

The G7 just gutted the global tax deal

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Developments that have occurred in quick succession have crushed the successful efforts made in recent years to increase global cooperation aimed at raising tax revenues to take on a host of global challenges. Late in June, the non-US six (Canada, France, Germany, Italy, Japan, and the UK) in the G7 announced that they had agreed to a “side-by-side solution” that amounts to a retreat from the existing global agreement to cooperate on corporate taxation. They have decided to exempt US multinationals from being subject to a minimum tax on their profits of 15 per cent, as required under an agreement sealed in 2021.

To recall, after years of negotiation, an agreement titled the “OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS)” was arrived at in 2021 under the auspices of the Organisation for Economic Co-operation and Development (OECD), with non-OECD countries too joining the discussion. That agreement was a commitment on the part of over 140 governments to work towards implementing a common framework to tax the global profits of transnational companies that find ways to transfer to and record their profits in low tax locations where they often have little economic activity. The BEPS framework was a means to combat such tax avoidance practices that reduce national and aggregate global tax revenues and help governments tax profits in jurisdictions where economic activity actually occurs and value creation takes place.

The core of the agreement, which recommended 15 actions, was named Pillar Two of the framework. This was by no means far-reaching. It merely set a 15 per cent floor rate of tax on the profits of multinationals in all the cooperating jurisdictions, which was much lower than the 25-30 per cent considered reasonable by those looking to raise resources for meeting various financing challenges. Dissatisfaction over this and the tardy move to implement the OECD agreement set off demands for a global tax convention under the auspices of the UN, which would give less developed countries more of a say in determining the terms of the agreement and a greater role in its implementation. Some progress has been achieved on this, with a UN General Assembly decision to constitute an ad hoc committee to draft the terms of reference for a UN Framework Convention on International Tax Cooperation. Negotiations on the convention were to occur over 2025 to 2027.

Weaponised Tariffs

However, from the very start the US though a party to the OECD agreement has been expressing reservations about a number of the proposed measures, especially the Pillar Two global minimum tax. With US multinationals being the principal adopters of profit-shifting strategies, they would have been the main targets of any such minimum tax, however low. So, the US, while committed to the inclusive framework, campaigned during Donald Trump’s first term as President of the US, for a much-diluted version of the minimum tax proposal. And, in Trump’s more aggressive second term, in which he has chosen to weaponise tariffs and taxes, Pillar Two seems to be under attack. Going on the offensive, the original version of Trump’s so-called “big beautiful” budget Bill included a section Section 899 that authorised the US government to impose “revenge taxes” on foreign investments emanating from countries that

“discriminated” against US firms in their tax practices. Support for a minimum corporate tax on global profits in locations where they were actually earned was seen as an instance of such discrimination.

In the face of that threat, the non-US members of the G7 caved in and agreed to a side-by-side solution that exempts US multinationals from the global minimum tax provision, which amounts to dumping Pillar Two and with it the OECD agreement. That would also undermine efforts to institute an effective UN convention on international taxation, since leading countries are now likely to opt out of the convention. The link between the decision on the minimum tax and the proposed revenue taxes was clearly revealed when the US Treasury Department asked the US Congress to drop Section 899 because, in Treasury Secretary Scott Bessent’s words, the US had secured concessions exempting US companies from the OECD’s global minimum tax regime.

In fact, the Trump administration seems set to destroy all efforts at combating tax avoidance by threatening action against any international taxation measures that target multinational profits. Days after the “side-by-side solution” was announced by non-US G7 members, Canada declared that it was scrapping a proposed tax on digital services companies that was to come into effect on June 30. The tax involved was a paltry levy of 3 per cent, which was to apply on revenues earned by firms like Meta, Netflix, and Amazon from cross-border provision of services to Canadian clients. But even that small levy was expected to increase Canada’s federal government revenues by \$5.3 billion over five years. Trump declared the tax a “direct and blatant” attack on US firms, and suspended negotiations on a deal on reciprocal and special tariffs. Fearing that the tax would upend discussions on that deal, Canadian Prime Minister Mike Carney said that his government had decided to scrap the levy in order to facilitate resumption of trade talks.

Global Repercussions

This too is likely to be a precedent with global repercussions. Many countries, especially in the EU like France have digital services taxes in place. Germany has been considering imposing a 10 per cent tax on global digital platforms like Meta and Google. And the European Commission has been talking of imposing a tax on the advertising revenues of tech firms. All of these are now under threat, as revoking them may be made a precondition for any deal on tariffs, even though there are signs that a baseline 10 per cent reciprocal tariff on imports into the US will remain and only special tariffs above these are up for negotiation.

One of Trump’s slogans is that he wants to “Make America Great Again” by bringing back manufacturing that had moved abroad, not least by relying on import tariffs. That could affect the profits of US firms if they are forced to withdraw from low-cost production locations abroad. Simultaneously, he seems intent on fighting discrimination against US multinationals to protect the profits of US firms. The possibility that the two objectives might be in contradiction seems lost on the President.

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