TAX DEPARTMENT

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International Tax Law

OECD/G20 Project on the Taxation of the Digitalized Economy

Executive Summary

The OECD Digital Taxation Project has faced major challenges, particularly since Donald Trump took office as U.S. President. The new Administration has announced that the United States will withdraw from the project and take countermeasures, such as imposing tariffs on countries that introduce discriminatory or extraterritorial digital taxes targeting U.S. companies (link to the decree and link to the America First Trade Policy). The Trump Administration has 60 days to outline specific retaliatory measures, which are expected to target both the UTPR under the global minimum tax framework and digital service taxes imposed by other countries (link to the announcement of the Ways and Means Committee). Additionally, President Trump has announced his intention to reduce the U.S. federal corporate tax rate to 15 percent (see, for example, news coverage on the WEF). If this tax cut passes Congress, it would likely signal the end of Pillar 1 of the OECD Project (which aims to reallocate taxing rights to market jurisdictions) and cast doubt on the future of Pillar 2 (the 15% global minimum tax). A renewed push for lower corporate taxes could reignite global tax competition, challenging the stability of the minimum tax framework.

Despite these developments, it is more realistic to expect that the global minimum tax will at least continue as a European project. Political and financial constraints make it unlikely that the EU will abandon Pillar 2, and European countries are likely to exert significant pressure on Switzerland to maintain its participation (link to EU Parliament). Swiss cantons should prepare for this scenario by advancing plans to introduce new, internationally accepted tax incentives, such as so-called Qualified Refundable Tax Credits (QRTCs). Given these shifts, global competition for business-friendly tax policies is expected to intensify in the coming years.

Contents

The OECD project on the taxation of the digitalized economy is based on two pillars and aims to improve the acceptance of international corporate taxation. The new tax rules are formally adopted by the OECD/G20 Inclusive Framework on BEPS (IF), which comprises more than 140 countries.

In October 2021, IF member states adopted the political parameters for Pillar 1 and Pillar 2. Since then, intensive work has been underway on the technical implementation provisions. Pillar 1 involves a greater redistribution of the profits of the world's 200 most successful

corporations from home states to market states. Pillar 2 introduces a minimum profit tax of 15 percent for all corporations with a turnover of at least EUR 750 million.
Under Pillar 1, a Multilateral Agreement will be submitted to states for signature and ratification. Pillar 2 will not be implemented through a multilateral agreement but rather through a uniform adoption of the Model Rules (also refered to as the common approach), which have been developed jointly but adopted individually by states.
To ensure as uniform a global implementation as possible, the Model Rules are supplemented by a continuously updated Commentary and new Administrative Guidance, which is published at regular intervals.

Stance

The G20-initiated project on global taxation has been facing significant challenges for some time and appears increasingly outdated. One key indicator of this is the lack of implementation of the minimum tax in most countries (see summary table). Instead of advancing common goals, G20 nations are intensifying their competition to attract high-tech and other highly profitable corporations with research and production facilities. Rather than redistributing corporate tax revenues “fairly” on a global scale, some states—such as the United States—are now seeking to retain them entirely. Moreover, governments are reluctant to limit their ability to compete as business locations and do not wish to forgo effective incentives, such as competitive corporate tax rates.
With the election of U.S. President Trump, the global competition for research and production hubs has taken center stage. On January 20, 2025, President Trump issued an executive order directing the U.S. to withdraw from the OECD’s BEPS 2.0 project. His administration now has 60 days to propose countermeasures against countries that impose discriminatory and extraterritorial taxes on U.S. companies—such as the UTPR and digital service taxes. Furthermore, President Trump announced his goal of reducing the U.S. federal corporate tax rate to 15 percent. The U.S. has also withdrawn from the ongoing UN tax project.
Until the U.S. government’s specific measures are clarified and the OECD and EU outline their next steps regarding minimum taxation, there remains significant uncertainty about the future of international Corporate Tax Law.

