Controversy over the Global Corporate Minimum Tax, Tax on the Wealthy, and their Implications

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Abstract In 2019, the OECD has suggested an implementation of digital tax and a global minimum tax, which gained support by the US implementation of the global minimum tax early this year, constraining international tax competition. Together with this, the Biden administration is planning on increasing corporate tax and tax on the wealthy in order to pursue policies that would reconstruct the US. South Korea's companies are also expected to be significantly impacted by the rapidly progressing discussions on the global corporate tax, and the South Korean government's effective response is necessary.
Firstly, the implementation of the digital tax will not only affect South Korean IT industries that offer services abroad, but also domestic companies that manufacture automobiles, mobile phones, and home appliances that are sold abroad. This would mean that it is ideal to exclude manufacturing and consumer-facing businesses from being applicable to the digital tax. According to what is being discussed currently, it will be reasonable to tax automated digital services and consumer-facing businesses differently. In South Korea, the effect of the global minimum tax will be minimal, as there already is a high level of corporate tax rate (maximum 27.5%). However, domestic companies that are abroad will be negatively affected by the implementation of the global minimum tax as the increase of costs of corporate tax will negatively affect employment and investment. Given the minimal negative impacts on businesses, the OECD 12.5% minimum tax seems justifiable as the limit to which tax avoidance is not

This essay has altered and improved the "The discussions on the global corporate tax and tax on the wealthy and their implications" from the "Post COVID-19, South Korea's strategies against the changes in macroeconomics and trade policies of key countries" on 25 May 2021.

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encouraged.
Most importantly, tax increases should be refrained as it may transfer the government's tax revenue shortfall, resulting from the increase in corporate tax (digital tax and global minimum tax), onto the businesses. Further increases in corporate taxes or cuts in tax credits will hinder South Korea's both its international competitiveness and its national competitiveness. Furthermore, following the US example of increasing tax on the wealthy and large companies for financial resources will bring economic losses such as labour and capital outflow instead of increased tax revenue, as there already is a high tax burden.

Keywords digital tax・global minimum tax・tax on the wealthy・BEPS

Examination

As countries with digital companies engaged with strategies of base erosion by shifting profits, the global society was alerted by the decreasing global taxes, leading to the establishment of the BEPS Project. Since 2015, OECD discussions, through BEPS (Base Erosion & Profit Shifting) Action 1, focused on solving rising tax challenges in the digitalization of economy. Global IT companies such as Google often have digital establishments, not physical, and it is hence difficult to tax them for the profits that they make, namely because of the 'mismatches between value creation and the allocation of taxing rights'. This added to the problem of 'aggressive tax avoidance' - moving intangible assets to low-tax countries by providing payments to the low-tax countries such as royalties. In order to address this problem and the erosion of the tax base of the market economies, there is active discussion of an implementation of the digital tax that makes platform business (global IT companies) to pay a certain amount of tax to the service country (where consumers or users are located). The current international tax policy states that if a company owns a permanent establishment, the corporate tax is imposed by the country where the permanent establishment is located. Similarly, according to South Korea's tax laws, non-residents in South Korea earning business income sourced in South Korea are imposed corporate taxes if they have a permanent establishment (a 'server' in the case of IT services) inside South Korea.[1] Even in the OECD Model Tax Convention, a country cannot impose taxes if there is no permanent establishment.[2] The digital economy allows the generation of profit even without the existence of a permanent establishment, hence avoiding the imposition of corporate taxes. Here, the problem of tax fairness arises between the traditional manufacturing sector and the IT industry. According to the EU report, the average effective tax rate of global manufacturing companies amounted to 23.2% in 2017, while that of global digital services companies was 9.5%.

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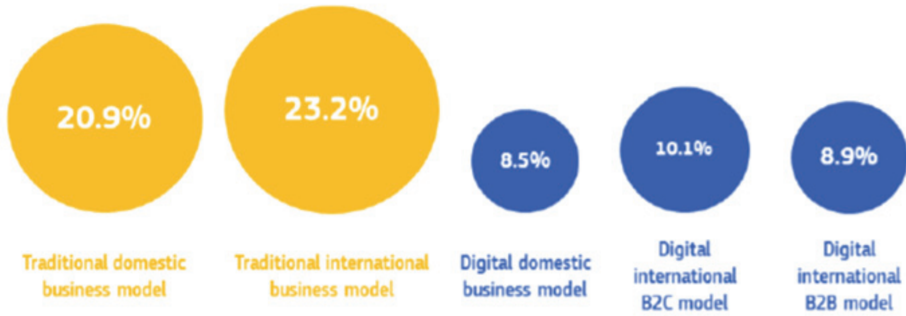
[1] There has been an imposition of value added tax on the electric field such as application markets since 2015

[2] OECD Model Tax Convention Article 7



* European Commission(2018), Time to establish a modern, fair and efficient taxation standard for the digital economy, COM(2018)146 final.

