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ECONOMICS

Regional

ASEAN Economics

Global Tax Rules & MNC Tax Rates

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Landmark G7 Agreement on Minimum Tax Rate on MNCs

The G7 countries have reached a landmark agreement on corporate tax reform, agreeing to proposals which ensure the largest multinationals pay more tax where they operate, regardless of the location of their headquarters ("Pillar One"), and a minimum tax rate of 15% for multinationals ("Pillar Two"). The accord will have to win the support of the G20 nations in Venice in July, before wider global negotiations with 139 countries at the OECD. The accord will help end the "race to the bottom", in which countries have slashed corporate tax rates and provided exemptions to attract big MNCs. The average statutory rate has fallen from around 40% in 1980 to 24% in 2020. In the absence of a global deal, there would likely be a proliferation of unilateral tax measures (such as digital taxes) and an increase in tax and trade disputes, which would hurt global growth.

Singapore Captures Large Share of US Firms' Foreign Income

Singapore's share of US firms' foreign income taxed is second highest at 7.5%, after Bermuda (8.7%), based on US IRS filings. US MNCs pay an effective corporate income tax (CIT) rate of about 4% in Singapore, one of the lowest after Bermuda, Cayman Islands and Puerto Rico. Share of US firms' foreign income for the rest of ASEAN is quite small: Indonesia and Thailand at 0.5%, and Malaysia at 0.4% (see Fig 3). US firm's effective CIT rates in the rest of ASEAN are largely above 15%, with the exception of Cambodia (11.2%). US firms' effective CIT rates are highest in Indonesia (32.9%), Philippines (23.5%), Thailand (22.1%), followed by Malaysia (19.8%) and Vietnam (16.4%).

Fiscal Impact on Singapore is Uncertain

The net fiscal revenue impact on Singapore is uncertain due to the two offsetting adjustments from Pillar One (negative) and Pillar Two (positive). Pillar One presents downside risks as large MNCs may shift their revenue base to countries which generate the sales. This shift is difficult to estimate but the magnitude may not be as large as originally feared as the rule will only apply to larger companies with revenue exceeding €750 million. Pillar Two presents upside risks, as MNCs will likely pay a higher effective CIT rate. As US MNCs currently face a low 4% effective CIT rate, the upside will be significant even from a partial increase towards 15%. There will be other factors for MNCs to maintain their headquarters and headcount in Singapore, including a strategic location, pro-business environment, infrastructure and a skilled workforce.

Non-US Foreign MNCs Pay Lower CIT (vs. Statutory) in Spore, Msia, Thai

There is no clear uniform pattern of CIT rates faced by foreign MNCs across ASEAN, with generally a wide dispersion of tax rates. Foreign MNCs in Singapore, Malaysia, and Thailand mostly enjoy lower effective CIT rates, below the statutory rates in those countries. Foreign MNCs in Indonesia face higher effective CIT rates than the headline 22% rate. Multinationals from the same parent country also face a wide range of effective CIT rates across ASEAN. US firms face low CIT rates in Singapore (4%), but relatively high CIT rates in almost all other ASEAN countries. China firms face relatively high CIT rates in ASEAN, especially in Indonesia (80.3%) and the Philippines (40.5%), while Australia firms face relatively low CIT rates in ASEAN.

Singapore MNCs Face Higher CIT Rates vs. Proposed 15% Minimum Tax

Singapore MNCs abroad mostly pay above the proposed minimum global CIT rate of 15%, at around 22.4% on average. While Singapore MNCs pay relatively low effective CIT rates – below the statutory tax rates - in Hong Kong (11.6%), Thailand (14.7%) and Malaysia (21.1%) – but pay higher tax rates in Indonesia (25.4%), China (26.2%), South Korea (32.2%), the Philippines (54.2%) and India (98%).

Global Tax Rules & MNC Tax Rates

On 5 June 2021, the Group of Seven (G7) advanced economies announced an agreement for new global tax rules targeted at large multinational corporations (MNCs). The agreement consists of two parts: Pillar (1) ensuring that countries where corporations operate have the right to tax "at least 20%" of profits exceeding a 10% margin, regardless of the location of their physical headquarters; and Pillar (2) implementing a global minimum tax of 15% on the largest corporations. The accord will have to win the support of the G20 nations in Venice in July, before wider global negotiations with 139 countries at the OECD.

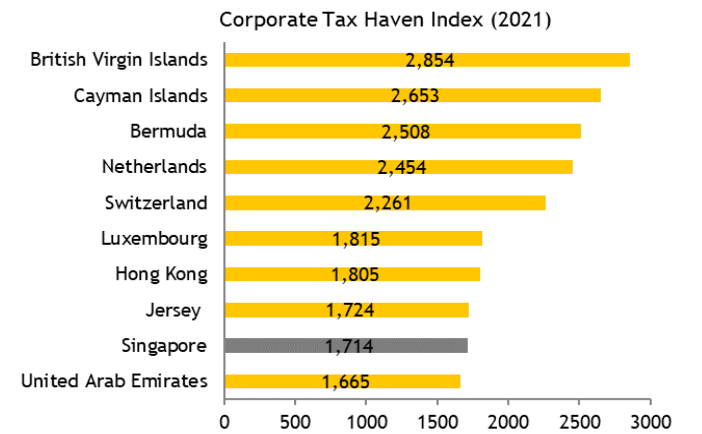
The accord aims to end the "race to the bottom" since the 1980s, in which countries have slashed corporate tax rates and provided exemptions in their competition to attract big multinationals. The average statutory rate has fallen from around 40% in 1980 to 24% in 2020 (see Fig 1).

Number of tax havens has increased, as MNCs shift profits to places such as the British Virgin Islands, the Cayman Islands, Bermuda, the Netherlands, Switzerland and Luxembourg. These jurisdictions were the "most complicit in helping MNCs underpay corporate income tax", ranking the highest in the Corporate Tax Haven Index (see Fig 2). Hong Kong and Singapore ranked top #7 and #9 respectively. The OECD estimates revenue losses to governments due to the Base Erosion and Profit Sharing (BEPS) in the range of US$100bn to $240bn, or 4% to 10% of global corporate tax revenue.

