

Shaping the Future of Global Taxation

from BEPS1.0 to the Two-Pillar Solution

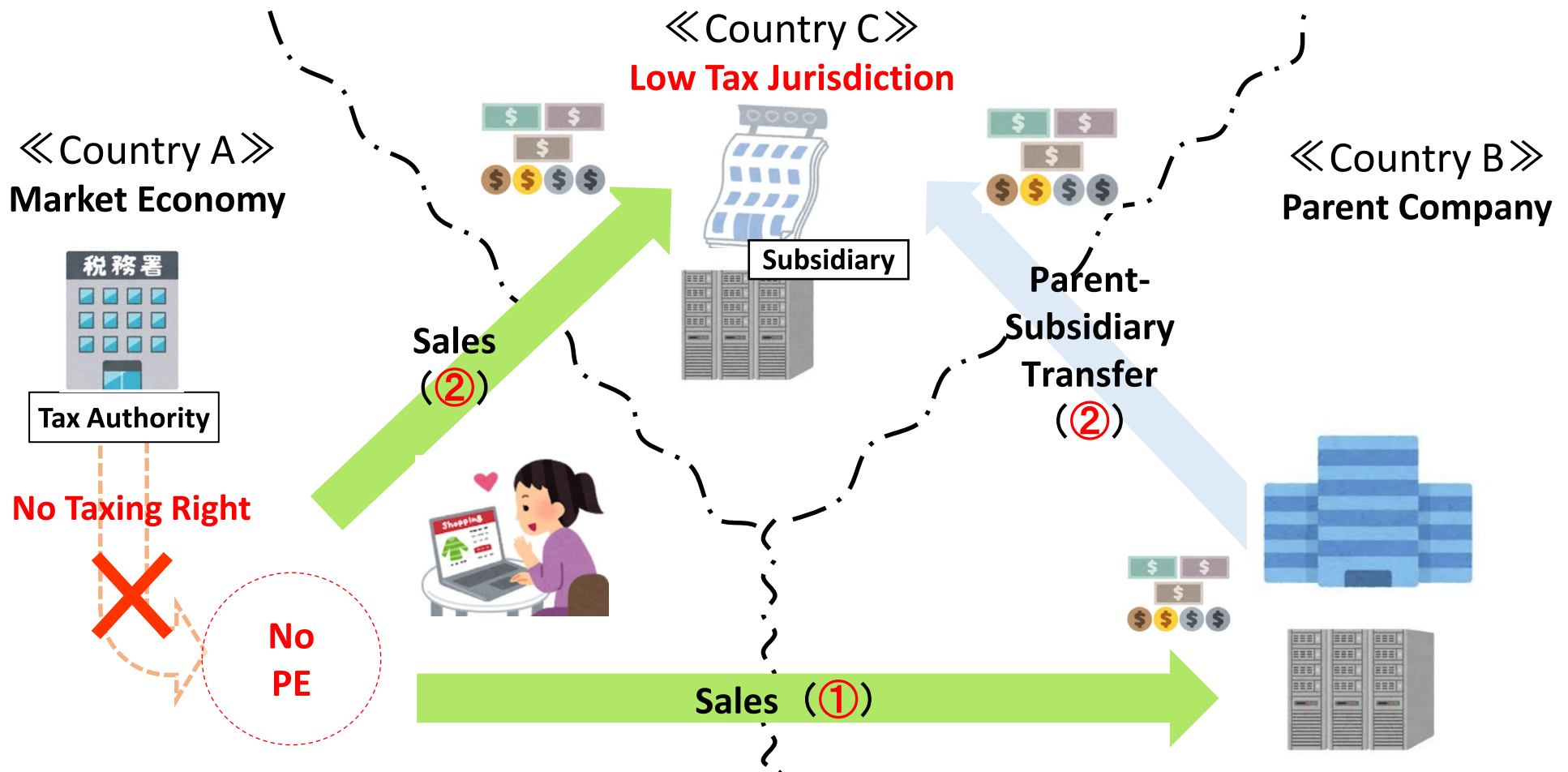