Fig. 1 Average Effective Tax Rate, 28 Countries of EU

The OECD/G20 proposed two assignments in the 2019 May Progress Report: [Digital Tax (Pillar 1) and Global Minimum Tax (Pillar 2)]. The Global Minimum Tax is a measure that does not only focus on preventing tax avoidance by digital companies, but also acts as a 'general prevention of tax avoidance'. In particular, the US proposed the 'global minimum tax' to restrain international tax competition early this year, with which the IMF, G20, and the OECD have expressed agreement with.

Table 1 OECD's Key Schedules on Digital Tax

Date	Organizational Body	Discussion and Issues
October 2015	G20 Summit	BEPS Final Report
February 2016	OECD	Established the Inclusive Framework on BEPS
May 2019	OECD/G20 IF	Progress Report[3] - Initiating Pillar 1 & 2
January 2020	OECD/G20 IF	Pillar 1 & 2 Basic Agreement, Confirmation of G20 Finance Ministers Meeting
October 2020	OECD/G20 IF	Pillar 1 & 2 Blueprint
October 2021	G20 Summit	Expected FInal Agreement

The Biden administration has announced the 'Made in America Tax Plan' to increase corporate taxes with the focus on procuring funds for its 'Build Back Better'. Its plan is to increase US corporate taxes (21% to 28%) and of the global minimum tax to prevent American firms from going overseas to benefit from low taxes. It will also help the government to secure tax revenue from foreign companies in the US. Furthermore, the percentage of US effective corporate tax is lower than that of other developed countries, all the more explaining for the decision to increase corporate taxes. It is also currently the lowest of that of the OECD countries, with the revenue from corporate tax taking up only 1% of its GDP, lower than the OECD average of 2.8%.

[3] OECD(2019),Programme of Work to Develop a Consensus Solution to the Tax Challenges Arising from the Digitalisation of the economy, OECD/G20 Inclusive Framework on BEPS, OECD, Paris.

Previously, the implementation of the digital tax had been delayed by the objection of the US as it wanted to protect its domestic IT companies such as Google and Facebook. Now, the US is trying to stop the global competition to decrease corporate taxes through the global minimum tax. This rapid shift is expected to bring large impacts to Korean companies as well. In the next section, this paper seeks to provide insight into the global corporate tax and US wealth tax, and in the third section, it presents the observations on South Korea and the implications of the global corporate tax on the country.

Global Corporate Tax and Tax on the Wealthy

Global Corporate Tax

Digital tax (Pillar 1)

The Digital Tax creates a new nexus standard that would substitute for the permanent establishment (PE) and an 'international allocation of taxing rights'. The key point of this tax is that the taxing rights of the source country will be acknowledged even without the existence of a permanent establishment.

Industries such as the 'Automated Digital Services' and the 'Consumer-Facing Businesses' will be targeted, whereas B2B industries (sale of intermediate goods and parts), natural resources, financial services, construction, and airline and shipping businesses will be exempted from the tax. The consumer-facing companies include personal computing products, home appliances, mobile phones, clothes, cosmetics, luxury goods, franchise models (hotel and restaurant sectors), and automobiles, which in Korea include Samsung Electronics, LG Electronics, and Hyundai Motors. An MNE's global total revenue needs to exceed 750 million on a consolidated basis, with a standards-based assessment of consolidated Multinational enterprise (MNE) and global (Profit before taxes) PBT threshold.

