

**POSSIBLE EFFECTS OF ADOPTING THE OECD'S PILLAR TWO,  
BOTH WORLDWIDE AND IN THE UNITED STATES**

Prepared by the Staff  
of the  
JOINT COMMITTEE ON TAXATION



June 2023

## BACKGROUND

In October 2021, following public consultations and further development of the longstanding project to address base erosion and profit shifting, the OECD/G-20 Inclusive Framework<sup>1</sup> agreed in principle to two pillars to address the tax challenges arising from the current state of international taxation of multinational enterprises (“MNEs”).<sup>2</sup>

In December 2021, the Organization for Economic Cooperation and Development (“OECD”) published “Global Anti-Base Erosion Model Rules (Pillar Two),” which provides for a system of taxation based on financial accounts applying a minimum rate of 15 percent on a jurisdictional (country-by-country) basis (the “Model Rules”).<sup>3</sup> In March 2022, the OECD published general commentary (and related examples) on the Model Rules,<sup>4</sup> and in December 2022, the OECD published guidance on a transitional safe harbor, a framework for a permanent safe harbor, and transitional penalty relief.<sup>5</sup> Most recently, in February 2023, the OECD published administrative guidance on the Model Rules to address certain specific questions in need of clarification and simplification (the “Administrative Guidance”).<sup>6</sup> In this document, the staff of the Joint Committee on Taxation explores the possible effects of adopting the components of the OECD’s Pillar Two, both worldwide and in the United States.

---

<sup>1</sup> In asking the OECD to develop a response to the economic challenges arising from the modern economy, the G-20 directed that non-OECD and non-G-20 members be included to ensure global consensus. The resulting body, the OECD/G-20 Inclusive Framework on BEPS, formed in 2015, now has over 135 members. A list of members may be found at <https://www.oecd.org/tax/beps>.

<sup>2</sup> OECD (2021), *Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalization of the Economy*, OECD, Paris, <https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021> [htm](#).

<sup>3</sup> OECD (2021), *Tax Challenges Arising from the Digitalization of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS*, OECD, Paris, [https://www.oecd-ilibrary.org/taxation/tax-challenges-arising-from-digitalisation-of-the-economy-global-anti-base-erosion-model-rules-pillar-two\\_782bac33-en](https://www.oecd-ilibrary.org/taxation/tax-challenges-arising-from-digitalisation-of-the-economy-global-anti-base-erosion-model-rules-pillar-two_782bac33-en).

<sup>4</sup> OECD (2022), *Tax Challenges Arising from the Digitalization of the Economy – Commentary to the Global Anti-Base Erosion Model Rules (Pillar Two), First Edition: Inclusive Framework on BEPS*, OECD Publishing, Paris, [https://www.oecd-ilibrary.org/taxation/tax-challenges-arising-from-the-digitalisation-of-the-economy-commentary-to-the-global-anti-base-erosion-model-rules-pillar-two-first-edition\\_1e0e9cd8-en](https://www.oecd-ilibrary.org/taxation/tax-challenges-arising-from-the-digitalisation-of-the-economy-commentary-to-the-global-anti-base-erosion-model-rules-pillar-two-first-edition_1e0e9cd8-en). For the related examples, see OECD (2022), *Tax Challenges Arising from the Digitalization of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two) Examples*, OECD, Paris, <https://www.oecd.org/tax/beps/tax-challenges-arising-from-the-digitalisation-of-the-economy-global-anti-base-erosion-model-rules-pillar-two-examples.pdf>.

<sup>5</sup> OECD (2022), *Safe Harbours and Penalty Relief: Global Anti-Base Erosion Rules (Pillar Two)*, OECD/G20 Inclusive Framework on BEPS, OECD, Paris, <https://www.oecd.org/tax/beps/safe-harbours-and-penalty-relief-global-anti-base-erosion-rules-pillar-two.pdf>.

<sup>6</sup> OECD (2023), *Tax Challenges Arising from the Digitalization of the Economy – Administrative Guidance on the Global Anti-Base Erosion Model Rules (Pillar Two)*, OECD/G20 Inclusive Framework on BEPS, OECD, Paris, <https://www.oecd.org/tax/beps/agreed-administrative-guidance-for-the-pillar-two-globe-rules.pdf>.

