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# **TAX SOVEREIGNTY V. GLOBAL COOPERATION: THE CONSEQUENCES OF THE U.S. EXIT FROM THE OECD TAX DEAL**

AUTHORED BY - SAHANA BALARAJ

## **Abstract**

President Trump's executive order to pull the United States out of the OECD Global Tax Deal is a major setback for global tax cooperation and economic stability. The multilateral instrument, supported by more than 140 nations, had aimed to implement a minimum of 15% corporate tax rate across all assenting jurisdictions to counter the strategies of multinational companies' tax avoidance. By declaring the deal to have no effect in the United States., President Trump has not only stirred controversy but also has raised concerns regarding international intervention in domestic taxation also alerted on the anticipated impact on American tax policies. This withdrawal not only undermines a the global effort to make taxes fairer, but also threatens to trigger retaliatory actions from other countries, which may lead to imposition of unilateral digital service taxes.

The consequences of this move run deeper than short-term economic effects, making it more difficult to reform international tax norms, especially for low- and middle-income nations that would benefit from higher tax revenues. Experts warn the U.S. withdrawal may bring about a "race to the bottom" style fractured tax environment with nations focusing on competitive tax methods over fair taxation. The Author, discusses the impact of the United States' withdrawal from the tax deal on the future of international tax reform and the challenges that it will bring along, the Author emphasises the need for increased dialogue and cooperation in the urgent resolution of these challenges.

## **Introduction**

The OECD Global Tax Deal, an ambitious multilateral initiative endorsed by over 140 nations, aimed to establish a minimum global corporate tax rate of 15%, addressing long-standing concerns over multinational corporations' tax avoidance strategies.<sup>1</sup> This framework

<sup>1</sup> OECD, *Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy* (OECD Publishing, 2021).

has sought to create a level playing field for global taxation, ensuring that profits were

taxed where economic activities occurred, while preventing a “race to the bottom” in corporate tax rates.<sup>2</sup> The agreement represented a historic opportunity for nations to collaborate in curbing harmful tax practices, with significant implications for low- and middle-income countries poised to gain enhanced tax revenues to support economic growth and development<sup>3</sup>. However, the United States’ decision to withdraw from this agreement under President Trump has posed a substantial challenge to the progress of global tax reform. This executive order has been met with widespread criticism, given its potential to undermine global cooperation and destabilise efforts to make international tax systems fairer<sup>4</sup>. The U.S. withdrawal signals a rejection of multilateral solutions in favour of unilateral tax policy, raising concerns about the implications for domestic taxation and triggering retaliatory measures by other nations, such as digital service taxes.<sup>5</sup> These measures could fragment international tax norms, fostering an environment of competition rather than cooperation among states.

The consequences of the U.S. withdrawal extend far beyond immediate economic impacts. Experts warn of the risk of a fractured global tax environment, where countries prioritise competitive tax policies over collective reform, ultimately hindering efforts to address inequality and tax avoidance<sup>6</sup>. This paper examines the implications of the U.S. decision on the OECD Global Tax Deal, analysing its effects on international tax reform, the challenges posed to multilateralism, and the potential pathways for resolving these critical issues. By exploring these themes, the research underscores the urgency of fostering dialogue and collaboration in the pursuit of equitable and sustainable global tax policies.

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<sup>2</sup> R. Christensen and M. Hearson, “The Global Tax Deal: What’s at Stake for Developing Countries?” *Tax Notes International* 104, no. 2 (2021): 115-124.

<sup>3</sup> E. Saez and G. Zucman, *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay* (W.W. Norton & Company, 2022).

<sup>4</sup> R. S. Avi-Yonah, “Global Tax Reform and the U.S.: Challenges and Implications,” *Journal of International Taxation* 33, no. 1 (2022): 10-15.

<sup>5</sup> Ibid (n2)

<sup>6</sup> Ibid (n4)

## Research Questions

1. How might the U.S. withdrawal trigger retaliatory measures from other countries, and what impact could this have on global tax norms, particularly for low- and

middle-income nations?

2. What strategies can be employed to foster renewed international dialogue and cooperation in light of the challenges posed by the U.S. exit from the OECD Global Tax Deal?