Fig 1: "Race to the Bottom" – Global Statutory Corporate Tax Has Fallen from 40% in 1980 to 24% in 2020

Source: Goldstein, J., "The Case for a Global Minimum Corporate Tax", The Atlantic Council

Fig 2: Hong Kong & Singapore Ranks #7 and #9 Respectively in a Corporate Tax Haven Index in 2021



Note: The index is a measure of how much scope for corporate tax abuse the jurisdiction's tax and financial systems allow, based on a global scale weight.
Source: Tax Justice Network

The US Internal Revenue Service (IRS) data released on March 2021 shows weak compliance of US MNCs with BEPS (that profits should be reported where economic activities take place). Only 35% of US MNCs' total international profits are booked in base economies, while the remaining 18% is placed in stateless entities, 20% in tax havens (such as Bermuda), and 27% in tax-favoured jurisdictions (such as Singapore) (see Table 1).

Table 1: US MNCs - International Profit Allocated to Base Economies vs. Tax Havens & Tax-Favored Jurisdictions

	Effective tax rate (%)	Foreign Profit (loss) before income tax (US$ bn)	% of total foreign profit
Total International	**-**	**1,115.8**	**100**
Base Economies	25.5	395.5	35
Tax Favoured	5.6	301.6	27
Tax Haven	0.4	220.4	20
Stateless entities and other country	1.2	198.5	18
Others with PBT or Income Tax Paid < zero	-	-0.2	0

Source: Bloomberg Tax, "IRS Releases Country-by-Country Filings; Insights on Tax Havens, Effective Tax Rate", 23 Apr 2021

Singapore's share of US firms' foreign income taxed is second highest in the world at 7.5% after Bermuda (8.7%), based on US IRS filings. US MNCs pay an effective corporate income tax (CIT) rate[1] of about 4% in Singapore, one of the lowest tax rates after Bermuda, Cayman Islands and Puerto Rico (see Fig 3). Pillar 2 might see Singapore's share of US foreign income drop significantly, as firms will have to pay taxes where customers are. Dr. Glenn De Souza noted that "China has 1.3 million employees (working for US firms) but only captures 3% of total foreign profits, while Singapore has significantly fewer people (about 165k) but gets 7.5% of total foreign profits (of US firms).[2]"

Share of US firms' foreign income for the rest of ASEAN is quite small: Indonesia and Thailand at 0.5%, and Malaysia at 0.4% (see Fig 3). US firm's effective corporate income tax rates in the rest of ASEAN are largely above 15%, with the exception of Cambodia (11.2%). US firms' effective corporate income tax rates are already quite high and above 15% in the rest of ASEAN-5, including Indonesia (32.9%), Philippines (23.5%), Thailand (22.1%) and Malaysia (19.8%).

Fig 3: Singapore's Share of US Firms' Foreign Income Taxed Second Highest at 7.5%

Jurisdiction	Share of U.S. firms' foreign income taxed, %	Effective tax rate, %	U.S. firms' employees there
Bermuda	8.7	0.5	740
Singapore	7.5	4.0	165,136
United Kingdom	7.0	14.0	1,289,962
Netherlands	5.9	7.0	166,604
Switzerland	5.1	7.7	80,647
Cayman Islands	4.5	0.4	5,498
Ireland	4.4	16.2	151,313
Canada	3.5	19.6	999,934
Puerto Rico	3.4	1.6	73,835
China	3.0	23.6	1,299,454
Indonesia	0.5	32.9	115,901
Thailand	0.5	22.1	153,762
Malaysia	0.4	19.8	159,695
Philippines	0.3	23.5	496,326
Vietnam	0.1	16.4	63,652
Cambodia	0.0	11.2	3,404
Brunei	0.0	15.4	572

Source: IRS Releases Country-by-Country Filings: Insights on Tax Havens, Effective Tax Rate (23 April 2021); Statistics of Income Division (March 2021); Maybank Kim Eng estimates

The OECD/G20 Inclusive Framework on BEPS, consisting of 137 member jurisdictions, had been discussing proposals for the reform of international tax rules in light of the rising global tech giants. The reforms would lead to a more favourable environment for investment and growth than would be the case in the absence of a consensus-based solution. **In the absence of consensus, there would likely be a proliferation of unilateral tax measures (such as digital taxes) and an increase in tax and trade disputes, which would hurt global growth.** The

[1] Effective CIT rate is defined as income tax paid (on cash basis) over profit before income tax.
[2] Bloomberg Tax, "*IRS Releases Country-by-Country Filings; Insights on Tax Havens, Effective Tax Rate*", 23 Apr 2021.

Covid crisis has also accelerated the trend towards digitalization and exacerbated the tax challenges arising from digitalization.

The two pillars can cumulatively increase global corporate income tax revenues by around US$50-80bn per year, based on OECD's estimates[3], with most of the additional revenue expected from Pillar 2 (minimum global tax) (see Fig 4). The combined additive effects of Pillar One and Two on MNCs' investment costs is likely to be small at +1.4% points, with Pillar Two having a larger impact[4] (see Fig 5). The impact on investments are likely to be more significant for investment hubs (defined as jurisdictions with a total inward FDI position above 150% of GDP), where effective tax rates are currently below the minimum tax threshold.

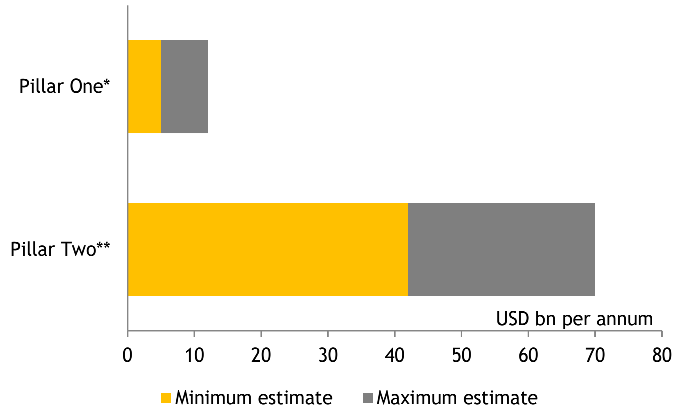
Pillar One (taxing profit in countries where it is generated) requires a global agreement and US legislation which must pass through Congress (see Table 2). Pillar Two (a global minimum tax rate) can be implemented unilaterally but would be more effective if many countries agree to come on board[5].

