

G20 endorses OECD IF progress on international tax reform, commits to implementation plan in October

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In brief

The G20 Finance Ministers and Central Bank Governors met in Venice on 9--10 July, under the Italian G20 Presidency, and continued their discussions on a range of fiscal and economic issues. Prominent among these was considering the OECD Inclusive Framework (IF) progress, as reflected in the IF Statement of the previous week, where 132 of the 139 IF members agreed to the path forward for international tax reform in the face of an increasingly digitalised economy. The G20 endorsed the OECD IF Statement, the detail of which was discussed in this 2 July [Tax Policy Alert](#).

The G20 group also commented on a wide range of issues beyond international corporate tax. Interestingly, they noted that carbon pricing mechanisms and incentives may be appropriate as part of the policy response mix for tackling climate change. This comment is timely given that the EU Commission is expected to publicise its proposals for carbon pricing measures on 14 July.

In detail

The OECD IF plans to tax an increasingly digitalised economy are twofold:

- Pillar One - involves a re-allocation of taxing rights towards market jurisdictions where physical presence is not already established. The rules are, initially, limited to multinational groups with global consolidated revenues exceeding €20bn and profitability thresholds greater than 10%.
- Pillar Two - involves applying a global minimum effective tax rate of at least 15% to the profits of multinational enterprises where the global consolidated revenues exceed €750m.

Following recent developments, including agreement to the outline of both Pillars at the recent G7 (see the related [Tax Policy Alert](#)) and OECD IF meetings, the G20 were asked to endorse the overall proposal put forward in the OECD IF Statement of 1 July 2021. Following the two-day summit in Venice, the G20 released this [communique](#)

where they confirmed that they endorsed “*the key components of the two pillars on the reallocation of profits of multinational enterprises and an effective global minimum tax*”.

The G20 called on the IF members to finalise the design elements within the agreed framework together with a detailed plan for the implementation of the two pillars by the next G20 meeting in October. They also called on the seven IF members who have yet to sign the Statement to do so as soon as possible. The endorsement will be seen as a positive step forward for the OECD/IF proposals and some may see it as having provided the requisite political support for the overall design of the proposals. Note that the communique explicitly referenced the consultation process with developing countries - it is understood that many developing countries had reservations with regards to Pillar One's narrowed scope.

The next phase involves technical discussions around how the rules will work in practice. We understand that this work will begin immediately. Part of this technical work will involve deciding how a global response might be ‘coordinated’ with existing unilateral measures that several EU and other countries have introduced. The European Union had plans to move forward with an EU Digital Levy, the legislation of which was expected later this month. However, it announced on 12 July that it will delay the proposal's release until October. Nevertheless, some political tensions likely remain to be ironed out between the European Union and the United States with regards to this EU proposal.

The takeaway

The endorsement by the G20 Finance Ministers and Central Bank Governors was expected to progress smoothly given the proposals' resounding support shown at the IF meeting earlier this month.

However, murmurings of discontent from developing countries and those not yet signed up to the Statement continue. The communique confirms that the participation of developing countries is welcomed and that they have a role to play in the technical discussions prior to the October meeting. However, given the limited revenues that will flow to developing countries under Pillar One, one might expect this group to try to ensure that they receive a fair share of re-allocated revenues.

There also remains a small group of IF members who may support the overall proposals, but are unwilling to sign up to certain elements of the deal (for example, Ireland remains opposed to the global minimum tax rate for Pillar Two being set to *at least* 15%). Whether unanimous political agreement on the overall design can be achieved is unclear.

The United States' ability to legislate for the proposals is also an important consideration. The United States is unlikely to adopt Pillar Two, as such, but the Biden Administration has proposed changes to GILTI that would align certain elements of GILTI (e.g., jurisdictional blending) with key elements of Pillar Two. This likely can be done with simple majorities in both Houses of Congress. Pillar One, and the passage of a treaty in the Senate, however, may be more difficult. If it appears that the United States will have trouble finding support for Pillar One, as agreed, then this could complicate the process of broad-based implementation of the OECD agreement.

Notwithstanding the above, we expect that the focus will now turn to the technical discussions on both Pillars in advance of the October IF and G20 meetings.

Let's talk

For a deeper discussion of how these global tax reform discussions might affect your business, please contact:

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