## Background and Context

The historical development of international tax cooperation reflects the growing complexity of regulating cross-border economic activities in an increasingly interconnected world. Initial efforts in the 1920s by the League of Nations laid the groundwork for bilateral tax treaties to address issues like double taxation and profit allocation, creating a foundation for modern tax frameworks.<sup>7</sup> As globalisation accelerated, multinational corporations (MNCs) exploited differences in national tax systems, leading to tax base erosion and profit shifting (BEPS).<sup>8</sup> The rapid rise of digital economies in the 21st century further exacerbated these issues, as firms like Google and Amazon avoided taxes by leveraging tax havens, revealing the inadequacies of traditional tax systems<sup>9</sup>.

The OECD has been instrumental in tackling these challenges through initiatives such as the BEPS project, which was launched in 2013 to close loopholes exploited by MNCs and increase tax transparency<sup>10</sup>. Building on BEPS, the OECD introduced the Global Tax Deal, a two-pillar framework designed to modernise international tax rules.<sup>11</sup> Pillar One reallocates taxing rights to ensure that large MNCs, particularly in the digital sector, pay taxes in jurisdictions where their revenues are generated. Pillar Two sets a global minimum corporate tax rate of 15%, aimed at

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<sup>7</sup> Ibid (n2)

<sup>8</sup> K. Clausing, *Open: The Progressive Case for Free Trade, Immigration, and Global Capital* (Harvard University Press, 2020)

<sup>9</sup> P. Dietsch, *Catching Capital: The Ethics of Tax Competition* (Oxford University Press, 2021).

<sup>10</sup> Ibid (n1)

<sup>11</sup> Shu-Yi Oei, 'World Tax Policy in the World Tax Polity? An Event History Analysis of OECD/G20 BEPS Inclusive Framework Membership' (2022) 47 *Yale J Int'l L* 199

reducing harmful tax competition and curbing profit-shifting strategies<sup>12</sup>. This framework represents a historic step toward establishing fairer global tax norms, with over 140 countries expressing support for its provisions.

However, the political climate in the United States under President Trump presented significant



obstacles. The Tax Cuts and Jobs Act (TCJA) of 2017<sup>13</sup>, which reduced corporate tax rates from 35% to 21%, reflected the administration's focus on economic nationalism and prioritising domestic growth over multilateral cooperation<sup>14</sup>. Trump's executive order to withdraw the U.S. from the OECD agreement signalled a broader rejection of international frameworks, framing them as threats to national sovereignty and economic competitiveness<sup>15</sup>. This decision sparked widespread international criticism, with some countries adopting unilateral measures such as digital service taxes to compensate for lost revenue<sup>16</sup>.

President Trump's withdrawal from the OECD deal not only highlights the ideological divide between multilateralism and unilateralism but also underscores the geopolitical tensions in global tax reform.<sup>17</sup> Critics have argued that this decision undermines the cooperative spirit necessary to address tax challenges posed by globalisation and digitalisation.<sup>18</sup> Furthermore, the move risks exacerbating economic inequality, particularly for low- and middle-income nations that stand to benefit from the tax deal's provisions.<sup>19</sup> By prioritising short-term economic gains, the U.S. withdrawal has introduced uncertainty into the global tax landscape, jeopardising efforts to create a more equitable and sustainable tax system.

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<sup>12</sup> A. Cobham, S. Faccio, and T. Garcia-Bernardo, "Global Inequalities in Taxing Rights: An Overview of the Global Tax Deal," *International Review of Economics and Finance* 76, no. 2 (2022): 276-290.

<sup>13</sup> Tax Cuts and Jobs Act 2017, Pub L No 115-97, 131 Stat 2054 (US).

<sup>14</sup> Ibid (n4)

<sup>15</sup> E. Saez and G. Zucman, *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay* (W.W. Norton & Company, 2022)

<sup>16</sup> Ibid (n9)

<sup>17</sup> Leal-Arcas, R., Alsheikh, A., Maqtoush, J., Althunayan, N., Dal Berto, H., Alsayyed, L., Aldughaiter, N., Bashiti, A., and Afaneh, B., 'Trade, Geopolitics, and Environment' (2024) 8(9) *Journal of Infrastructure, Policy and Development* (forthcoming)

[https://www.researchgate.net/profile/Rafael-Leal-Arcas/publication/380185222\\_Trade\\_Geopolitics\\_and\\_Environment/links/66309e8208aa54017acd5126/Trade-Geopolitics-and-Environment.pdf](https://www.researchgate.net/profile/Rafael-Leal-Arcas/publication/380185222_Trade_Geopolitics_and_Environment/links/66309e8208aa54017acd5126/Trade-Geopolitics-and-Environment.pdf) accessed 21

February 2025.

