Treasury responds to Finance Committee Republicans' concerns over global tax pact

The Treasury Department this week responded to concerns raised by Senate Finance Committee Republicans that the commitments the Biden administration made on behalf of the US in last year's international tax agreement led by the OECD and G-20 would erode both US competitiveness and tax revenue.

The agreement, which nearly 140 countries signed in October, seeks to reallocate some of the taxing rights of countries (Pillar 1) and to ensure that multinational corporations are paying a minimum level of tax globally (Pillar 2).

A February 16 letter from Finance Republicans to Treasury Secretary Janet Yellen that was focused on Pillar 2 raised concerns related to the Model Rules released by the OECD at the end of December. In particular, the taxwriters noted that other countries involved in the agreement appear to have negotiated more favorable treatment for their current tax regimes than Treasury has negotiated for the US tax system. That perceived disparity "raise[s] serious questions about the effect of the Pillar 2 agreement on the competitiveness of US businesses and workers, and of the United States as a location for investment," they wrote. (For prior coverage, see *Tax News & Views*, Vol. 23, No. 6, Feb. 18, 2022.)
URL: https://www.finance.senate.gov/imo/media/doc/finance_republicans_oecd_follow-up.pdf
URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2022/TNV/220218_2.html

In a reply dated March 29, Treasury Assistant Secretary for Legislative Affairs Jonathan C. Davidson reiterated the Biden administration's commitment to implementing the agreement and noted, among other things, that the Undertaxed Profits Rule in the fiscal year 2023 budget proposal the White House released on March 28 includes provisions intended to protect the US tax base and "ensure that taxpayers would continue to benefit from important tax incentives that provide US jobs and investment, in a manner consistent with the framework outlined by the Pillar 2 Model Rules and Commentary." (For additional details on the White House budget release, see *Tax News & Views*, Vol. 23, No. 12, Mar. 29, 2022.)
URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2022/TNV/220401_3_suppA.pdf
URL: https://www.finance.senate.gov/imo/media/doc/republican_letter_to_treasury_oecd.pdf

Earlier in March, Davidson replied to a December 22, 2021, letter from Crapo and his GOP colleagues on the Finance Committee that laid out their concerns with Pillar 1. Among other things, they questioned the Treasury Department's claim that Pillar 1 would be largely revenue neutral, expressed doubts that it could be implemented within the administration's projected timeline, and took issue with comments from Treasury officials that appeared to suggest that Treasury could implement the multilateral tax agreement without the advice and consent of the Senate.
URL: https://www.finance.senate.gov/imo/media/doc/republican_letter_to_treasury_oecd.pdf

Davidson noted in his March 1 response that Treasury's Office of Tax Policy "briefed congressional staff on a bipartisan, bicameral basis six times during 2021 and . . . provided multiple bipartisan briefings on the negotiations with the Senate Finance Committee." He also affirmed that "Pillar 1 implementation should respect the prerogatives of the two branches of government and should be bipartisan. . . .” Davidson stated that the administration “continue[s] to believe that any US revenue impact [from Pillar 1] would be relatively small to non-existent.”

URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2022/TNV/220401_3_suppB.pdf

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