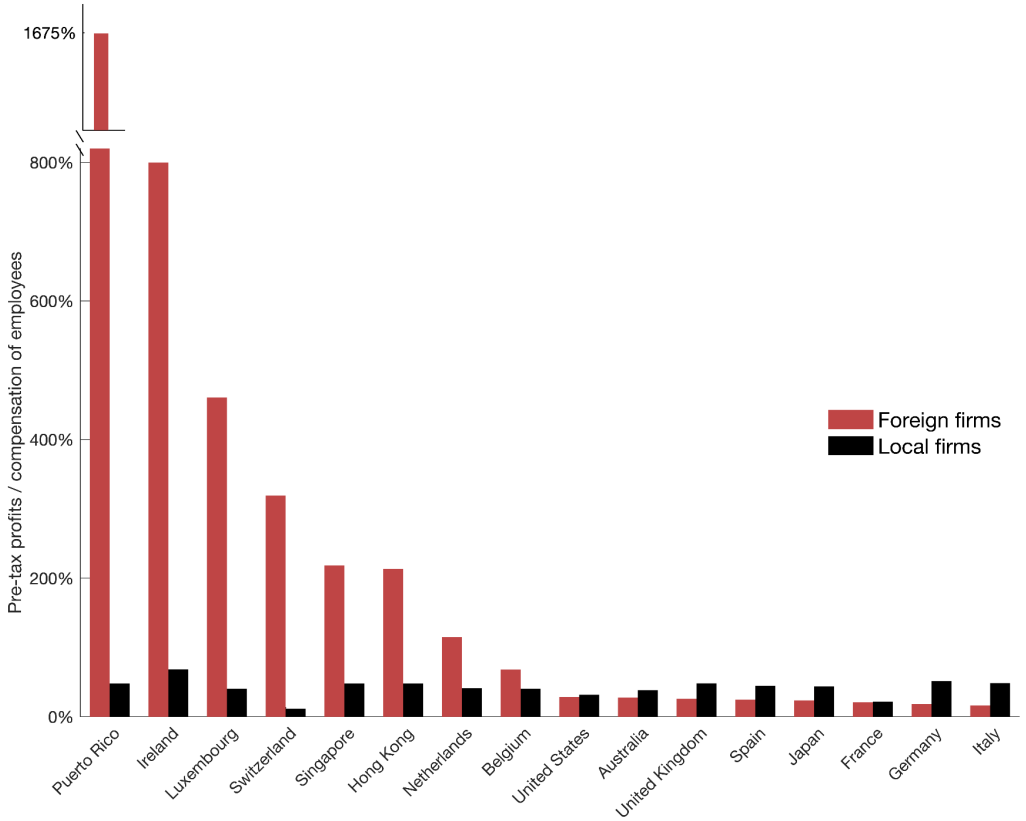
The simplest way to understand a tax haven is that it is a jurisdiction which applies a low tax rate on corporate income, i.e., profits. Most tax havens have a corporate income tax rate between 0-10%, and almost always below 15%. Researchers estimate that about 40% of shifted profit is booked in countries with an effective tax rate (ETR) below 1%, and 70-83% of shifted profit is booked in countries with an ETR below 10%.[9]

[9] Garcia-Bernardo and Janský, 2024

Another way to classify a tax haven is by the profits-to-wages ratio of domestic firms compared to foreign firms within a country (see Figure 6 below). In theory, domestic and foreign firms should have roughly the same profits-to-wages ratio. There is no reason to expect foreign firms to be orders of magnitude more profitable than domestic firms, or vice versa. In today's non-tax havens, Tørsløv et al. (2020) show that local firms tend to have a profits-to-wages ratio around 30-40%, with foreign firms recording a ratio of 20-30%. That means that for every $1 paid in wages, domestic firms book about $0.30-$0.40 in profit, and foreign firms book about $0.20-$0.30 in profit.[10]

Meanwhile, foreign firms in *tax havens* have a profits-to-wages ratio that is "eight times larger than local firms," on average (*Ibid*, pg. 18). For example, in 2015, foreign firms in Ireland had a profits-to-wages ratio of 800%.[11] That means that for every $1 they paid in wages in Ireland, foreign firms booked $8 in profit there. In Puerto Rico, the profits-to-wages ratio of foreign firms was an astonishing 1,625%. And U.S. affiliates in tax havens recorded an average profits-to-wages ratio of 346%, "as opposed to 46% for non-haven affiliates" (*Ibid,* pg. 11). This was the case even after controlling for variables such as sector, capital structure and R&D intensity.

FIGURE 6. Profitability in foreign vs. local firms



Source: Tørsløv et al., 2022. This figure shows the ratio of pre-tax profits to compensation of employees for local firms and foreign firms in 2015. The first eight jurisdictions are tax havens, and the latter eight are not.

[10] The slightly higher profitability of domestic firms is related to their smaller size; smaller firms tend to be more profitable than larger ones, but also have a higher likelihood of going bankrupt in any given year.
[11] compared to 30% in the mid-1980s.

Not all tax havens operate by offering low corporate income tax rates. Some tax havens offer a legal infrastructure that permits multinationals to re-route profits to other tax havens, as a way of dodging anti-avoidance laws such as those that can be imposed in the EU. Both Ireland and Luxembourg, for example, allow European multinationals to re-route money to non-EU tax havens to avoid EU tax avoidance laws:

> A country like Germany can impose taxes on payments to Bermuda (a classic anti-avoidance strategy), but not on payments to Luxembourg. By shifting profits first to Luxembourg and then to Bermuda, a multinational company can avoid the German anti-avoidance rules. (Ibid, 29)

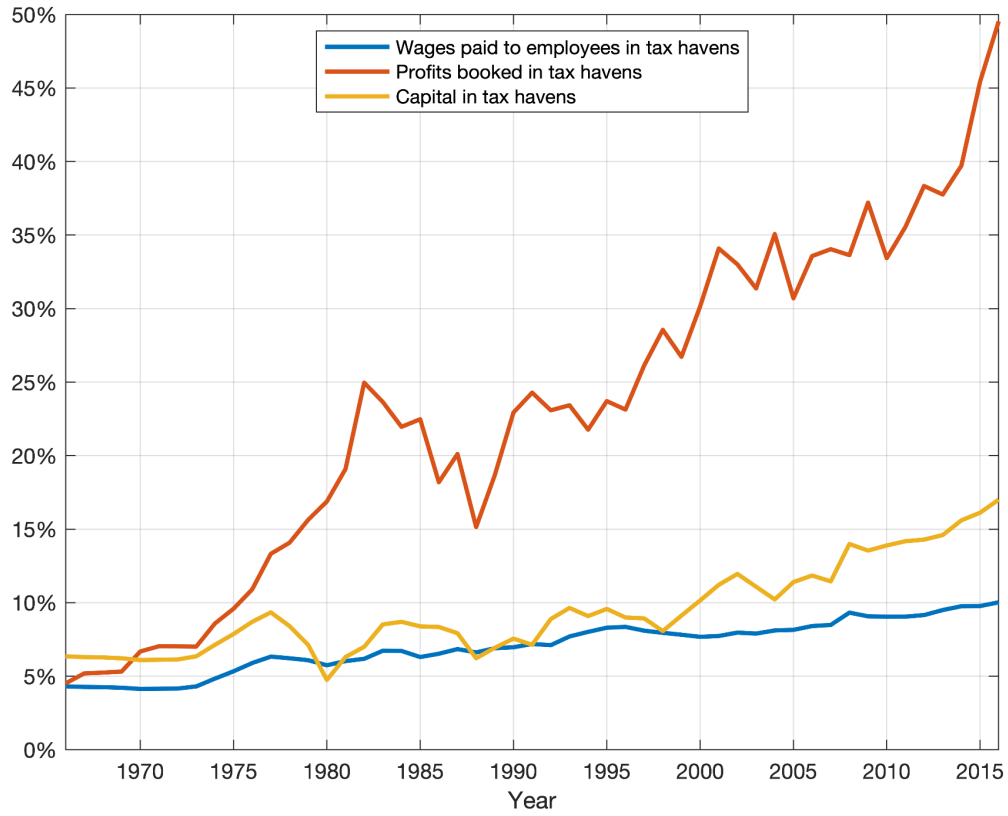
These re-routing strategies are used in other tax havens around the world depending on the specific legal context and institutional arrangements between the actors involved.

A final service offered by some tax havens is secrecy. Secrecy jurisdictions provide legal means for companies and their affiliates to hide their true identities, so that profits booked there cannot be traced back to their original source.

In summary, tax havens operate by providing low corporate income tax rates, usually between 0-10%; legal infrastructure to re-route profits to other tax havens; and sometimes, secrecy – i.e. non-traceability – for profits and wealth booked there. A full list of tax havens identified in the literature can be found in the appendix.

The effect of multinationals' tax haven use is that the location of real economic activity is split apart from where firms report their profits. Figure 7 shows the share of physical capital, wages, and profits out of total physical capital, wages and profits that U.S. multinationals book in tax havens. By 2015, U.S. MNCs booked over half of their foreign profits in tax haven jurisdictions. By contrast, the share of wages paid to employees in tax havens remained minimal throughout the period, barely reaching 10 percent. The share of physical capital located in tax havens grew, but far more modestly than the share of profits.

FIGURE 7. Capital, profits, and wages of U.S. affiliates in tax havens (% of total capital, profits, and wages of U.S. affiliates abroad).



Source: Authors' creation based on Saez and Zucman (2020).

This divergence suggests that a substantial portion of profits recorded in tax havens does not correspond to underlying economic activity taking place in those locations. Instead, it reflects accounting practices and corporate structures that allow multinational firms to allocate profits to low-tax jurisdictions.

3.2 How Multinationals Book Profits in Tax Havens

It is possible for MNCs to book profits in tax havens due to the historical design of the international tax system. In theory, there are two ways to conceive of a multinational for taxation purposes: as a unitary entity, or as a collection of separate entities. When conceived of as a unitary entity, a multinational's profits are consolidated across the entire corporate group, i.e. across all jurisdictions in which it operates. Under the separation principle, MNCs' subsidiaries report profits individually, as if each subsidiary were a separate company.

The current international tax system treats firms' subsidiaries and affiliates as *separate* entities from the parent firm, which allows affiliates of a single MNC to transact with each other as if they were independent companies. Subsidiaries are subject to the tax laws that reign in whichever jurisdiction they are located, and pay the corporate income tax rate that applies in their jurisdiction. Moreover, transactions between a multinational firm's parent and its subsidiaries are conducted on an *arm's length*

basis, meaning that the price of an inter-firm transaction is legally considered to be the price that a parent or subsidiary *would* pay if the firm's subsidiaries were unaffiliated.

In practice, the treatment of MNCs' affiliates as separate entities and the use of arm's length pricing opens the door to a dizzying number of tax avoidance strategies. The shifting of multinational firm revenues between subsidiaries in order to avoid paying taxes is called *profit shifting* (see Box 1 for definition of key terms). Firms use various means to book profits in low-tax jurisdictions, or otherwise manipulate their revenue statements in a way that enables them to exploit differences in tax laws and rates across the jurisdictions in which they operate.

The most well-known profit-shifting strategies include: manipulating intragroup export and import prices; shifting profits using intra-group interest payments; and moving "intangible assets such as trademarks, patents, logos, or algorithms of financial portfolios" into affiliates located in low-tax jurisdictions, even when those IP assets are managed by workers in high-tax jurisdictions.[12] An example of manipulating intragroup export and import prices includes when a parent located in a high-tax jurisdiction pays artificially high prices for imports of goods from its low-tax affiliate in order to offset profits with costs in the high-tax jurisdiction. Researchers have also identified "high risk services exports" that are likely to indicate profit shifting.[13]

Beer, de Mooij, and Lui (2020) review the literature on tax avoidance and identify six primary channels through which MNEs legally avoid paying taxes, the first three of which are already mentioned above. These include:

1. transfer mispricing (subjective interpretation of the would-be cost of activities if in-house transactions were purchased from a third party rather than performed by a firm's subsidiary);
2. strategic location of IP (moving valuable intellectual property to low-tax jurisdictions so that revenue attributed to property rights is undertaxed);
3. international debt shifting (moving company debt to a location where debt may receive a tax write-off – for example, making a loan from a subsidiary located in a low-tax jurisdiction to a subsidiary in a high-tax jurisdiction, so that the debt is tax-deductible in the high-tax jurisdiction and interest payments on the loan are undertaxed in the low-tax jurisdiction);
4. tax treaty shopping (for example, exploiting double-tax treaties by re-routing payments within a MNE through a jurisdiction where double-tax treaties lower taxation, sometimes to zero);
5. tax deferral (holding retained profits abroad to avoid tax repatriation, indefinitely or until tax laws change favorably for the corporation in the source country); and
6. corporate inversions and headquarter locations (changing the headquarter of a corporation to avoid paying taxes).

3.3 The Largest Tax Havens

The largest tax havens –the largest recipients of shifted profits – are the Cayman Islands, Luxembourg, the Netherlands, Switzerland, Singapore, Bermuda, Puerto Rico, and Ireland.[14] Moreover, a third of shifted profit globally is booked in what is known as "the axis of tax avoidance," a group of tax havens

[12] Tørsløv et al., 2020, p.7; see also Heckemeyer and Overesch, 2017

[13] These include: "exports of the right to use intellectual property… [exports] of headquarter services (administration, management and advertising), information and communication technology services, and financial and insurance services." (Hebous and Johannesen, 2021)

[14] Garcia-Bernardo and Janský, 2024

which includes Luxembourg, the Netherlands, Switzerland, and the UK with its 'second empire,' of which the Cayman Islands and Bermuda are both part.

