Hungary blocks implementation of OECD global minimum tax

Frustrating efforts by the European Union to implement Pillar 2 of last year's global tax agreement through the OECD, which would impose a 15 percent minimum worldwide tax on large multinational companies, Hungary exercised its veto during a June 17 vote at a meeting of EU finance ministers in Luxembourg. The move was something of a last-minute surprise, with Hungary's opposition emerging after Poland, which vetoed the last attempt to reach EU unanimity over the minimum tax, indicated earlier in the week that it would support the proposal.

EU directives require approval by all 27 member states for implementation, and French Finance Minister Bruno Le Maire had hoped this vote would finally have all on board. (France holds the presidency of the European Council until the end of June, when the Czech Republic will take the gavel.) However, Hungary's finance minister, Mihály Varga, said that passing the minimum tax at this time would only worsen current economic challenges.

"Interest rates and inflation are rapidly increasing, supply chains are also disrupted," Varga said June 17. "All these unfavorable developments call for significant losses for businesses and households. Under such circumstances, introducing the global minimum tax at such an early stage would cause serious damage to the European economies."

The EU's failure so far calls into question the fate of the Pillar 2 exercise and is uniquely problematic for the Biden administration as it seeks to have the US conform to Pillar 2 this year by raising the rate on its current minimum tax—known as the global intangible low-taxed income (GILTI) regime—to 15 percent and applying GILTI on a country-by-country basis, among other international tax changes. (Those provisions are included in the Build Back Better Act, the roughly $1.75 trillion tax-and-spending package that cleared the House last November but remains stalled in the Senate.) Congressional Republicans—and some Democrats—have raised concerns about having the US implement changes intended to achieve Pillar 2 conformity before other countries do so, arguing that this will put US companies at a competitive disadvantage. House and Senate taxwriters recently discussed issues around the OECD agreement with Treasury Secretary Janet Yellen during hearings to examine the Biden administration's budget blueprint for fiscal year 2023. (For prior coverage, see *Tax News & Views*, Vol. 23, No. 20, June 10, 2022.)
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GOP lawmakers have in recent months argued that they believe the Biden administration should revisit aspects of the global deal, which they say will disadvantage US multinationals. Although more than 140 countries signed on to the agreement last October, these lawmakers have said they believe there is still time to change course because the implementation timeline is already slipping. The June 17 EU vote will likely strengthen that position in Republicans' eyes.

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