Table 2: OECD/G20 Inclusive Framework on BEPS – Proposals to Address Tax Challenges Arising from Digitalisation

Pillar One	Pillar Two
Seeks to adapt the international tax system to new business models (digital and tech firms) through a coherent and concurrent review of the profit allocation and nexus rules.	Addresses remaining BEPS challenges and designed to ensure that large international operating businesses pay a minimum level of tax regardless of where they are headquartered or the jurisdictions they operate in.
Key elements include: (1) A new taxing right for market jurisdictions over a share of residual profit calculated at an MNE group (or segment) level (2) A fixed return for defined baseline marketing and distribution activities taking place physically in a market jurisdiction, in line with the arm's length principle (3) Improved tax certainty processes to improve tax certainty through innovative dispute prevention and dispute resolution mechanisms	Aims to use a number of interlocking rules to: (i) Ensure minimum taxation while avoiding double taxation or taxation where there is no economic profit, (ii) Cope with different tax system designs by jurisdictions as well as different operating models by businesses, (iii) Ensure transparency and a level playing field, and (iv) Minimise administrative and compliance costs

Source: OECD/G20 Base Erosion and Profit Sharing Project, "Tax Challenges Arising from Digitalisation - Economic Impact Assessment" (Oct 2020)

Fig 4: Global Tax Revenue Effects – Pillar Two (Minimum Global Tax) Expected to Have a Larger Impact on Tax Revenue

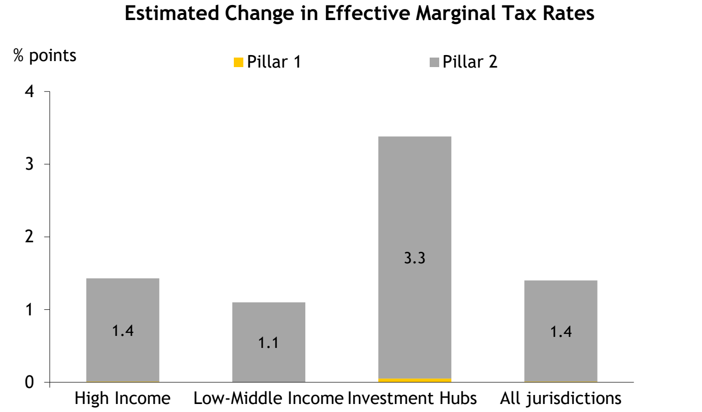


**Pillar One: Taxing profit in countries where it is generated*
***Pillar Two: Global minimum rate assumed at 12.5%*
Source: OECD/G20 Base Erosion and Profit Sharing Project, "Tax Challenges Arising from Digitalisation - Economic Impact Assessment" (Oct 2020)

Another OECD study[6] finds that both pillars are likely to have a relatively small negative effect (less than 0.1% of GDP) on global investment, as the proposals would mostly affect highly profitable MNCs whose investment is less sensitive to taxes. The analysis suggests that there is a U-shape relationship between tax sensitivity and MNC group profitability. For instance, the estimated tax sensitivity of firms with a profitability rate above 10% is found to be nearly half the sensitivity of firms with a profitability rate of between 0% and 10% (see Fig 6).

[3] OECD (2020), *Tax Challenges Arising from Digitalisation – Economic Impact Assessment: Inclusive Framework on BEPS*, OECD/G20 Base Erosion and Profit Shifting Project
[4] Hanappi, T. and A. González Cabral (2020), "The impact of the Pillar One and Pillar Two proposals on MNE's investment costs: An analysis using forward-looking effective tax rates", OECD Taxation Working Papers, No. 50, OECD
[5] Financial Times, "*G7 tax deal is 'starting point' on road to global reform*", 6 Jun 2021.
[6] Millot, V., et al. (2020), "Corporate taxation and investment of multinational firms: Evidence from firm-level data", OECD Taxation Working Papers, No. 51.

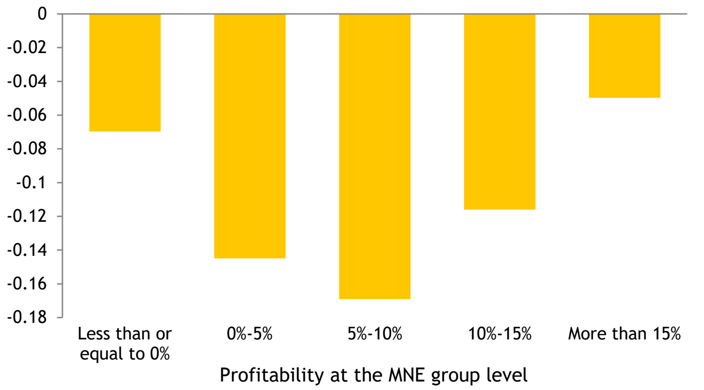
Fig 5: Modest Overall Direct Impact on MNC's Investment Costs, Larger Impact at Investment Hubs



Note: Pillar One considers a 10% profitability threshold on profit, 20% reallocation percentage. Pillar Two considers a 12.5% global minimum rate.

Source: OECD Taxation Working Papers (No. 50), "The impact of the Pillar One and Pillar Two proposals on MNE's investment costs: An Analysis using forward-looking effective tax rates" (2020)

Fig 6: U-Shape Relationship Between Firm Sensitivity to Corporate Tax and Profitability



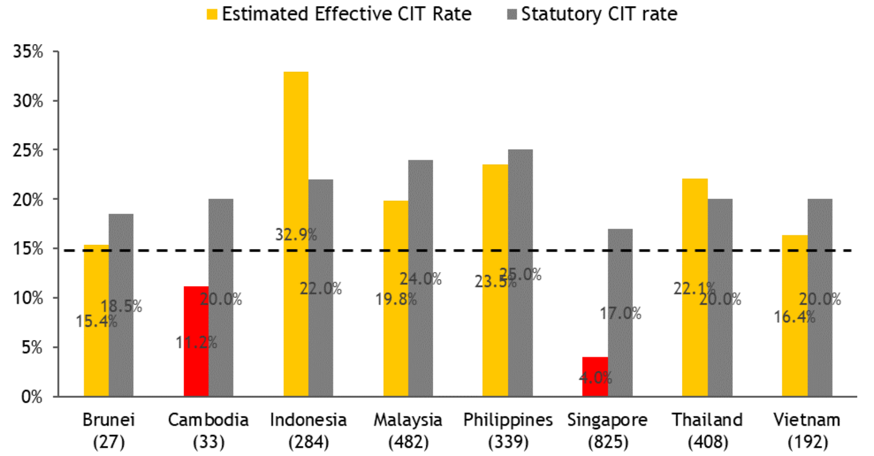
Note: Chart reflects estimated change in investment rate (% point) to a 1% point increase in effective marginal tax rates.

Source: OECD Taxation Working Papers (No. 51), "Corporate taxation and investment of multinational firms: Evidence from firm-level data" (2020)

Estimating MNC Tax Rates in ASEAN

The US multinationals in ASEAN are mostly paying lower effective corporate income tax (CIT) rates compared to the statutory CIT rate (see Fig 7). In Singapore, US firms pay the lowest effective CIT rate in the region at 4%, far below the 17% statutory rate and the proposed minimum global rate of 15%. In the rest of the ASEAN-5, US multinationals pay higher effective CIT rates in Indonesia (32.9%), the Philippines (23.5%), Thailand (22.1%) and Malaysia (19.8%).