Within tax havens themselves, Tørsløv et al. (2020) find that more than half of corporate income tax revenues in Malta, Puerto Rico, Ireland and Luxembourg come from shifted profits. Bernardo-Garcia and Janský (2024) estimate that between 94-96% of profits booked in the Cayman Islands are profits shifted there by multinationals, while 34-47% of profits booked in the Netherlands are shifted profits.

The U.S. as a Tax Haven

Recently, the United States has also become something of a tax haven for its own multinational companies. The Tax Cuts and Jobs Act passed under Trump in 2017 lowered the statutory tax rate on U.S. corporations from 35% to 21% (with average effective tax rates falling from 32.7% to 20.8%).[15] The reduction was even more pronounced for Big Tech: "Their effective tax rate dropped from 32.4% in 2016 – then still on par with other U.S. companies – to just 10.6% in 2024, barely half the rate paid by other U.S. firms" (The State of Tax Justice, 2025).

The change in the effective tax rate paid by U.S. tech multinationals was due to the implementation of new taxes, including the Foreign Derived Intangible Income (FDII) tax, which applies a lower statutory rate to U.S. firms' exports of services related to intellectual property: a 13.125% rate minus 10% of qualified business asset investment.[16] Table 1 shows the change in effective tax rates applied to U.S. tech companies between 2016 and 2024.

TABLE 1. Effective tax rates paid by Big Tech companies in the US and abroad

	In the U.S.		Abroad	
	2016	2024	2016	2024
Alphabet / Google	31.2%	15.9%	7.6%	21.8%
Amazon	31.4%	10.6%	—	40.1%
Apple	66.8%	8.5%	5.2%	33.4%
Meta / Facebook	33.5%	8.4%	2.8%	62.7%
Microsoft	—	14.9%	9.7%	22.9%
Average	40.7%	11.7%	6.3%	36.2%

Source: The State of Tax Justice 2025. The authors of the report did not calculate ETRs when negative profits were reported.

[15] Average effective tax rates (ETRs) are used in the literature rather than statutory (legal) tax rates, because the taxes paid in practice do not usually match the taxes stipulated by law, as verified by an extensive academic literature. Effective tax rates are defined as "the ratio of accrued taxes over profits" (Garcia-Bernardo and Janský, 2024), and they often differ from statutory rates due to special carve-outs in tax law. For example: "Luxembourg had a statutory (corporate income tax) rate of 29.22% in 2017" while the "ETR estimate for the same year is 1%" *(Ibid).*

[16] Cole, 2024. The Tax Foundation.

In theory, the Tax Cuts and Jobs Act was supposed to convince U.S. MNCs to book profits in the U.S. rather than in their foreign affiliates, and it did. However, what the legislation achieved in practice was to change the location where corporate profits went untaxed – from foreign affiliates such as Bermuda and Luxembourg, to the U.S.[17]

Taxes paid by U.S. multinationals in the U.S. actually *fell* from 2016 to 2024 as a result, and taxes paid on profits earned by U.S. multinationals' foreign affiliates rose only slightly and not at *all* in proportion to the rise of profitability (recall Figure 4, in Section 2).

3.4 How Much Profit is Shifted Annually?

Researchers use different methodologies and datasets to estimate the total quantity and share of corporate profit that is shifted into tax havens each year. Nonetheless, using different datasets and methodologies, researchers have arrived at similar estimates for the total sum of shifted profits at a global level.

Between 2017-2021, an estimated $1.13 trillion of multinational profit was shifted globally per year on average into tax havens, resulting in direct tax revenue losses of $294 billion a year, globally. This number trended upward each year, to an estimated $1.42 trillion in 2021, with direct global corporate tax losses of $348 billion.[18] Note that multinational profit refers to profits that are booked by MNCs in their foreign affiliates.

Shifted profits account for about 16% of all profits made by multinational corporations over this period, and about 40% of profits made by MNCs abroad. What is the difference? A multinational such as Apple may, for example, report some of its profits in the U.S. and some of its profits in a tax haven like Ireland. Researchers estimate that about 16% of multinational profits *in total* are shifted into tax havens, but of multinational profits that are reported by companies' affiliates abroad, the estimated amount of profit shifted is around 40%.[19]

The multinationals most responsible for profit-shifting are headquartered in high-income countries: especially the U.S. In fact, in 2015, U.S. MNCs were estimated to book over half of their foreign profits in tax havens.[20] That same year, around 50% of total global profit shifting was done by U.S.-headquartered MNCs, while slightly more than 25% was done by MNCs headquartered in the EU.

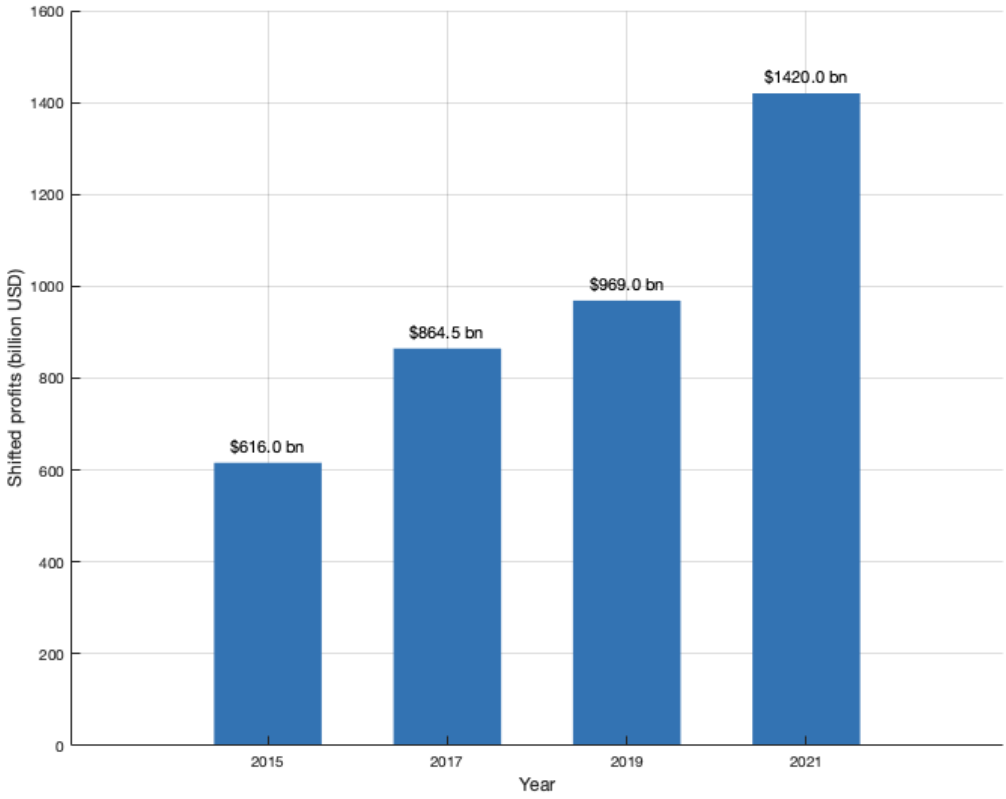
[17] The State of Tax Justice, 2025

[18] Data used to generate estimates: OECD's country-by-country reports, released from 2016 through 2021 (citation: The Tax Justice Network 2024 report)

[19] Clausing, 2016; Tørsløv et al., 2023; The State of Tax Justice 2023 and 2024

[20] Tørsløv et al., 2020. The estimate for non-U.S. MNCs is that 27% of all foreign profits are booked in havens.

FIGURE 8. Best estimates of shifted profits by year globally, 2015-2021



Note: Sources, in chronological order of the estimates: 2015: Wier and Zucman (2022); Tørsløv et al. (2023); 2017: Garcia-Bernardo and Janský (2024); 2019: Wier and Zucman (2022); 2021: Tax Justice Network. Because these estimates rely on different databases and methodologies, they are *not strictly comparable*; the figure should therefore be interpreted as indicative rather than fully harmonized.

Between 2016-2021, U.S. multinationals were estimated to be "responsible for revenue losses around the world of $495 billion: some 29% of the global total" (The State of Tax Justice, 2025). The U.S. itself lost an estimated $574 billion due to profit shifting over the same period, as foreign MNCs in addition to domestic firms moved profits out of the U.S. If the corporate income tax rate had remained at 35% throughout the period, this tax revenue loss would be $829 billion. All researchers have found that the U.S. loses the most revenue in absolute terms of any country in the world as a result of profit shifting.

Additionally, the vast majority of tax havens are high-income jurisdictions. As such, tax revenue on shifted profits overwhelmingly accrues to high-income countries (see Figure 9 below). That does not mean that the gains to tax havens are worthwhile on a global scale: For every $1 collected by a tax haven, researchers estimate that the governments of the world collectively lose more than $5.[21]

[21] The State of Tax Justice, 2025

FIGURE 9. Tax revenue losses and gains as a share of total tax revenue (by income group and country group)

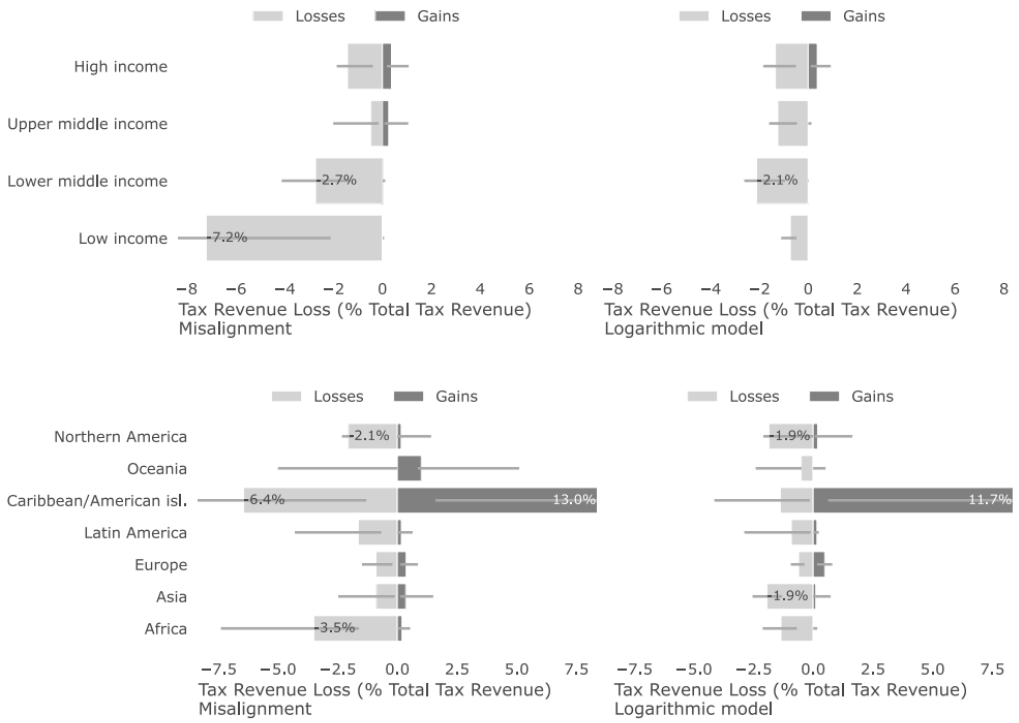


Fig. 5. Tax revenue loss as a percentage of total tax revenue.
Notes: Tax revenue loss as a percentage of total tax revenue for countries in different income groups (top row) and different geographical regions (bottom row), as estimated by the misalignment (left side of graph) and logarithmic (right side of graph) models. Confidence intervals show 95% intervals, calculated via bootstrapping.

Source: Garcia-Bernardo and Janský, 2024

Methodology for estimating shifted profits and tax revenue losses and the impact of race-to-the-bottom dynamics, lack of public reporting, and indirect tax losses

Academics have employed various methodologies to estimate the total amount of profits that are shifted into tax havens each year. One way researchers have done so is to estimate the amount of profits that *would* accrue to a jurisdiction based on a hypothetical situation: one that takes into account measures of firms' real economic activity, as well as an estimate of 'average expected profits' $\hat{p}_i$ which controls for country fixed effects. Then 'misaligned profits' can be calculated as the difference between expected profits and observed profits:

$$S_i = \pi_i - \hat{p}_i$$

where S_i are shifted (misaligned) profits, π_i are booked profits and $\hat{p}_i$ are expected profits in country i.

The next step is to reallocate the shifted profits to the jurisdictions from which they originated. A common way to do so is to use a redistribution formula which uses data on firms' real economic activity – provided by country-by-country reporting – to reallocate the total shifted profits S_i back to the countries where the profits originated. Doing so generates an estimate of the change in expected profits

for country i: ΔP_i. Estimates of the change in expected profits by jurisdiction then make it possible to calculate estimates of tax revenue loss by jurisdiction. This can be done by taking the estimate of the change in expected profit by jurisdiction ΔP_i and multiplying it by the effective tax rate (ETR) in that jurisdiction:

$$TRL_i = \Delta P_i(ETR_i)$$

where TRL_i is the estimated tax revenue losses for country i.[22]

3.5 Indirect Tax Revenue Losses

Indirect tax revenue losses, losses due to lowering corporate income tax rates, and losses resulting from secrecy accounting

Direct revenue losses TRL_i are only one element of the total global tax losses that result from the current international tax architecture. Researchers at The Tax Justice Network have estimated tax revenue losses that accrue due to:

- **race-to-the-bottom tax dynamics:** the tax revenue that *would have been earned* if countries did not compete to lower their corporate income tax rates – consider that average *statutory* corporate income tax rates globally have fallen from 49% in 1985 to 24% by 2018;
- **a lack of public country-by-country reporting**: the tax revenue that *would have been earned* if multinationals were required to publish their tax statements in every jurisdiction in which they have operations, based on research that shows that effective tax rates increased by between 1-3.6% for firms that were required to make their tax statements public (see Joshi, 2020, and Overesech and Wolff, 2021).