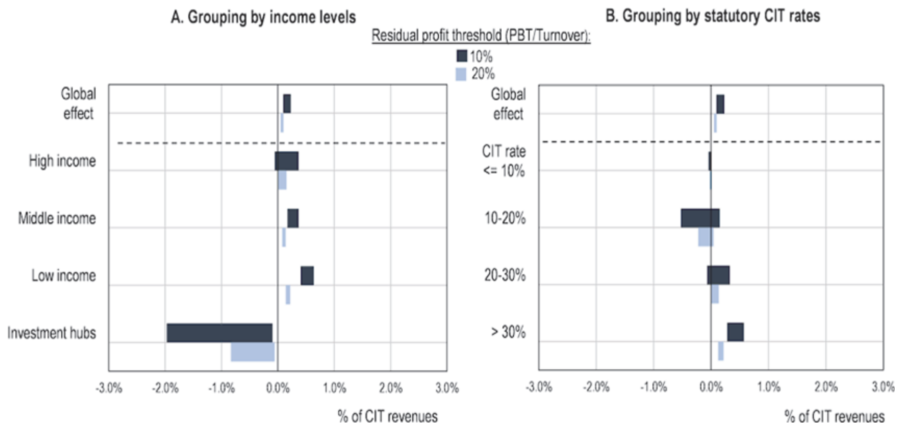
The method of allocating profits is to isolate the residual profit that exceeds the profitability threshold of an MNC, calculate the amount that is created from the market (market revenue) through a given formula, and allocate profits according to the revenues of eligible market jurisdictions. More specifically, 'Amount A' is calculated by taking a part of the profit that exceeds the routine profit of an MNC and allocating it to market jurisdictions, and 'Amount B' gives an allowable fixed return (arm's length standard), allocating it according to the basic marketing and distribution activities of the subsidiaries in the market jurisdiction. The order of allocating the residual profit is as follows: 1. Calculate MNC revenue (before-tax profit rate - profitability threshold) = 'group residual profit' 2. Calculate residual profit reallocation percentage (market revenues) = 'allocable tax base' 3. Tax base allocation key (ratio of each country's sourced revenue to total revenue) = allocation to each market jurisdiction.

According to the OECD, the implementation of the digital tax led to a less than 1% increase in global total tax revenue. However, a large decrease in tax revenue in the investment hub countries is expected, followed by a decrease in tax revenue in low corporate tax countries (10~20%), and an increase in tax revenue in high corporate tax countries.

Table 2 Case of Excessive Allocation of Profits through Digital Tax

National	Korean (Parent company)	Profit Rate	National	Country A (Subsidiary)	Country B	Country C	Foreign Business Total Amount
					(No PE, No Tax)		
Consolidated Sales	90,000		Total Sales	20,000	18,000	12,000	50,000
Consolidated Profit Before Tax (PBT)	13,000	14.4%	Profit Rate	2%	0%	0%	
Routine Profit	9,000	10.0%	Profit	400	0	0	400
Residual Profit	**4,000**	4.4%	Arm's Length	5%			
Revenue from Eligible Market Jurisdiction (10%)			**Amount B Allocation (20,000 × 3%)**	**600**			**600**
Amount A Allocation (Profit Margin x 10%)	**400**		Share of Sales	40%	36%	24%	100%
Amount B Allocation	**600**		**Amount A Residual Profit (4,000 × 10% × Ratio of Sourced Revenue to Total Revenue)**	**160**	**144**	**96**	**400**
Final Profit	12,000		Profit After Allocation	1,160	144	96	1,400

* Assumed allocation of routine Profit 10% and consolidated profit rate 10% on market jurisdictions.
* Edited by author, source: Lee, D. G., "Global Discussion of Corporate Tax Reform and Its Main Controversies", KERI Seminar, 3 May 2021.



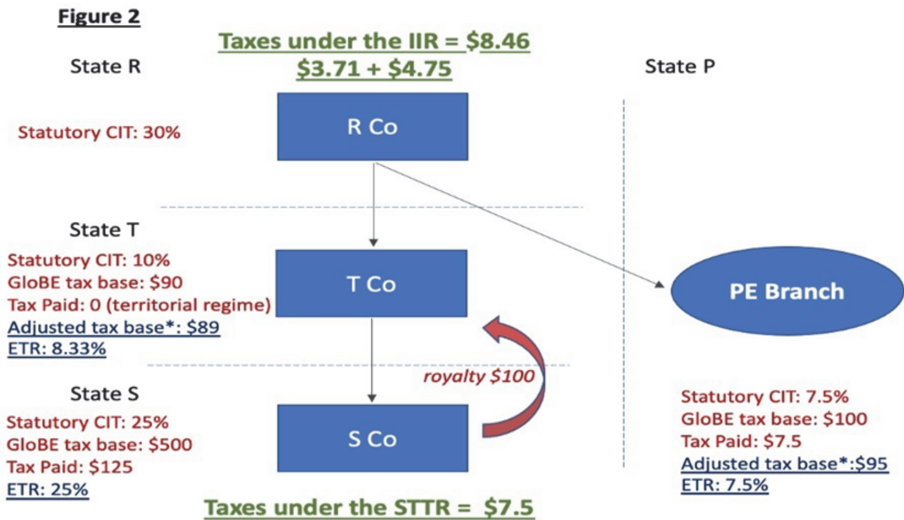
* Inclusive Framework on BEPS(2020), Tax Challenges Arising from Digitalisation - Economic Impact Assessment.

