What next for international tax co-operation?

Briefings



25 June 2025

June’s CIOT-IFS debate saw an international panel consider whether the US, UK and others can reach agreement on how to tax multinationals.

Is international tax cooperation now in retreat? That was the question that hung over the latest CIOT-IFS tax debate, which took place online on 16 June, with contributors joining from three continents for a discussion chaired by incoming IFS director Helen Miller.

Tim Sarson, Head of Tax Policy at KPMG UK, spoke first, suggesting the current ‘two pillars’ process was ‘probably the last hurrah’ of big, global OECD-led initiatives. This was not just because individual states are threatening this but also because certain blocks that were engine rooms for change at OECD level are starting to disintegrate. His sense was that where things would go next might be more focused on high-net-worth individuals.

He also foresaw much more regional and bilateral tax co-operation going on, as has been seen in the area of trade. What does that mean for taxpayers? ‘The dream of having one single standard set of rules globally is pretty much gone but on the other hand I don’t think we’re going to be back to the wild west days of cross border arbitrage, hybrid entities, hybrid structures, etc.’

Paul Oosterhuis, a leading US international tax practitioner, suggested that the approach of the US government on these issues was being unfairly maligned. The Trump administration is not trying to ‘blow up’ Pillar Two, rather it is taking the view that the US system should be ‘side by side’ with it, with the undertaxed profits rule (UTPR) not applying to either US companies or their controlled foreign companies. He thought that ‘a pretty reasonable position’, arguing that existing US rules were robust and that, in aggregate, US companies would not gain from the US staying out of Pillar Two (the global minimum corporate tax rate).

Much discussion focused on the current US tax bill and in particular section 899, which would automatically designate UTPRs, digital services taxes (DSTs) and diverted profits taxes as unfair foreign taxes, requiring retaliatory measures. Oosterhuis said that the US Treasury is talking with the Senate about two possibilities – delaying the measure for a year to allow more time to negotiate, and moving DSTs and diverted profits taxes from a mandatory to a discretionary category. If DSTs and diverted profits taxes are taken out and it only applies to UTPRs, then the goal will be to get the Treasury’s ‘side-by-side’ arrangement in place before section 899 goes into effect so it need not ever be implemented.

Chenai Mukumba, Executive Director of Tax Justice Network Africa, focused her remarks on the tax discussions at the United Nations, explaining what had motivated them and what they aimed to achieve. She said the conversation now gaining traction at the UN was in large part a response to feelings of non-engagement with the OECD process among developing countries, especially in Africa.

Mukumba said that the UN process was still nascent. Negotiations that have begun this year are expected to conclude in 2027. Have the negotiations been going smoothly? Absolutely not, she acknowledged, noting that the US had walked out. But the negotiations had continued, demonstrating that decision-making does not depend on just a few countries for conversations to continue. Those such as the UK are still present, even after voting ‘no’ to some of the proposals, and the talks still have momentum, she maintained.

Tim Power is Director for Business and International Tax at HM Treasury. He told the audience that the UK government is seeking a negotiated solution to the issues of concern, but the issues are not straightforward. We know what the US administration's position is on DSTs, but we are yet to understand whether there are alternatives (to scrapping DSTs) which might be acceptable to the US. On Pillar Two, he said it was clearer what the US is asking for, but there are important policy questions, in particular whether switching off the UTPR to US groups' foreign operations will create unacceptable issues from a level playing field standpoint.

Power suggested that the retaliation threatened by section 899 was disproportionate to the amount of tax raised by the measures it is retaliating against. The UK also has a number of specific concerns about the US legislation. These include that the current draft doesn't allow enough time for solutions to be negotiated and then enacted, that the draft is overly prescriptive, that it bundles together different tax issues, and that definitions are very broad, leaving the potential for this to become a repeatedly used tool.

Read a fuller report on this debate at: tinyurl.com/4b5e2yda

Watch the debate at: tinyurl.com/ypuudsak