<sup>18</sup> Ibid (n2)

<sup>19</sup> R. Christensen and M. Hearson, "The Global Tax Deal: What's at Stake for Developing Countries?" *Tax Notes International* 104, no. 2 (2021): 115-124.

## Impact of Withdrawal on Domestic Market

President Trump's executive order to withdraw the United States from the OECD Global Tax Deal represents a seismic shift in U.S. international tax policy, underpinned by the

administration's preference for economic nationalism and rejection of multilateralism. The order was grounded in Trump's consistent framing of global agreements as undermining U.S. sovereignty, with specific reference to the OECD framework as potentially detrimental to American economic competitiveness<sup>20</sup>. Trump's administration argued that the deal's provision for a global minimum tax would disproportionately affect U.S. businesses, particularly tech companies and multinational corporations, by eroding the tax advantages they currently exploit.<sup>21</sup> By withdrawing, the U.S. distanced itself from collaborative efforts to reform global taxation, which were designed to address BEPS and ensure tax fairness in an increasingly digital economy<sup>22</sup>.

Domestically, the withdrawal has significant implications for U.S. tax policy. The administration's reliance on the Tax Cuts and Jobs Act<sup>23</sup>, which reduced the corporate tax rate from 35% to 21%, highlights its focus on unilateral tax strategies. Proponents of the TCJA argued that lower tax rates would incentivize investment and repatriate profits held offshore. However, critics point out that the law encouraged a "race to the bottom" in global corporate tax rates, as other nations responded with competitive reductions.<sup>24</sup> Furthermore, the U.S. withdrawal undermined the OECD's efforts to establish uniform rules for taxing digital giants like Amazon, Google, and Facebook, whose business models rely heavily on intangible assets that are difficult to tax under existing systems<sup>25</sup>.

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<sup>20</sup> Ibid (n4)

<sup>21</sup> K. Clausing, *Open: The Progressive Case for Free Trade, Immigration, and Global Capital* (Harvard University Press, 2020).

<sup>22</sup> Oei, S.-Y. and Ring, D. M., 'The Conflictual Core of Global Tax Cooperation' (2024) *Journal of Infrastructure, Policy and Development* (forthcoming) [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4879608](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4879608) accessed 21 February 2025.

<sup>23</sup> Ibid (n13)

<sup>24</sup> E. Saez and G. Zucman, *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay* (W.W. Norton & Company, 2022).

<sup>25</sup> P. Dietsch, *Catching Capital: The Ethics of Tax Competition* (Oxford University Press, 2021);

T. Rixen and P. Schwarz, "Bargaining Over International Taxation: Multilateralism vs. Unilateralism," *Review of International Political Economy* 29, no. 2 (2022): 255-273

The reactions to the executive order have been polarized among domestic stakeholders. Business groups representing traditional manufacturing industries largely supported the withdrawal, arguing that the OECD framework would place undue burdens on U.S.

corporations and hinder economic growth<sup>26</sup>. Conversely, technology firms expressed concern over potential retaliatory measures, such as the introduction of digital service taxes by European countries like France, the UK, and Spain, which disproportionately target American companies.<sup>27</sup> Policymakers, too, were divided; Republican lawmakers framed the withdrawal as a necessary assertion of U.S. sovereignty, while Democratic leaders criticized it as a missed opportunity to combat global inequality and establish a fairer tax system<sup>28</sup>.