## **Summary of present law**

Income of controlled foreign corporations (“CFCs”) of U.S. MNEs generally is taxed in the United States under present law.<sup>7</sup> Certain passive and mobile income is taxed at full rates under subpart F of the Code (“subpart F income”). Active income generally is taxed as global intangible low-taxed income (“GILTI”). GILTI, the excess of certain foreign income over 10 percent of foreign tangible assets, is taxed at a reduced rate. The reduced rate is achieved by a deduction of 50 percent (37.5 percent in tax years after 2025). A foreign tax credit (“FTC”) is allowed for foreign income taxes paid by a CFC with respect to income included by a domestic corporation as subpart F income and GILTI, but for GILTI, the FTC is limited to 80 percent of foreign taxes paid. Because GILTI is calculated at the U.S. shareholder level, U.S. MNEs may aggregate and blend losses, tangible assets, and foreign taxes of each CFC held by the U.S. taxpayer, even if such items were to arise in different foreign jurisdictions. In addition to subpart F income and GILTI, foreign corporations are taxed in the United States on income effectively connected with the conduct of a U.S. trade or business (“ECI”).

Dividends received from CFCs and certain other foreign subsidiaries that were paid from earnings that were not subject to U.S. tax as GILTI, subpart F income, or ECI may be eligible for a dividends-received deduction of 100 percent under section 245A.

Foreign-derived intangible income (“FDII”), the excess of a domestic corporation’s income from certain foreign sales over 10 percent of domestic tangible assets, is taxed at a reduced rate. The reduced rate is achieved by a deduction of 37.5 percent (21.875 percent in tax years after 2025).

Finally, Public Law 117-169, the “Inflation Reduction Act,” enacted a new corporate alternative minimum tax (“CAMT”). The CAMT is the excess (if any) of (1) the tentative minimum tax for the year over (2) the regular tax liability for the year plus the tax imposed by section 59A, the Base Erosion and Anti-Abuse Tax, for such year. The tentative minimum tax is the excess of 15 percent of adjusted financial statement income (“AFSI”) over the CAMT foreign tax credit for the taxable year. The CAMT generally applies to corporations with AFSI in excess of \$1 billion on average for the preceding three years. AFSI is the taxpayer’s net income or loss reported on the taxpayer’s applicable financial statement for the taxable year, with certain adjustments. Such adjustments include, but are not limited to, disregarding certain foreign taxes paid to a foreign country or possession of the United States plus U.S. taxes paid, less book tax depreciation differences, less book tax pension deduction differences, less any income arising from a mortgage servicing contract, less book tax differences for the amortization of spectrum licensing rights purchased after December 31, 2007 and before August 16, 2022, plus any net foreign loss.<sup>8</sup> The CAMT, thus, effectively increases the tax rate on blended aggregate foreign source income to a minimum 15 percent for applicable taxpayers.

---

<sup>7</sup> U.S. MNE means an MNE with its ultimate parent entity (“UPE”) located in the United States. Conversely, foreign MNE means an MNE with its UPE located in a foreign jurisdiction.

<sup>8</sup> For U.S. corporations that elect to take foreign tax credits rather than deductions for foreign taxes paid, foreign taxes are added back to AFSI, and CAMT is then decreased by a foreign tax credit. General business credits are also allowed to offset any CAMT liability.

## Components of Pillar Two

Pillar Two adds to these U.S. tax rules another layer of minimum taxes to ensure that income of MNEs in each jurisdiction in which they operate is subject to a minimum rate of tax of 15 percent. Pillar Two consists of three related taxes aimed at reducing base erosion and profit shifting of MNEs that have annual revenues equal to or in excess of €750 million:

1. an income inclusion rule (“IIR”), taxing the ultimate parent entity for income earned by constituent entities in low-taxed jurisdictions;
2. an undertaxed profits rule (“UTPR”), taxing constituent entities whose ultimate parent entity or affiliates are in low-taxed jurisdictions and not otherwise subject to a top-up tax; and
3. a qualified domestic minimum top-up tax (“QDMTT”), taxing constituent entities in the local jurisdiction on local profits.