Fig. 2 Effect of Digital Tax on Tax Revenue

Global Minimum tax (Pillar 2)

A global minimum tax of 12.5% had been actively discussed as the best candidate for a comprehensive implementation of BEPS, whereas the Biden administration has claimed a corporate tax rate of 21%. Recently, there has been an agreement on 15% as the global minimum tax in the recent G7 Finance Ministers Meeting. If the global minimum tax is set at 15% as agreed, this will affect numerous countries in ways such as the increase in corporate tax.

There are two methods of taxation: 1. STTR (Subject to tax rule) restrains a treaty benefits (tax exemptions) and taxes income that are taxed below the minimum tax rate in the source country of the income, such as interest and royalty, and 2. IIR (Income Inclusion Rule) taxing a parent entity on a low-taxed income of a constituent entity, including the PE. In the Graph below, assuming the minimum tax on royalties that were exempt from tax was 7.5, '7.5 / 90 = 8.33%' calculates the effective tax rate, and minimum tax becomes '(90 - 1) (12.5% - 8.33%) = 3.71'. Hence, the minimum tax of country P becomes '(100 - 5) (12.5% - 7.5%) = 4.75', and a firm will have to pay a total of 8.46 minimum tax in country R.

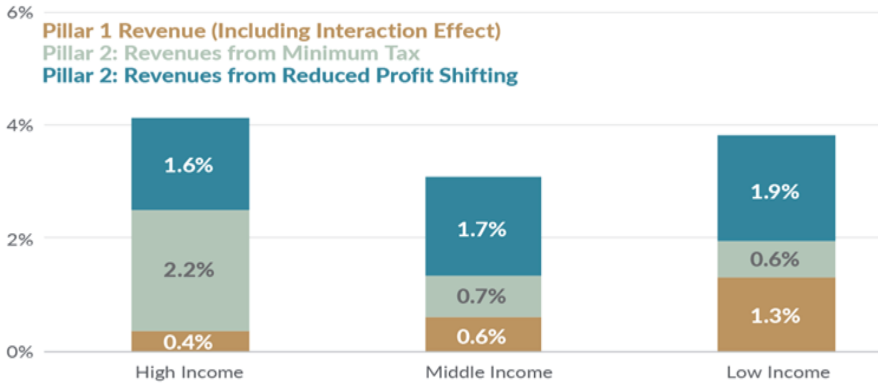


* Some rates such as wages and tangible assets are excluded.

* Source: Lee, D. G., "Global Discussion of Corporate Tax Reform and Its Main Controversies", KERI Seminar, 3 May 2021.

Fig. 3 Calculation of the Global Minimum Tax

According to the OECD, tax revenue increases more with the global minimum tax than the digital tax, and the increase in the global effective tax rate increases the tax revenue of higher-income countries more than that of lower-income countries.



* Tax Foundation(2020), Summary of the OECD's Impact Assessment on Pillar 1 and Pillar 2.

Fig. 4 Effect of Digital Tax and Global Minimum Tax on Tax Revenue

Biden Administration Tax on the Wealthy

President Biden has revealed three parts of the Build Back Better agenda - [Part 1: American Rescue Plan] involves providing direct payments to American individuals ($1,400 per person), extending the unemployment benefits ($300 weekly) to September, providing government support to state and local governments ($350 billion), distributing COVID-19 vaccines and scaling up COVID-19 tests, and implementing Child Tax Credit. [Part 2: American Jobs Plan] focuses on the 'physical infrastructure', modernizing and improving infrastructure by increasing corporate tax with the Made in American Tax Plan. [Part 3: American Families Plan] focuses on 'human infrastructure', involving child care, education, and paid leave programs, planning the 'Tax Reform that Rewards Work - Not Wealth' to acquire financial resources.

The Biden administration is planning to acquire financial resources to rebuild the US by increasing taxes. It announced to increase tax for high income and businesses and to decrease tax for the middle class, mainly through the following three types of tax policies: corporate tax, income tax, and capital gains tax. The policies of the new administration is hence expected to be very different from the policies of the previous Trump administration.