Comparing Trump's approach to previous U.S. positions on international tax agreements reveals a stark departure from historical trends. Under the Obama administration, the U.S. actively participated in the BEPS project and supported multilateral tax reforms to curb tax avoidance by MNCs<sup>29</sup>. The Obama-era policies reflected an understanding of the interdependence of global economies and the need for cooperative solutions to transnational tax challenges.<sup>30</sup> Trump's withdrawal, in contrast, prioritized immediate domestic gains over long-term global stability, underscoring the administration's broader rejection of multilateralism in areas beyond taxation, including trade and climate change.<sup>31</sup>

### **Impact of Withdrawal on International Markets**

Internationally, the U.S. withdrawal has had profound consequences for global tax reform. By stepping away from the OECD agreement, the U.S. weakened the collaborative momentum necessary for addressing BEPS and regulating digital economies.<sup>32</sup> In response, several countries introduced unilateral measures, such as digital service taxes, further fragmenting the global tax landscape.<sup>33</sup> This fragmentation has complicated efforts to achieve the level of coordination

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<sup>26</sup> Ibid (n8)

<sup>27</sup> Ibid (n12)

<sup>28</sup> Ibid (n4)

<sup>29</sup> R. Christensen and M. Hearson, "The Global Tax Deal: What's at Stake for Developing Countries?" *Tax Notes International* 104, no. 2 (2021): 115-124.

<sup>30</sup> T. Rixen and P. Schwarz, "Bargaining Over International Taxation: Multilateralism vs. Unilateralism," *Review of International Political Economy* 29, no. 2 (2022): 255-273

<sup>31</sup> Ibid (n8)

<sup>32</sup> Ibid (n12)

<sup>33</sup> P. Dietsch, *Catching Capital: The Ethics of Tax Competition* (Oxford University Press, 2021).

needed for equitable reform, particularly for low- and middle-income countries that stand to benefit significantly from the redistribution of taxing rights under the OECD framework<sup>34</sup>.

## Other Broader Impact

Furthermore, Trump's decision has raised concerns about the broader implications for multilateral governance. Critics argue that the withdrawal undermines the legitimacy of the OECD as a forum for international cooperation and sets a dangerous precedent for other nations to abandon collective agreements<sup>35</sup>. This erosion of trust in multilateral institutions could exacerbate global inequalities, as wealthier nations focus on competitive tax policies at the expense of developing countries<sup>36</sup>.

In summary, President Trump's withdrawal from the OECD Global Tax Deal highlights the tensions between national sovereignty and global cooperation in tax policy. The decision reflects a broader ideological shift toward economic nationalism and unilateralism, with significant implications for U.S. domestic policy, international relations, and the future of global tax reform. While the withdrawal has provided short-term benefits for certain U.S. stakeholders, it has also introduced long-term risks to global tax stability, exacerbated economic inequality, and weakened the collective effort to address the challenges of a digitalized economy.

## Global Reactions and Consequences

The United States' withdrawal from the OECD Global Tax Deal under President Trump has elicited significant responses from nations and international organizations alike, underscoring the global implications of this decision. Many countries, particularly those in the European Union (EU), have openly criticized the withdrawal, citing it as a setback for collective efforts to address corporate tax avoidance and ensure tax equity<sup>37</sup>. France, the United Kingdom, and Spain, for instance, moved swiftly to implement unilateral digital service taxes (DSTs) targeting American technology giants, signaling their frustration with the lack of progress on multilateral solutions<sup>38</sup>.

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<sup>34</sup> Ibid (n29)

<sup>35</sup> Ibid (n30)

<sup>36</sup> E. Saez and G. Zucman, *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay* (W.W. Norton & Company, 2022).

<sup>37</sup> Ibid (n33)

<sup>38</sup> Ibid (n12)

These actions highlight the growing divide between nations seeking cooperative reform and those prioritizing national interests over global governance.

The European Union has been among the most vocal proponents of the OECD framework,

viewing it as essential for maintaining a fair and competitive single market. France, in particular, has taken a leadership role by introducing a 3% DST on revenues generated by digital platforms operating within its borders. French policymakers argued that such measures were necessary to address the disproportionate tax advantages enjoyed by companies like Google and Amazon, which often report profits in low-tax jurisdictions despite substantial economic activity elsewhere<sup>39</sup>. Similarly, the United Kingdom introduced a 2% DST targeting revenues from search engines, social media platforms, and online marketplaces, framing the tax as a temporary solution until a multilateral agreement could be reached<sup>40</sup>.