Fig 7: US Firms' Effective Corporate Income Tax (CIT) Rate vs. Statutory CIT Rate in ASEAN; US Effective CIT Rate Below 15% in Cambodia and Singapore

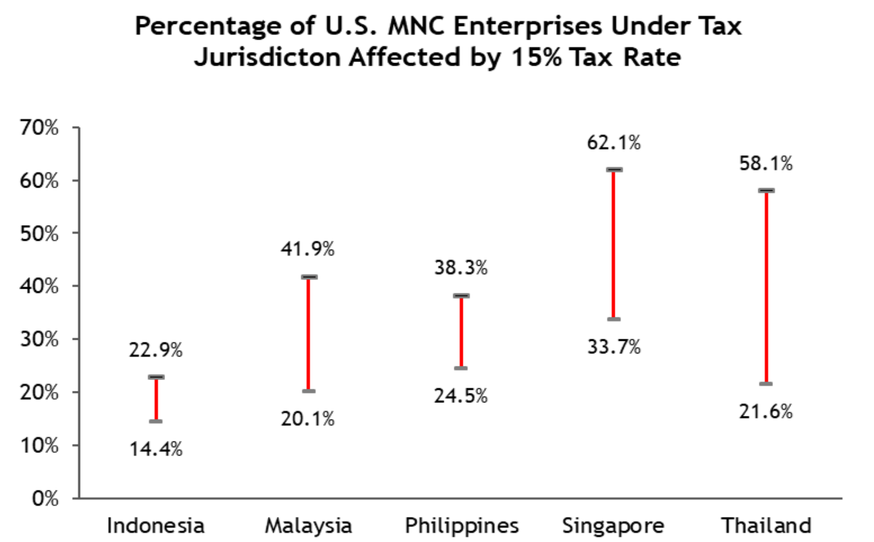


Note: Data as of tax year 2018. Numbers in brackets refer to sample size of US multinationals in selected tax jurisdictions.

Source: IRS, Statistics of Income Tax Division (March 2021), KPMG

About 34% of US MNCs pay less than an effective CIT rate of 10% in Singapore, which is the highest share in ASEAN (see Fig 8). The share of US MNCs that pay less than a 10% effective CIT rate is generally lower in the rest of ASEAN, especially in Indonesia (14.4%), Malaysia (20.1%) and Thailand (21.6%).

Fig 8: Up to 62% of Singapore-Based US Multinationals May Lose Some Tax Benefits with the Implementation of a 15% Global Minimum Income Tax



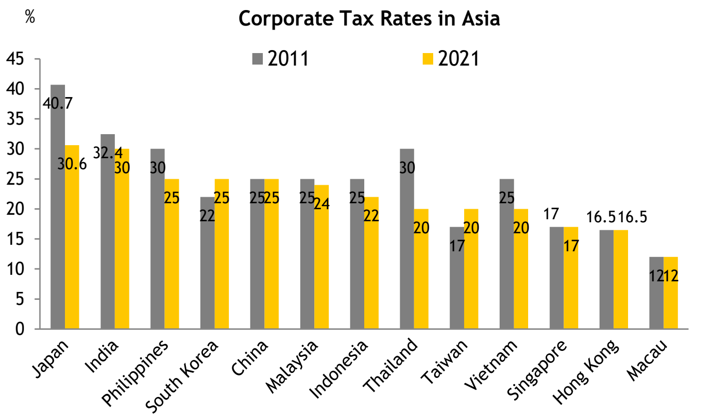
Note: Data as of tax year 2018 .The lower bound is the proportion of companies with less than 10% effective corporate tax rate; the upper bound is the proportion of companies with less than 25% effective corporate tax rate.

Source: IRS, Statistics of Income Division (March 2021)

Corporate tax rates have mostly fallen or remained constant in Asia over the past decade (see Fig 9). Macau (12%), Hong Kong (16.5%) and Singapore (17%) have the lowest CIT rates in Asia. Japan and Thailand have cut their CIT rates significantly by around 10% points between 2011 and 2021, while the Philippines (-5%pts), Vietnam (-5%pts), Indonesia (-3%pts), India (-2.4%pts) and Malaysia (-1%pt) have also cut rates.

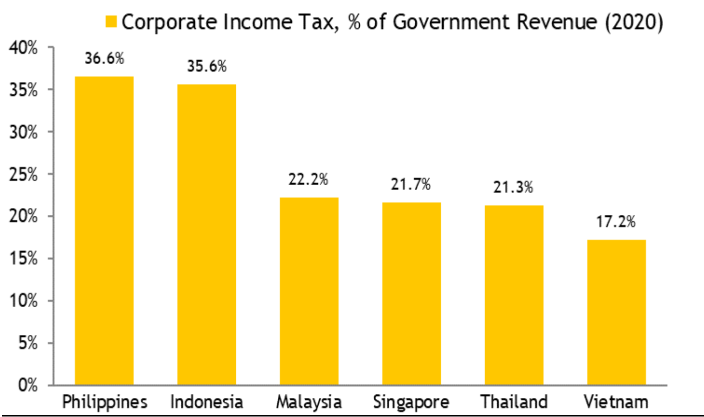
Thailand reduced its CIT rate sharply in 2012, from 30% to 23%, followed by a cut to 20% in 2013, in anticipation of the launch of the ASEAN Economic Community at end Dec 2015. Indonesia's tax cut was part of the Omnibus bill, with the CIT rate reduced from 25% to 22% in 2020 and 2021 and a further reduction to 20% starting 2022. Under the CREATE Law, the Philippines in Mar 2021 approved the lowering of corporate tax rates from 30% to 25% for most businesses, and 20% for smaller enterprises (see *Philippines Strategy - Less is more*, 3 Feb 2021).

Fig 9: Corporate Tax Rates in Asia Have Mostly Fallen Over the Past Decade



Source: KPMG

Fig 10: Corporate Income Tax Accounts for a Substantial Share of Government Revenue in ASEAN



Source: CEIC, OECD

The G7 proposal has been met with different reactions in Asia. In Singapore, Finance Minister Lawrence Wong stated that it is too early to say what the impact of the tax reforms would be, but added that the new rules should not "inadvertently weaken the incentives for businesses to invest and innovate"[7]. Rival Hong Kong's Financial Secretary Paul Chan stated that the proposed tax regime may affect some of the tax concessions the government offers to various industries[8].