IMF researchers Crivelli, De Mooij and Keen (2016) further highlight that *indirect* tax revenue losses are orders of magnitude higher than *direct* tax revenue losses – by a multiple of two to fifteen! – due to the negative impact that missing tax revenue has on economic growth.

To summarize: profit shifting reduces the tax base for non-tax haven countries in which profits have been made and subsequently re-routed to tax havens. Profit shifting also encourages race-to-the-bottom dynamics for countries as they lower their corporate income tax rates, believing that by doing so they can discourage profit shifting (Tørsløv et al., 2020). In fact, research shows that this is not the case: the majority of shifted profit is booked in tax havens with an effective tax rate below 10%, as mentioned earlier, so unless a country is prepared to become a tax haven itself, lower tax rates are not likely to have any effect except to reduce their total tax take.

[22] This methodology is used by Bernardo-Garcia and Janský (2024) as well as by researchers at The Tax Justice Network. Tørsløv et al. (2020) use an "excess profitability" methodology based on observed profits:wages ratios for foreign vs. domestic firms in tax havens vs. non-tax havens, as well as an "excess cross-border transactions" methodology, based on "the high exports of services and receipts of intra-group interest recorded in the balances of payments of tax havens" (p. 3). They then reallocate their estimates of shifted profits to the countries where they were made or to the countries where the multinationals' parents are headquartered. See the papers' methodology sections for more thorough descriptions of how shifted profits are estimated and subsequently reallocated, as well for details about how to estimate expected profits. Both methodologies generate similar results.

In addition, a lack of transparent and public tax reporting by multinationals has been shown to facilitate profit shifting, and thus, tax revenue losses. And the losses on shifted profits in combination with the losses incurred as a result of falling corporate income tax rates has a negative multiplier effect on total tax revenues: unreported profits are not being funneled into investments or activities that generate more spending. The next section looks at the distributional consequences of tax avoidance on a global scale.

3.6 Global Distributional Effects

High income countries lose the most tax revenue in dollar terms (in levels) as a result of profit shifting, with the U.S. as the largest absolute loser. Germany and France are both estimated to lose up to half their profit base to profit shifting.[23]

Nonetheless, as a proportion of *total* tax revenue, low and lower-middle income countries are the biggest losers. They lose the largest *share* of their total tax revenue from profit shifting. That is for many reasons, including the fact that low and lower-middle income countries rely more on profit income than labor income for tax revenue (see Table 2 below). They have relatively small formal sectors and difficulty collecting taxes on labor income, so multinationals' profits form a disproportionately large part of these countries' taxable income. These countries may *also* already offer tax incentives to foreign firms, such as special economic zones (SEZs) or other arrangements, so that the tax revenue losses from profit-shifting can be devastating.

Garcia-Bernardo and Janský (2024) estimate that low income countries lose 7.19% of their total tax revenue as a result of profit shifting on average, compared to 1.43% for high income countries.[24] Countries in Africa, followed by countries in Latin America, are the most vulnerable to profit-shifting.[25]

The profits shifted out of low income countries are estimated to reach about 2% of GDP, with tax revenue losses reaching approximately 0.8% of GDP, while shifted profits reach about 1% of GDP in high income countries with corresponding tax revenue losses of about 0.4% of GDP on average (*Ibid*).

Forthcoming dissertation work by Johnston shows that taxes on the profits generated by countries' export sectors and domestic linkages to those sectors constitute a higher share of total tax revenue in emerging economies than in advanced economies (3.8% vs. 3.0%). Emerging economies also depend more on taxes generated by profits in their export sectors than on taxes generated by labor income in those sectors (3.8% vs. 3.4%), which contrasts with advanced economies, in which taxes raised from labor income on countries' export sectors reach 8.5% of their total tax revenue, on average, compared to 3% of total tax revenue from profit income. Therefore, any taxable profit shifted out has an outsized effect on revenues in emerging economies.

[23] Garcia-Bernardo and Janský, 2024

[24] These are aggregates across country groups.

[25] Garcia-Bernardo and Janský, 2024; The State of Tax Justice 2024. See also Fuest, Hebous, & Riedel, 2011, and Johannesen et al., 2020, on why low income countries are the most vulnerable to losing tax revenue through profit shifting by MNCs.

TABLE 2: Taxes generated by the domestic value added in foreign final demand as a share of total tax revenue, by country group and sector (mean and median). 1995-2022.

	Advanced economies	Emerging economies	Tax havens
All Activities			
tax on labor	8.5% (8.1%)	3.4% (3.0%)	12.0% (12.2%)
tax on profit	3.0% (2.6%)	3.8% (3.1%)	8.4% (7.3%)
Manufacturing			
tax on labor	2.7% (2.5%)	1.0% (0.8%)	2.8% (2.3%)
tax on profit	1.0% (0.8%)	1.0% (0.9%)	1.6% (1.2%)
Business Services			
tax on labor	4.4% (4.2%)	1.6% (1.3%)	8.1% (7.8%)
tax on profit	1.5% (1.4%)	1.5% (1.3%)	6.1% (5.5%)

Source: Data on domestic value added in foreign final demand from OECD. Data on tax revenue from the IMF's World Longitudinal Revenue Database. Calculations are from the author's dissertation (Johnston, forthcoming).

Finally, a useful way to understand the real impact of tax revenue loss from profit-shifting is to calculate tax revenue losses from missing profits as a share of countries' health expenditure (Table 3 is taken from The State of Tax Justice Report, 2025). Column 2 in Table 3 shows the total tax revenue loss per country that is estimated as a result of U.S. multinational corporations shifting profits out of the country and into tax havens. Column 4 shows the estimated tax revenue loss on profits shifted out of countries by U.S. multinationals as a share of those countries' health expenditures. So even though the United States, India, and Mexico lose the most tax revenue in dollar terms from U.S. firms' tax avoidance, in fact, Congo, Honduras and Philippines lose the most tax revenue as a share of their public spending on health care.

TABLE 3. Tax revenue losses in levels vs. shares of public health expenditure

by absolute losses		by share of health expenditure	
Country	**Tax revenue loss in mUSD**	**Country**	**Share of health expenditure**
United States	271,368	Congo	60.9%
India	34,803	Honduras	34.5%
Australia	18,310	Philippines	22.1%
Mexico	17,530	India	18.2%
Germany	16,512	Malawi	11.6%
France	14,024	Mozambique	11.5%
Canada	13,335	Guyana	11.0%
Brazil	10,125	Venezuela	9.2%
Philippines	9,955	Mexico	7.8%
United Kingdom	9,011	El Salvador	7.7%

Source: The State of Tax Justice Report, 2025. These estimates are for 2016-2021, cumulative.

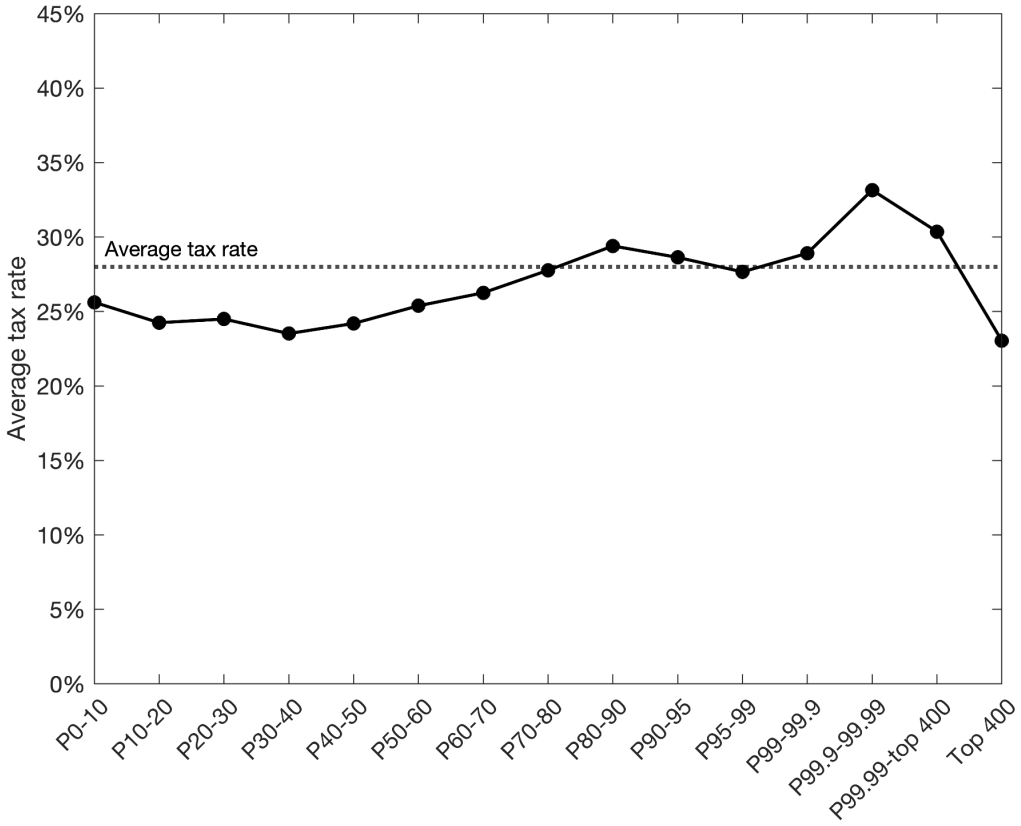
4. Corporate Taxation and Inequality in the United States

4.1 Tax Rates and Tax Revenue: Corporations vs. Individuals

Profit shifting and tax avoidance by multinational corporations have occurred against a backdrop of rising income and wealth inequality in the United States. In Section 2, we showed that corporate income taxes used to make up 7 percent of national income during the mid-20th century. Since the 1980s, that share has fallen to less than 2 percent. The tax burden has shifted towards personal income taxes and more regressive consumption taxes.

The change in the relative contribution of corporations and households is reflected in the distribution of taxes across income groups. Figure 10 shows the composition of taxes paid by different segments of the income distribution in 2018.

FIGURE 10. Average tax rates by income group (% of pre-tax income, 2018).

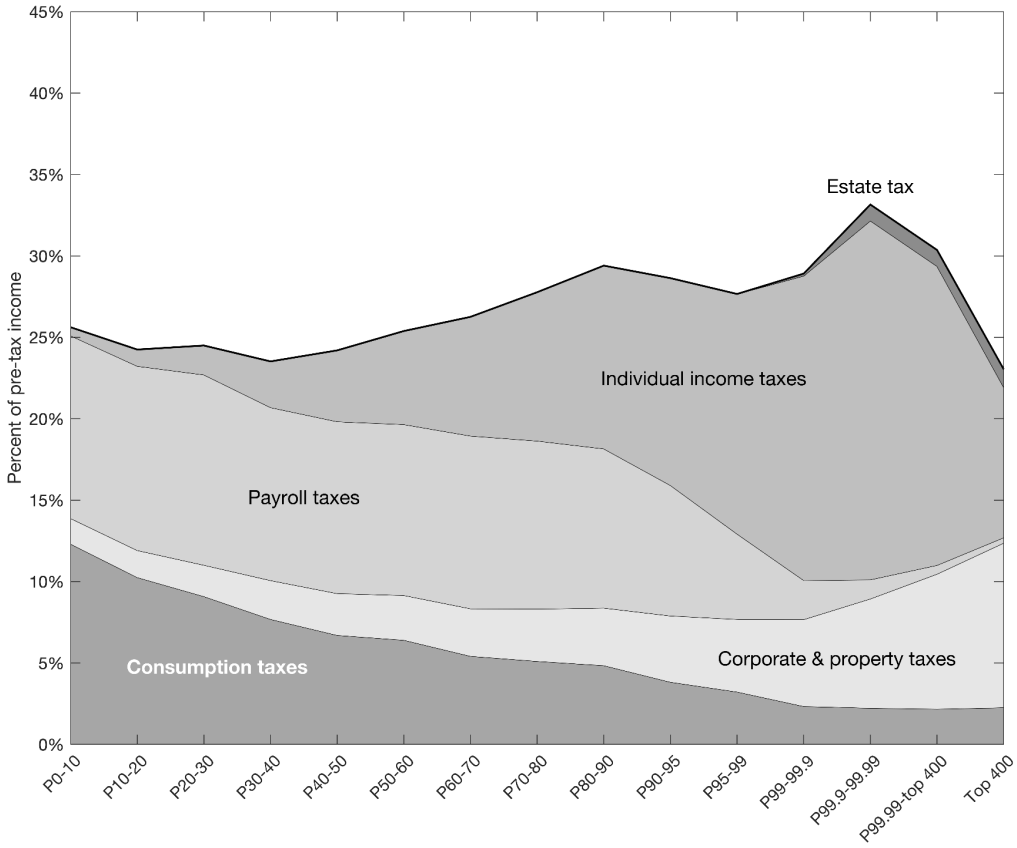


Source: Authors' creation based on Torslov, Wier and Zucman (2018)

In reality, the United States has a relatively flat income tax rate when all taxes are considered together, which becomes regressive at the very highest levels of income. The working class (often classified as the bottom 50% of the income distribution) pays about 25% of its income in taxes. The middle class (the next four deciles) pays about 28% of its income in taxes. The average tax rate then increases slightly above the national average of 28% for the upper-middle class, before falling to 23% for the richest 400 Americans. Therefore, the billionaire class pays lower tax rates than their secretaries and concierges.

