

Understanding the G7 Side-by-Side Global Minimum Tax Agreement: What It Could Mean for European Countries and US Multinationals

The recent G7 agreement on the global minimum tax framework marks a significant development in international tax policy. The agreement establishes a “side-by-side” system that would effectively exempt US multinational corporations from key provisions of the global minimum tax (Pillar Two) rules, while allowing them to be taxed solely under domestic US tax rules.

What Is the Side-by-Side System?

Under this system, US multinationals are not subject to the Income Inclusion Rule (IIR), or the Undertaxed Profits Rule (UTPR) imposed by other countries. Instead, they remain governed by US tax regimes such as the Global Intangible Low-Taxed Income (GILTI) rules. This means that, while other multinational groups face the 15% minimum effective tax rate globally, US companies benefit from a parallel tax framework recognized by the G7.

Advantages and Challenges

For the US, this arrangement preserves tax sovereignty and avoids retaliatory trade measures that threatened to disrupt global commerce. It also provides US multinationals with a competitive edge by reducing additional tax burdens and compliance costs.

However, the system introduces complexity and potential distortions. European countries, in particular, may experience reduced tax revenues from US multinationals operating within their borders, as they will lose the ability to apply top-up taxes under Pillar Two. This could create an uneven playing field between US and European multinationals, who remain fully subject to the global minimum tax rules.

Impact on Europe

Countries like Ireland, the Netherlands and Luxembourg – key hubs for US multinational operations – are likely to feel the greatest impact. The side-by-side system limits their ability to collect additional tax revenues on the low-taxed profits of US companies. Additionally, ongoing discussions around Digital Services Taxes (DSTs) in Europe may be influenced by the new agreement, potentially reshaping the digital economy tax landscape.

Looking Ahead

While the side-by-side approach offers a pragmatic solution to current international tax tensions, it raises questions about the future of global tax cooperation. How such a system will be implemented from a legislative perspective also remains to be seen. European policymakers will need to monitor revenue impacts carefully, and consider treaty updates or alternative tax measures to maintain fairness and competitiveness.

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