Briefing

International review for June

Speed read

The Senate has released its version of the One, Big, Beautiful Bill Act, although there may be further changes to the text. Meanwhile the Bill continues to cast its shadow over developments elsewhere in the world: New Zealand has used its 2025 Budget to abandon its Digital Services Tax Bill in light of 'international developments' and the EU Parliament has held a public hearing on the implementation of Pillar Two in light of current EU–US relations. The EC has launched a new start up and scale up strategy as part of its stated mission to boost EU competitiveness, and there are some recent developments to report in the ongoing debate on wealth taxes.

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Senate releases its version of One Big Beautiful Bill Act

On 16 June 2025, the US Senate Finance Committee released its version of the One Big Beautiful Bill Act (OBBBA).

Both the House and Senate versions of the OBBA would make permanent most of the expiring individual tax provisions of the Tax Cuts and Jobs Act (TCJA), and temporarily provide for tax benefits promised by the President for tip income, overtime pay, and auto loan interest. However, the Senate Bill differs from the House Bill in several ways. Notably, it would:

- reinstate and make permanent expensing of R&D costs, the higher Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) cap on the deduction for interest, and 100% bonus depreciation (the House Bill would only extend these provisions for five years);
- make permanent the section 199A deduction for passthrough business income but at the current 20% rate instead of the higher 23% rate of the House Bill; and
- add a 100% first-year depreciation deduction for real property used in a production activity (the House Bill included a similar proposal).

The Senate version of the Bill also includes revenue-raising provisions, including:

- imposing a retaliatory tax on certain non-US corporations and individuals if their home jurisdiction has adopted taxes on US taxpayers deemed to be discriminatory or extraterritorial, albeit with a delayed one-year effective date relative to the House Bill and a reduced maximum rate of additional tax;
- making extensive reforms to the US international tax regime, including to foreign-derived deduction eligible income (FDDEI), global intangible low-taxed income (GILTI-renamed 'net CFC tested income'), and the base erosion anti-abuse tax (BEAT);
- repealing or phasing out energy tax credits created by the Inflation Reduction Act (IRA), though in some cases extending the credits further than the House Bill;
- permanently extending the CFC look-through rule of 954(c)(6);
- continuing the existing $10,000 cap on the state and local tax (SALT) deduction (versus the $40,000 SALT cap in the House Bill), with significant changes to the treatment of pass-through entity taxes (both compared to current law and the House Bill); and
- imposing a 3.5% tax on remittances to a recipient outside the United States (also included in the House Bill).

There may well be further changes to the Finance tax subtitle before – and even during – a Senate vote. For example, a number of Republican Senators have already asked for a longer phaseout of certain of the IRA energy tax credits. Differences with the House may also present obstacles to final passage: several House members have said they will not vote for the Bill if it includes a SALT cap of less than $40,000.

The legislation lacks the support of Democrats, and the Republican majorities in the House and Senate are very narrow. With only three votes to spare, resolution of conflicting concerns may prove difficult and take time. The original Independence Day goal for final passage of the Bill seems now out of reach. The next natural deadline is adjournment for the August recess, at the end of July.

New Zealand drops Digital Services Tax Bill

In its 2025 Budget on 22 May 2025, New Zealand Revenue Minister Simon Watts announced the government has decided to discharge the Digital Services Tax (DST) Bill from its legislative programme.

The DST Bill was introduced in 2023 by the previous Government in response to a perceived lack of progress towards developing an agreement with other countries to address the taxation challenges posed by digitalisation. Mr Watts stated: 'We have been monitoring international developments and have decided not to progress the Digital Services Tax Bill at this time. A global solution has always been our preferred option, and we have been encouraged by the recent commitment of countries to the OECD work in this area. New Zealand has long supported, and benefited from, collective action and the global rules-based system. By focusing on a global solution, it will enable an agreed, consistent outcome across participating countries.'

'International Developments' presumably refers primarily to section 899 of OBBBA, currently making its way through Congress in the US. The Bill in its current form proposes significant tax increases for non-US individuals, corporations, governments and private organisations with sufficient nexus to a 'discriminatory foreign country', that is one that imposes 'unfair foreign taxes' – including DSTs, Diverted Profits Taxes and the Pillar Two Undertaxed Profits Rule (UTPR).

Section 899 has triggered debate about the future of Pillar One and unilateral DSTs, with mixed results. Some countries like New Zealand, and reportedly the UK, are reconsidering their national DSTs in order to avoid triggering retaliatory measures under section 899. However, others, such as France and Germany, look less inclined to roll back their national DSTs. Others are proposing alternative multilateral measures in the absence of progress of Pillar One. For example, in April 2025, the Centre for European Policy Studies published a study, sponsored by the Greens/European Free Alliance group in the European Parliament, suggesting that a 5% DST across the European Union could generate up to €37.5bn, providing a significant revenue source amid fiscal pressures.

Although DSTs do not generally raise significant amounts of tax (New Zealand's announcement will have a Budget cost of $500m based on previously released forecasts) today's ever tightening fiscal environment, combined with the idea of tax fairness, means it's unlikely that the appetite for DSTs will disappear altogether. Instead, expect to see them reappear under different guises (such as excise taxes or license fees) to escape the glare of section 899.