Firstly, they claimed that the Trump Tax Reform Plan had decreased corporate taxes too much, and they are planning to increase corporate tax again (21% to 28%)[4] and also taxing US companies on their overseas revenue. If a US company offshores manufacturing and service jobs to foreign countries in order to sell goods or services back in the US market, an Offshoring Tax Penalty of 10% will be imposed, and keeping in mind the offshoring tax penalty on corporate tax (2.8%), corporate tax will amount up to 30.8%. Increasing the minimum tax from 10.5% to 21% on revenue from intangible assets produced by US companies through foreign subsidiaries,

[4] 25% has been suggested by the Democratic Party.

Biden is planning to pursue a reshoring policy that provides 10% advanceable tax credit to companies that move their overseas production back into the US.

Next, with respect to income tax, there will be increased maximum income tax rate on the 'wealthy' individuals earning more than $400,000 per year (37% to 39.6%), plus the imposition of social security payroll taxes (12.4%). Biden also plans to continue the tax cuts made by the previous administration (standard deduction of $12,000 for single persons, $24,000 for married couples, tax credit of $2,000 per child) for middle class households that earn less than $400,000 per year. Furthermore, other methods of tax reductions are being discussed in terms of retirement plan, child care, and first-time homebuyers of middle class households. The top capital gains tax will be increased up to 39.6% (a two-fold increase), and this will be imposed on taxpayers with a taxable income over $1 million per year. Short-term capital gains held below 12 months are taxed as ordinary income (10~37%), and long-term capital gains have reduced tax rates (0, 15, 20%).

Table 3 The Biden Administration Tax Reform

Categories	Key Points	Expected Tax Revenue in the Next 10 Years (in 10 billion dollars)
Corporate Tax	Increase corporate tax rate 21% → 28%	1050.8
	Increase GILTI tax rate 10.5% → 21%	289.7
	Imposition of minimum tax of 15% on financial profits of businesses	202.7
	Cutting tax credits to companies with more than $400,000 annual revenue (in stages)	177.1
Social Security Tax	Imposition of 12.4% social security tax on individuals annually earning more than $400,000	819.9
Personal Income Tax	Limiting tax credit by category to 28% for individuals annually earning more than $400,000	380.1
	Increasing maximum income tax 37% -> 39.6% to individuals annually earning more than $400,000	148.1
Capital Gains Tax	Imposition of maximum tax on capital gains of an individual annually earning more than $1 million	469.4
Inheritance and Gift Tax	Return to 2009 levels	280.7
Tax Credits	[Child Tax Credit] Provision of $3,000 maximum tax credit per child below the age of 17, additional provision of $600 per child under six	-105.5
	[Child Care] Provision of maximum $8,000, increasing maximum refund to 50%	-80.7
	Provision of maximum $15,000 of tax credit to first-time homebuyers	-164.6
	Other tax credits	-134.3

* Tax Foundation(2020), Details and Analysis of Democratic Presidential Nominee Biden's Tax Proposals, October 2020 Update.

Overview of South Korea and Implications

Overview of South Korea

Corporate tax

The current South Korean administration has pursued a policy that persistently increases tax on businesses through a 3% increase in corporate taxes, imposing and extending the 'investment and mutual aid promotion tax' on 'large companies'. South Korea seemed to have a decreasing top marginal corporate income tax rate until the mid-2010, but the top tax rate increased from 22% to 25% at end of 2017 through the 'Revised Tax Bill in 2017'. At the end of 2017, corporate tax rate increased by 3 percentage points, and South Korea's top marginal corporate income tax rate became 25%, higher than the 2020 OECD average (21.1%) and fifth highest in the 36 OECD countries. (According to the central government data)[5]

Table 4 History of Corporate Tax Reforms

<table>
<tr><th>Taxable Income Bracket</th><th>1996</th><th>1997-2002</th><th>2003-05</th><th>2006-08</th><th>2009</th><th>2010</th><th>2011-12</th><th>2013-17</th><th>2018 onwards</th></tr>
<tr><td>₩0 to ₩100 mil.</td><td>18%</td><td>16%</td><td>15%</td><td>13%</td><td rowspan="2">11%</td><td rowspan="2">11%</td><td rowspan="2">10%</td><td rowspan="2">10%</td><td rowspan="2">10%</td></tr>
<tr><td>₩100 mil. to ₩200 mil.</td><td rowspan="4">30%</td><td rowspan="4">28%</td><td rowspan="4">27%</td><td rowspan="4">25%</td></tr>
<tr><td>₩200 mil. to ₩20 bil.</td><td rowspan="3">25%</td><td rowspan="3">22%</td><td rowspan="3">22%</td><td>20%</td><td>20%</td></tr>
<tr><td>₩20 bil. to ₩300 bil.</td><td rowspan="2">22%</td><td>22%</td></tr>
<tr><td>₩300 bil. or more</td><td>25%</td></tr>
</table>