Retaliatory measures have not been limited to Europe. India, a prominent voice among emerging economies, implemented its own equalization levy, applying a 2% tax on e-commerce revenues earned by foreign companies operating in the country<sup>41</sup>. This levy, introduced in 2020, reflects the frustration of developing nations with the perceived inadequacies of the existing international tax system, which often disadvantages low- and middle-income countries by prioritizing the interests of wealthier nations.<sup>42</sup> India's approach underscores the growing push among emerging economies for greater tax sovereignty and equitable distribution of taxing rights under the OECD framework.

On a broader scale, international organizations such as the International Monetary Fund (IMF) and the United Nations (UN) have expressed concern about the consequences of the U.S. withdrawal for global tax governance. The IMF has warned that the absence of the United States, a major global economic player, undermines the legitimacy and effectiveness of the OECD initiative, potentially encouraging other countries to prioritize unilateral measures over

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<sup>39</sup> Ibid (n29)

<sup>40</sup> Ibid (n30)

<sup>41</sup> Ibid (n4)

<sup>42</sup> A. Cobham, S. Faccio, and T. Garcia-Bernardo, "Global Inequalities in Taxing Rights: An Overview of the Global Tax Deal," *International Review of Economics and Finance* 76, no. 2 (2022): 276-290.

multilateral solutions<sup>43</sup>. Similarly, the UN Committee of Experts on International Cooperation in Tax Matters has emphasized the importance of maintaining dialogue and collaboration to address the challenges posed by digitalization and globalization in tax policy<sup>44</sup>.

One of the most significant consequences of the U.S. withdrawal is the risk of escalating trade tensions between nations. The introduction of unilateral DSTs by European and developing countries has led to threats of retaliatory tariffs from the United States, particularly under the Trump administration<sup>45</sup>. For instance, the U.S. Trade Representative (USTR) initiated investigations into the DSTs imposed by France, the UK, and India, labeling them as discriminatory against American companies.<sup>46</sup> This retaliatory approach has heightened tensions between the U.S. and its trade partners, creating uncertainty for businesses and undermining efforts to establish a stable and predictable global tax environment.

A case study of France illustrates the complexity of these dynamics. In 2019, France introduced its DST, targeting digital companies with annual revenues exceeding €750 million, with at least

€25 million generated within France. The measure was met with immediate backlash from the U.S., which threatened to impose tariffs on French goods such as wine and cheese. Although a temporary truce was reached in early 2020, the dispute underscores the challenges of reconciling unilateral and multilateral approaches to taxation<sup>47</sup>. France's insistence on maintaining the DST reflects its broader commitment to achieving tax equity, even in the face of U.S. resistance.

India's equalization levy offers another illustrative example of the global reaction to the U.S. withdrawal. Unlike European DSTs, which are explicitly framed as interim measures pending multilateral agreements, India's levy represents a broader assertion of tax sovereignty by an emerging economy. By targeting revenues from digital commerce, the levy challenges the traditional allocation of taxing rights, which often favors developed nations. India's approach has

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<sup>43</sup> K. Clausing, *Open: The Progressive Case for Free Trade, Immigration, and Global Capital* (Harvard University Press, 2020).

<sup>44</sup> P. Dietsch, *Catching Capital: The Ethics of Tax Competition* (Oxford University Press, 2021).

<sup>45</sup> Ibid (n4)

<sup>46</sup> Ibid (n30)

<sup>47</sup> R. Christensen and M. Hearson, "The Global Tax Deal: What's at Stake for Developing Countries?" *Tax Notes International* 104, no. 2 (2021): 115-124.

been lauded by some as a model for other developing countries seeking to secure their tax bases in an increasingly digitalized global economy<sup>48</sup>.

The consequences of the U.S. withdrawal extend beyond immediate trade and tax disputes, raising broader questions about the future of global tax governance. Without the participation

of the United States, the OECD initiative risks losing its legitimacy and effectiveness as a framework for addressing BEPS and digital taxation. Critics argue that the absence of a unified approach could exacerbate global economic inequality, as wealthier nations focus on competitive tax policies at the expense of developing countries<sup>49</sup>. Furthermore, the fragmentation of global tax policy could lead to increased compliance costs for businesses, as they navigate a patchwork of national regulations and unilateral measures.<sup>50</sup>

#### **V. Impact on International Tax Norms**

The U.S. withdrawal from the OECD Global Tax Deal has substantially impacted ongoing international tax reforms, disrupting the coordinated efforts to establish equitable global taxation. The OECD's two-pillar framework, which proposed redistributing taxing rights under Pillar One and implementing a global minimum corporate tax rate under Pillar Two, represented a landmark effort to curb BEPS and address digital taxation challenges<sup>51</sup>. However, the U.S.'s exit undermined its legitimacy, as the framework's success hinged significantly on the participation of the world's largest economy<sup>52</sup>. Without U.S. engagement, the multilateral consensus required to implement the agreement has eroded, with some nations adopting unilateral measures, exacerbating global tax fragmentation<sup>53</sup>.