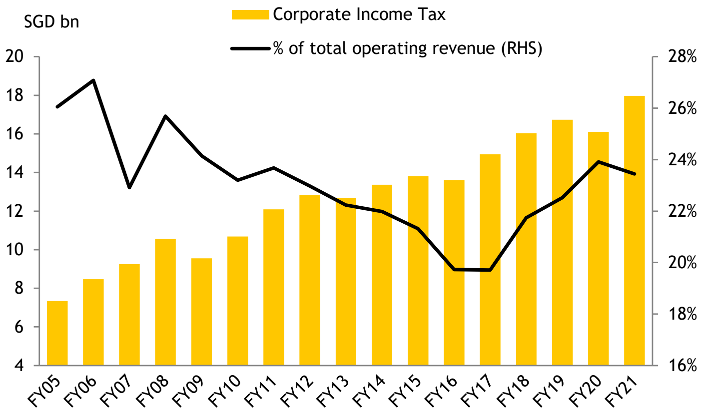
The net fiscal revenue impact on Singapore is uncertain due to the two offsetting adjustments from Pillar One (negative) and Pillar Two (positive). Pillar One presents downside risks as large MNCs may shift their revenue base to countries where generate the sales. This shift is difficult to estimate but the magnitude may not be as large as originally feared as this rule will only apply to larger companies with revenue exceeding €750 million. Pillar Two presents upside risks to fiscal revenue, as existing MNCS will have to pay a higher CIT tax rate. As US MNCs currently face such a low 4% effective CIT rate, the upside risk is material if the tax rate moves partially towards the 15% minimum global tax rate. There will be other factors for MNCs to maintain their headquarters and headcount in Singapore, including a strategic location, pro-business environment, infrastructure and a skilled workforce.

Corporate income tax is the largest source of operating revenue for the Singapore government, accounting for around 20% to 24% of total revenue over the past decade (see Fig 11), or around 3%-3.5% of GDP. Corporate income tax accounts for

[7] Channel News Asia, "*Singapore will ensure its tax system is compatible with international norms while managing burden on businesses: Lawrence Wong*", 8 Jun 2021.
[8] Bloomberg, "*Hong Kong May be 'Restrained' by New Global Tax Rules, Chan Says*", 7 Jun 2021.

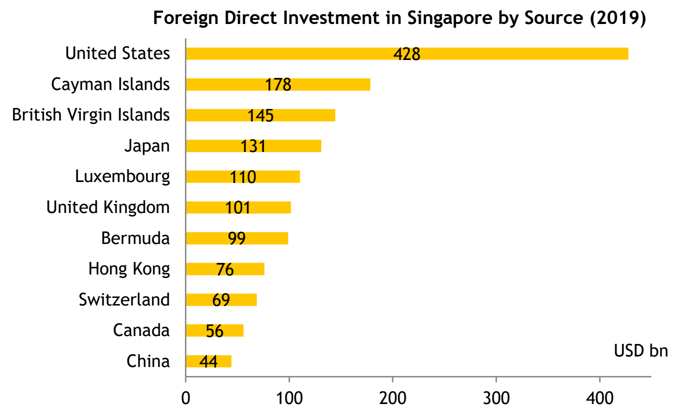
a larger share of total fiscal revenue in the Philippines (36.6%) and Indonesia (35.6%) than the rest of ASEAN (see Fig 10).

Fig 11: Singapore – Corporate Income Tax as a Share of Total Revenue Has Been Stable at Around 20%-24% in Past Decade



Note: FY2021 numbers refer to budgeted amount.
Source: Ministry of Finance, CEIC

Fig 12: Singapore – Top Foreign Direct Investors are the US, Cayman Islands, and British Virgin Islands



Note: Refers to stock as at year-end.
Source: Singstat

Indonesia, together with South Africa and Mexico were among the earliest countries to show support for the G7 proposal to impose a 15% global corporate minimum tax. Thailand's Prime Minister Prayuth said the move could be both a boost and bane to Thailand's efforts to attract foreign investment, including in the Eastern Economic Corridor[9]. China is, however, against the 15% minimum tax rate and seeking carve-outs for specific industries and special economic zones with low taxation as a condition for supporting the rate[10].

United States Treasury Secretary Janet Yellen stated that the US will not agree to any type of special treatment for China or other countries[11]. The US is working to ensure that other countries suspend or roll back digital services tax that discriminates against US technology firms, but would keep tariffs as an option otherwise. The US is also proposing changes to prevent foreign MNCs in the US from shifting their profits offshore.

[9] The Nation, "*PM asks economic team to study G7 move on reforming global tax*", 9 Jun 2021.
[10] Reuters, "*Exception to the rule? G7 deal on tax triggers carve-out talk*", 11 Jun 2021.
[11] Reuters, "*US won't back global tax plan with carve-outs for China – Yellen*", 17 Jun 2021.

Digital Taxes in ASEAN

ASEAN governments facing widening fiscal deficits have been looking to tax the booming digital industry to shore up revenue (see *Disruption Watch #9: War Games & Online Games*, 7 Sep 2020). There is still no clear guideline on whether individual countries will have to roll back their digital taxes if global tax rules are introduced. US Treasury Secretary Janet Yellen said there is broad agreement that European countries would scrap existing digital services taxes – which are seen to be discriminative against US businesses - if the new global rules go into effect[12]. France, Italy and the UK have been reluctant to abolish their own digital taxes until the US has passed the relevant legislation, while Canada's Finance Minister stated that she interned to press ahead with a digital tax introduction even after the G7 agreement was announced[13].

Indonesia has introduced a digital tax even without a global consensus. Since Aug 2020, a 10% value-added tax was imposed on digital products and services from internet-based firms, but officials had previously implied that a tax on income would be imposed only after a global consensus is reached. As of Oct 2020, 16 digital companies had paid Rp297bn (US$21.1mn) in VAT[14].

Thailand will also require foreign digital service providers earning more than BT1.8mn (US$57k) per year to pay a 7% VAT on sales, effective 1 Sep 2021. The Philippines approved a bill in Jul 2020 to impose a 12% VAT on digital services, but the starting date has not been agreed on yet.

Malaysia imposed a 6% digital service tax effective 1 Jan 2020, which has recouped around RM428mn (US$126mn) or 0.2% of total central government revenue in 2020[15]. The tax was imposed on, among others, Netflix, Amazon, advertisements on social media platforms such as Facebook and Instagram, as well as applications and games on smartphones.

Singapore imposed a 7% GST on B2B imported services starting 1 Jan 2020, and will be extending GST to imported low-value goods (e-commerce) starting 1 Jan 2023 (see *Singapore Economics - Budget 2021: From Relief to Transformation*, 16 Feb 2021). Currently, imported items below S$400 are not subject to GST.