Figure 11 below (which uses the same data as Figure 10) shows that across most of the income distribution, payroll taxes and consumption taxes account for a substantial share of total tax payments. These place a relatively heavy burden on low- and middle-income households. By contrast, taxes on capital – such as corporate, property, and estate taxes – represent only a small portion of the effective tax burden for most taxpayers. Individual income taxes become increasingly important at higher income levels, making the overall tax system appear progressive through much of the distribution. However, this pattern reverses at the very top. The average tax rate rises across the income distribution, reaching a peak of roughly 33 percent among the highest earners just below the very top, before declining for earners between the top 0.01% and the top 400, and then much more sharply for those at the very top (top 400 earners), whose effective tax rate falls to about 23 percent of income – lower than the rate paid by the lowest-income households (the bottom 10% pay an average tax rate of 25.6 percent). This drop reflects the importance of capital income at the very top, which is taxed far more lightly than labor income.

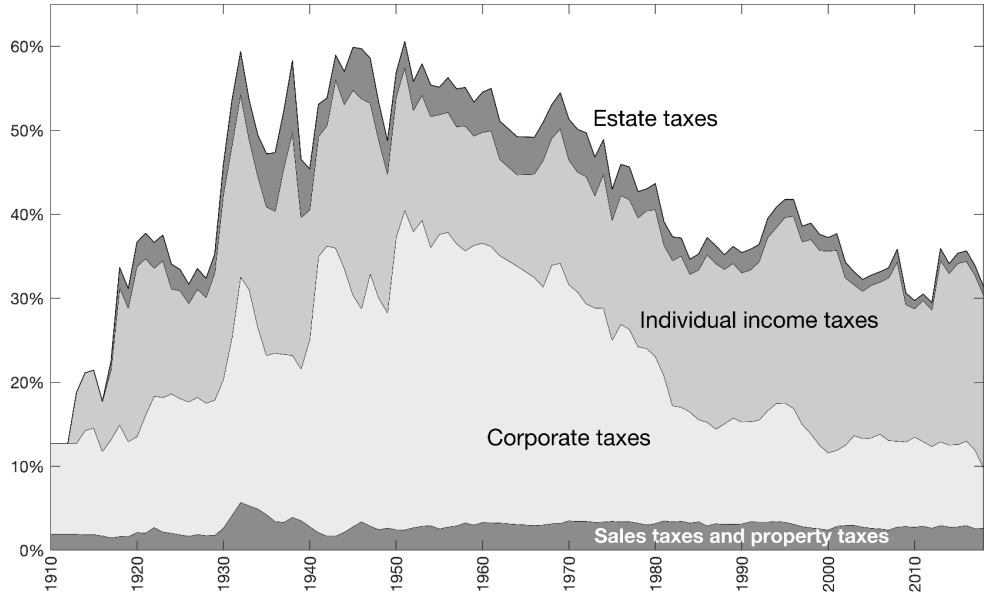
FIGURE 11. Average tax rates and composition of taxes by income group (% of pre-tax income, 2018).



Source: Authors' creation based on Torslov, Wier and Zucman (2018)

Historical evidence suggests that this was not always the case, and that the overall tax burden on the very richest households has declined over time. Figure 12 presents the evolution of the average tax rate paid by the top 0.1 percent of the income distribution over the past century.

Figure 12. Average tax rate of the top 0.1 percent (% of pre-tax income, 1910-2018).



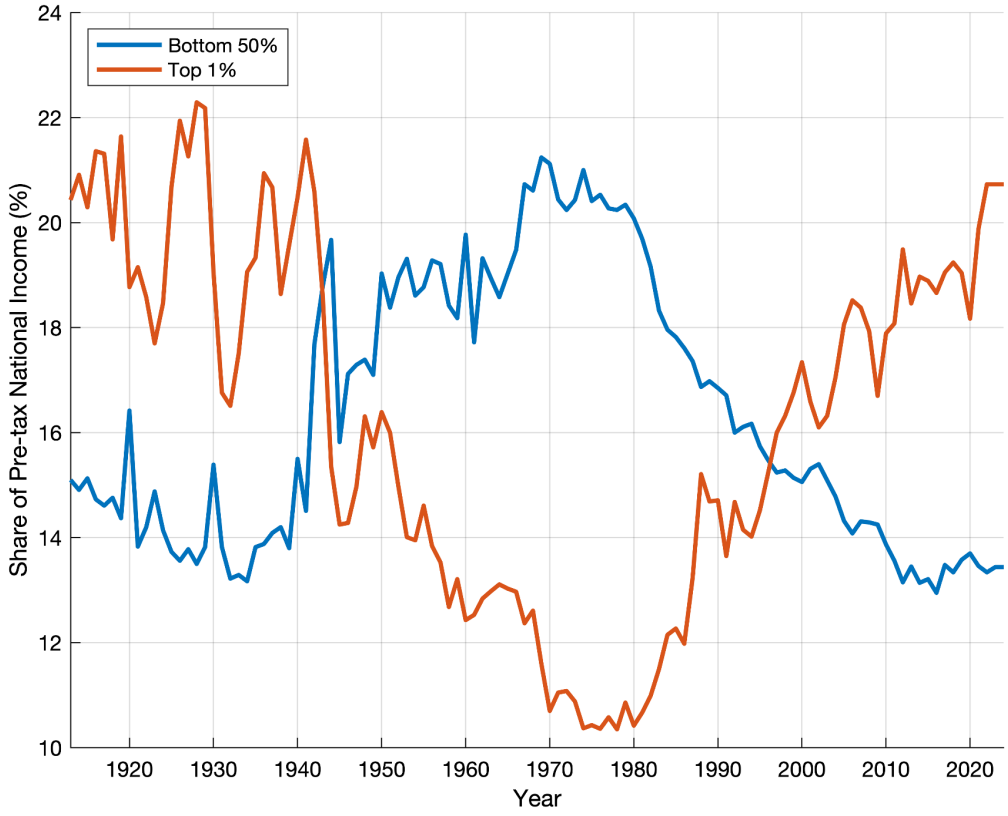
Source: Authors' creation based on Torslov, Wier and Zucman (2018)

The effective tax rate on the top 0.1 percent often exceeded 50 percent of pre-tax income during the mid-20th century, and the majority of these taxes were paid on corporate profits. This high level of taxation reflected the combined effects of progressive income taxes, corporate taxation, and estate taxes. The average tax rate paid by the richest households declined to roughly 30 percent by the early 21st century.

4.2 Rising Income and Wealth Inequality

The distribution of income and wealth in the United States has ricocheted between extreme inequality at the turn of the 20th century, to relative equality and prosperity during the post-WWII decades, back to extremely high income and wealth concentration levels today. Figure 13 illustrates the evolution of income shares in the United States between 1913 and 2024.

FIGURE 13. Share of pre-tax national income accruing to the bottom 50 percent and the top 1 percent, United States, 1913–2024.

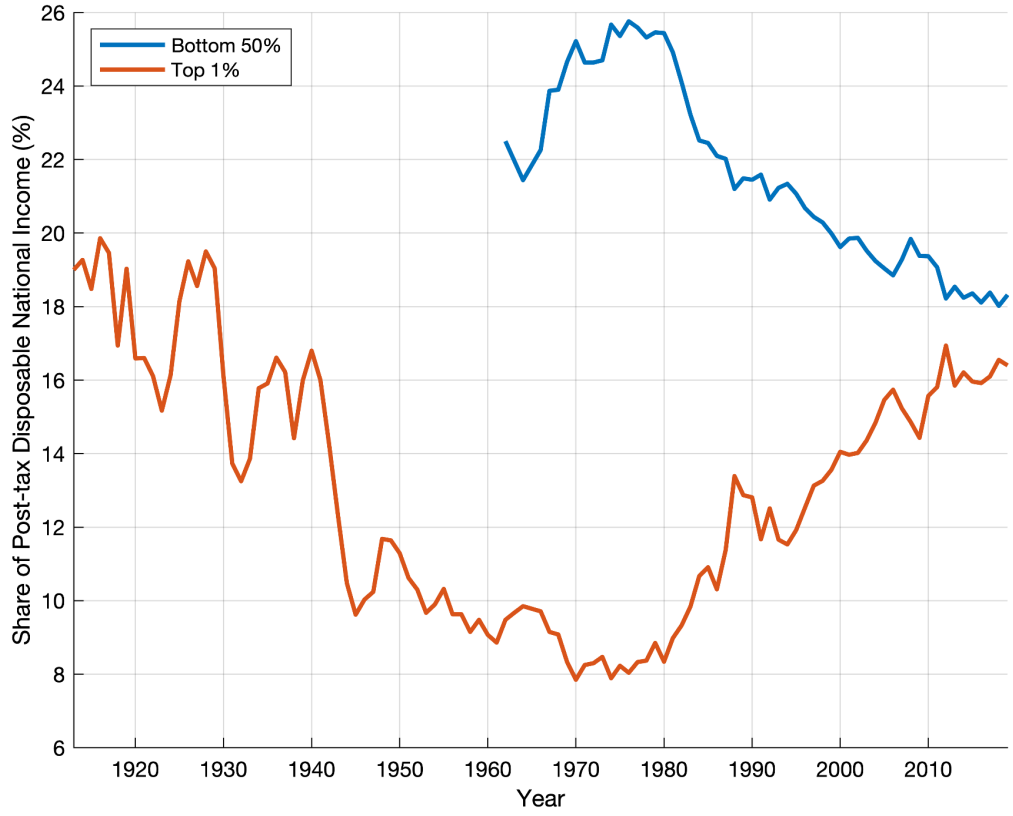


Source: World Inequality Database, World Inequality Lab.

By 2024, the bottom half of the income distribution captures only around 13 percent of total pre-tax income – far less than the top 1%, which takes home over 20 percent.

Taxation remains one of the strongest policy instruments through which governments can redistribute income and wealth, but the U.S. tax system has not addressed the problem of rising inequality sufficiently. Figure 14 shows the evolution of disposable income shares post-tax. While the tax system *is* redistributive, it has failed to offset the growing share of disposable (post-tax) income accruing to the top 1%.

FIGURE 14. Share of post-tax disposable national income accruing to the bottom 50 percent and the top 1 percent, United States, 1913–2024.

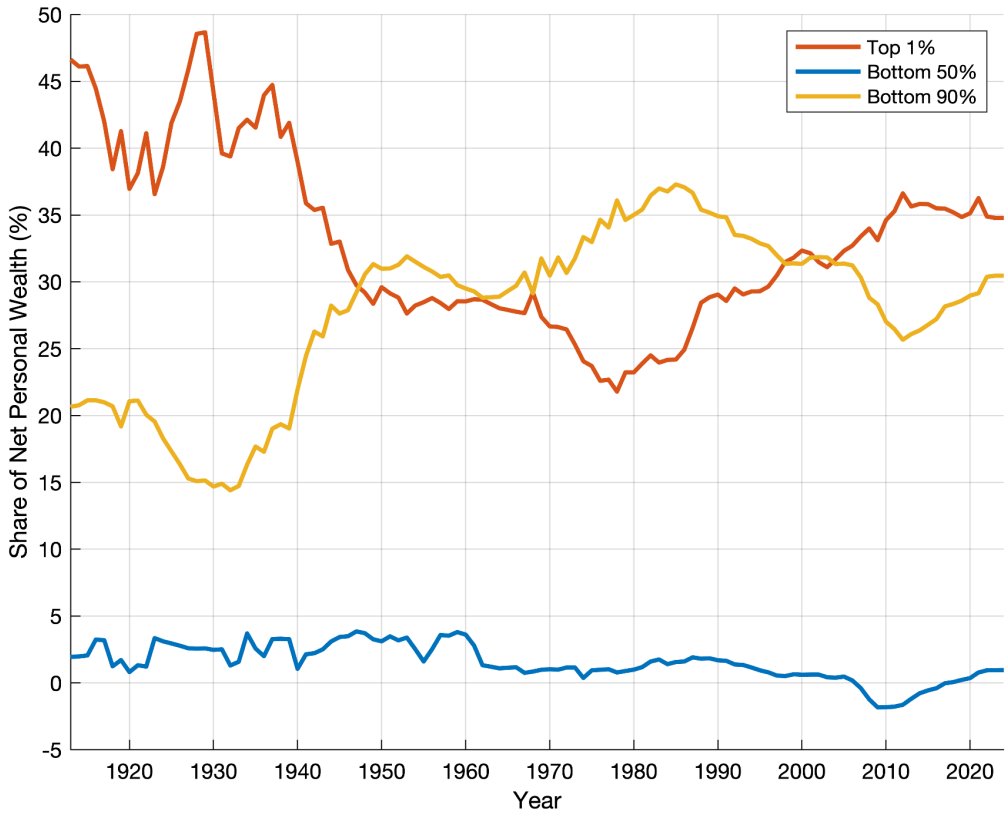


Source: World Inequality Database, World Inequality Lab.

Post-tax income shares between the top 1% and bottom 50% of the income distribution are converging, as shown above.