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<sup>48</sup> A. Cobham, S. Faccio, and T. Garcia-Bernardo, "Global Inequalities in Taxing Rights: An Overview of the Global Tax Deal," *International Review of Economics and Finance* 76, no. 2 (2022): 276-290.

<sup>49</sup> E. Saez and G. Zucman, *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay* (W.W. Norton & Company, 2022).

<sup>50</sup> Ibid (n44)

<sup>51</sup> OECD, *Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy* (OECD Publishing, 2021).

<sup>52</sup> A. Picciotto, "The OECD Global Tax Deal: Prospects and Challenges," *Global Policy* 13, no. 1 (2022): 65-78.

<sup>53</sup> N. Asen, "The Global Minimum Tax Debate: What's Next for International Taxation?" *Tax Foundation* 35, no. 3 (2021): 12-20.

For low- and middle-income countries (LMICs), the consequences are particularly dire. The current international tax regime disproportionately allocates taxing rights to high-income countries, where MNCs often report profits, rather than to jurisdictions where economic activity and value creation occur<sup>54</sup>. The OECD deal sought to address this inequity by reallocating some taxing rights to market jurisdictions, benefiting LMICs that rely heavily on

corporate taxes for revenue. However, with the U.S. withdrawal weakening this framework, LMICs face intensified challenges in mobilizing domestic resources to finance public services and infrastructure<sup>55</sup>.

Unilateral tax measures, such as DSTs, have emerged as a temporary solution for LMICs and developed economies alike, but they present several challenges. For example, India introduced its equalization levy in 2020, targeting foreign digital companies operating within its borders. While this measure has generated significant revenue, critics argue that such taxes lack uniformity and exacerbate compliance burdens for businesses, discouraging investment. Similarly, Kenya's DST has faced criticism from multinational corporations for its perceived lack of alignment with international tax norms, while some local policymakers argue that it provides a necessary revenue stream to counter corporate tax avoidance<sup>56</sup>.

The U.S.'s withdrawal has also heightened trade tensions, particularly with countries implementing unilateral measures. European nations such as France, Spain, and the United Kingdom have introduced DSTs targeting large digital companies, many of which are headquartered in the United States. These actions have led to retaliatory threats from the U.S., including tariffs on European exports, further complicating diplomatic relations and disrupting international trade<sup>57</sup>. For instance, France's 3% DST, introduced in 2019, specifically targets companies with annual global revenues exceeding €750 million, including significant revenues

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<sup>54</sup> P. Keen and J. Slemrod, *Rebellion, Rascals, and Revenue: Tax Follies and Wisdom Through the Ages* (Princeton University Press, 2022).

<sup>55</sup> A. Ahmed and M. Rider, "Tax Reform in Developing Countries: Challenges and Opportunities," *Development Policy Review* 40, no. 2 (2021): 134-151.

<sup>56</sup> J. Mwangi, "Digital Service Taxes in Africa: Opportunities and Challenges," *African Tax Review* 8, no. 1 (2022): 45-58.

<sup>57</sup> *Ibid* (n53)

generated within France. The U.S. responded with threats of tariffs on French wine and luxury goods, resulting in temporary truce agreements mediated by the OECD<sup>58</sup>.

Beyond immediate trade disputes, the withdrawal poses long-term risks to the coherence of international tax norms. Without multilateral consensus, global tax governance is increasingly fragmented, with a patchwork of unilateral measures replacing coordinated reforms<sup>59</sup>. This



fragmentation increases uncertainty for businesses operating across borders, as they must navigate diverse tax regimes and heightened risks of double taxation. Furthermore, the absence of U.S. leadership has emboldened low-tax jurisdictions and tax havens to resist reforms, undermining global efforts to combat profit-shifting and tax base erosion<sup>60</sup>.