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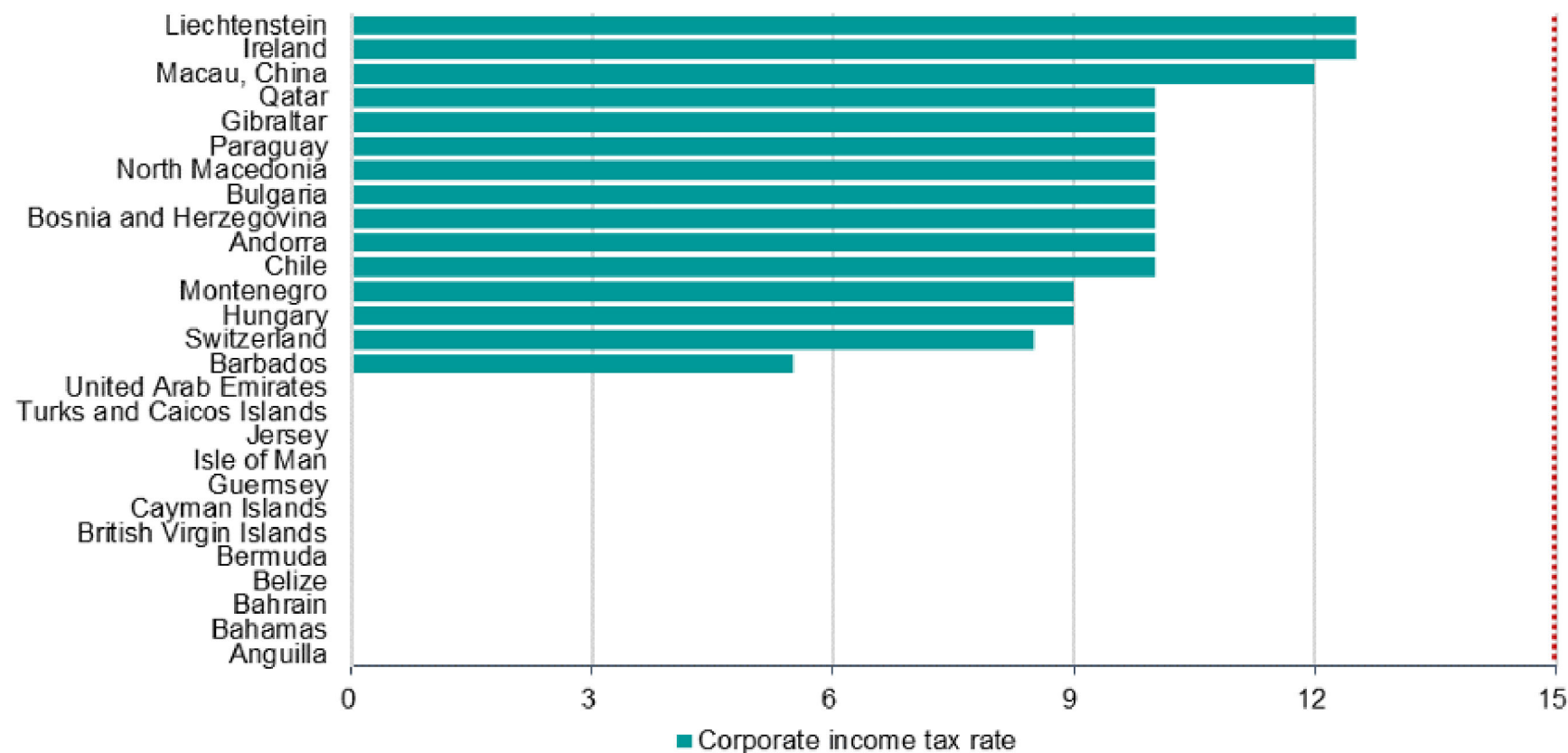
IF's Two-Pillar Solution under BEPS 2.0