Nonetheless, wealth inequality shows an even more pronounced pattern of concentration than income. Figure 15 presents the distribution of wealth across the top 1 percent, the bottom 90 percent, and the bottom 50 percent between 1913 and 2024.

FIGURE 15. Shares of U.S. wealth held by the top 1 percent, bottom 90 percent, and bottom 50 percent, 1913–2024.



Source: World Inequality Database, World Inequality Lab.

The top one percent owned nearly half of total wealth in the United States at the start of the 20th century, falling to roughly 25–30 percent by the 1970s, and rising since the 1980s to 35 percent today.

The experience of the bottom half of the wealth distribution is striking. Throughout the period, the bottom 50 percent's share never exceeded 4 percent and declined to close to zero in the 2000s, reflecting the accumulation of debt and increasing concentration of asset ownership at the top. Even when considering the broader bottom 90 percent, the long-run trend points toward declining wealth shares relative to the very top of the distribution.

Both income and wealth concentration have therefore spiked in the U.S. over the past four decades. The magnitude of the shift invites comparison with the so-called Gilded Age of the late nineteenth and early twentieth centuries, when rapid industrialization, the rise of large corporations, and limited regulatory oversight produced extreme concentrations of wealth and economic power among a small economic elite. Starting in 1998 and for the first time since the end of the second World War, the wealth owned by the top 1% is again superior to the wealth owned by the bottom 90%.

Tax policy responded both to the excessive inequalities of the Gilded Age and also to the tax revenue needs imposed by WWI. Antitrust laws were passed to restrict the power of monopolies and labor protections were expanded to protect workers. The first corporate income tax was passed in 1909, and

a progressive federal income tax was introduced after 1913. Social insurance programs were rolled out under the New Deal (1930s), including the U.S.'s first federal welfare state which included unemployment insurance and pensions. All of these measures reduced the levels of inequality in the first half of the 20th century.

Escalating inequality since the late 1970s, however, suggests that the U.S.'s existing policy frameworks are inadequate to address today's concentration of income and wealth. In particular, the lowering of the corporate income tax rate, the rise of multinational corporations, and the increasing use of tax avoidance by those MNCs have contributed to the increase in inequality in the modern global economy. We now turn to practical solutions.

5. Taxing Multinationals Across Borders: Rebuilding the Corporate Tax System

Declining corporate tax rates and widespread profit shifting by multinational corporations have weakened the progressive tax architecture established in the first half of the twentieth century, eroding the US tax base while increasing income and wealth inequality. Rebuilding an effective corporate tax system is essential both for restoring public revenues and ensuring that corporations contribute their fair share to the economies in which they operate.

Our proposal contains a combination of policies designed to curb profit shifting and ensure that corporate profits are taxed more effectively:

1. Unitary Taxation with Formulary Apportionment
2. Corporate Income Tax of 35% with Throwback Rules

5.1 Unitary Taxation with Formulary Apportionment

What is unitary taxation with formulary apportionment? How does it differ from today's international tax system?

Unitary taxation with formulary apportionment creates a consolidated corporate tax base across a set of jurisdictions. That is to say that a corporation that operates across borders, i.e., a multinational firm that has a substantial tax presence in multiple jurisdictions, is treated as a *single, unitary entity* for tax purposes, rather than as a series of separate entities within each jurisdiction. Recall from Sections 2 and 3 that the splicing up of corporate income between different tax jurisdictions leads to aggressive tax planning strategies by multinationals and "stateless income," or corporate profits which are not taxed anywhere.

Recall also that the way the international tax system currently works is that a multinational firm can be headquartered in one country, and subject to the tax laws that operate within that country, but then have its subsidiaries located in a variety of countries, with each subsidiary subject to the laws that exist in each distinct jurisdiction. By fragmenting a single corporate group into separate subsidiaries, the opportunity for tax avoidance and tax arbitrage is created within a single firm. A corporation can shift

revenues earned from sales in one country with a high corporate income tax rate to a subsidiary located in a low-tax country, and thereby pay taxes on its total corporate income wherever it faces the lowest effective tax rate. **Unitary taxation eliminates this possibility.** U.S. multinational firms would be required to report their *total profits*, i.e., their total taxable corporate income across *all jurisdictions* in which they operate, and subsequent taxing rights to the firm's total profits would be allocated according to a *formulary apportionment* criteria discussed below.

The United States, Canada, and Switzerland all have unitary taxation with formulary apportionment systems to allocate corporate income tax across their states, provinces, and cantons, respectively. There was also a proposal before the European Union to create a common consolidated corporate tax base (CCCTB) in 2011. This initiative ultimately dissolved in 2023 due to lack of unanimous support.

Unitary taxation is therefore not a new idea. It is operational *within* multiple countries and was seriously considered by the European Union as recently as a few years ago. It also forms the basis of the OECD's BEPS Pillar 1 proposal to eradicate base erosion and profit shifting, or legal tax avoidance. Pillar 1 recommends applying a formulary apportionment criteria on *excess profits* for the very largest multinationals. This prior and current experience makes it possible to imagine how a unitary taxation system with formulary apportionment could work on a global scale, or just within U.S. territory and applied to U.S. multinationals.

How might unitary taxation with formulary apportionment improve justice and equity in the U.S. and in the international tax system?

There are two key ways in which unitary taxation could improve equity and justice in the U.S. and international tax system, depending on how it is structured. The first is that it would eliminate many legal means of tax avoidance. The second is that it would distribute taxing rights according to where real economic activity takes place.

Unitary taxation with formulary apportionment adopted at a global scale would eliminate possibilities for revenue shifting across jurisdictions (see Section 2) because a firm would need to report its *total, worldwide profits* to tax authorities in every country in which it has a taxable presence. Each subsidiary of the firm would no longer be treated as a separate entity, with independent revenues and costs; rather, revenues and costs would be summed across the whole corporation. Taxing rights to the firm's *total profits* would then be allocated according to a formulary apportionment criteria (see below).

One reason to tax the firm as a whole, rather than as individual parts, is because it is likely that the firm in its totality generates *residual profit income* that would not exist if each subsidiary were indeed a separate entity. Firms' decision to operate as a consolidated group arises, in general, from the expectation that consolidation generates extra profits that could not be obtained otherwise – for example, through economies of scale, knowledge transfer, and streamlined management techniques. It makes little sense to treat multinational firms *as if* they were contracting with separate entities when in fact they are not.

The second way that unitary taxation could increase justice and equity in the tax system is by distributing taxing rights according to where *real economic activity takes place*, rather than according to *where profits are booked*. In theory and in practice, there are multiple ways to define where real

economic activity takes place within a multinational firm. These include: the number of a firm's employees working in each jurisdiction; total payroll costs by jurisdiction; the location of physical assets by jurisdiction; operating costs per jurisdiction; or total sales by jurisdiction. In practice, some combination of all of these measures have been used to allocate taxing rights in formulary apportionment systems. The point is to anchor taxing rights on the group's profits to some measurable criteria of *where* the firm actually operates – either on the production or sales side, or a combination of both. A formulary apportionment criteria that highly weights the number of employees, operating costs, and location of physical assets as key determinants is the most immune to tax competition and tax avoidance strategies. It would also most radically increase the equity and justice of the international tax system, by firmly rooting taxing rights in the locations where production activity takes place. An apportionment criteria which highly weights sales may be biased in favor of high-income countries where spending is higher, although some also argue that a sales-based apportionment criteria may, in fact, have some advantages, including easier implementation in certain contexts.

The best-case scenario is one in which all countries adopt unitary taxation and even agree on an apportionment criteria. Nonetheless, if only the U.S. were to adopt unitary taxation for its multinationals and for firms operating within its borders, this policy would pave the way for widespread international tax reform. Keep in mind that U.S. multinationals are estimated to be responsible for about *half* of total global profit-shifting into tax havens. Foreign multinational affiliates operating in the U.S. also engage in aggressive profit-shifting *out* of the U.S. As a result, U.S. action in adopting this system would radically change the international tax system and massively increase both domestic and worldwide total tax revenue.

How are taxing rights on corporate income allocated between jurisdictions under a unitary taxation system, in practice?

Taxing rights to total corporate income are allocated according to a formulary apportionment criteria, which identifies the location of a firm's economic activity across all of its subsidiaries and then uses a weighting formula to distribute taxing rights on total profit. This criteria should distribute taxing rights proportionally to the location of economic activity. In the United States' unitary taxation with formulary apportionment system, for example, most states originally used an apportionment criteria that equally weighted three factors: sales, payroll and assets (Clausing, 2016):

> For example, if a corporation had 20 per cent of its sales in Massachusetts, and 50 per cent of its payroll and assets in Massachusetts, then 40 per cent of its total income would be taxable in Massachusetts under an equal-weighted formula (20+50+50 divided by 3). *(pg. 93)*

A chart makes it easier to understand how allocation works. Imagine a firm operating across three states in the U.S, each of which uses the same apportionment criteria described above: an equal-weighted formula between payroll, assets, and sales.[26] See the table below for how taxing rights would be allocated:

[26] This is also known as the "Massachusetts formula."

	Payroll	Assets	Sales	Taxing rights
California	50%	60%	20%	(50+60+20)/3 = **43.3%**
New York	10%	15%	20%	(10+15+20)/3 = **15%**
Hawaii	40%	15%	20%	(40+15+20)/3 = **25%**

Note: The percentages in the first three columns represent the percent of one firm's total payroll, assets, and sales respectively, by state. 50% of this firm's payroll is located in California, as well as 60% of its assets and 20% of its total sales.

As the table shows, taxing rights on the firm's total income is distributed according to an equal weighting of where its employees are located, where its physical assets are located, and where it books its sales. By this weighting criteria, 83.3% of taxing rights to the firm's total profits are located in these three states. The remaining 16.7% of taxing rights would be distributed according to wherever the remaining 40% of sales were booked and 10% of assets were located – assuming, of course, that those sales are booked in jurisdictions where the firm has a taxable presence, *and* that sales are part of the apportionment criteria in those jurisdictions (the same for physical assets).

Now imagine that the firm has total taxable corporate income of $100 billion in a given year, meaning that its total revenue net of expenses comes to $100 billion. California then has the right to tax $43.3 billion of the firm's profits, New York has the right to tax $15 billion, and Hawaii has the right to tax $25 billion. But distributing taxing *rights* is only the first step. Each state's tax *rate* would have an impact on the total corporate tax revenue paid by the firm. Imagine that California's tax rate was 10%, New York's was 7%, and Hawaii's was 15%. The total tax revenue paid by the corporation would come out to: $4.3 billion in California, $1.05 billion in New York, and $3.75 billion in Hawaii.

What becomes clear from this example is that the details of how the system is implemented matter greatly. The formulary apportionment criteria itself has a large impact on the total tax take, as well as the corporate income tax rate that states set within their boundaries on taxable corporate income. A move to unitary taxation with formulary apportionment does not automatically eliminate the possibility for tax competition. States can compete with each other by offering lower corporate income tax rates, for instance, or by changing their apportionment criteria, if there is no uniform apportionment formula adopted across every jurisdiction in the tax base. What unitary taxation can do, however, is eliminate the possibility for firms to book profits in a jurisdiction where no economic activity takes place. To understand this point, consider the hypothetical example for our same firm below, in which a fourth state is involved:

	Payroll	Assets	Sales	Taxing rights
California	45%	60%	20%	(45+60+20)/3 = **41.7%**
New York	10%	15%	20%	(10+15+20)/3 = **15%**
Hawaii	40%	15%	20%	(40+15+20)/3 = **25%**
Delaware	5%	0%	5%	(5+0+5)/3 = **3.3%**

Delaware, in this hypothetical example, has taxing rights to 3.3% of the company's corporate income; as such, it has taxing rights to $3.3 billion. If Delaware's corporate income tax rate is 1%, that low tax rate affects the total tax revenue paid by the firm, but much less so than it would if the firm were able to book a substantial portion of its profits in Delaware, which is how the international tax system *de facto* operates today.

In today's international tax system, a subsidiary of a firm that is located in a tax haven, such as Delaware (or the Cayman Islands, or Malta), is an independent entity whose profits are booked and taxed independently from the rest of the subsidiaries of the firm. The purpose of consolidating the corporate tax base for multinational corporations is to eliminate the possibility and incentive for firms to book profits in jurisdictions where they will be untaxed. Without unitary taxation, a firm with only 5% of its workforce, no physical assets and 5% of sales located in Delaware could book 50% of its profit income in Delaware. A subsidiary of the firm located in California could pay the Delaware subsidiary $50 billion for intellectual property fees, for example. Then, Delaware could record profits of $50 billion and pay only 1% corporate tax rate on those profits. Unitary taxation – implemented effectively – would eliminate this possibility by distributing taxing rights on total corporate income according to some agreed-upon measures of *real economic activity*.

Throwback Rules – What are they, and why are they necessary?

Consider again our first example from above, where the majority of taxing rights are distributed between New York, California, and Hawaii. Remember that 16.7% of taxing rights were left unallocated: they would be allocated according to the location of the firm's sales and remaining assets.

Now, if this hypothetical firm were to book its sales in a jurisdiction in which it had no taxable presence, then "throwback rules" would make it possible for that untaxed income to be taxed in a state where the firm *does* have a taxable presence (and these rules are in place in the *actual* U.S. system). Similarly, if sales are booked in a jurisdiction that does not include sales as part of its apportionment formula, those untaxed profits would still be subject to the same 'throwback rules," so that again, any corporate income that went untaxed in one jurisdiction would be subject to taxation elsewhere.