* Source: Korea Law Information Center

Furthermore, from 2018, the government proceeded with an internationally unprecedented program called 'investment and mutual aid promotion tax' for three years, and extended its imposition at the end of 2020 for two more years. As the Corporate Earnings Circulation Taxation imposed from 2015 was put to an end, in 2018 a reformed 'investment and mutual aid promotion tax' was imposed, embodying the same purpose and subjects, and was also extended through a tax reform at the end of 2020 until 2022. Controversy surrounds the 'investment and mutual aid promotion tax', many criticizing it to have been economically inefficient, acting as a double taxation, limiting rights to private autonomy and causing many other problems, and ultimately it being unable to fulfil its purpose of promoting a virtuous cycle, while instead increasing tax revenue through increased tax burden.[6]

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[5] South Korea is 9th(27.5%), local tax incl.

[6] Lim, D. W., "Revision of Problems Arising From Extending the Investment and Mutual Aid Promotion Tax", KERI, October 2020.

Last year, an ‘integrated tax credit scheme’ was newly established to improve business environment. However, its effect was regarded as limited because it lacked basic solutions such as deregulation, and the continuously rising tax on companies only made improvement more difficult. Credits should be given for having expanded the scope of assets eligible for tax benefits from the positive method (only to selected few) to the negative method (all tangible assets of all general businesses), but overall, there will be a minimal effect because the capital region had been excluded from the targeted investment region, and tax credit rate to large companies had been decreased.[7]

In particular, South Korea’s ratio of corporate tax revenue to its GDP ranks as the highest among OECD countries. Companies that have more than ₩300 billion taxable income are imposed the top marginal corporate income tax rate (103 companies, 0.03%), and these take up more than 50% of the burden of the corporate income tax. South Korea’s corporate tax burden (4.3%) of GDP is higher than the OECD average by 1.5 percentage points, and ranks as 4thhighest of the OECD member countries. South Korea has maintained its level at 3% since 2010, but ever since the current administration took place, it has been steeply increasing, hitting 4% in 2018.

Table 5 International Comparison of Corporate Tax Burden to GDP (2019, %)

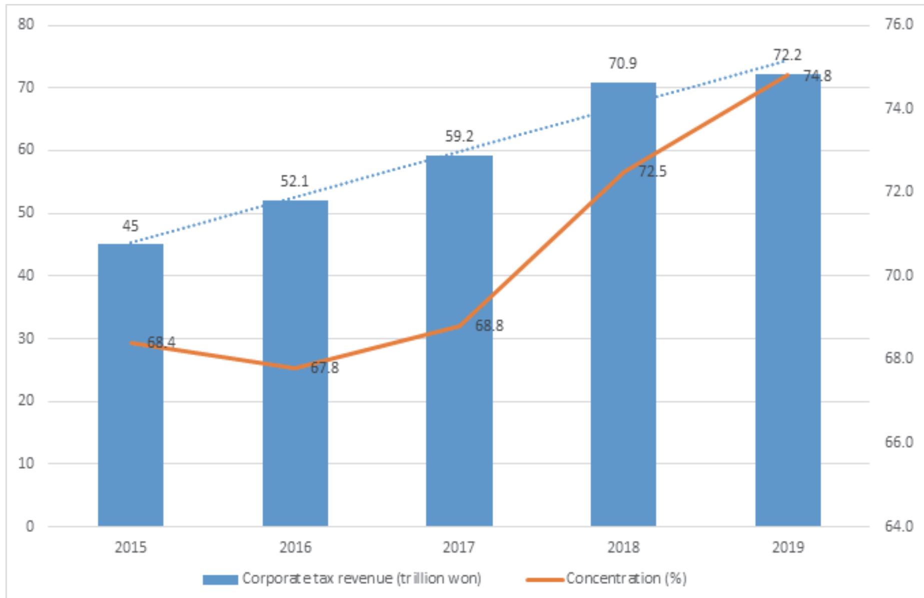
Category	South Korea	United States	Japan	France	United Kingdom	OECD Average
Corporate tax burden to GDP	4.3	1.0	4.2	2.2	2.5	2.8
Rank	4th	32nd	5th	21st	19th	-

* OECD Statistics(https://stats.oecd.org/).