Outlook

The first two of the aforementioned announcements by U.S. President Donald Trump could lead to significant changes to the OECD minimum tax rate and may signal the potential end of the OECD project for redistribution to market states (Pillar One). The announcement regarding tax reductions in the United States could reignite international tax competition. Additionally, such measures may further weaken the competitiveness of European countries with high tax rates, such as Germany.
However, the extent to which the proposed tax cut will be prioritized on President Trump’s legislative agenda remains highly uncertain. The potentially significant short-term loss of revenue resulting from such a reduction presents a substantial financial challenge, particularly given

the high level of national debt and budget deficit in the United States. Furthermore, U.S. tax policy is primarily determined by Congress, where several senators have expressed skepticism about further increasing the deficit. Given the Republican Party's narrow majorities, passing such a tax package could encounter major political obstacles. At the same time, the corporate tax reduction from 35% to 21%, implemented by Trump during his first term, has demonstrably benefited the United States both economically and financially. This success may incentivize Donald Trump to pursue an additional tax cut despite potential political and fiscal hurdles.

It also remains uncertain which foreign taxes will be deemed discriminatory and extraterritorial, as well as what specific measures the Trump Administration will implement regarding the OECD minimum tax. In addition to tariffs, various other measures remain possible. A key question is whether the United States seeks to eliminate the minimum tax entirely or instead aims to secure special exemptions that enhance its own competitiveness at the expense of European Union (EU) member states that continue to adhere to the minimum tax. For political and economic reasons, it is reasonable to assume that EU member states, in particular, will seek to maintain the minimum tax, even if doing so results in a further decline in their competitiveness relative to the United States. This could lead to a gradual shift of EU companies' activities from economically struggling Europe to the expanding U.S. market. Additionally, it will be crucial to observe how the OECD responds to U.S. demands and how other major G20 economies, such as China and India, react to these developments.

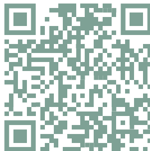
As has been anticipated for some time, the OECD minimum tax is likely to undergo significant changes in 2025. However, it is unlikely that the tax will be entirely eliminated on a global scale. Instead, it is expected that the EU will remain committed to the initiative and may pressure smaller, economically successful countries—such as Switzerland—to comply with the minimum tax requirements.

Position

As an economically successful small state, Switzerland must vigorously defend its interests to prevent the adoption of unfair rules that favor the United States, European Union (EU) member states, China, or other competing jurisdictions, such as Singapore, during the upcoming adjustments to the OECD minimum tax framework. Switzerland must be prepared for contentious negotiations, including the possibility of unfair tactics being employed. For instance, it would be unacceptable for minimum taxation rules to be significantly tightened through administrative guideline adjustments or for major economic powers to be granted preferential exemptions. Such disparities could place Switzerland at a competitive disadvantage, potentially leading to financial repercussions for both the Confederation and the cantons.

Given the uncertainty surrounding the future of OECD minimum taxation, it is imperative that Switzerland remains adaptable to evolving regulatory conditions while taking proactive measures to maintain and

enhance its attractiveness as a business location. As global competition for corporate investment intensifies and international companies closely monitor each country's response to these changes, the Confederation and the cantons cannot afford to remain passive. Failure to act could result in a sharp decline in tax revenues from multinational corporations, thereby exacerbating fiscal challenges. Without these revenues, the Swiss Federal Government would likely be forced to implement severe austerity measures to address its financial difficulties.
Once there is clarity regarding the future of the minimum tax and the corresponding requirements for maintaining Switzerland's competitive position, the Confederation and the cantons should actively prepare for the adjusted competitive landscape. This includes developing new, internationally recognized policy instruments and undertaking broader initiatives to enhance Switzerland's business environment, particularly in the areas of digitalization and other key sectors.



More information on the OECD/G20 project on the taxation of the digitalised economy can be found on our website.

Scan or click QR-Code.