The reference rate for each of these taxes is 15 percent, and this reference tax rate is an effective, rather than a statutory, tax rate (an “ETR”) that is computed by dividing certain taxes paid (“adjusted covered taxes”) by the related pre-tax income (“global base erosion income”). The IIR is levied by the home jurisdiction of the ultimate parent entity on a jurisdiction-by-jurisdiction basis. The UTPR is levied by the jurisdiction of a constituent entity that is a member of a group with affiliates with income in other jurisdictions taxed at a rate less than 15 percent. The QDMTT is levied by jurisdictions on their domestic corporations (and local branches of foreign corporations) to bring the domestic tax liability up to the 15-percent rate.

Equation 1 summarizes how the IIR and QDMTT relate to one another:

$$1. \quad IIR_j^P = \max(0, 15\% - ETR_j) * (Y_j - SBIE_j) + ACTT_j - QDMTT_j$$

The IIR is calculated in the parent jurisdiction of the MNE,  $p$ , for affiliates in jurisdiction  $j$ .  $ETR_j$  is the effective tax rate in jurisdiction  $j$  calculated using financial statements for all constituent entities in jurisdiction  $j$  for the MNE.  $Y_j$  is the net income of all entities in the jurisdiction. The substance-based income exclusion (“SBIE”), denoted in the equation as  $SBIE_j$ , is allowed for the purposes of reducing excess profits in jurisdiction  $j$  for certain types of expenses. The SBIEs under Pillar Two include payroll and tangible assets, which are each excludable at a rate of five percent.  $ACTT_j$  is any additional top-up tax incurred because of differences in the treatment of deferred tax assets (“DTAs”) or the recalculation of the ETR from a prior year. Finally,  $QDMTT_j$  is any top-up tax paid under a QDMTT levied by jurisdiction  $j$ .

Broadly, the mechanics for dealing with DTAs under the  $ACTT_j$  are to tax those assets in the year they occur at the difference between the minimum rate of 15 percent and the ETR.<sup>9</sup> Effectively, permanent differences between financial accounting and the tax base, unlike

---

<sup>9</sup> For examples on how this would work see OECD (2022), *Tax challenges Arising from the Digitalization of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two) Examples*, OECD, Paris.

temporary differences, are subject to top-up tax even if the jurisdiction has an ETR equal to or above 15 percent (as calculated before considering the permanent or temporary difference) or when constituent entities in a jurisdiction are in a loss position. Because of differences in the base between the CAMT and the QDMTT, as well as differences in which entities are subject to the tax, the Joint Committee staff expects that enactment of a U.S. QDMTT would result in an increase in revenues, even with present-law CAMT in place.

Equation 2 summarizes the mechanics of the UTPR tax:

$$2. \quad UTPR_j^k = 50\% * \left[ \frac{EMP_k}{EMP_j} + \frac{TANG_k}{TANG_j} \right] * \sum_{All\ M} \max(0, 15\% - ETR_M^j) * (Y_M - SBIE_M)$$

The UTPR is levied in jurisdiction  $k$  on MNEs with headquarters in jurisdiction  $j$  that have not adopted Pillar Two.  $ETR$ ,  $Y$ , and  $SBIE$  have the same definitions as in Equation 1, but in Equation 2 are summed over all jurisdictions,  $M$ , where the MNE operates. The amount that is allocated to the taxing jurisdiction,  $k$ , is 50 percent of jurisdiction  $k$ 's share of the global number of employees and tangible assets in jurisdictions that have adopted Pillar Two. The UTPR taxes an MNE with affiliates in low-taxed jurisdictions and allocates that top-up tax among jurisdictions in which the MNE operates according to their relative shares of employees and tangible assets in Pillar Two adopting jurisdictions.

## POTENTIAL EFFECTS OF PILLAR TWO ON FEDERAL TAX RECEIPTS

Many jurisdictions have agreed in principle to adopt Pillar Two, and some have already enacted legislation or have proposed legislation (see Appendix for a list of Pillar Two enacting jurisdictions, hereafter referred to as “Pillar Two compliant jurisdictions”). Broad adoption of Pillar Two by other jurisdictions is likely to affect the behavior of MNEs, the Federal income tax liability of MNEs, and Federal income tax receipts. As discussed in detail below, all three results are related.

The implementation of Pillar Two in a significant number of jurisdictions will affect Federal tax receipts in two ways: first, by countries other than the United States taxing foreign-source income (mostly of CFCs) that might otherwise be taxed in the United States; and second, by taxing U.S.-source income (mostly of U.S. corporations, whether U.S. MNEs or U.S. subsidiaries of foreign MNEs).