Table 3: ASEAN – Status of Digital Services Tax

Country	Details on digital services tax
Indonesia	Imposed a 10% value-added tax (VAT) for internet companies on sales of digital products and services starting 1 Aug 2020 – including streaming services, apps and digital games.
Malaysia	Starting 1 Jan 2020, digital services provided by foreign service providers with an annual turnover of more than RM500k (US$120k) were subject to 6% service tax. The scope of taxable services for local service providers was also expanded to cover digital services.
Philippines	A Bill was introduced in Parliament in May 2020 (and approved by a lower house committee in July 2020) to tax big tech firms including Facebook, Google, Youtube, Netflix and Spotify, to raise funds for the Covid-19 support package. The 12% VAT on digital services is exepcted to raise P29bn (or US$571mn) to finance digital programmes such as a national broadband project and digital learning.
Singapore	Starting 1 Jan 2020, GST was imposed on B2B imported services such as marketing, accounting, information technology and management services. Starting 1 Jan 2023, GST will apply to imported low-value goods (e-commerce) in order to level the playing field for local businesses.
Thailand	Will require foreign digital platforms that do not have a local subsidiary company and earn more than Bt1.8mn (or US$57k) per year to pay a 7% VAT on sales, effective 1 Sep 2021.

Source: Compiled by Maybank Kim Eng

[12] Reuters, "*Tech giants and tax havens targeted by historic G7 deal*", 6 Jun 2021.
[13] Financial Times, "*G7 tax deal is 'starting point' on road to global reform*", 6 Jun 2021.
[14] Reuters, "*Indonesia considers digital tax even without world consensus*", 1 Dec 2020.
[15] Bernama, "*Govt collects more than RM400mil in digital service tax*", 29 Dec 2020.

Foreign MNC Taxes in ASEAN

There is no clear uniform pattern of CIT rates faced by foreign MNCs across ASEAN, with a wide dispersion of tax rates across foreign MNCs. The effective CIT rate may be more a function of the sectors the foreign MNCS operate in: high-tech firms may face lower tax rates while commodity firms may attract higher tax rates. Foreign MNCs in Singapore, Malaysia, and Thailand mostly enjoy low effective CIT rates, below the statutory rates in those countries. On the other hand, foreign MNCs in Indonesia mostly face effective CIT rates higher than the headline 22% rate.

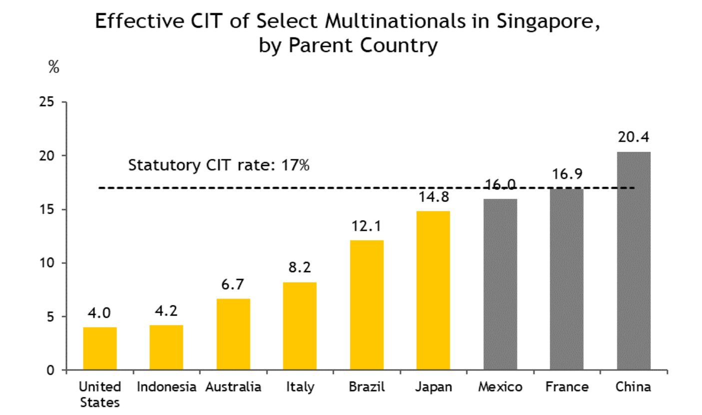
Multinationals from the same parent country also face a wide range of effective CIT rates across ASEAN. US firms face low CIT rates in Singapore (4%), but relatively high CIT rates in almost all other ASEAN countries, including Vietnam (16.4%), Malaysia (19.8%), Thailand (22.1%), the Philippines (23.5%) and Indonesia (32.9%).

China firms face relatively high CIT rates, especially in Indonesia (80.3%), the Philippines (40.5%) and Singapore (20.4%). Australian firms typically face relatively low CIT rates in most of ASEAN including in Malaysia (5.4%), Singapore (6.7%), Thailand (7.9%) and Indonesia (9.2%).

In Singapore, most foreign MNCs enjoy a lower effective corporate income tax rate than the headline 17% rate (see Fig 13). These include MNCS from the US (4%), Indonesia (4.2%), Australia (6.7%) and Italy (8.2%). Interestingly, China MNCs face a relatively high CIT rate of 20.4%.

Similarly in Malaysia, most foreign MNCs pay lower effective CIT rate than the headline 25% rate, except for Indian firms (68.4%) (see Fig 14). Indonesia (0.1%), Brazil (2.7%) and Australia (5.4%) enjoy the lowest rates while Japan (19.4%), US (19.8%), and Singapore (21.1%) pay higher rates.

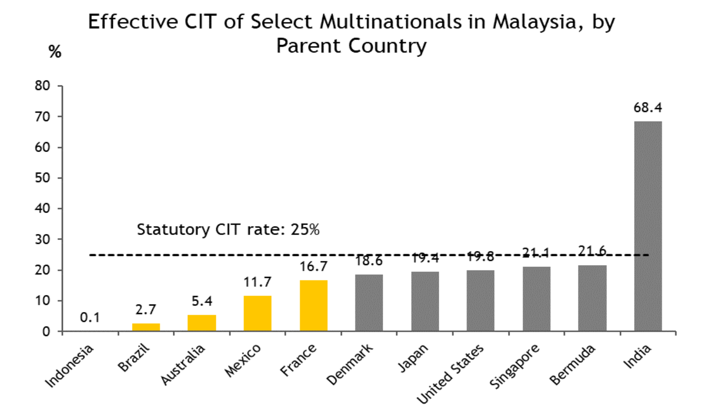
Fig 13: Singapore - Most Jurisdictions Enjoy Low Effective CIT Rates, Below Headline 17% CIT Rate



Note: Data as of tax year 2016 except for U.S. MNCs which are from 2018. Data for Mexico derived from a sample size of less than 10 MNCs.