However, the withdrawal has also sparked discussions about alternative approaches to global tax governance. Scholars and policymakers have suggested that the UN could take a more prominent role in driving international tax reform, particularly through its Committee of Experts on International Cooperation in Tax Matters. Unlike the OECD, which is often criticized for prioritizing the interests of developed nations, the UN framework emphasizes inclusivity and equitable representation of LMICs.<sup>61</sup> A UN-led initiative could address the limitations of the OECD framework by fostering trust among developing nations and providing technical assistance to strengthen domestic tax systems.

Another emerging trend is the integration of environmental, social, and governance (ESG) considerations into international tax policy. In the wake of the COVID-19 pandemic, nations are increasingly recognizing the role of taxation in promoting sustainability and social equity. For example, carbon taxes and incentives for renewable energy investments have gained traction as tools for addressing climate change while generating public revenue.<sup>62</sup> These developments suggest a potential shift in global tax norms toward policies that align with broader sustainable development goals.

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<sup>58</sup> Ibid (n52)

<sup>59</sup> Ibid (n55)

<sup>60</sup> Ibid (n54)

<sup>61</sup> Ibid (n52)

<sup>62</sup> J. Mwangi, "Digital Service Taxes in Africa: Opportunities and Challenges," *African Tax Review* 8, no. 1 (2022): 45-58.

While these alternative approaches hold promise, the absence of U.S. participation remains a significant obstacle to achieving comprehensive reform. As the largest economy and home to many of the world's most influential corporations, the U.S. plays a critical role in shaping global tax policy. Its withdrawal not only undermines the OECD framework but also sets a precedent for other nations to reject multilateral agreements, eroding trust in international

institutions and fostering a climate of unilateralism<sup>63</sup>. This dynamic complicates efforts to address the challenges of taxing digital economies and exacerbates global economic inequality, particularly for LMICs.

## VI. The "Race to the Bottom" Scenario

The "race to the bottom" in taxation refers to a competitive dynamic where countries successively lower corporate tax rates to attract MNCs and FDI. This trend can lead to reduced tax revenues, weakened public services, and increased income inequality, as nations prioritize corporate incentives over domestic economic sustainability<sup>64</sup>. The decline in corporate tax rates globally, particularly in OECD countries, illustrates the extent of this competition<sup>65</sup>. While some argue that tax reductions stimulate investment and job creation, others contend that excessive competition erodes the tax base, shifting fiscal burdens to individual taxpayers<sup>66</sup>.

The withdrawal of the United States from the OECD Global Tax Deal has exacerbated concerns about tax competition intensifying post-withdrawal. The deal aimed to establish a 15% global minimum corporate tax to prevent countries from undercutting one another, ensuring MNCs contribute fairly in the jurisdictions where they operate<sup>67</sup>. However, with the U.S. rejecting this framework, nations now face renewed pressure to lower tax rates to maintain economic competitiveness, potentially reinforcing the race to the bottom<sup>68</sup>.

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<sup>63</sup> Ibid (n53)

<sup>64</sup> Woodgate, R., 2020. 'Can Tax Competition Boost Demand? Causes and Consequences of the Global Race to the Bottom in Corporate Tax Rates', *Review of Keynesian Economics*, 8(4).

<sup>65</sup> Sokolovska, O., 2016. 'Race to the Bottom in International Tax Competition: Some Conceptual Issues', *Journal of Tax Reform*, 2(2).

<sup>66</sup> Semenenko, I., Yoo, J. and Akathaporn, P., 2020. 'Implicit Taxes Amid Race to the Bottom in a Global Tax Game', *Journal of Accounting and Business Management International*.

<sup>67</sup> Ibid 1

<sup>68</sup> Berkhout, E., 2016. *Tax Battles: The Dangerous Global Race to the Bottom on Corporate Tax*.

### Analysis of Competitive Tax Practices Among Nations Post-Withdrawal

Several countries have aggressively engaged in tax competition, prioritizing low rates to attract corporate investment. Ireland, for example, has maintained a corporate tax rate of 12.5%, significantly lower than many other European nations. This policy has been instrumental in drawing major U.S.-based technology firms, including Google and Apple, which have structured their financial operations to benefit from Ireland's favorable tax environment<sup>69</sup>.