By design, Pillar Two is expected to raise ETRs worldwide. QDMTTs may raise ETRs in some jurisdictions, taxing income of CFCs that might otherwise be subject to residual U.S. tax. Several Pillar Two compliant jurisdictions currently have statutory tax rates of at least 15 percent, mitigating the direct effect of QDMTTs on Federal tax receipts. With respect to income of a CFC, IIRs of an intermediate jurisdiction will apply only in the absence of a local QDMTT and only after the allocation of any tax liability with respect to such income (*e.g.*, GILTI tax liability). Tax paid pursuant to an IIR is not expected to be creditable for U.S. tax purposes. UTPRs may affect Federal tax receipts in several ways, both with respect to U.S. and foreign-source income of U.S. MNEs. With respect to foreign income, UTPRs apply only in the absence of a local QDMTT and only after the allocation of any U.S. tax liability with respect to such income (*e.g.*, GILTI tax liability). Any tax paid pursuant to a UTPR is not expected to be creditable for U.S. tax purposes. Currently, there is temporary administrative guidance issued by the OECD that generally allocates GILTI tax liability to low-tax jurisdictions.<sup>10</sup> Upon its expiration, U.S. MNEs may be subject to tax under both GILTI and Pillar Two (whether IIR or UTPR), with neither system providing credit for taxes paid under the other.

The adoption of IIRs and UTPRs in foreign jurisdictions could have significant effects on Federal tax receipts, driven by the response of U.S. and foreign MNEs. For example, U.S. MNEs facing the potential imposition of IIRs and UTPRs on foreign income may shift some amount of profits from low-tax non-Pillar Two compliant jurisdictions to high-tax jurisdictions, including Pillar Two compliant jurisdictions, where the ETR is approximately 15 percent. The magnitude of such a response, however, is highly uncertain.<sup>11</sup>

---

<sup>10</sup> Administrative Guidance, Article 2.10. The special allocation method for purposes of allocating taxes arising under “blended CFC tax regimes” (*e.g.*, GILTI tax liability) generally results in the allocation of taxes to low-tax jurisdictions, which in certain situations may result in a local ETR close to 15 percent. In those cases, U.S. MNEs might not have any additional incentive to shift profits elsewhere.

<sup>11</sup> The uncertainty arises in part from the various factors (tax and nontax) that companies consider as part of the cost of doing business. This includes nontax factors such as labor costs, local benefits, and supply chain costs.

## **Key assumptions**

The summary below describes possible changes in Federal tax receipts under several scenarios. The analysis rests on six assumptions. First, Pillar Two requires an ordering rule to determine the priority of taxing authority. The Joint Committee staff assumes the following ordering of priority: local corporate income taxes (including the CAMT, but excluding the CAMT on foreign income), QDMTTs, CFC rules (including GILTI, subpart F, and the CAMT on foreign income), IIRs, and finally UTPRs.<sup>12</sup> As a result of this ordering rule, domestic taxes are collected before collection by foreign jurisdictions under either CFC rules or the new Pillar Two provisions. Second, the Joint Committee staff assumes the Treasury will issue regulations indicating that QDMTTs are creditable and that foreign IIRs and UTPRs are not creditable. Third, State and local income taxes are included toward the Pillar Two computation of ETRs. Fourth, Pillar One will not be adopted within the budget window.<sup>13</sup> Fifth, the components of Pillar Two enacted by jurisdictions are consistent and uniform. Sixth, the United States does not enact tax legislation except as otherwise expressly provided herein.

The next two sections present several scenarios illustrating the range of effects on Federal income tax receipts.

First, the Joint Committee staff presents two results designed to illustrate the range of effects on Federal income tax receipts because of enactment of Pillar Two in Pillar Two compliant jurisdictions (defined above). Understanding this range of effects is important in formulating a modified baseline which accounts for the Pillar Two compliant jurisdictions and U.S. MNE responses to enactment in those jurisdictions. To show these effects, the two ranges reported below provide a lower and upper bound on revenues as compared to a hypothetical baseline that assumes no jurisdiction enacts any component of Pillar Two.