Source: OECD, Maybank Kim Eng estimates

Fig 14: Malaysia – Nearly All Jurisdictions Pay Lower Effective CIT Rates, Except India



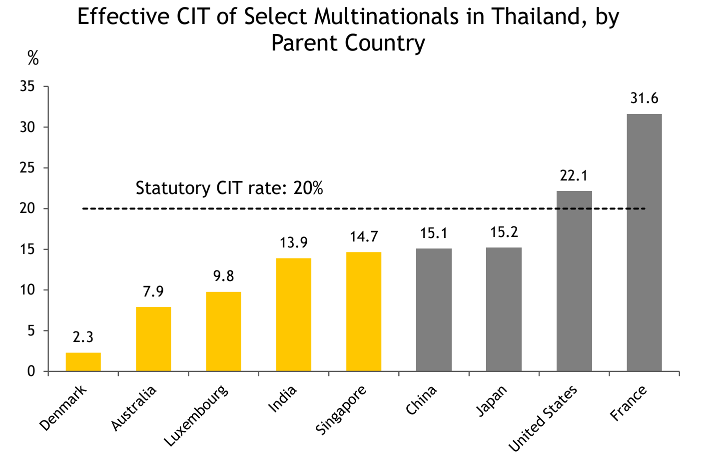
Note: Data as of tax year 2016 except for U.S. MNCs, which are from 2018. Data for Mexico and Brazil derived from a sample size of less than 10 MNCs.

Source: OECD, Maybank Kim Eng estimates

In Thailand, Denmark (2.3%) and Australia (7.9%) MNCs pay the lowest effective CIT rates, while the US (22.1%) and France (31.6%) pay higher than the statutory 20% rate (see Fig 15). Singapore (14.7%), China (15.1%) and Japan (15.2%) MNCs pay slightly below the 20% rate.

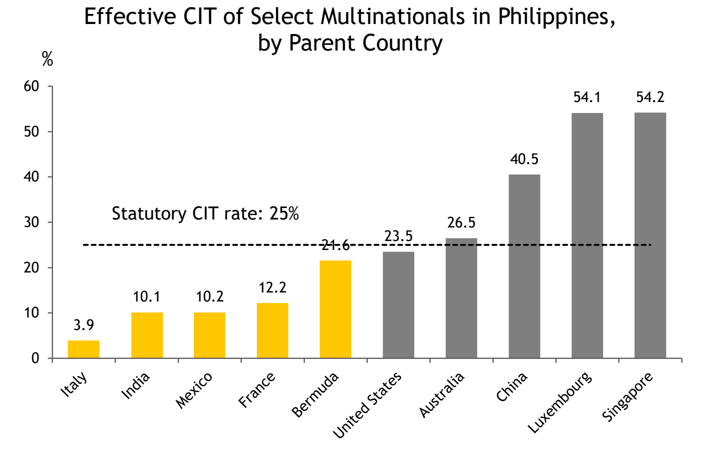
In the Philippines, multinationals from several countries pay higher effective CIT rates compared to the statutory 25% rate (see Fig 16), including Singapore (54.2%), Luxembourg (54.1%), China (40.5%) and Australia (26.5%). US (23.5%) MNCs pay just slightly below the 25% headline rate, while Italy (3.9%), India (10.1%) and Mexico (10.2%) pay the lowest rates.

Fig 15: Thailand - US and French MNCs Pay Higher Effective CIT Rates, Singapore and China MNCs Pay Below Statutory 20%



Note: Data as of tax year 2016 except for U.S. MNCs, which are from 2018.
Source: OECD, Maybank Kim Eng estimates

Fig 16: Philippines - Singapore and China MNCs Pay Significantly Above the Statutory 25% Rate

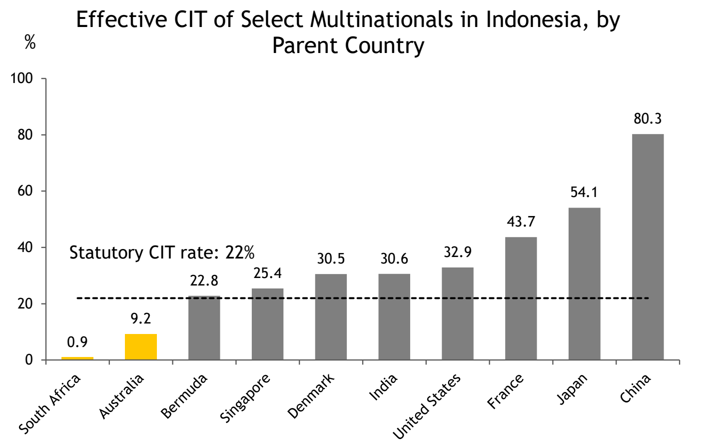


Note: Data as of tax year 2016 except for U.S. MNCs, which are from 2018. Data for Italy, Mexico and Bermuda derived from a sample size of less than 10 MNCs.
Source: OECD, Maybank Kim Eng estimates

In Indonesia, nearly all jurisdictions pay higher effective CIT rates compared to the headline 22% rate (see Fig 17), except for Australia (9.2%) and South Africa (0.9%) – the latter estimated from a very small sample size of 5 companies. Interestingly, among the major foreign investors in Indonesia – including China (80.3%) and Japan (54.1%) pay the highest CIT rates while Singapore (25.4%) pays slightly higher than the statutory rate.

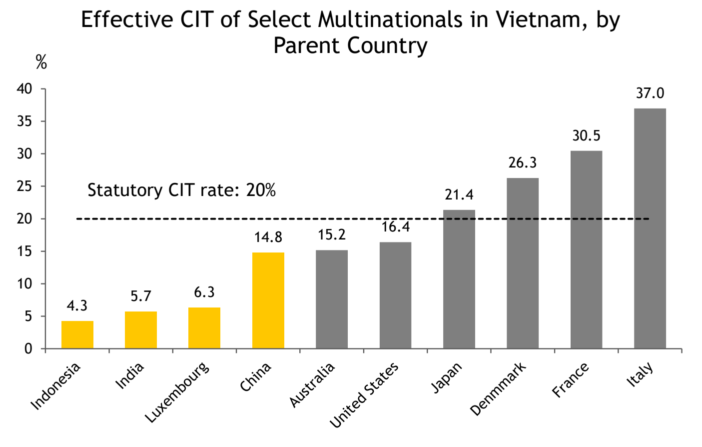
In Vietnam, Indonesia (4.3%) and India (5.7%) enjoy the lowest effective CIT rates, while China (14.8%), Australia (15.2%) and the US (16.4%) also pay below the statutory 20% rate (see Fig 18). On the other hand, European MNCs from Italy (37%), France (30.5%) and Denmark (26.3%) pay the highest rates.