Another application of the tool of "throwback rules" is that any income which goes undertaxed in a jurisdiction, say because that jurisdiction maintains its tax haven status, can then be subject to the minimum corporate income tax regardless. Again, any profits that go untaxed or undertaxed in a jurisdiction can then be distributed either back to wherever the firm is headquartered, or through a re-apportionment criteria to the jurisdictions in which the firm operates, so that untaxed or undertaxed profits are duly taxed somewhere else.

The reason why it is so important to have throwback rules in place is because it protects compliers from non-compliers (see Clausing, PIIE).[27] Firms would not have to worry about competing with other firms paying low or no corporate taxes, either by having low corporate tax income tax rights or by having apportionment criteria that did not apply to their allocated profits. Effectively, any possibility to gain an

[27] See chapter 6 by Kimberly Clausing in *Taxing Multinational Enterprises as Unitary Firms* (2017). See also an interview with Clausing from March 2026 with the Peterson Institute for International Economics where she discusses the importance of protecting compilers from non-compliers, although under a different tax framework than unitary taxation: "Can global cooperation survive a fragmenting world?"

advantage would be eliminated since untaxed income in those jurisdictions would be reallocated back to jurisdictions which *did* apply taxing rights.

In the concrete example of a unitary taxation system which applies to all U.S.-headquartered multinationals: suppose that 50% of taxing rights to a U.S. firm's consolidated global profits were located in a jurisdiction which did not tax those profits, either due to its apportionment formula or due to having a low corporate income tax rate. Those 50% of profits would then either be redistributed back to the U.S. (the easiest method) or back to the other jurisdictions in which the firm operates, and rights to tax those profits would be reallocated until the firm had paid the full corporate tax rate that it owes. Ultimately, countries are incentivized to *enforce* their taxing rights, because otherwise, some other country will get to tax those profits. At the same time, firms do not gain any benefit by moving revenue to tax-haven jurisdictions, and do not need to worry about other firms gaining an advantage by doing so.

If the U.S. were to impose a formulary apportionment system on all multinationals operating within its territory, then foreign-headquartered multinationals operating in the U.S. would also be subject to this tax law. They also would be disincentivized from shifting profits earned in the U.S. to tax havens, because if taxing rights on the firms' consolidated income distributed according to real economic activity are duly allocated to the U.S., then the U.S. could legally demand their payment – as long as the U.S.'s bilateral treaties were updated to reflect its commitment to the new tax system.

How might different apportionment criteria affect tax justice?

Different apportionment criteria would have different impacts on tax justice, and each has benefits and drawbacks. Here we briefly consider some apportionment formulas and concerns about how different apportionment criteria may affect total tax take in different countries and influence business decisions. The considerations we discuss differ depending on whether unitary taxation is adopted only by the U.S,, if throwback rules and minimum profit tax laws are in place, and if countries are able to select their own apportionment formulas. To read more about these issues, see *Taxing Multinational Enterprises as Unitary Firms* (2017).

The most common apportionment formula historically has been the so-called 'Massachusetts formula,' which weights employee payroll costs, sales, and physical assets in equal measure (Picciotto, p. 34). The example in the previous section uses this formula to illustrate how apportionment works in practice. When the EU was trying to agree upon an apportionment formula for a common consolidated corporate tax base (CCCTB) in the last few years, it arrived at the same formula, with the slight difference that the ⅓ weight given to employment was itself a weighted average of employee count and payroll costs.

A formula which heavily weights employee count – for example, by giving 80% of taxing rights on a firm's profits to where a firm's employees are located – is in many ways the most progressive, because it firmly anchors taxing rights to *where* workers produce value for the multinational. On the other hand, if jurisdictions do not adopt the same apportionment formula, then multinationals may pick and choose where to hire workers based on where employee count is weighted the lowest, or not at all. This picking and choosing based on apportionment criteria is something that *will* happen if countries do not adopt the same formula, and if there are no throwback rules in place. In particular, countries may choose to highly weight *sales* in their apportionment criteria if they want to attract foreign direct investment by offering low corporate tax rates, especially if they want to focus on producing for the MNC and anticipate that the firm's sales will be concentrated in other countries. Nonetheless, if a global minimum

corporate income tax rate is enforced or if throwback rules are in place, then this type of tax competition via apportionment formulas will not be relevant.

As Cobham, Janský and Loretz (in Picciotto, 2017) point out, anchoring an apportionment formula to firms' least mobile factors – tangible assets and employee count – would imply the greatest redistribution of the tax base towards the location of real economic activity. Avi-Yonah, Clausing and Durst (2009) have also advocated for an apportionment formula which anchors taxing rights to firms' operating costs – another measure of economic activity that is difficult to manipulate.

An apportionment formula based on a sales-only criteria is potentially problematic in that it may unequally allocate taxing rights on multinational profits according to country income level, because sales are higher in high-income countries, and therefore penalize low-income countries. The location of sales can also be manipulated more easily than other potential apportionment criteria (such as the location of employees or operating costs). The benefit of including sales in the apportionment criteria, though, is especially relevant for sales of digital services. Without including sales in an apportionment criteria for multinationals that produce digital services, taxing rights on these firms' profits will be heavily concentrated in high-income countries where these giant multinationals are located. By not including sales in the apportionment criteria for digital services, countries that consume a high amount of digital services and rely heavily on digital infrastructure may fail to receive sufficient taxing rights over and tax revenue from their real economic activity.

Potential problems with unitary taxation with formulary apportionment and challenges to its implementation on a global scale

There are many hurdles to adopting unitary taxation with formulary apportionment. Some of the challenges have been discussed at length during negotiations to form the common consolidated corporate tax base across the EU (CCCTB). These include, but are not limited to:

- The possibility that states decide to use different apportionment criteria, leading to double taxation or double non-taxation;
- Difficulties harmonizing company financial statements with tax statements across all the jurisdictions in which a multinational is operative;
- High up-front transition costs as companies and legal systems phase out transfer-pricing and separate-entity frameworks and adopt a new tax infrastructure;
- Pushback from tax haven countries which use their low corporate tax rates as a development strategy.

These obstacles are important to take seriously. Nonetheless, many of them are superable. For example, while it would be simpler for states to use the same apportionment criteria, "throwback rules," as discussed earlier, can eliminate the possibility of profits going untaxed and therefore prevent double non-taxation. There would also need to be some dispute mechanism in place to adjudicate the possibility of double taxation if countries choose to adopt different formulas.

In reality, tax experts point out that double taxation already occurs under the arms-length system. Disputes over where multinational income is taxable come up all the time. A move to unitary taxation would reduce the uncertainty investors face in the long-run when calculating the probability of facing double taxation, because today's system is *de facto* highly illogical and unpredictable. Today's system is favorable to the largest, richest companies because they can afford lawyers and strategists to keep up with changing tax laws or precedents and to maximize their untaxed income. International coordination on corporate taxation via a unitary tax system adopted globally would reduce uncertainty for business, which is beneficial for long-term investment and also promotes fairer competition.

Another problem that has been pointed out in a unitary taxation system is that it allows firms to offset profits with losses across the corporate group. Multinationals would be required to report their *global* profits, and as such, losses in one branch of the firm can be subtracted from gains in another branch. The offsetting of profits with losses by MNCs *is* estimated to reduce the corporate tax base; however, the gains from shutting down the possibility to book profits in tax havens through unitary taxation are estimated to more than offset the losses.[28] One potential benefit of this feature of a unitary taxation system may be that it encourages firms to expand operations to 'riskier' jurisdictions.

This profit and loss offsetting also happens at a country level when firms produce financial and tax statements using a country-by-country system, but it happens on a smaller scale between branches within the country. Still, it would be necessary to harmonize tax statements across countries sufficiently to safeguard against abuses, which requires a high degree of coordination. Countries typically have different laws regarding how tax statements are prepared, including different profit and loss statements, different laws regarding deductions, and different ways of calculating depreciation on physical capital.

Similar to the point discussed above, many multinationals are already legally required to prepare country-by-country tax statements as a result of the OECD's Base Erosion and Profit Shifting Action Plan, which has required these documents since fiscal year 2016. That means that multinationals that make over €750 million in revenue annually must prepare consolidated tax statements that show the revenue, costs, profits, and tax revenues that they pay or that accrue in every jurisdiction in which they operate. As a result, multinationals have already had a decade of experience preparing and harmonizing their consolidated tax statements and reporting them to multiple tax authorities, so it is clear that this challenge can be overcome.[29] And yes, while there would be transition costs as firms and legal systems adjust to a new international tax regime, coordination across national tax systems would reduce the costs of taxation, monitoring and enforcement in the long run, more than compensating the upfront costs required for the transition.

Arguably the biggest obstacle to implementing a unitary taxation system on a global level is the issue of national sovereignty. It poses the legitimate question: Do states have a right to pursue a development strategy by offering low corporate income tax rates or other tax benefits to multinationals? Hopefully, negotiations at the ongoing UN tax convention can find answers to this valid question.

[28] See Picciotto, ch. 2, citing research by Cobham and Loretz (2014)
[29] See Michael Durst, chapter 3 in *Taxing Multinational Enterprises as Unitary Firms* (2017).

What if the U.S. imposed a unitary taxation system on its own multinationals and on multinationals operating within its borders, absent international adoption?

U.S. adoption of a unitary taxation system would facilitate tax reform for the rest of the world due to its enormous size and extensive international presence. Indeed, if the U.S. were to institute a unitary taxation system for its own multinationals and for MNCs within its borders, the door to international tax reform would be pushed wide open, even if no other countries were to participate – which would not be the case, given that other countries have already adopted tax reforms that the U.S. refuses to sign onto.

The U.S. could adopt a unitary taxation system with formulary apportionment both for its own multinationals and for foreign multinationals operating within its borders. If other countries did not adopt a unitary system, then they would continue to assert their taxing rights on the profits reported by U.S. MNCs within their jurisdictions according to the standards they currently have in place. The U.S. would be the largest single beneficiary of a move to unitary taxation, even if only applicable within its own borders and to its own MNCs, while simultaneously making it easier for other countries to implement and enforce international tax reform as well.

5.2 Corporate Income Tax of 35% with Throwback Rules

The second component of the proposed reform is the establishment of a corporate income tax on American multinational corporations and on foreign multinationals operating in the US, which we recommend at 35%. This minimum corporate income tax could operate either in combination with unitary taxation for U.S. multinationals and foreign multinationals based in the United States, or as a standalone policy proposal without unitary taxation. The roll-out is slightly different depending on if it is used in combination with unitary taxation (what we recommend), or whether it is applied as a stand-alone policy. These differences will be covered.

Under a unitary taxation framework, multinational corporations calculate their global profits across all jurisdictions in which they operate. Taxing rights on the firms' global profits are distributed according to an apportionment criteria which reflects the location of firms' real economic activity. Here, the global minimum tax comes into play. Recall that each jurisdiction in which the firm operates has the right to set its own corporate income tax rate. If a global minimum tax rate were adopted and enforced, then international tax competition would be eliminated. All multinationals would face the same global rate on their profits no matter which jurisdiction they operated in *or* into which jurisdiction they shifted their revenues.

Imagine, however, that not all countries adopted a global minimum tax, or that some countries adopted a rate below the 35% rate that we suggest (for instance, the current global minimum is 15%). In the case of a unitary taxation system applied to U.S. multinationals, untaxed or undertaxed profits in any jurisdiction in which the firm operates could be reallocated back to the U.S. or to other jurisdictions that *did* claim their full taxing rights over those profits, up until the point that the firm paid the full 35% rate on its global consolidated profits.

In the absence of a unitary taxation system, multinational profits that are taxed below the minimum threshold in any jurisdiction could be subject to a "top-up tax" equal to the difference between the tax actually paid and the minimum rate, in whichever country the parent company is headquartered (in this

case, the United States). This top-up tax ensures that profits booked in low-tax jurisdictions ultimately face the established minimum tax rate. In effect, the policy would establish a floor under the taxation of the global profits of U.S. corporations, regardless of where those profits are reported.

Why a 35 Percent Minimum Tax

Our proposal recommends setting this corporate income tax rate at 35 percent. The choice of this rate reflects both historical precedent and economic considerations. In the United States, the federal statutory corporate tax rate was 35 percent for more than three decades: from the Tax Reform Act of 1986 until the 2017 Tax Cuts and Jobs Act, which reduced it to 21 percent. During this period, the United States remained one of the world's most productive and innovative economies. A 35 percent rate therefore represents a historically tested benchmark for corporate taxation in a large advanced economy.

The 15 percent global minimum tax agreed to under the OECD's Pillar Two framework is far too low. It leaves substantial room for tax competition and profit shifting. In fact, a 15 percent corporate income tax rate is the cut-off for a country to be considered a tax haven. This extremely low minimum rate may even push countries to lower their corporate tax rates in order to avoid profit-shifting, which is the opposite of the desired effect.

A higher rate is required to restore the integrity of corporate taxation. Setting it at 35 percent would ensure that multinational corporations contribute a fair share of their profits to public finances. In addition, setting the tax rate at 35 percent, instead of 15 or 25 percent, would generate substantially more public revenues, which could in turn be used to finance investments in infrastructure, education, healthcare, climate transition policies, and other public goods that reduce inequality and support long-term economic growth.