Second, the Joint Committee staff presents different forecasting scenarios (“forecasting scenarios”) to show the effects on Federal tax receipts for different combinations of enactment of Pillar Two in jurisdictions other than Pillar Two compliant jurisdictions (the “rest of the world”) and/or the United States. For the forecasting scenarios, the revenue effects are compared to a

---

<sup>12</sup> This ordering assumes that guidance will be issued as to how the CAMT liability with respect to foreign income should be allocated to CFCs and that such guidance will allocate such tax in the same way that the current Model Rules do for CFC Tax Regimes. The Administrative Guidance, however, appears to indicate that CAMT liability with respect to foreign income would not be allocated in the same manner as GILTI, a Blended CFC Tax Regime. See Model Rules, Article 4.3.2(c) (requiring any tax imposed pursuant to a CFC Tax Regime be allocated from the direct or indirect constituent entity owner that is subject to the CFC tax to the constituent entity through which the CFC income arose); Administrative Guidance, Article 2.10 (providing a simplified allocation method for purposes of allocating taxes arising under “blended CFC tax regimes”, which do not include a tax regime that takes into account the group’s domestic income).

<sup>13</sup> Pillar One of the OECD proposals would reallocate some taxing authority to market jurisdictions. In return, all participating jurisdictions have agreed not to apply digital services taxes.

modified baseline where the Joint Committee staff assumes enactment of Pillar Two by the Pillar Two compliant jurisdictions.<sup>14</sup>

### **Range of effects of Pillar Two enactment in certain jurisdictions compared to a hypothetical baseline**

Below, the Joint Committee staff presents the effects of two illustrative results on receipts that are intended to represent upper and lower bounds for the effects of the implementation of Pillar Two on Federal income tax receipts. Each result is relative to a hypothetical baseline in which no jurisdiction has enacted or will enact Pillar Two. In contrast, both the upper and lower bounds assume that Pillar Two is implemented by the Pillar Two compliant jurisdictions.

The upper and lower bounds reported below demonstrate how sensitive Federal income tax receipts are to the assumptions made about behavioral responses of U.S. MNEs. Both results assume that U.S. MNEs subject to IIRs and UTPRs shift up to 75 percent of their low-tax profits to other jurisdictions. The key difference between the two results is where those profits are shifted. The lower bound assumes that U.S. MNEs shift up to 75 percent of their low-tax profits to Pillar Two compliant jurisdictions (namely, jurisdictions with a QDMTT). The upper bound assumes that U.S. MNEs shift up to 75 percent of their low-tax profits to the United States.<sup>15</sup> For both the lower and upper bound, profit shifting begins in 2025, along with the implementation of IIRs and UTPRs.

In addition, for the upper bound, because GILTI allows corporations to blend profits with losses, corporations would be expected to shift no more than the amount of profits exceeding losses. Therefore, the upper bound result assumes that U.S. MNEs shift the minimum of either (1) 75 percent of their low-tax profits or (2) the excess of global positive profits over global losses.<sup>16</sup>

Table 1 below shows the revenue effects of these upper and lower bounds relative to a hypothetical baseline in which no jurisdiction has enacted or plans to enact Pillar Two.

---

<sup>14</sup> The modified baseline is the baseline that the Joint Committee staff uses for estimating proposals in 2023. As described above, this baseline is adjusted to reflect enactment of Pillar Two in Pillar Two compliant jurisdictions, as well as behavioral responses by U.S. MNEs in response to IIRs and UTPRs.

<sup>15</sup> The Joint Committee staff further assumes that the 75 percent of those profits shifted to the United States are profits that would otherwise be eligible for FDII.

<sup>16</sup> This assumption is not necessary for generating the lower bound because any profits shifted are sheltered by losses under the GILTI regime, regardless of their location.



**Table 1.—Range of Effects of Pillar Two Implementation on Fiscal Year Federal Tax Receipts, Including Corporate Profit Shifting Responses**

**(Dollar Amounts in Billions)**

	2023-2028	2023-2033
Lower Bound	-\$72.7	-\$174.5
Upper Bound	\$90.7	\$224.2

As shown above in Table 1, the range of revenue effects is significant and highlights the uncertain effect Pillar Two implementation may have on Federal income tax receipts. In the lower bound, with U.S. MNEs assumed to shift their low-tax profits to QDMTT jurisdictions, any residual U.S. tax on those profits is eliminated by the corresponding allowable foreign tax credits. In the upper bound, with U.S. MNEs assumed to shift their low-tax profits to the United States, there is a significant increase in Federal tax revenues. The range of potential effects is meant to highlight the level of uncertainty here and is not meant to represent a likely outcome.