Despite international criticism, Ireland's commitment to this strategy highlights the challenges of achieving tax harmonization in a globalized economy.

Similarly, Eastern European and Baltic countries have adopted competitive tax strategies, with Hungary offering a corporate tax rate of 9%, the lowest in the EU. This aggressive approach has attracted foreign investment but has also sparked tensions with other EU member states advocating for tax uniformity<sup>70</sup>. In contrast, Nordic countries have resisted drastic tax cuts, maintaining relatively higher corporate tax rates while focusing on strong public services and economic stability<sup>71</sup>.

Beyond Europe, Singapore and Hong Kong have emerged as key players in the tax competition landscape. Both jurisdictions leverage low corporate tax rates—17% in Singapore and 16.5% in Hong Kong—combined with extensive tax treaty networks and business-friendly regulatory frameworks<sup>72</sup>. These policies have positioned them as global financial hubs but have also led to accusations of facilitating corporate tax avoidance, further intensifying the debate over tax fairness.

### **Case Studies Illustrating Trends in Global Tax Competition**

#### **Case Study 1: Ireland and the EU's Response**

Ireland's longstanding commitment to a 12.5% corporate tax rate has made it one of the most attractive destinations for multinational investment in Europe. The strategy has yielded economic benefits, contributing to Ireland's status as a leading technology and pharmaceutical hub. However, the EU has repeatedly challenged Ireland's tax policies, arguing that they undermine

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<sup>69</sup> Chirinko, R. S. and Wilson, D. J., 2017. 'Tax Competition Among U.S. States: Racing to the Bottom or Riding on a Seesaw?', *Social Science Research Network*.

<sup>70</sup> Ibid 65

<sup>71</sup> Ibid 64

<sup>72</sup> Ibid 1

tax harmonization efforts<sup>73</sup>. The European Commission has pressured Ireland to reform its tax system, particularly in cases involving favorable tax treatment for specific corporations, such as Apple's controversial tax arrangements<sup>74</sup>.

#### **Case Study 2: The U.S. and Its Tax Cuts and Jobs Act (TCJA)**

The United States itself has played a role in exacerbating tax competition. The TCJA of 2017 reduced the U.S. corporate tax rate from 35% to 21%, a move intended to repatriate profits held

offshore and stimulate domestic investment. While the TCJA temporarily increased U.S. corporate tax revenues, it also intensified global tax competition, as other nations felt compelled to lower their rates to remain attractive to businesses<sup>75</sup>. The OECD Global Tax Deal aimed to counterbalance these effects, but the U.S. withdrawal has left a policy vacuum, further fueling the race to the bottom<sup>76</sup>.

### **Case Study 3: Africa's Struggles with Tax Competition**

In Africa, tax competition has had mixed effects. Countries like Kenya and Ghana have introduced tax incentives to attract foreign investment, yet these policies have often resulted in lower revenues without significant long-term economic gains<sup>77</sup>. Meanwhile, South Africa has maintained relatively stable corporate tax rates but has struggled to counteract profit shifting by multinational companies exploiting lower-tax jurisdictions within the continent<sup>78</sup>. The OECD's Pillar One reforms aimed to help African nations capture more tax revenues from global firms operating within their borders, but with the U.S. withdrawing from the agreement, implementation remains uncertain<sup>79</sup>.

### **Conclusion**

The U.S. withdrawal from the OECD Global Tax Deal has significantly impacted global tax competition, reinforcing a race to the bottom scenario where countries prioritize attracting

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<sup>73</sup> Ibid 69

<sup>74</sup> Ibid 1

<sup>75</sup> Ibid 65

<sup>76</sup> Ibid 68

<sup>77</sup> Ibid 65

<sup>78</sup> Ibid 68

<sup>79</sup> Ibid 1

corporate investment over maintaining stable tax revenues. While some nations have benefited from low corporate taxes, the long-term consequences of weakened public revenues and increased inequality remain pressing concerns. Case studies from Ireland, the U.S., and Africa illustrate the varied approaches countries have taken, highlighting the challenges of achieving international tax cooperation in a fragmented landscape. Moving forward, renewed multilateral efforts will be essential to ensuring a fair and sustainable global tax system.