

G7 tax agreement



At a glance...

21 June 2021

For some time now, the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (“BEPS”) initiative has been working on solutions to the tax challenges arising from the digitalization of the economy and the taxation of certain MNCs. The solutions are referred to as Pillars 1 & 2.

In a meeting on 5 June, G7 Finance Ministers issued a communique on Pillars 1 and 2 noting their commitment to, “reaching an equitable solution on the allocation of taxing rights,” and committing to, “a global minimum tax of at least 15% on a country by country basis.”

While no immediate changes will occur, both of these initiatives are likely to have important consequences for the tax regime in Vietnam over the longer term.

We outline some of the key points below.

Pillar One and Pillar Two

Background

The OECD/G20 Inclusive Framework on BEPS brings together over 125 countries to collaborate on the implementation of the BEPS package. Although Vietnam is not an OECD member country, it is a member of the OECD's Inclusive Framework.

The OECD/G20 Inclusive Framework has been working on consensus based, long-term solutions to the challenges arising from the digitalization of the economy. During its January 2020 meeting it decided to move ahead with a two-pillar approach, comprising:

- under the first pillar, solutions for determining the allocation of taxing rights (nexus and profit allocation); and
- under the second pillar, the design of a system to ensure that MNCs pay a minimum level of tax on profits.


Corporate income tax is the focus of the two-pillar approach.

Meeting of the G7

After the recent meeting of G7 Finance Ministers, a communique was issued stating that the G7 will, inter alia:

- commit to reaching an equitable solution on the allocation of taxing rights (Pillar One), with market countries (where goods are sold) awarded taxing rights on at least 20% of profit exceeding a 10% margin for the largest and most profitable multinational companies; and
- commit to a global minimum tax of at least 15% (Pillar Two).

Takeaway



It should be noted that G7 members – Canada, France, Germany, Italy, Japan, United Kingdom and the United States – have no formal power to create an agreement that is binding on other countries. Pillars One and Two have not yet been implemented by any country.

However, while neither of these initiatives will have an immediate impact in Vietnam, over the longer term they are likely to lead to changes in the tax system here. Pillar One may give Vietnam an ability to collect additional taxes from MNCs which do e-commerce here and thus is consistent with recent efforts made by the Government to tax more e-commerce transactions. Pillar 2 may also have an impact on the tax incentive regime and possibly lead to some curtailment of the range of corporate tax incentives offered, especially to new investors.

The next important tests for the G7 agreement are the OECD Inclusive Framework meetings at the end of June, and the next G20 Finance Ministers meeting on 9th and 10th July 2021 in Venice. Any decision taken then by the G20 is likely to have an impact on the forward movement of the OECD project.

Contact us

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