Public hearing on the implementation of Pillar Two in light of current EU–US relations

On 15 May 2025, the European Parliament's FISC Sub-Committee on Tax Matters convened to discuss the implementation of the Pillar Two framework, particularly in light of international developments and European Union (EU) and US relations. Whilst understandably there was a limit on how much detail the panellists could go into given negotiations are ongoing with the US, it was interesting to hear each panellist's perspective on the direction of travel of Pillar Two, and in particular on the role to be played by the EU.

Manal Corwin, Director of the Centre for Tax Policy and Administration at the OECD, highlighted the OECD's ongoing efforts to address US concerns regarding Pillar Two, underscoring the importance of maintaining a collaborative approach to international taxation. She pointed out that the stakes are higher than ever, and the OECD is committed to working with all member countries, including the EU, to bridge differences and promote a stable tax environment.

Benjamin Angel, Director of 'Direct taxation, tax coordination, economic analysis and evaluation' of the EC, reiterated the EU's commitment to implementing Pillar Two, despite the concerns raised by the US Administration. He noted that Pillar Two is already generating moderate income, indicating its effectiveness in promoting fair taxation and levelling the playing field for corporate income tax globally.

Professor of Economics, Peter Jansky of the Charles University in Prague underlined the persistent issue of tax avoidance by multinationals, noting that while the BEPS project has helped increase effective tax rates, significant improvements are still necessary. He expressed uncertainty about the future of the global minimum tax and the EU's role in shaping future tax reforms. He also highlighted the need for the EU to leverage its power effectively to address tax avoidance and ensure fair taxation across its Member States.

Professor Nadine Riedel, Director of the Institute for Public and Regional Economics at the University of Münster, discussed the challenges posed by the US administration's stance on Pillar Two, noting that the 15% minimum tax is designed to limit tax competition and address conceptual issues related to anti-profit shifting instruments. She also emphasized the importance of harmonizing tax rules to lower compliance costs and avoid unilateral measures that could disrupt global tax cooperation.

European Commission launches the European Union Startup and scaleup strategy

Following the ambition in its 2025 work programme to boost competitiveness, on 28 May 2025 the European Commission published its 'Choose Europe to Start and Scale' strategy. This aims to strengthen EU competitiveness by positioning Europe as a great place to start and grow global technology-driven companies.

From a tax perspective, the strategy:

- Reaffirms that the Commission will propose a 'European 28th regime' to simplify rules and reduce the cost of failure by addressing critical aspects in areas like insolvency, labour and tax law. (For more on the 'European 28th legal regime', please refer to my update in *Tax Journal*, 28 February 2025.) Although the 'Choose Europe to Start and Scale' strategy indicates that the proposed 'European 28th regime' will also cover taxation, a statement published by the Commission on 10 June 2025, clarifies that it remains undecided whether tax law elements will ultimately be included in the regime.
- Announces the 'Blue Carpet initiative' to support the attraction and retention of talent from within the EU as well as from non-EU countries. The initiative will also include the following tax-related actions, that will be undertaken between 2025 and 2026:
  - Consideration of legislative measures to harmonize certain aspects of the treatment of employee stock options, including taxation;
  - Proposing a recommendation to eliminate tax obstacles for remote cross-border employees for start-ups and scale-ups. It is not clear at this stage whether the recommendation will also address corporate income tax aspects.

The European Innovation Council Forum will track progress on the strategy and the EC will formally report on the strategy's implementation in 2027.

Wealth tax debate continues

Regular readers of this update may recall my 31 January 2025 article which, in looking ahead at what to expect on the international tax landscape this year, noted the continuing shift from the debate on taxation of multinationals to a debate on the need for wealth taxes on high net-worth individuals (HNWIs).

In February 2025, the lower house of the French Parliament, the Assemblée Nationale, voted for a minimum 2% tax on the wealth of people with net worth above €100m (the so-called 'Zucman Tax', named after the French economist Gabriel Zucman who is advocating for a global 'billionaire tax'). As many observers had expected, the upper house of Parliament, the Senate rejected the proposal following a public discussion on 12 June 2025. However, there are unofficial reports that an alternative proposal for a 0.5% tax on net wealth could be presented to Parliament in the near future.

Meanwhile in the Netherlands, attempts to reform the 'Box 3' wealth tax regime, which the Dutch Supreme Court held in December 2021 was contrary to the European Convention on Human Rights (ECHR), are continuing. On 19 May 2025, the Dutch Deputy Minister of Finance presented a new Bill to the Dutch Parliament aimed at reforming the taxation system for income derived from assets, known as the 'Actual Return on Investment in Box 3 Act'. Scheduled for implementation on 1 January 2028, this Bill proposes significant changes to the current wealth tax regime. However, it is extremely doubtful whether this proposal will bring an end to all the problems related to the Dutch wealth tax.

These developments come alongside a recent EU parliamentary question asking if the Commission supports the proposal for an EU-wide minimum tax on HNWIs, as set out in a March 2025 EU Tax Observatory report. In response, Wopke Hoekstra, the EU Commissioner responsible for taxation, acknowledged the significant differences across EU countries in how capital income and wealth are taxed. Mr Hoekstra also noted that the European Commission (EC) had launched a study on wealth-related taxes in December 2024 that should provide further information on the overall context and on the effectiveness of wealth-related taxes targeting HNWIs in both EU and non-EU countries. With the study due to be concluded by the end of 2025, we won't have too much longer to wait for the next phase of what will likely be a long-running debate. ■

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- The Big, Beautiful Bill: one House down, one House to go (A Solomon, 11.6.25)
- Section 899 (N Bass, 28.5.25)