The implementation of Pillar Two in one or more jurisdictions is expected to produce significant heterogeneity in responses across U.S. MNEs.<sup>17</sup> Some U.S. MNEs may shift a substantial portion of profits to Pillar Two compliant jurisdictions, while others may shift a substantial portion of profits to the United States. In addition, there still may be U.S. MNEs that do not shift profits out of low-tax jurisdictions. As stated above, there is temporary administrative guidance issued by the OECD that generally allocates GILTI tax liability to low-tax jurisdictions. As a result, after the allocation of GILTI tax liability, some corporations may not face an ETR that is significantly different from the 15 percent tax rate that they would face in a QDMTT jurisdiction and may decide not to alter their existing structures. U.S. MNEs may also have nontax reasons (*e.g.*, local benefits or incentives) for locating profits in these low-tax jurisdictions. In light of these heterogeneous effects for U.S. MNEs, the Joint Committee staff assumes a modified baseline that is between those represented by the lower and upper bound results set forth in Table 1 (*i.e.*, not the hypothetical baseline). This modified baseline is used for purposes of the forecasting scenarios below and is the 2023 working baseline for general revenue estimating purposes.

### **Forecasting scenarios**

Below, the Joint Committee staff presents the effect on Federal income tax receipts of five different scenarios in which the United States and/or the rest of the world (other than the Pillar Two compliant jurisdictions) enact Pillar Two.

---

<sup>17</sup> The adoption of Pillar Two is likely to encourage countries (especially ones with low tax rates) to seek to attract local investment in new ways. For example, countries may choose to raise more tax revenue (through Pillar Two compliance) and then to return the revenue (perhaps to the same MNEs paying the tax) in the form of (tax and nontax) incentives. In theory, such incentives could offset the cost of any additional tax liability under Pillar Two. In this case, there would be less reason for U.S. MNEs to shift income into the United States and more reason to shift profits to Pillar Two compliant jurisdictions offering incentives.

The five forecasting scenarios are:

1. Rest of the world enacts Pillar Two in 2025; United States does not.
2. Rest of the world enacts Pillar Two in 2025; United States also enacts Pillar Two in 2025.
3. Rest of the world does not enact Pillar Two; United States does not either.
4. Rest of the world does not enact Pillar Two; United States enacts Pillar Two in 2025, but no U.S. UTPR.
5. Rest of the world does not enact Pillar Two; United States enacts Pillar Two in 2025.

In each of these scenarios, the Joint Committee staff compares the results to the modified baseline in which (1) Pillar Two is fully enacted by the Pillar Two compliant jurisdictions; and (2) U.S. MNEs respond by shifting some of their low-tax profits to both Pillar Two compliant jurisdictions and the United States.

For Scenarios 2 and 5, in which the United States enacts Pillar Two, the Joint Committee staff assumes that enactment of Pillar Two means enactment of (1) a compliant QDMTT, (2) a compliant IIR (*i.e.*, a modified GILTI that is calculated (along with foreign tax credits) on a country-by-country basis at a 15 percent tax rate), and (3) a UTPR.<sup>18</sup> For Scenario 4, in which the United States enacts Pillar Two but not a UTPR, the Joint Committee staff assumes enactment of (1) a compliant QDMTT and (2) a compliant IIR (*i.e.*, a modified GILTI that is calculated (along with foreign tax credits) on a country-by-country basis at a 15 percent tax rate).

In Scenario 1, in which the rest of the world enacts Pillar Two but the United States does not, the Joint Committee staff assumes a small decrease in profit shifting from low-tax jurisdictions to the United States relative to the modified baseline.

In Scenario 2, in which the rest of the world enacts Pillar Two and the United States does as well, the Joint Committee staff assumes a small increase in profit shifting into the United States relative to the modified baseline.

Scenario 3 is the modified baseline; thus, there is no revenue effect for this scenario.

In Scenarios 4 and 5, in which the rest of the world does not enact Pillar Two but the United States does, the Joint Committee staff assumes a small increase in profit shifting into the United States relative to Scenario 2. Table 2, below, reports Federal fiscal year revenue effects for each of the scenarios relative to the modified baseline.