Implementation

This tax can be implemented through domestic legislation applied to the global profits of U.S.-headquartered multinational corporations and foreign multinationals operating in the U.S. In combination with a unitary taxation system, U.S. multinationals would calculate their consolidated global profits. These profits would then be subject to an effective tax rate of 35 percent, and taxing rights over those profits would be distributed according to the location of real economic activity. Undertaxed profits in any jurisdiction would either be reallocated back to the U.S. or to other jurisdictions based on the established apportionment criteria, and subject to taxation up until the 35 percent level is reached.

In the absence of a unitary taxation system, U.S. multinationals would report their profits on a country-by-country basis (already required by the OECD for multinationals making over €750 million annually in revenue for two consecutive years). In any jurisdiction where profits are taxed below the 35 percent threshold, the United States would impose a top-up tax, equal to the difference between the tax already paid and the 35 percent rate. For example, if a U.S. multinational reports profits in a jurisdiction where the effective tax rate is 5 percent, the U.S. would apply an additional 30 percent tax on those profits.

To implement this system effectively in the absence of a unitary taxation system, the tax would apply on a country-by-country basis. Country-by-country calculation prevents corporations from offsetting taxes paid in higher-tax jurisdictions against profits reported in tax havens. If profits in one jurisdiction fall below the minimum threshold, the top-up tax would apply specifically to those profits.

Although the United States cannot compel other countries to adopt the same policies, unilateral implementation by the U.S. would have significant global effects. U.S. multinationals account for such a large share of total multinational profits, and the U.S. domestic market constitutes such a large share of total revenue for other countries' multinationals, that any action taken by the U.S. would substantially lower the incentives for other countries to resist tax reform. Any foreign multinationals operating in the U.S. would be subject to U.S. law, as well as any U.S. multinationals operating abroad. Given that U.S. multinationals *alone* are estimated to be responsible for between 30-50% of total tax haven use, unilateral action by the U.S. – with credible enforcement – would generate a tax revenue windfall. More importantly, it would enable other countries to enforce the reforms they are already trying to implement, and with which the U.S. has up until this point refused to collaborate.

At the same time, the United States should use its position in international institutions, including the OECD, the G20, and the United Nations, to advocate for adoption of a stronger global minimum tax to be adopted multilaterally. By implementing the policy domestically while pushing for international coordination, the United States can immediately curb profit shifting by its own corporations and catalyze long-lasting reforms in the global tax system.

Currently, the U.S. has opted out of the effective OECD Pillar Two reform which establishes a minimum 15% corporate income tax rate on a country-by-country basis. It has done so by arguing that its own GILTI tax, passed under Trump's Tax Cuts and Jobs Act, achieves the same effect as Pillar Two, even though it does not. The GILTI tax, which is a top-up tax applied to U.S. multinational profits reported in tax havens, has *just* risen from a measly 10.5% rate to 13.125% as of 2026, and it does *not apply* on a country-by-country basis but rather on a blended income basis. That is to say that U.S. multinationals can combine the taxes they pay across high-tax and low-tax jurisdictions to argue that they have met the minimum 10.5% (now 13.125%) effective tax rate on their foreign income – which gives U.S. multinationals a substantial competitive advantage over other countries' firms. The GILTI tax needs to be replaced by a much more comprehensive, systematic and democratic reform such as the one we suggest here: unitary taxation with formulary apportionment.

Catalyzing International Reform with U.S. Leadership

Although the implementation of a global minimum tax has been discussed in international negotiations for many years, progress has been slow and the resulting agreements have been diluted. While more than one hundred countries have formally endorsed the principle of a global minimum tax, the final agreement has been watered down by countries like the U.S. The U.S. has ultimately failed to adopt the agreement domestically.

By demonstrating that a major economy can successfully implement a robust corporate income tax on its multinationals, the United States could catalyze broader adoption through institutions such as the OECD and the United Nations. A credible U.S. commitment to such reforms would provide momentum for international negotiations aimed at establishing stronger and more equitable global tax rules. The

United States could play a decisive role in ending the race to the bottom in corporate taxation and restoring the ability of governments to tax multinational profits effectively.

5.3 Expected Effects

A U.S.-led global minimum tax set at 35 percent in combination with unitary taxation would produce several important effects on corporate taxation, public revenues, and international tax competition.

First, as already discussed, unitary taxation with throwback rules *or* the implementation of a minimum tax rate of 35 percent on U.S. multinational corporate income with top-up taxes would eliminate profit-shifting and the use of tax havens. Doing so would bring back billions of dollars of taxable income to the U.S. as well as other countries.

Second, these policies would increase U.S. corporate tax revenues. A significant share of the profits generated by U.S. multinational corporations is currently reported in jurisdictions with very low effective tax rates. Applying a 35 percent minimum tax to these profits would recapture a portion of the tax base that has shifted abroad over the past several decades. These additional revenues could be used to finance public investments in infrastructure, education, healthcare, and climate transition policies without increasing the tax burden on labor or middle-income households.

Third, these reforms would reduce the pressure of international tax competition. The global decline in corporate tax rates over the past forty years has been driven by governments attempting to attract or retain mobile capital. By establishing a meaningful minimum tax on the global profits of US multinational corporations, this policy would limit the ability of firms to benefit from extremely low tax rates in other jurisdictions. As a result, the competitive advantage offered by tax havens would be significantly diminished.

Fourth, the reform would improve the fairness of the tax system. Large multinational corporations currently have far greater opportunities to reduce their effective tax rates than domestic firms that operate primarily within national borders. By ensuring that the global profits of U.S. multinationals are taxed at a meaningful minimum rate, this policy would level the playing field between multinational and domestic businesses.

Finally, the policy could catalyze broader international reforms. Because U.S. multinationals represent a large share of global corporate profits, applying a strong minimum tax to these firms would affect the global tax environment even without universal adoption. Other countries may find it advantageous to adopt similar minimum taxes themselves in order to capture revenue that would otherwise be collected by the United States through top-up taxation. In this way, unilateral implementation by the United States could encourage the gradual convergence of corporate tax systems toward higher and more coordinated minimum standards.

Taken together, these effects would help restore the capacity of governments to tax multinational corporate profits and would represent a significant step toward reversing the decades-long erosion of corporate tax bases.

6. Feasibility Considerations

6.1 Projected Revenue

Estimating expected revenues is a technical endeavor and estimates change drastically according to which assumptions are made. Here we summarize estimates published in the literature. The Tax Justice Network estimates that in 2021, for example, there were global tax revenue losses of $348 billion from profit shifting *alone*. They further estimate that the U.S. lost about $271 billion in tax revenue over a six-year period (from 2016-2021) as a result of U.S. multinationals shifting profits out of the U.S., and an additional $303 billion over that same period to foreign multinationals shifting profits out of the U.S.[30] These estimates first calculate the amount of profit shifted into tax havens, and then apply the prevailing statutory corporate tax rate for the year the profit was shifted. Tørsløv et al. (2023) estimate that the U.S. lost about 14% of its total corporate tax revenues due to profit-shifting in 2015.

As mentioned in the introduction, annual tax revenue losses from profit-shifting trend upwards every year in the U.S., but would reliably be able to cover the annual SNAP budget every year, which provides money to over 41 million Americans living in poverty to buy food and includes many children. The much-loved Women, Infants and Children program (WIC), which provides nutritional and breastfeeding support to pregnant women, infants, and children under the age of 5, has an average federal budget of just over $7 billion– barely a fraction of the total money that would be recuperated by taxing shifted profits alone.

The U.S. Treasury and the Congressional Budget Office possess large tax simulators that can estimate the fiscal gains and losses of implementing a variety of policies, which can also be a useful way to grasp the potentially radical impacts of tax reform. Some think tanks also possess similar tools. Emmanuel Saez and Gabriel Zucman have published comprehensive databases and tools to aid researchers, policymakers and the broader public in their book *The Triumph of Injustice.*

One of these tools is their simulation website,[31] which allows users "to estimate the effect of tax policy changes on the distribution of taxes, the income and wealth of each social group, and the dynamics of inequality" (Saez and Zucman, 2019). This last parameter is important, since the redistributive effect on inequality is too often ignored. The model includes taxes at all levels of government. The tool allows users to compare the current tax system to various tax plans proposed by politicians, and to create one's own tax plan by playing with various policy levers and intensity such as a wealth tax, the individual income tax, the corporate income tax, the estate tax, and broader taxes such as sales and value added taxes. Under the "corporate tax", a button for "better taxation of multinationals" is clickable, imposing a 25% minimum tax.

Another tool,[32] developed by Public Services International, provides interactive visualizations to assess how the global corporate tax base would be redistributed under different apportionment formulas. The page brings together data and visualizations from a study conducted by Austrian Institute of Economic Research, commissioned by the Network of Unions for Tax Justice and the Austrian Chamber of Labor. Users can vary the weights placed on factors such as sales, employment, and assets, and observe how

[30] This 6-year time frame is used because that is the period for which the OECD has released aggregated country-by-country reports prepared by multinationals and submitted to tax authorities.
[31] See https://taxjusticenow.org/#makeYourOwnTaxPlan
[32] See https://publicservices.international/resources/digital-publication/unitary-taxation-blog-test?lang=en&id=16282

these choices shift profits (and therefore tax revenues) across countries and income groups. The tool also allows users to simulate different statutory tax rates and examine resulting changes in corporate tax revenues, both at the country level and across income groups, offering a concrete way to compare the distributional implications of alternative international tax rules.

6.2 Democratic Support for Tax Reform

Rising inequality, declining corporate taxation, the growth of multinational corporate profits and their funneling into tax havens have sparked public debate about the fairness and effectiveness of the tax system. In democratic societies, the legitimacy of tax policy ultimately depends on public support, and concerns about inequality and corporate tax avoidance have become prominent in political discussions (Williamson, 2025).

But public support can only come with public awareness. Profit shifting is a hidden and complex phenomenon and it is difficult to estimate, so it can be challenging to communicate its prevalence and negative impact on society. A significant breakthrough came when the Panama Papers were leaked in April 2016, followed by the Pandora Papers in October of 2021. These leaks of 23 million private documents exposed financing deals of hundreds of prominent politicians, business figures and celebrities from 200+ countries, who used offshore entities to hide wealth and evade taxes. It shed light on the secretive and complex methods used by the world's richest people to launder money, conceal assets and avoid paying taxes, often using offshore companies and tax havens. These types of large scale events have put the problem on the map and in voters' minds.

A growing body of survey evidence suggests that many citizens believe that large corporations and very high-income households should contribute a larger share of tax revenues. Public attitudes toward taxation are shaped by perceptions of fairness, concerns about the concentration of economic power, and the view that multinational corporations are able to reduce their tax liabilities through complex financial arrangements.

A 2025 survey by the Pew Research Center found that more than six-in-ten American adults (63%) agree that tax rates on large businesses and corporations should be raised (including 34% who believe that they should be raised *a lot*). This type of policy has a high level of support across political affiliations, though with significant variation (81% of Democrats and 43% of Republicans).

In 2024, the Excessive Wealth Disorder Institute published a report that synthesized years of national and state-level polling on the American public's opinion regarding tax reforms. Poll after poll showed that a majority of Americans across regions, race and political affiliation supported such reforms. These include wealth taxes, billionaire income taxes, capital gains tax reforms and the elimination of dynasty trust. Across all issues, a majority of democratic voters (75-90%) supported these reforms, and some of these policies gathered up to 55% of support from Republicans.

Direct polling on tax havens itself is harder to find, but a 2020 report by More in Common found that 95% of Americans polled were in favor of tying public funds for pandemic bailouts to paying taxes domestically and quitting tax havens. In other words, there is a popular consensus that U.S. multinationals who shift their profits to tax havens should not benefit from tax-payer money.

Popular support for redistributive policies and tax reforms can be found at the regional level as well. In California, a ballot measure to tax the billionaires has gathered substantial support, but faces aggressive opposition by the wealthy who have donated an estimated $80 million to a Super Pac trying to block the State's proposed one-time 5% wealth tax. This opposition is largely driven by Sergey Brin, co-founder of Google. According to the Wall Street Journal, the campaigns funded by these billionaires are paying signature collectors $15 a pop.[33]

Taken together, these patterns suggest that debates over corporate taxation and profit shifting are not only technical policy issues but also reflect broader concerns about fairness, inequality, and democratic accountability. Despite this broad support, the political class has not delivered.

7. Lessons from Existing Efforts

Despite broad consensus among policymakers and economists that profit shifting and aggressive tax avoidance undermine national tax bases, international reform efforts have produced only partial and fragile results. This failure cannot be explained by a lack of empirical evidence or technical proposals. Rather, it reflects a combination of institutional design flaws, carve-outs demanded by powerful political actors, and the persistent framing of international taxation as a technocratic coordination problem rather than a democratic one. Understanding these limits is essential for designing a reform agenda capable of restoring fiscal capacity in a globalized economy.

7.1 OECD BEPS Initiative

The most comprehensive international response to corporate profit shifting has been the Base Erosion and Profit Shifting (BEPS) initiative coordinated by the OECD. Launched in 2012 in the aftermath of the global financial crisis, BEPS sought to modernize international tax rules by addressing mismatches between national systems, increasing transparency, and limiting the artificial shifting of profits to low-tax jurisdictions.

Public scrutiny intensified following major investigative journalism leaks such as the Panama Papers (2016) and Pandora Papers (2021), which exposed the widespread use of offshore entities by wealthy individuals and corporations to conceal assets and minimize tax liabilities. These revelations generated political momentum for reforms aimed at strengthening international tax cooperation and limiting corporate tax avoidance.