Looking at the concentration rate of tax liability in 2019, companies with taxable income above ₩20 billion are burdened with 74.8% (₩50 trillion) of total corporate tax revenue, and companies with taxable income above ₩300 billion are burdened with 50.7% (₩34 trillion) of corporate tax revenue. 0.3% of companies[8] have 74.8% of corporate tax burden, and 0.03% (103 companies) have 50.7%, hence showing phenomenon of tax heavily concentrated on one side. In particular, the increase of the corporate tax burden of companies with taxable income of ₩20 billion grew quicker than the corporate tax revenue trend, showing that from 2018, tax dependency on large companies grew steeply to 70%.

[7] A Comprehensive Tax Credit on Investment of 1% is imposed on large companies, but this is no different from the Tax Credit for Investment on the Improvement of Productivity of 1%, and is even lower than that of the previous Environmental Conservation Facilities of 3%.

[8] 1,412 companies. Companies that paid corporate tax area total of 403,631 (2019)



* Source: National Tax Statistics Annual Report, Calculated by author.

Fig. 5 Corporate Tax Revenue and Concentration of Tax Burden

Income tax

The current South Korean administration is pursuing a policy of ‘taxing the wealthy’, also known as the ‘pincette tax increase’. It increased the top marginal income tax rate twice (40% to 42% to 45%) on the high-income class who tend to have less resistance to tax increases. It also increased the comprehensive real estate holding tax more than two-fold (maximum 6%) to homeowners owning multiple or expensive properties.

24.8% of all income in South Korea was earned by the top 5% income earners, and this amounts up to 65.1% of the total income tax. Since the lower limit of the income of the top 5% is around ₩100 million, not only practitioners but also general managers of large companies or high-ranking officials cannot refrain from being affected by the pincette tax increase. Those who are exempt from paying tax are a total of 7,050,000 people, amounting to 36.8%. This trend has been speeding up since the current administration, and the continuing ‘pincette tax increase’ targeted on the upper class is weakening the structure. The ‘comprehensive real estate holding tax’, a part of Moon’s real estate policy, has been analysed to have risen six-fold in comparison to 2019, and hence leading to a four-fold increase in the average burden on an individual to ₩5.3 million ~₩7.1 million.[9]

[9] National Assembly Budget Office, “2021 Real Estate Holding Tax Revenue Prospect and Its Key Factors”, June 2020.

Implications

The main point of the digital tax is to apply tax even without the permanent establishments in the market jurisdictions, so that tax avoidance by global IT companies is restricted. However, a new controversy rose as the OECD and G20 agreed upon involving the manufacturing (consumer-facing companies) in the report, unlike what was discussed earlier on as only involving 'IT industries'. This is because consumer-facing companies are completely unrelated to digital industries, and involving this in the policy goes against the legislation of the digital tax. Unlike the IT industries that mainly deal with intangible assets, consumer-facing companies deal with tangible assets that exist in physical form, and have almost no problems of tax avoidance because the profit from overseas sales of products produced locally are taxed according to the 'Principle of substantial taxation'.

Hence, the implementation of the digital tax will not only affect South Korean IT industries that offer services abroad, but also domestic companies that manufacture automobiles, mobile phones, and home appliances that are sold abroad. The company may not see a notable difference in total taxes paid with the implementation of the digital tax, but it will lead to domestic companies that are globally active having more burden from the digital tax than foreign companies in South Korea. The burden of digital tax that South Korean companies will face abroad will be exempted through the foreign tax credit, leading to a proportional loss of South Korean government tax revenue. In 2019 there were 209 publicly listed companies with an annual revenue over 1 trillion won, and if Korean companies pay more tax abroad, this will lead to a cut in tax revenue. In 2019, companies with a revenue over ₩500 billion (736 companies) were imposed ₩42.6 trillion (63.4%) of corporate tax. Since a company with revenue higher than ₩1 trillion are estimated with a 40~50% of corporate tax burden, a significant amount of tax is paid abroad, which leads to a decrease in the Korean government tax revenue. The government will see a shortfall in tax revenue if the corporate tax, as taking the highest share of the three main domestic taxes in South Korea (27.8% in 2019), decreases through the increase of foreign tax credits. It is indeed ideal to exclude manufacturing and consumer-facing business from digital tax. However, if consumer-facing businesses are included as is being currently discussed, it will be of the South Korean national interest to divide digital services companies and consumer-facing businesses to apply a low tax rate on the latter.

