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Global Tax Alert

G7 leader's declaration addresses international tax, France discusses future of French Digital Services Tax

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Executive summary

On 26 August 2019, at the conclusion of their three-day Summit in Biarritz, France, the leaders of the G7[1] group of nations issued a brief declaration that includes a short reference to international tax.

In addition, at a post-Summit press conference, President Macron of France commented on the future of France's Digital Services Tax (DST), which entered into force on 25 July 2019.

The Summit followed the two-day meeting of the G7 Finance Ministers and Central Bank Governors group in July, where international tax issues were discussed in detail.

Detailed discussion

G7 statement

The official G7 leaders' declaration[2] includes the following statement on tax: "The G7 commits to reaching in 2020 an agreement to simplify regulatory barriers and modernize international taxation within the framework of the OECD."

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This is a similar, though much shorter, message to that in the "Chair's Summary" published at the conclusion of the July 2019 G7 Finance Ministers and Central Bank Governors meeting.[3] That summary described the G7 support for the Organisation for Economic Co-operation and Development (OECD)/G20 Inclusive Framework project to address the tax challenges of the digitalization of the economy through revisions to existing profit allocation and nexus rules (Pillar 1) and development of new global minimum tax rules (Pillar 2).

French comments on implications of OECD project for future of French DST

At a post-Summit press conference with United States (US) President Trump, President Macron of France stated that the French DST would be eliminated, and any DST amounts that are paid by multinational companies would be reimbursed in some way, if a new international tax system with respect to digital services is put in place through the OECD process.

The French DST was enacted with retroactive effect to 1 January 2019 and taxpayers are currently preparing to submit an advance payment in November 2019.[4] The US has charged that the proposed 3% tax targeted certain US multinationals and launched a probe under Section 301 of the *Trade Act of 1974*.[5] President Trump had threatened retaliatory action on certain French imports, including wine. US officials have not commented on the French statements that the DST will be eliminated and some form of reimbursement provided when new international tax rules covering digital services are in place.

Implications

The confirmation that the G7 leaders support the OECD/G20 project is an important step in advancing the work on proposals for fundamental changes to the international tax system. However, the proposals also require consensus among the jurisdictions that are members of the Inclusive Framework, which currently stands at 134. Reaching the high-level conceptual agreement that the OECD workplan contemplates achieving by January 2020 or earlier will require substantial work.

The complex issues underlying the Pillar 1 and Pillar 2 proposals will continue to be the subject of both policy and technical discussions among the Inclusive Framework jurisdictions through at least 2020 in the effort to reach full consensus agreement on specific solutions. As widely noted in many EY communications, the international tax changes being contemplated will have implications well beyond digital businesses and digital business models and could lead to significant changes to the overall international tax rules under which multinational businesses operate. It is important for companies to follow these developments closely as they unfold in the coming months and to consider engaging with policymakers at both national and multi-lateral levels on the business implications of these proposals.

Affected companies should also follow developments with respect to DST activity around the world.

Endnotes

1. The G7 is an international organization, consisting of the seven largest advanced economies in the world, as described by the International Monetary Fund: Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.
2. https://www.elysee.fr/en/g7/2019/08/26/g7-leaders-declaration.
3. See EY Global Tax Alert, *G7 Finance Ministers support OECD two-pillar project to develop new rules for taxing multinational businesses*, dated 18 July 2019.
4. See EY Global Tax Alert, *French President signs bill on Digital Services Tax and partial freeze of corporate income tax rate decrease*, dated 25 July 2019.
5. See EY Global Tax Alert, *US initiates action against France's Digital Services Tax, issues additional exclusions on China-origin goods and supplements list of products under EU subsidies dispute*, dated 12 July 2019.

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