- A market economy (source country) can only tax the income of a foreign corporation when it is derived from activities involving a “Permanent Establishment (PE),” such as a branch or factory.
- With the rise of highly digitalized business models, taxing income becomes challenging when operations are conducted without a PE, even if sales are generated within the source country (①).
- Low-tax jurisdictions (Country C) continue to attract sales and investments, which induces a ‘race-to-the-bottom’ for Corporate Income Tax (CIT) rates. Some retained income cannot be effectively taxed by either the market (Country A) or the parent company jurisdictions (Country B) (②).



“Statutory” Corporate Income Tax Rate of IF Economies with Corporate Income Tax Rate below 15%

(Percent, as of October 2021)

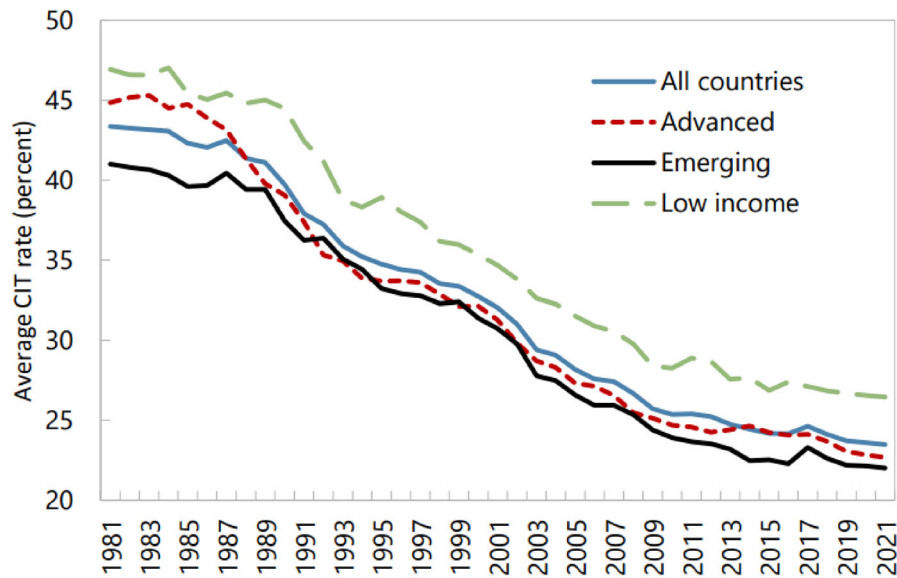


Source: OECD Tax Statistics and Tax Foundation.

Observed “Race to the Bottom”

- Corporate income tax rates have fallen significantly over the past three decades.
- The fiscal condition (Debt-to-GDP ratio) has worsened for both advanced and emerging economies.

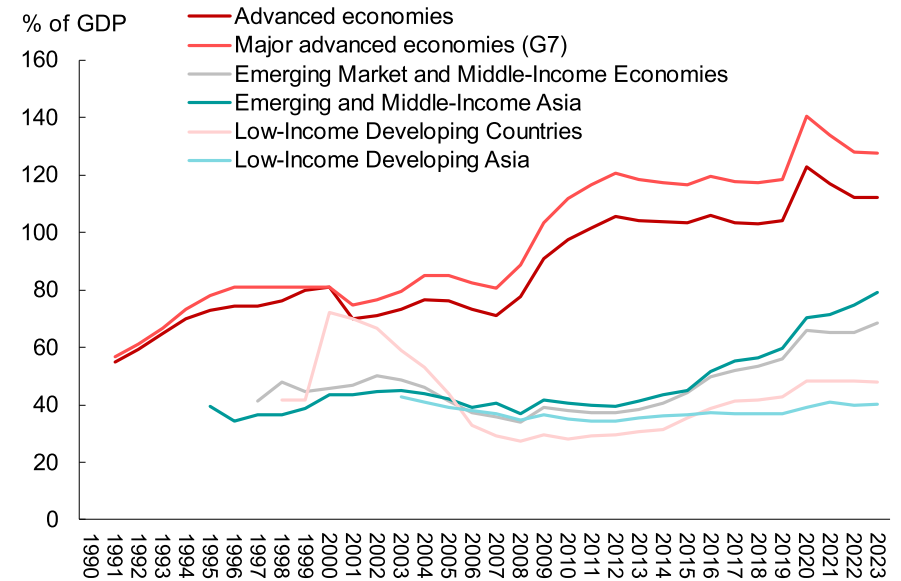
Corporate Income Tax Rates Across Country Group