South Korea will not be as affected by the implementation of the global minimum tax rate, as it already has a high level of corporate tax rate (maximum 27.5%). However, South Korean companies that are overseas will have higher costs of corporate tax, leading to a negative impact on employment and investment. Samsung Electronics, Hyundai Motors, and LG Electronics, and other companies with high dependency on overseas revenue and exports will see a decrease in their net profit as corporate tax increases with the minimum tax rate, leading to a fall in the government tax revenue. In 2019, the number of South Korean subsidiaries located abroad is increasing. If the global minimum tax rate is to be set at 15%, countries that currently have a lower corporate tax rate than South Korea will have increased costs of corporate taxes and will see decreases in remittances to the headquarters (lower profit of headquarters lower corporate taxes). Hence, in countries that will face a higher increase in corporate taxes than South Korea as a result of the global minimum tax, South Korea will not be able to impose tax on them with

the increase in foreign tax credit. South Korea needs to strongly protect its national interests and insist on the OECD 12.5%, the justifiable limit to which tax avoidance is not encouraged, as the global minimum tax rate in order to minimize the negative effects on its companies.

Most importantly, tax increases should be refrained as it may transfer the government's tax revenue shortfall, resulting from the increase in corporate tax (digital tax and global minimum tax), onto the businesses. South Korea's corporate tax revenue to GDP is 4.3%, fourth highest in OECD, burdening companies with the high tax imposition. Further increases in corporate taxes or cuts in tax credits will hinder South Korea's international competitiveness and its national competitiveness. It is practical to make South Korea a better environment for a company to run smoothly so that its headquarters return to South Korea. However, since it may realistically be impossible, South Korea needs to prevent the headquarters of global companies that are currently in Korea from moving abroad. Furthermore, following the US example of increasing tax on the wealthy and large companies for financial resources will bring economic losses such as labour and capital outflow instead of increased tax revenue, as there already is a high tax burden. A tax system reform is needed to acquire financial resources, and it is necessary to follow the principle of 'broad tax base and low tax rate' and a 'tax on all citizens principle', which promotes the universal responsibility to bear the burden of financing the country. The relaxation of corporate and property tax should come hand-in-hand with the increased income and consumption tax burdens. In particular, income tax should decrease the ratio of individuals who are exempt from paying taxes by cutting tax exemptions, and consumption tax (value added tax) should decrease the benefits of a simplified taxpayer.

Conclusion

The problem of tax fairness has been recognized between the traditional manufacturing sector and IT industry, mainly because the digital economy creates profit even without a permanent establishment, and hence avoids corporate taxes. Ever since 2015, the OECD is hence discussing the problem of taxation caused by the digitalization of the economy through the BEPS Project. The OECD/G20 proposed in the 2019 May Progress Report the Digital Tax and the Global Minimum Tax. Early this year, the US proposed the 'global minimum tax' to restrain international tax competition, which gained momentum as the IMF, G20, and the OECD expressed their agreement towards it. Together with this, the Biden administration is planning on increasing corporate tax and tax on the wealthy in order to pursue policies that would reconstruct the US. South Korea's companies are also expected to be significantly impacted by the rapidly progressing discussions on the global corporate tax, and the South Korean government's effective response is necessary. The government should claim the following in order to protect its national interests.

Firstly, the implementation of the digital tax will not only affect South Korean IT industries that offer services abroad, but also domestic companies that manufacture automobiles, mobile phones, and home appliances that are sold abroad. This would mean that it is ideal to exclude manufacturing and consumer-facing businesses from being applicable to the digital tax. According to what is being discussed currently, it will be reasonable to tax automated digital services and consumer-facing businesses differently. Secondly, in South Korea, the effect of the global minimum tax will be minimal, as there already is a high level of corporate tax rate (maximum

27.5%). However, domestic companies that are abroad will be negatively affected by the implementation of the global minimum tax as the increase of costs of corporate tax will negatively affect employment and investment. Given the minimal negative impacts on businesses, the OECD 12.5% minimum tax seems justifiable as the limit to which tax avoidance is not encouraged.

Most importantly, tax increases should be refrained as it may transfer the government's tax revenue shortfall, resulting from the increase in corporate tax (digital tax and global minimum tax), onto the businesses. Further increases in corporate taxes or cuts in tax credits will hinder South Korea's both its international competitiveness and its national competitiveness. Furthermore, increasing the tax on high income and large companies like the US to acquire resources requires caution, as it may bring labour and capital outflow and economic losses instead of increased tax revenue, as there currently is excessive and focused burden by tax.

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