

Global Tax Alert

News from Washington Council Ernst & Young

US Treasury Secretary tells OECD that United States has "serious concerns" over Pillar 1

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United States (US) Treasury Secretary Steven Mnuchin told the Organisation for Economic Co-operation and Development (OECD) on 3 December 2019, that the US has "serious concerns" about aspects of the project to address the tax challenges of digitalization and suggested that the goals of Pillar 1 – which focuses on an approach to the new nexus concept and an approach for new and revised profit allocation rules – could be "substantially achieved" by making it a safe-harbor regime.

In a letter to the OECD Secretary General, Secretary Mnuchin said the concerns are specifically with "potential mandatory departures from arm's-length transfer pricing and taxable nexus standards." The letter said the US fully supports a "GILTI-like Pillar 2 solution."

Secretary Mnuchin said the US looks forward to working with the OECD "along these lines," and that it is important for talks to reach agreement to prevent unilateral Digital Services Taxes (DSTs), which the US opposes and which, according to Mnuchin, "threaten the longstanding multilateral consensus on international taxation."

The letter comes during an eventful week for this topic. The Office of the US Trade Representative (USTR) on 2 December, proposed additional duties of up to 100% on US\$2.4 billion in French products – covering items like cheese,

champagne, cosmetics, handbags and cast-iron cookware – in response to the French DST. The USTR also issued a report opposing the French DST and said investigations regarding similar taxes in other nations are under consideration. The USTR's action came as a 90-day US-France agreement reached over the summer to forestall a trade war over the French DST expired.

French Finance Minister Bruno Le Maire said the European Union (EU) would retaliate if the US follows through with the proposed tariffs, and EU officials backed up that statement. President Trump, in a 3 December media availability with French President Emmanuel Macron, said the US has a “very unfair trade situation” with the EU and “the digital tax is the least of it,” but that “I think we’ll work something out.”

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