G7 Finance Ministers Agree Historic Global Tax Agreement

- G7 Finance ministers strike seismic agreement on global tax reform that will mean the largest multinational tech giants will pay their fair share of tax in the countries in which they operate.
- Following two-days of talks chaired by Chancellor Rishi Sunak in London, counterparts agree to reforms which will see multinationals paying tax in the countries where they do business;
- As part of landmark deal, finance ministers also agree to the principle of a global minimum rate that ensures multinationals pay tax of at least 15% in each country they operate;
- Nations also agree to follow UK lead in making climate reporting mandatory, and agree measures to crack down on the proceeds of environmental crimes.

Chairing the G7 Finance Ministers meeting in London, Rishi Sunak rallied his counterparts to work together to tackle the tax challenges that arise from the global digital economy.

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They also agreed to the principle of a global minimum rate that ensures multinationals pay tax of at least 15% in each country they operate in.

Ensuring markets play their part in the transition to net zero, the group also followed the UK’s lead by giving a commitment to make it mandatory for firms to report the climate impact of their investment decisions – and concrete steps to crack down on environmental criminals.

Chancellor Rishi Sunak said:

> These seismic tax reforms are something the UK has been pushing for and a huge prize for the British taxpayer – creating a fairer tax system fit for the 21st century.
>
> This is a truly historic agreement and I’m proud the G7 has shown collective leadership at this crucial time in our global economic recovery.

Global Tax Reform:

During the meeting, Finance Ministers agreed the principles of an ambitious two Pillar global solution to tackle the tax challenges arising from an increasingly globalised and digital global economy.

Under Pillar One of this historic agreement, the largest and most profitable multinationals will be required to pay tax in the countries where they operate – and not just where they have their headquarters.

The rules would apply to global firms with at least a 10% profit margin – and would see 20% of any profit above the 10% margin reallocated and then subjected to tax in the countries they operate.

The fairer system will mean the UK will raise more tax revenue from large multinationals and help pay for public services here in the UK.

Under Pillar Two, the G7 also agreed to the principle of at least 15% global minimum corporation tax operated on a country by country basis, creating a more level playing field for UK firms and cracking down on tax avoidance.

Discussions on the two Pillars have been ongoing for many years – with the Chancellor making securing a global agreement a key priority of the UK's G7 Presidency. The agreement will now be discussed in further detail at the G20 Financial Ministers & Central Bank Governors meeting in July.

Improving climate disclosures:

Finance Ministers also accelerated action on environmental issues, following in the UK's footsteps by committing for the first time to properly embed climate change and biodiversity loss considerations into economic and financial decision-making.

Six years since the Task Force on Climate-Related Financial Disclosures (TCFD) was created, the UK was instrumental in getting G7 countries to move towards making climate disclosures mandatory across their respective economies. It comes just over six months after the UK led the way by being the first country in the world to commit to do so in November 2020.

This is a major step towards ensuring the global financial system plays its part transition to net zero, as investors better understand how firms are managing climate risks and can allocate finance accordingly.

A coordinated G7 approach is crucial to avoid inconsistent information across markets and extra red tape, so the Finance Ministers also backed work by the International Financial Reporting Standards Foundation to develop a baseline global standard for high-quality, granular sustainability reporting, built from the TCFD framework and work of sustainability standard-setters.

Supporting nature and tackling environmental crime:

In support of the UK's work to foster a nature-positive economy, the Finance Ministers welcomed the imminent launch of a taskforce on nature-related financial disclosures – to mirror the TCFD – and agreed to crack down on the proceeds of environmental crimes by introducing and strengthening central company beneficial ownership registries. The UK was one of the first countries in the world to introduce a public beneficial ownership registry in 2016.

Making beneficial ownership public through these registries help law enforcement trace ill-gotten gains that are laundered through complex company structures, identify who ultimately owns or controls the company and bring the criminals to justice. And the increased transparency will also protect the UK and the rest of the G7 from other criminal threats – like corruption, fraud and terrorist financing.

Support for vulnerable countries:

The G7 also committed to continue supporting the poorest and most vulnerable countries as they address health and economic challenges associated with COVID. Building on their milestone backing of $650bn general allocation of Special Drawing Rights (SDRs) earlier this year, Finance Ministers and Central Bank Governors called for swift implementation by the end of August.

G7 countries also agreed to actively consider voluntarily channelling a proportion of their allocated SDRs to support further health needs, including vaccinations and help enable greener, more robust economic recoveries in the most affected countries.

Tackling debt vulnerabilities and promoting debt transparency is essential in unlocking sustainable and inclusive growth in developing countries. The G7 also committed to publishing the detail of new lending on a loan-by-loan basis and hope the G7 leading the way on debt transparency will pave the way for G20 nations and private sector creditors to do the same.

The G7 also welcomed the World Bank's efforts on global health and vaccines, and urged them to use their financial firepower to help poor countries obtain vaccines, including through COVAX. The G7 also called on the IMF to ramp up its efforts to finance vaccines, and agreed that private sector, including the pharmaceutical industry, to play their parts more too.

In recognition of need to continue learning lessons from Covid-19, and being prepared for future pandemics, Finance Ministers also agreed to develop new proposals to unlock the market incentives for producing antibiotics to prevent anti-microbial resistance. Finance Ministers agreed that they must act now to secure the health and economic prosperity of citizens across the G7 and that of future generations.

Further information:

- You can read the communiqué online.
- The G7 group agreed on the need for appropriate coordination between Digital Service Taxes and the new Pillar One rules. The Chancellor has reaffirmed his commitment to remove the UK DST once a Pillar One solution is in place. It is intended to serve as a temporary solution, and is a fair, proportionate, non-discriminatory tax that ensures that digital businesses pay UK tax that reflects the value they derive from UK users.
- An SDR is an asset issued by the IMF to boost members' reserves and provide liquidity for vulnerable countries.
- Photographs of the meeting can be found on HM Treasury's Flickr page.

- To mark the commitment on TCFDs, trees will be planted in the National Forest, with eight species of trees representing each of the G7 countries plus the EU delegation and include a Japanese Red Cedar and a Wellingtonia amongst others.
- The G7 comprises of the United Kingdom, Canada, France, Germany, Italy, Japan, the United States and the EU. The heads of the IMF, World Bank Group, OECD and FSB.