Source: FAD Rates Database

<https://www.imf.org/en/Publications/Policy-Papers/Issues/2023/02/06/International-Corporate-Tax-Reform-529240>

Gross Debt of the General Government, in percent of GDP

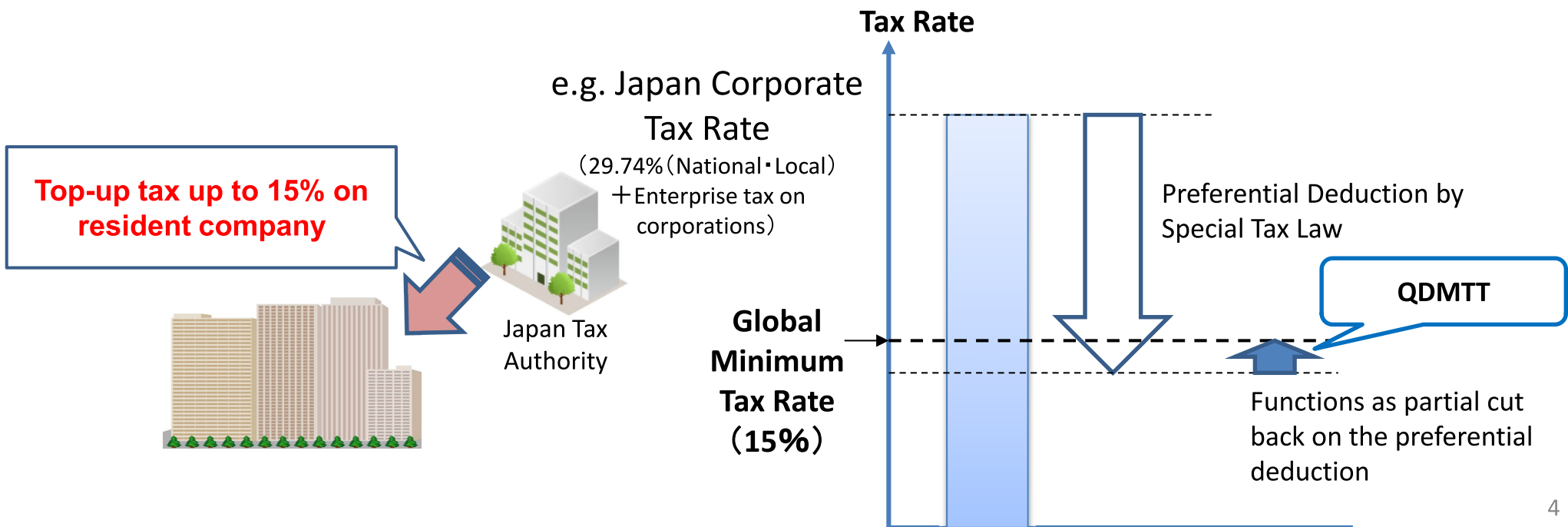


Source: IMF Data Mapper

https://www.imf.org/external/datamapper/G_XWDG_G01_GDP_PT@FM/ADVEC/FM_EMG/FM_LIDC/MAE/FM_LICAsia/FM_EMEAsia

Pillar 2: GloBE rules (IIR, UTPR) and the QDMTT

- The GloBE rules include the **Income Inclusion Rule (IIR)** to 'top up' tax from the parent entity jurisdiction on its low-taxed subsidiaries. Meanwhile, the **Under Taxed Profit Rule (UTPR)** is a 'back-stop' for the IIR, allowing 'top-up' tax from the subsidiary jurisdictions.
- GloBE rules adopts a “**Common Approach**” where participation is voluntary, but participating jurisdictions are required to follow the globally agreed **GloBE Model Rules**.
- Even non-GloBE jurisdictions are incentivized to introduce a **Qualified Domestic Minimum Top-up Tax (QDMTT)** to shield from 'top-up tax' (IIR, UTPR) by other jurisdictions. With the QDMTT, jurisdictions can **secure primary taxation** rights to 'top-up' tax on any low-taxed income of their residents. **As the QDMTT is adopted globally, the floor of CIT is being essentially set as 15% globally.**



