EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR WEEKLY ECONOMIC UPDATE

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INTERNATIONAL TAX, INTERESTING STORIES, AND SOME JAIL TIME

Last week officials from 130 countries, representing 90% of the global gross domestic product (GDP), met virtually to agree on the broad outlines of what would be the most sweeping change in international taxation in a century. The Biden-backed 15% global minimum tax (GMT) aims to prevent multinational corporations from pitting countries against one another in a bid to push tax rates down. Even China and India, which previously had reservations about the proposed overhaul, signed the agreement. However, low-tax European Union (EU) members Ireland, Estonia and Hungary have not yet come to the party. This may delay implementation in the EU, which, according to EU law, requires unanimous backing from all EU members to be passed. For now, the agreement is set to be discussed further in October, with the aim of being implemented in 2023.

Although the objective of the new tax is to ensure that the world's largest corporations (primarily technology firms) cannot avoid taxes by shifting their profits internationally, we doubt that it will make much of a difference. Ireland's corporate tax rate is only 12.5%, not much lower than the proposed GMT of 15%. The Paris-based Organisation for Economic Co-operation and Development (OECD), who hosted the discussion, believes that the GMT would re-allocate $100 billion in taxes to those countries where multinationals have been able to avoid paying taxes. This might sound like a lot but, even if everything went to the United States (US), who have undoubtedly bore the brunt of misallocated taxes of multinationals (mostly from technology firms such as Apple, Facebook, Alphabet and the like), $100 billion is only about 2% of government expenditure in the US. Realistically, however, the US might see 30% of this amount. We used the size of their economy as a proxy and assume we understood the proposal correctly in that another objective is to have multinationals pay taxes in the countries where sales are made. In this instance, the US can expect a tax increase of about 0.6% of total US expenditure. This is probably a nice way to reduce their deficit, albeit marginally.

In other interesting news, all three major US indices, the S&P 500, Nasdaq and the Dow Jones Industrial Average, posted their fifth consecutive quarterly gains during the second quarter of 2021. Although some market observers fear equity prices in the US are too high, we believe that earnings are catching up in many instances, as the US continues the blazing speed of their recovery. Last week's applications for US State Unemployment Insurance (more commonly referred to as jobless claims) fell by more than what was expected, suggesting dismissals are abating as the economy re-opens and labour demand rises. We, therefore, still see many pockets of value for our clients among the list of US-based companies. Head of Instagram and Facebook executive, Adam Mosseri, says that Instagram is no longer a photo-sharing app, after the success that they have had with Reels (videos). We find this an attractive move, considering the expected roll-out and adoption of 5G, the success that TikTok had in the video space and the growing online presence of global consumers. Meanwhile, Johnson & Johnson's COVID-19 vaccine showed promising preliminary signs of protecting against the new Delta variant. This is welcome news to those lucky enough to be inoculated.

In South Africa (SA), the Constitutional Court ruled against former president Jacob Zuma and sentenced him to 15 months' imprisonment for defying an order to appear before the Zondo Commission. This builds on our continuing observation that the country is making a slow-but-steady U-turn towards all that is good, that is, less corruption, an enforceable rule of law, greater efficiency, better performance and so on. The judgement alone is a welcome change to the discord that we have seen from the judiciary in the past, even if Zuma ends up getting special treatment.

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