

Global Minimum Tax in Flux

Implications of the U.S. carve-out

- The landmark 15% Global Minimum Tax agreement, designed to promote a fairer international tax system, is fracturing due to a U.S. carve-out agreement that creates an uneven playing field for multinational firms.
- This growing divergence undermines the international framework, with the U.S. blocking implementation and the Global Minimum Tax effectively on hold, leaving the EU to contend with reduced tax revenues, internal policy disputes, and a competitive disadvantage for its firms.

Introduction

Nearly 140 countries endorsed the Organisation for Economic Cooperation and Development (OECD)/G20 “Two-Pillar” agreement in 2021, a commitment for countries to update their domestic tax laws to ensure multinational corporations pay a fair share of tax wherever they operate.¹ The deal has two pillars: the first would reallocate taxing rights over large multinational corporations, particularly in the digital sector, and the second would establish a 15% global minimum corporate tax rate.

Pillar One has stalled amid disagreements over digital services taxation, though Pillar Two gained considerable traction. As of August, 65 countries had either introduced draft legislation or adopted final legislation transposing Pillar Two’s rules into their domestic laws.²

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The agreement’s durability, however, is now in question. Although the United States, under President Biden, was a chief architect of Pillar Two’s Global Minimum Tax (GMT), President Trump’s opposition to the deal has raised doubts about the framework’s future.

Global implementation

The European Union (EU) took an early initiative in leading the implementation of Pillar Two following the agreement’s adoption in 2021. In late 2022, the EU adopted a directive requiring Member States to transpose the GMT into national law.³ By August 2025, countries such as Germany, France, Italy, and Austria had enacted legislation, while smaller states, including Estonia, Latvia, and Malta, delayed implementation. Spain failed to meet the EU’s deadline of December 2023 but ultimately adopted the rules in December 2024.⁴

Outside the EU, support has been uneven. Australia, Japan, and South Korea aligned with the framework. Others, including China and India, have been hesitant, wary of ceding tax sovereignty and concerned about the impact on their domestic investment climates.⁵ Crucially, the United States never ratified the agreement as Republican Senators blocked its passage during the Biden Administration.

The U.S. “side-by-side deal”

The significant blow to the OECD framework came in the form of a U.S.-brokered side-by-side arrangement with the G7 in late June. To avoid retaliatory tariffs—threatened by the Trump Administration against jurisdictions imposing top-up taxes on U.S. multinationals—G7 members accepted a compromise. U.S. firms would be exempt from the Income Inclusion Rule and the Undertaxed Profits Rule, Pillar Two’s enforcement tools. Instead, they would remain subject exclusively to U.S. domestic regimes.

The carve-out allows U.S. companies to escape the additional tax burdens that their European counterparts face. As part of the agreement, the United States also withdrew the “revenge tax,” a measure that would have subjected foreign banks operating in the United States to punitive tax rates. This defused the threat of trade sanctions and provided clarity for cross-border banking operations.

EU economic impact

For Brussels, the compromise represents an uneasy truce. European governments were reluctant to accept a two-track system, but ultimately conceded to prevent a trade conflict with Washington.⁶

The immediate benefit for Europe is reduced risk of U.S. retaliation against European companies. The cost, however, is borne in reduced fiscal returns, competitive imbalances, and increased compliance costs.

EU-headquartered multinationals must comply with the full 15% floor, incurring both higher effective tax rates and greater compliance costs. By contrast, U.S. firms operating internationally can continue to rely on their domestic rules, which enhances their relative competitiveness. For firms with cross-Atlantic operations, this divergence will shape investment strategies and tax planning.

Pillar Two could have delivered between EUR 26 billion annually in new revenues for EU governments.⁷ Governments expecting substantial windfalls to finance social spending, green investments, or fiscal consolidation will need to find other sources. With U.S. exemptions, those revenues will fall significantly. EU countries that host large U.S. subsidiaries, such as Ireland, the Netherlands, and Luxembourg, will be particularly impacted.⁸

Compliance costs are also set to weigh disproportionately on EU-headquartered firms. Detailed reporting requirements, audit adjustments, restructuring of tax arrangements, and possible new tax disputes will raise administrative burdens.⁹ Meanwhile, U.S. firms enjoy relative simplicity under their domestic system, further tilting the playing field in their favor.

European governments were reluctant to accept a two-track system, but ultimately conceded to prevent a damaging trade conflict with Washington

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Conclusion and outlook

A global minimum tax that does not bind the world's largest economy risks becoming a patchwork arrangement. Moreover, the U.S. carve-out undermines the central principle of universality in the OECD/G20 framework.

For multinationals, the result is greater uncertainty. Rather than a single, predictable standard, they now face a patchwork of national and regional regimes. This increases complexity, raises compliance costs, and reduces clarity for long-term investment decisions.

Furthermore, the U.S. side-by-side deal accelerates divergence and erodes GMT credibility. Without Washington's participation, Pillar Two is unlikely to function as a genuine global standard. Countries like China and India, which were already skeptical, are now unlikely to update their tax regimes. Over time, the vacuum may encourage more governments—especially in emerging markets—to pursue UN-led alternatives, further fragmenting the landscape.

The EU will continue its diplomatic efforts to promote the Global Minimum Tax in order to preserve credibility, but meaningful implementation will remain stalled. Still, it will be cautious not to apply it too aggressively to U.S. firms for fear of U.S. government retaliation. The greater challenge lies within the 27-member bloc. While countries like France and Germany, which have been strong supporters of the GMT, will push for strict enforcement, other states, such as Ireland, will advocate flexible approaches to preserve competitiveness.¹⁰ These internal tensions will shape how robust Pillar Two proves in practice.

Looking ahead, a future U.S. administration could attempt to re-engage with the OECD tax framework, but it would face the same challenges as before: opposition from Senate Republicans.

For the foreseeable future, the baseline scenario is one of fragmentation and a fragile compromise: the EU keeps the agenda alive internationally, but the Minimum Tax itself is put on hold—an outcome that underscores both the limits of European leverage and the advantage gained by the U.S. Multinationals will have to navigate an increasingly complex and unpredictable global tax landscape.

Notes

- ¹ <https://www.oecd.org/en/about/news/press-releases/2023/07/138-countries-and-jurisdictions-agree-historic-milestone-to-implement-global-tax-deal.html>
- ² <https://taxfoundation.org/blog/global-tax-agreement/>
- ³ <https://eur-lex.europa.eu/eli/dir/2022/2523/oj/eng>
- ⁴ https://www.ey.com/en_gl/technical/tax-alerts/spain-approves-pillar-two-legislation
- ⁵ <https://subscriber.politicopro.com/article/2024/05/china-and-india-blocking-global-levy-on-multinationals-italy-says-00160015>
- ⁶ <https://www.bruegel.org/first-glance/implications-g7-agreement-global-minimum-tax>
- ⁷ <https://publications.jrc.ec.europa.eu/repository/handle/JRC141119#:~:text=Our%20long%2Dterm%20fiscal%20projections,the%20EU%20as%20a%20whole.>
- ⁸ <https://www.squirepattonboggs.com/en/insights/publications/2025/07/global-minimum-tax>
- ⁹ <https://kpmg.com/ch/en/insights/taxes/beps-2.html>
- ¹⁰ <https://www.ft.com/content/852f04b8-3ee7-46c9-b9d1-2856324791a1>