

THE US THREAT TO GLOBAL TAX REFORM: A PROPOSAL FOR PROTECTING MULTILATERALISM



The US Threat to Progress on Tax Multilateralism

By the end of 2024, considerable progress had been made towards the construction of a comprehensive multilateral architecture for corporate taxation.

This shift was initiated through intergovernmental negotiation at the OECD, where countries reached a consensus on a global minimum tax ([GloBE](#)) in 2021. In 2024, global negotiations started on an inclusive United Nations Framework Convention on International Tax Cooperation ([FCITC](#)).

However, in January 2025 the incoming US administration withdrew from the OECD GloBE and abandoned the FCITC negotiations at the UN. Washington has also threatened to impose tariffs and export restrictions on countries whose taxes, legislation and regulations it sees as targeting US tech companies such as Google, Meta, Amazon and Apple. Canada, for instance, introduced a digital service tax in early 2025 but under US threat of tariff retaliation withdrew it in June.

In other words, these are combined trade and tax ‘wars’ that openly flout WTO rules. China’s delegation to the OECD stated that any approach that targets one country “is a violation of the principle of fair competition. The solution should ensure that equal treatment be given in similar circumstances.”

The International Response So Far

In May, House Republicans introduced the Defending American Jobs and Investment (DAJI) Act, which would increase US tax rates on foreign companies and investors if their countries impose extraterritorial measures on US companies as

envisaged in the GloBE, even when such measures are explicitly designed as part of an international agreement. Under pressure from the other G7 members, the US Treasury proposed a compromise in July in the form of a “[side-by-side](#)” approach, which envisions the 15 percent global minimum tax existing alongside the US’s own minimum tax law (GILTI) in exchange for removal of the DAJI bill.

However, this compromise would require the explicit agreement of the rest of the OECD members, and the tacit acquiescence of all 147 countries taking part in the “Inclusive Framework” of the GloBE negotiations at the OECD. Some 28 key countries—including China, Germany, France, Italy, and the UK—expressed serious concerns about the July proposal by the US delegation. First, an exception for US companies would undermine the integrity of the global minimum tax rules, particularly the measures to prevent profit-shifting and suppress tax havens. Second, companies from these countries subject to the minimum tax on their global operations would be placed at a competitive disadvantage. Third, under the proposed “push-down” system, GILTI taxes paid by the US parent company would be designated as if they had been paid by foreign subsidiaries, which would result in less tax collected by the host jurisdiction.

Over the last six years, jurisdictions around the world have announced, proposed, and implemented Digital Services Taxes (DSTs) to tax companies that deliver services without local presence. First proposed as an EU-wide tax, Digital Services Taxes are now found in many of the larger economies on every continent. They are an



efficient way to collect taxes from the highly profitable technology companies, which have finely honed the art of otherwise avoiding taxes. So, DSTs are not only efficient, but fair, and have become by default the forward line of defense against US unilateralism.

DSTs on the sales of largely international corporations are, in effect, a tax on their monopoly and oligopolistic profits because the marginal cost of production of digital services is effectively zero, and the firms enjoy strong oligopolistic market positions. DSTs are simple to administer and much more difficult for foreign firms to evade because they are based on local sales alone. The tax base cannot be shifted to other countries in the way corporate profits can be. However, they are an imperfect substitute for a more comprehensive multilateral system that is capable of tackling tax havens, for instance. They do not even cover all services trade.

Under the circumstances, it is perhaps understandable that many small and poor countries are tempted to acquiesce to US demands, hoping that Congress will not make the trade and tax initiatives permanent. They are among the main losers from the breakdown in multilateralism in corporate taxation.

Defending Tax Multilateralism

To accept the US claim to ‘exceptionalism’ on international tax matters (or worse, to allow Washington to write tax rules for the whole world) should clearly be unacceptable in a world of

sovereign, independent nations.

It is widely recognized that there are negative economic externalities arising from tax competition between countries (the ‘race to the bottom’ that benefits no country), such that there are enormous benefits to be gained from cooperation. This is particularly true for smaller countries that do not have the unilateral bargaining power of larger nations such as the US.

But modern world trade is characterized by the globalization of production and high levels of economic interdependence. This undermines the bargaining power of hegemonic states that are integrated into global value chains. The more a country’s corporations are dependent on a partner country, the less that country is able to coerce concessions from the partner country without damaging its own corporations and prejudicing its consumers. This was evident in the earlier US responses to China’s threat to impose restrictions on exports of rare earths, which the US labeled as unfair even though the US has long had export restrictions of critical goods to China and has been piling on more restrictions. This interdependence strengthens multilateral agreements (even if they are not universal) and makes unilateral decisions on trade and tax more difficult to implement.

An important precedent for active response to US pressure is the [Regional Comprehensive Economic Partnership](#) between Asian nations (established after US withdrawal from its precursor, the

Trans-Pacific Partnership), which includes members of the Association of Southeast Asian Nations, as well as countries as politically diverse as Australia, China, Japan, New Zealand and South Korea. Similarly, the World Trade Organization's [Multi-Party Interim Appeal Arbitration Arrangement](#) provides an independent appeals process to resolve trade disputes when the main appellate body cannot function for lack of a quorum (due to the US not appointing representatives to the tribunals). Membership has tripled to more than 50 nations since 2020.

Way forward

The immediate need is for all countries to reaffirm, and for multilateral institutions to enforce, their sovereign right to implement taxation measures, including on digital services.

By extension it is important to reject the US demand for exemption from the Global Minimum Tax agreed at the OECD, for its companies.

It is essential to fully support the UN negotiations for a comprehensive United Framework Convention on International Tax Cooperation and its protocols. Negotiators have already committed to take several measures to ensure that international tax rules respond to the diverse needs of developing countries, including strengthening their voice in the international tax architecture, ensuring equitable benefits, strengthening country-by-country reporting of multinational enterprises, enhancing beneficial ownership registries through transparency and global cooperation, and providing developing countries with demand-based technical assistance and capacity-building programmes to ensure that they benefit from international tax cooperation ([Article 28](#)).

These initiatives for 'Multilateralism Minus One' will doubtless generate opposition from Washington in the form of threats of trade tariffs and other pressures on individual governments as well as blockage at international trade and tax fora. But *dum vita est, spes est*—where there is life there is hope.

The other option of giving in to unreasonable and unjust demands is likely to only further embolden those making the threats and lead to even worse outcomes over time, evident in the US administration's latest threat to impose trade sanctions against any country that votes for IMO's [net-carbon-zero shipping agreement](#).

The commission



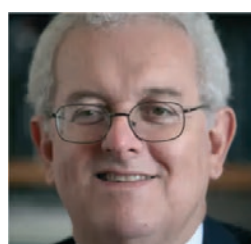
Jayati Ghosh

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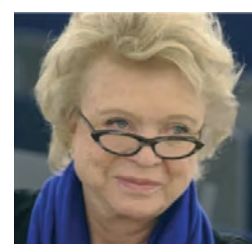
Joseph Stiglitz

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José Antonio Ocampo

Professor at Columbia School of International and Public Affairs, former finance minister of Colombia



Eva Joly

Former French magistrate and Member of the European Parliament.



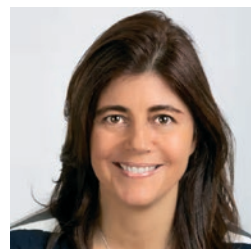
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