Fig 17: Indonesia - Nearly All Jurisdictions Pay Higher Effective CIT Rate Compared to Headline 22% CIT Rate



Note: Data as of tax year 2016 except for U.S. MNCs, which are from 2018. Data for South Africa derived from a sample size of less than 10 MNCs.
Source: OECD, Maybank Kim Eng estimates

Fig 18: Vietnam - Indonesia and India MNCs Enjoy Lowest Effective CIT Rates; Italy and France Pay Highest



Note: Data as of tax year 2016 except for U.S. MNCs, which are from 2018.
Source: OECD, Maybank Kim Eng estimates

Table 4: Effective Corporate Income Tax Rates for Multinationals in Asean-6 by Parent Jurisdiction

Partner Jurisdiction	Parent Jurisdiction	Effective CIT	Partner Jurisdiction	Parent Jurisdiction	Effective CIT
Singapore	United States	4.0%	**Malaysia**	Indonesia	0.1%
	Indonesia	4.2%		Brazil*	2.7%
	Australia	6.7%		Australia	5.4%
	Italy	8.2%		Mexico*	11.7%
	Brazil	12.1%		France	16.7%
	Japan	14.8%		Denmark	18.6%
	Mexico*	16.0%		Japan	19.4%
	France	16.9%		United States	19.8%
	China	20.4%		Singapore	21.1%
	Bermuda	20.7%		Bermuda	21.6%
				India	68.4%
Vietnam	Indonesia	4.3%	**Philippines**	Italy*	3.9%
	India	5.7%		India	10.1%
	Luxembourg	6.3%		Mexico*	10.2%
	China	14.8%		France	12.2%
	Australia	15.2%		Bermuda*	21.6%
	United States	16.4%		United States	23.5%
	Japan	21.4%		Australia	26.5%
	Denmark	26.3%		China	40.5%
	France	30.5%		Luxembourg	54.1%
	Italy	37.0%			
Indonesia	South Africa	0.9%	**Thailand**	Denmark	2.3%
	Australia	9.2%		Australia	7.9%
	Bermuda	22.8%		Luxembourg	9.8%
	Singapore	25.4%		India	13.9%
	Denmark	30.5%		Singapore	14.7%
	India	30.6%		China	15.1%
	United States	32.9%		Japan	15.2%
	France	43.7%		United States	22.1%
	Japan	54.1%		France	31.6%
	China	80.3%			

Asterisked (*) values are derived from a sample size of less than 10 multinational enterprises.
Note: All figures are from 2016 apart for those under the parent jurisdiction of the United States, which are from 2018. Data may not be complete as coverage of countries is selective.
Source: OECD, Maybank Kim Eng estimates

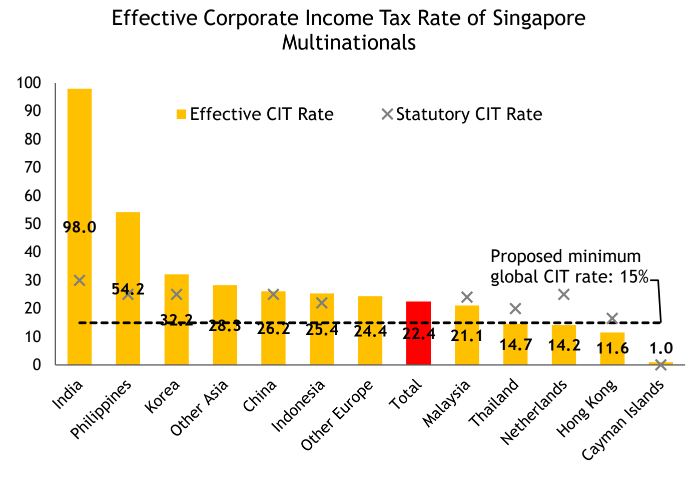
Singapore & Indonesia MNCs: Effective CITs

We examine the effective CIT rates paid by ASEAN MNCs in other countries. Our assessment is limited to Singapore and Indonesia multinationals, given that OECD data is not comprehensive. The data is based on the latest available tax year 2016.

Singapore MNCs abroad mostly pay above the proposed minimum global CIT rate of 15%, at around 22.4% on average (see Fig 19). Singapore MNCs pay relatively low effective CIT rates – below the statutory tax rates - in Hong Kong (11.6%), Thailand (14.7%) and Malaysia (21.1%). Singapore MNCs pay higher CIT rates in Indonesia (25.4%), China (26.2%), South Korea (32.2%), the Philippines (54.2%) and India (98%).

Indonesian MNCs abroad, on the other hand, are mostly paying below the proposed minimum global CIT rate of 15%, and also below the statutory CIT rates of the countries they are based in[16]. Overall Indonesia MNCs pay 5.6% effective CIT rate on average, and enjoy the lowest rates in Malaysia (0.1%), Myanmar (0.1%), Canada (0.5%) and Japan (0.6%) (see Fig 20). On the other hand, they face the highest CIT rates in the Philippines (172%) and Italy (102%).

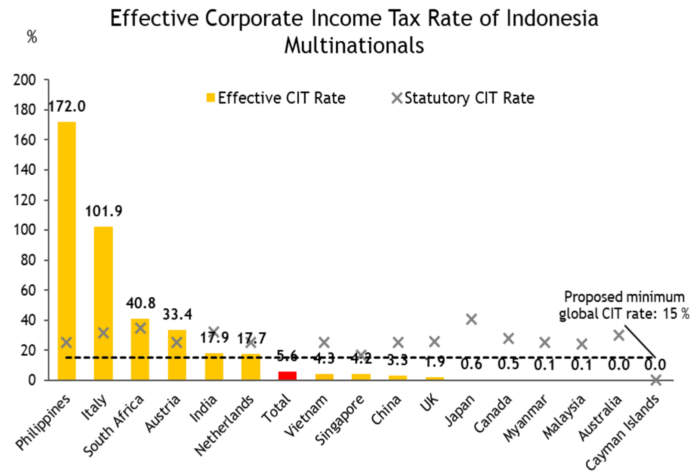
Fig 19: Singapore MNCs Abroad Mostly Pay Above the Proposed Minimum Global CIT Rate of 15%



Note: Data as of tax year 2016.

Source: OECD, Maybank Kim Eng estimates

Fig 20: Indonesia MNCs Mostly Pay Below Both the Proposed Minimum Global CIT (15%) and Statutory Rates



Note: Data as of tax year 2016. Effective CIT for Indonesia MNCs in each country is derived from a sample size of less than 10, except for Singapore.

Source: OECD, Maybank Kim Eng estimates

Our Indonesia strategist, Isnaputra, thinks that the impact of the global minimum tax on earnings will be neutral as most listed companies do not have significant overseas operations (see *Indonesia Strategy – Impact of G7 tax*, 9 Jun 2021). The policy may might impact technology companies which plan to IPO in the second half of 2021, if they have operations in countries where the corporate tax rate is lower than 15%.

[16] Due to data constraints, estimates for Indonesia CIT rates in each country are mostly derived from a very small sample size (1 to 4 firms).

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