G7 Statement on global minimum taxes

30 June 2025

Background

On June 28, 2025 the G7, comprising Canada, France, Germany, Italy, Japan, the United Kingdom and the United States, released a statement which outlines a shared understanding of a “side-by-side” solution to US concerns on Pillar 2.

Factors leading to the Statement

The Statement notes that the G7 discussions were informed by:

- proposed changes to the international tax system in the United States based on a Senate amendment of the One Big Beautiful Bill Act (OBBBA);
- the subsequent removal of Section 899 in the Senate version of the OBBBA. Section has been referred to as the ‘revenge tax’. Its removal is said to be ‘crucial’ to the overall understanding in the Statement; and
- the success of Qualified Domestic Top-up Tax (QDMTT) implementation and its impact in tackling base erosion.

Principles of the Shared Understanding

The shared understanding embodied in the Statement is said to be based on four accepted principles. They are:

1. A side-by-side system which would fully exclude US parented groups from the UTPR and IIR in respect of both domestic and foreign profits.
2. A commitment to ensure that any substantial risks with respect to a level playing field or base erosion and profit shifting are addressed to preserve the common policy objectives.
3. Work on the side-by-side system would be done alongside material simplifications being delivered to the Pillar 2 administration and compliance framework.
4. Work on the side-by-side system would be done alongside considering changes to the Pillar 2 treatment of substance based non-refundable tax credits to ensure greater alignment with the treatment of refundable tax credits.

Wider group of jurisdictions to consider

The Statement recognizes that the concerns addressed in the Statement have relevance to a wider group of jurisdictions and there is a need to discuss and develop this understanding within the Inclusive Framework 'with a view to expeditiously reaching a solution that is acceptable and implementable to all'.

Timing

There is an Inclusive Framework Working Party 11 meeting this week (the week commencing 30 June) that is expected to discuss this Statement. There is not a set time for developing a more detailed document, but work will continue over the following weeks.

Key observation

The side-by-side approach would provide for the coexistence of the US system and the Pillar 2 system and would not seek to undermine Pillar 2. The statement refers to the 'success' of QDMTTs in tackling base erosion and profit shifting. The Statement appears to proceed from the assumption that the US system and Pillar 2 are intended to address similar concerns and achieve similar results.

Additional observations

There are a number of uncertain areas that are likely to be clarified as the side-by-side approach is further developed. These include:

1. **US subsidiaries of non-US parented groups.** There is a question of whether a US subsidiary of a non-US parented group will potentially be subject to an IIR. In this context it is noted that the exclusion of the UTPR and IIR for domestic and foreign profits applies to 'US parented groups'. There is no mention of an exclusion for non-US parented groups. That question may be why the Statement refers to the Pillar 2 treatment of substance-based non-refundable tax credits, which could address the key Pillar 2 concerns of US subsidiaries of non-US groups.

2. **GILTI first option.** One of the US 'asks' on Pillar 2 was considered to be the granting of an option for jurisdictions to be able to credit GILTI taxation in a QDMTT calculation of top-up tax. That is a GILTI first approach. Currently, the Pillar 2 rules adopt a QDMTT first approach. The Statement is silent on this issue.

3. **Scope of level playing field measures.** It is unknown what mechanisms might be adopted to ensure a 'level playing field' under the side-by-side approach. Given GILTI is based on global blending and not jurisdictional blending as for Pillar 2, there may be some concerns that this issue will need to be addressed.

4. **Material simplifications.** One of the underlying principles refers to simplification of the administration and compliance framework. This may refer to the Permanent Safe Harbour measures currently under discussion, or possibly a wider set of simplifications.

5. **Scope of review of incentives**. The statement refers to the need for greater alignment between the treatment of refundable and non-refundable tax credits. Under the current rules, refundable tax credits receive a substantially better treatment. This raises the question of whether a review of the rules on incentives under Pillar 2 will cover super-deductions and other non-credit concessions or be limited to non-refundable credits.

6. **Joint ventures and co-ownership.** The treatment of entities which are co-owned by US equity on one side and non-US equity on the other side may need to be reviewed. In some cases, such entities may be treated as a separate entity for Pillar 2 calculations, and in other cases they may be treated as transparent with different impacts based on which side of the side-by-side approach applies to respective shares.

7. **Impact on Pillar 1.** The Statement provides that delivery of the side-by-side approach will facilitate further progress to stabilize the international tax system, including "a constructive dialogue on the taxation of the digital economy." That statement likely signals that, while the Pillar 1 discussions appear moribund, the concerns underlying Pillar 1 remain important to many countries. The Statement, however, does not indicate what the path forward might be to address those concerns.

8. **Retrospective application.** The Statement would appear to have retrospective application for all Pillar 2 calculations. It is uncertain whether this would present difficulties for any specific jurisdictions.

9. **Administrative requirements.** There is uncertainty as to the full nature of administrative requirements under the side-by-side approach. This should become clearer as the details of the approach evolve.

What needs to be done by tax leaders?

Affected taxpayers should consider various options that may be adopted in a side-by-side approach that could impact their group. This is likely to involve scenario planning as well as ensuring that Finance Ministries and industry bodies are aware of any unforeseen consequences or difficulties that arise from the proposals. This will be particularly important for any measures adopted to keep a level playing field.

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