The BEPS process delivered several important advances. It expanded country-by-country reporting requirements for large multinational enterprises, strengthened information exchange between tax authorities, and introduced new standards governing transfer pricing, interest deductibility, and treaty abuse. These reforms improved transparency and reduced some of the most overt forms of tax evasion.

However, BEPS was structurally constrained by its reliance on voluntary implementation rather than binding enforcement. The initiative was designed as a set of minimum standards that countries could interpret and apply within their own legal frameworks. As a result, multinational firms retained

[33] Nelson, Laura J. "California Billionaires Are Spending Big in Costly Wealth-Tax Fight." *The Wall Street Journal*, March 25, 2026.

significant scope to exploit differences across jurisdictions, particularly in the treatment of intangible assets, intra-firm financing, and hybrid entities.[34]

These limitations became more visible with the subsequent "Two-Pillar Solution." Pillar One aimed to reallocate a portion of the taxing rights over the largest and most profitable multinational enterprises to market jurisdictions where they generate sales or users (unitary taxation on excess profits), while Pillar Two introduced a global minimum tax intended to reduce incentives for profit shifting. Yet both pillars depend heavily on domestic legislation and political commitment by participating countries. Without a supranational enforcement mechanism, implementation remains uneven and contingent on national political incentives.

In 2021, more than 130 jurisdictions agreed in principle to a global minimum corporate tax rate of 15 percent. Despite this breakthrough, several obstacles have limited the effectiveness of the reform.

Diverging national interests complicate international cooperation, particularly for jurisdictions that rely on low corporate tax rates as part of their economic development strategy. Political resistance from multinational corporations and financial interests has also slowed reform efforts in many advanced economies. At the same time, disagreements persist over key design features of the system, including the appropriate minimum tax rate, the scope of companies covered, and the allocation of taxing rights across jurisdictions.

The OECD process has also faced criticism from many developing countries. Because negotiations largely took place within the OECD framework (an organization dominated by high-income economies) some governments have argued that global tax rules are being shaped primarily by countries that host the world's largest multinational corporations. Critics further contend that the agreed minimum rate is too low to substantially reduce incentives for profit shifting. Organizations such as the International Commission for the Reform of International Corporate Taxation (ICRICT) have advocated for a higher minimum rate, closer to 25 percent, to generate meaningful revenue gains.

Even where international agreements introduced constraints on profit shifting, their effectiveness was substantially weakened by carve-outs and exemptions demanded by powerful countries. The United States provides a particularly instructive example.

In early 2025, the Trump administration threatened to increase U.S. tax rates on foreign companies and investors if their country imposed extraterritorial measures on U.S. companies. To avoid this, the OECD negotiated an arrangement under which U.S.-headquartered multinationals would remain subject primarily to U.S. global minimum tax rules while being largely exempt from the OECD's Pillar Two framework.[35] Framed as a recognition of U.S. tax sovereignty and a measure to protect the competitiveness of American firms, this approach effectively excludes significant portions of foreign income from the coordinated top-up tax regime. As a result, it weakens the core logic of the global minimum tax by allowing U.S. multinationals to continue benefiting from low-tax jurisdictions while limiting other countries' ability to tax those profits themselves.

[34] Hybrid entities are entities classified differently for tax purposes across jurisdictions, creating opportunities for double deductions or untaxed income. For example, an entity may be treated as a corporation in one country – allowing interest payments to be deducted – while the same entity is treated as a pass-through in another country, so that the corresponding income is not taxed.

[35] See The Guardian (Jan 6th, 2026). *US will be exempt from global tax deal targeting profits of large multinationals*, and US Department of the Treasury: https://home.treasury.gov/news/press-releases/sb0350

The cumulative effect of these carve-outs is to transform what was intended as a binding floor into a porous benchmark. This pattern of strategic non-compliance has repeatedly undermined international tax coordination and reinforces skepticism among smaller and developing countries.

In short, the OECD-led reforms improved transparency and coordination but stopped short of fundamentally constraining the structural incentives that drive profit shifting in the global economy.

7.2 UN Tax Convention

In response to these concerns, a number of countries – particularly from the Global South – have pushed to move discussions on international tax cooperation to a more inclusive forum. This effort culminated in a United Nations initiative on international tax cooperation, launched in 2023. A resolution introduced by the African Group called for the development of a framework convention on international tax cooperation under UN auspices. The resolution passed in the UN General Assembly's Second Committee with 125 votes in favor and 48 against, revealing a sharp divide between many developing countries and several advanced economies. Subsequent negotiations led to the adoption of Terms of Reference in 2024, establishing an ad hoc committee tasked with designing a new international tax convention. This process reflects growing dissatisfaction among developing countries with existing global tax governance structures and their desire for a more inclusive institutional framework.

Countries are currently debating[36] and drafting a robust and democratic United Nations Framework Convention on International Tax Cooperation.[37] The intergovernmental negotiating committee was set to meet three times annually until 2027, the date that has been set for the submission of the convention and its protocols. In their fourth session in February 2026, article 5, which focuses on the fair allocation of taxing rights, was subject to a lot of debate. Proposals to allocate taxing rights where real economic activity and markets are located (unitary taxation) received strong backing from the Africa Group and several developing countries. In contrast, many Global North countries stressed the importance of legal certainty and warned against language that might trigger the renegotiation of existing bilateral tax treaties.[38]

Pragmatism over the U.S. participation prevails. Along with their withdrawal from the OECD process and the exemptions for U.S. multinationals from the global minimum tax, the Trump administration also withdrew from the UN negotiations. At the 2025 Vatican's "Tax Justice and Solidarity" event, Nobel laureate in Economics Joseph Stiglitz said: "The United States is not going to negotiate a UN framework convention on international tax cooperation. The rest of the world has to work together to negotiate this agreement, recognizing the reality that 20% of global GDP will not participate. 80% of the world can get together and work it out."

[36] See the Tax Justice Network website for regular updates on the UN Tax Convention negotiations: https://taxjustice.net/topics/un-tax-convention/#tracker

[37] For a detailed Q&A on the UN Tax Convention, see the Center for Economic and Social Rights website: https://www.cesr.org/faqs-international-taxation-human-rights-and-the-united-nations-tax-convention-untc/

[38] International Institute for Sustainable Development. https://www.iisd.org/inside-un-tax-convention-negotiations

7.3 EU Reforms and National "Radical" Agendas

Beyond the OECD framework, tax reform efforts have emerged at multiple institutional levels, with varying degrees of ambition and success.

Within the European Union, initiatives such as the Common Consolidated Corporate Tax Base (CCCTB) and digital services taxes aimed to reduce profit shifting and better align taxation with economic activity.[39] While these proposals moved in the direction of unitary taxation, they faced persistent opposition from low-tax member states and were ultimately weakened or stalled. The EU experience illustrates the difficulty of advancing tax reform in the absence of unanimous political support, even within a relatively integrated economic bloc.

At the national level, more ambitious proposals have been advanced by political actors on the left. In the United States, Bernie Sanders has advanced one of the most comprehensive legislative efforts to curb offshore tax avoidance through the Corporate Tax Dodging Prevention Act, introduced in 2024.[40] A central component of the Act targets international tax evasion and profit shifting, requiring U.S. multinationals to pay the same tax rate on foreign profits as on domestic income by including all foreign-source income in Subpart F, applying the foreign tax credit on a country-by-country basis, repealing offshore loopholes such as the "check-the-box" and CFC look-through rules, tightening limits on interest deductions used for earnings stripping, strengthening anti-inversion provisions, reforming the Base Erosion and Anti-Abuse Tax, curbing treaty shopping, and repealing the deduction for foreign-derived intangible income.[41] According to estimates by the Joint Committee on Taxation, these offshore-related provisions alone would raise more than $1 trillion in federal revenue over ten years.[42] Separately, the Act would also roll back the Trump-era corporate tax cut and restore the top statutory corporate tax rate to 35 percent, a change estimated to raise an additional $1.3 trillion over ten years. The proposal has been endorsed by Americans for Tax Fairness, a coalition of more than 420 national, state, and local organizations, underscoring broad civil-society support for a more aggressive approach to corporate taxation. Together, these revenue estimates illustrate both the fiscal significance of international tax enforcement and the continued importance of domestic rate policy in rebuilding public capacity.

In France, Jean-Luc Mélenchon has advanced one of the most explicit national challenges to international tax avoidance under the banner of *faire la révolution fiscale* ("to bring about a fiscal revolution").[43] His program proposes a universal tax on corporations based on economic activity effectively carried out in France, moving toward a unitary taxation principle that rejects profit allocation based on transfer pricing alone. It also calls for the reinstatement of the exit tax repealed under President Macron, ensuring that wealth accumulated domestically cannot escape taxation through relocation. More broadly, the platform makes the fight against tax fraud and tax evasion a fiscal priority, committing substantial enforcement resources and explicitly endorsing unilateral action should European or international negotiations stall. While politically contentious, this agenda underscores that

[39] European Parliament, Common consolidated corporate tax base (CCCTB). https://www.europarl.europa.eu/legislative-train/package-action-plan-on-corporate-taxation/file-common-consolidated-corporate-tax-base-(ccctb)
[40] Senator Bernie Sanders website: https://www.sanders.senate.gov/wp-content/uploads/CTDPALegislation2024.pdf
[41] Comments on the Corporate Tax Dodging Prevention Act. https://www.sanders.senate.gov/wp-content/uploads/Corporate-Tax-Dodging-Prevention-Act_sectionbysection.pdf
[42] Joint Committee on Taxation letter to Bernie Sanders https://www.sanders.senate.gov/wp-content/uploads/Corporate-Tax-Dodging-Prevention-Act-Score-of-offshore-portion.pdf
[43] See his fiscal programme here: https://programme.lafranceinsoumise.fr/programme2025/livre/chapitre6/s5/

robust international tax reform is both analytically coherent and politically legible as a democratic response to capital mobility.

These agendas shared several features: they treated tax avoidance as a distributional and democratic issue, emphasized the concentration of economic power, and explicitly challenged the political influence of multinational firms. Their limited policy impact reflects not analytical weaknesses, but political resistance from entrenched interests and institutional constraints.

7.4 Broad Public Support and the Missing Democratic Narrative

While elite resistance has constrained reform, public interest in tax justice has grown markedly. As highlighted in Section 5.2, opinion polls in the United States consistently show strong support for higher taxation of multinational corporations and the ultra-wealthy, particularly when revenues are earmarked for public investment or social spending.

Media coverage of high-profile tax avoidance cases – including the Panama and Pandora Papers discussed in Section 5.2 – has further elevated the issue in public discourse. Investigative outlets and academics have played a central role in shaping this awareness, framing tax avoidance as a question of fairness and accountability rather than technical legality. These narratives resonate with broader concerns about inequality, declining public services, and the perception that economic rules favor a narrow elite.

In their 2024 report, the Excessive Wealth Disorder Institute found that respondents largely fail to associate billionaires with the (under)funding of public programs. Explicitly linking the underfunding of public programs to tax evasion is a winning strategy to gather even more public support for those types of policies. The report further finds that two-thirds (66%) of Americans who think there is too much economic inequality say the federal government should have a lot of responsibility in reducing it.

Yet international tax reform has rarely been articulated in these terms by policymakers themselves. Instead, it has remained framed as a matter of efficiency, competitiveness, or administrative coordination. This disconnect has limited the ability of reform efforts to mobilize sustained public support and has made them vulnerable to quiet dilution through exemptions and weak enforcement.

7.5 Implications for a Viable Reform Agenda

The experience of past reforms points to a clear conclusion: effective international tax reform requires more than technical coordination. It demands enforceable rules, institutional coherence across jurisdictions, and a democratic narrative that links taxation to shared economic outcomes. Without these elements, reforms will continue to be partial, reversible, and politically fragile.

A viable reform agenda must therefore treat international tax architecture as a core component of democratic economic governance. This requires confronting the political influence of corporate actors that have historically benefited from fragmented tax systems and have often played a decisive role in weakening or delaying reform efforts. At the same time, policymakers should recognize that public

support for stronger corporate taxation is widespread (regionally, nationally and internationally), reflecting growing concern about inequality and the perceived unfairness of current tax arrangements.

At the international level, meaningful progress will also require leadership from the United States. As home to many of the world's largest multinational corporations and one of the jurisdictions most affected by profit shifting, U.S. policy choices have disproportionate influence on the global tax system. In recent decades, however, the United States has frequently played a central role in watering down or blocking international agreements. A shift toward more ambitious U.S. leadership would significantly alter the trajectory of global tax reform by reducing incentives for profit shifting and encouraging broader international cooperation.

Treating international taxation as a question of democratic governance rather than purely technical coordination strengthens fiscal capacity while helping to align global economic integration with the interests of working populations and the legitimacy of democratic institutions.

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Appendix

Full list of tax havens

The full list of tax havens identified in the literature:

Andorra, Anguilla, Antigua and Barbuda, Aruba, The Bahamas, Bahrain, Barbados, Belgium (OECD), Belize, Bermuda, the British Virgin Islands, the Cayman Islands, Cyprus, Gibraltar, Grenada, Guernsey, Hong Kong, the Isle of Man, Ireland (OECD), Jersey, Lebanon, Liechtenstein, Luxembourg (OECD), Macau, Malta, Marshall Islands, Mauritius, Monaco, Netherlands (OECD), the Netherlands Antilles, Panama, Puerto Rico, Samoa, Seychelles, Singapore, St. Kitts and Nevis, St. Lucia, St. Vincent & Grenadines, Switzerland (OECD), Turks and Caicos, and Vanuatu

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