

Testimony of Deputy Assistant Secretary Michael Plowgian
Before the Tax Subcommittee of the House Ways & Means Committee

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Chairman Kelly, Ranking Member Thompson, and Members of the Subcommittee.

I am Michael Plowgian, Deputy Assistant Secretary for International Tax Affairs in the Department of the Treasury's Office of Tax Policy. I appreciate the opportunity to testify before the Ways and Means Tax Subcommittee regarding U.S. engagement on the Two-Pillar solution in the G20/OECD Inclusive Framework on BEPS ("Inclusive Framework").

I would like to begin by placing the work that we are doing on the Two-Pillar solution, and particularly on Pillar 2, in context. The Two-Pillar solution grew out of the Organisation for Economic Co-operation and Development (OECD) project known as BEPS – for Base Erosion and Profit Shifting. The BEPS project began in 2012 at the request of the Group of 20 (G20), who were concerned about the ability of multinational corporations to avoid tax by shifting profits into low- or no-tax jurisdictions.

Since the BEPS project began over a decade ago, the United States has had a strong interest in its success. The active participation of the Executive Branch and the support of Congress has been crucial in protecting our tax base from being eroded by multinationals. Prior to our engagement in BEPS, multinationals' ability to shift paper profits to low-tax jurisdictions resulted in an unproductive race to the bottom in corporate tax rates. Unilateral attempts to address this problem led to uncertainty and instability for both U.S. taxpayers and the U.S. government.

The BEPS project led countries to enact changes to international tax rules to limit profit shifting. In the United States, the BEPS project provided the foundation for several Tax Cuts and Jobs Act (TCJA) provisions, including Global Intangible Low Tax Income (GILTI), the interest deduction limitation, and the anti-hybrids provisions. However, starting in 2018, it became clear that further work was needed to stabilize the international tax system and enable U.S. businesses to compete on a level playing field. That work has continued across multiple Congresses and Administrations.

As part of that process, this Administration has pushed to reach a global framework on a Two-Pillar solution to reform the international tax system. Pillar 1, when implemented by the countries and jurisdictions that participated in the development of the framework, will get rid of the unilateral and discriminatory digital services taxes ("DSTs") that largely impact U.S. businesses and will reallocate a portion of taxing rights to reflect the way business is done in the 21st century. Pillar 2 will level the playing field between U.S. and foreign businesses and end the race to the bottom in corporate tax rates by establishing a global minimum tax on the earnings of large multinationals, regardless of where they are headquartered or where they operate. It will ensure the United States can tax U.S. multinationals at reasonable levels without being undercut by other countries using their tax systems to induce our multinationals to shift their profits, operations, or residency offshore.

Over the past two years, the Administration has engaged in the Inclusive Framework to work through the details of this package. The Inclusive Framework has reached consensus on Model Rules under Pillar 2, and many countries are implementing those Model Rules. Continued U.S. engagement in the Inclusive Framework is essential to ensure consistent interpretation of those rules. Discussions in the Inclusive Framework have resulted in additional guidance, including guidance issued this week that would treat transferable credits appropriately as equivalent to refundable credits.

Treasury negotiators have also been working in the Inclusive Framework to develop a complete Pillar 1 agreement, though there are still important elements of Pillar 1 that remain open.

The Executive Branch and Congressional partnership on international tax is a long-standing, important relationship with a shared goal of protecting U.S. taxpayer interests and providing certainty and stability in the international tax system. It goes without saying that Pillar 1 and Pillar 2 can only be implemented in the U.S. with the support of Congress. We hope to have a complete Pillar 1 package soon and intend to continue to seek input. Similarly, with respect to Pillar 2, we stand ready to work with Congress to enact the reforms proposed in the President's Budget to implement Pillar 2, which would increase U.S. revenue and strengthen our tax system. We will also continue to work with Congress to prioritize issues for interpretive guidance. As always, we would like to offer our technical assistance to any relevant legislative effort.

With that, I would be pleased to respond to any questions.