G7 statement on global minimum taxes (28th June 2025)

Earlier this year the U.S. Secretary of the Treasury outlined the United States' concerns regarding the Pillar 2 rules agreed by the OECD/G20 Inclusive Framework on BEPS and set out a proposed 'side-by-side' solution under which U.S. parented groups would be exempt from the Income Inclusion Rule (IIR) and Undertaxed Profits Rule (UTPR) in recognition of the existing U.S. minimum tax rules to which they are subject.

Following discussions on this issue – which were informed by analysis of the respective minimum tax regimes, including consideration of recently proposed changes to the U.S. international tax system based on the Senate amendment of H.R. 1 (introduced June 16, 2025), the One Big Beautiful Bill Act (OBBBA), the removal of section 899 in the Senate version of the OBBBA, and consideration of the success of Qualified Domestic Minimum Top-up Tax (QDMTT) implementation and its impact – there is a shared understanding that a side-by-side system could preserve important gains made by jurisdictions in the Inclusive Framework in tackling base erosion and profit shifting and provide greater stability and certainty in the international tax system moving forward.

G7 statement on global minimum taxes (28th June 2025)

This understanding, which builds on our continued commitment to collaborate jointly through the Inclusive Framework to address the potential risks of base erosion and profit shifting, is based on the following accepted principles:

- A side-by-side system would fully exclude U.S. parented groups from the UTPR and the IIR in respect of both their domestic and foreign profits.
- A side-by-side system would include a commitment to ensure any substantial risks that may be identified with respect to the level playing field, or risks of base erosion and profit shifting, are addressed to preserve the common policy objectives of the side-by-side system.
- Work to deliver a side-by-side system would be undertaken alongside material simplifications being delivered to the overall Pillar 2 administration and compliance framework.
- Work to deliver a side-by-side system would be undertaken alongside considering changes to the Pillar 2 treatment of substance-based non-refundable tax credits that would ensure greater alignment with the treatment of refundable tax credits.

Delivery of a side-by-side system will facilitate further progress to stabilize the international tax system, including a constructive dialogue on the taxation of the digital economy and on preserving the tax sovereignty of all countries.

We recognize that these issues have relevance to a wider group of jurisdictions and look forward to discussing and developing this understanding, and the principles upon which it is based, within the Inclusive Framework with a view to expeditiously reaching a solution that is acceptable and implementable to all.

We also recognize that the removal of section 899 is crucial to this overall understanding and to providing a more stable environment for discussions to take place in the Inclusive Framework.

Communiqué

International Taxation

We will continue engaging constructively to address concerns regarding Pillar Two global minimum taxes, with the shared goal of finding a balanced and practical solution that is acceptable for all. Delivery of a solution will need to include a commitment to ensure any substantial risks that may be identified with respect to the level playing field, including a discussion of the fair treatment of substance-based tax incentives, and risks of base erosion and profit shifting, are addressed and will facilitate further progress to **stabilise the international tax system**, including a constructive dialogue on the tax challenges arising from the digitalisation of the economy. These efforts will be advanced in close cooperation across the membership of the OECD/G20 Inclusive Framework (IF), preserving the tax sovereignty of all countries. We look forward to the OECD and Global Forum stock take report on tax transparency; the IF stock take report on BEPS; the OECD report on the exchange of real estate information on a voluntary basis to combat tax evasion and avoidance; the Platform for Collaboration on Tax (PCT) report on the progress in strengthening capacity-building frameworks to enhance technical assistance; and the IMF report on strengthening revenue administrations to improve domestic revenue mobilisation (DRM). **We welcome the announcement of the PCT to hold the Tax and Development Conference, with a focus on DRM, in Tokyo next year.**