---

<sup>18</sup> Per the Model Rules, the UTPR would be levied at a 15 percent rate, and shared among Pillar Two compliant jurisdictions. For Scenario 2, in which all jurisdictions are Pillar Two compliant, QDMTTs become the primary mechanism for taxing relevant income and are the only component of Pillar Two that has any effect.

**Table 2.—Fiscal Year Federal Tax Receipt Revenue Effects for Various Scenarios of the Enactment of Pillar Two by the United States and/or the Rest of the World, Relative to the Modified Baseline**

**(Dollar Amounts in Billions)**

	2023-2028	2023-2033
1. Rest of the world enacts Pillar Two in 2025; United States does not enact.	-\$39.2	-\$122.0
2. Rest of the world enacts Pillar Two in 2025; United States also enacts Pillar Two in 2025.	-\$6.8	-\$56.5
3. Rest of the world does not enact Pillar Two; United States does not either.	---	---
4. Rest of the world does not enact Pillar Two; United States enacts Pillar Two in 2025, but no U.S. UTPR.	\$36.0	\$102.6
5. Rest of the world does not enact Pillar Two; United States enacts Pillar Two in 2025.	\$98.2	\$236.5

Scenarios 1 and 2 assume the rest of the world enacts Pillar Two in 2025. In Scenario 1, the rest of the world enacts Pillar Two, whereas the United States does not. The enactment of QDMTTs worldwide captures much of the residual U.S. tax on income earned in those foreign jurisdictions. Relative to the modified baseline, the loss of revenue from GILTI combined with the assumed decrease in profit shifting results in a revenue loss exceeding \$120 billion over the budget window. In contrast, if the United States enacts Pillar Two in 2025, as in Scenario 2, the revenue loss is mitigated by increased receipts under the U.S. QDMTT, as well as a small increase in profit shifting into the United States relative to the modified baseline.

Scenarios 4 and 5 assume the rest of the world does not enact Pillar Two (Pillar Two compliant jurisdictions aside). In Scenario 4, the United States enacts Pillar Two except for a UTPR, and in Scenario 5, the United States enacts all three components of Pillar Two, including a UTPR. In Scenario 4, enacting a U.S. QDMTT and making GILTI IIR compliant increase Federal income tax receipts by as much as \$36 billion and \$102 billion over five and 10 years, respectively. In Scenario 5, in which the United States also enacts a UTPR, receipts could increase by as much as \$98.2 billion and \$236 billion over five and 10 years, respectively. There are several factors contributing to the increase in revenue: (1) a Pillar Two compliant GILTI regime, (2) a compliant QDMTT, (3) revenue gained from a UTPR, and (4) a small increase in profit shifting into the United States relative to the modified baseline.

**APPENDIX: SELECTION OF PILLAR TWO ENACTING JURISDICTIONS**

<b>Jurisdiction</b>	<b>Legislation</b>	<b>Status</b>	<b>IIR</b>	<b>UTPR</b>	<b>QDMTT</b>
<b>Canada</b>	2023 Budget stated government’s plan to introduce draft legislation implementing IIR and QDMTT, with UTPR to follow at later time, March 28, 2023.	Plan to Introduce legislation	Yes (From December 31, 2023)	Yes (From December 31, 2024)	Yes (From December 31, 2023)
<b>Japan</b>	Japanese Parliament passed legislation which included the implementation of certain Pillar Two global minimum tax rules, March 28, 2023.	Enacted Law	Yes (From April 1, 2024)	No	No
<b>Liechtenstein</b>	Government published draft legislation and open consultation on measures to implement a global minimum tax, March 29, 2023.	Draft Legislation Published	Yes (From January 1, 2024)	Yes (From January 1, 2025)	Yes (From January 1, 2024)
<b>South Korea</b>	Korea enacted new global minimum tax rules to align with the OECD’s Pillar Two Model Rules, December 31, 2022.	Enacted Law	Yes (From January 1, 2024)	Yes (From January 1, 2024)	No
<b>Switzerland</b>	The Swiss Federal Council opened consultation on a temporary ordinary entitled for the implementation of Pillar Two, August 17, 2022.	Draft Legislation Published	Yes (From January 1, 2024)	Yes (From January 1, 2024)	Yes (From January 1, 2024)

<b>Jurisdiction</b>	<b>Legislation</b>	<b>Status</b>	<b>IIR</b>	<b>UTPR</b>	<b>QDMTT</b>
<b>United Kingdom</b>	Building on draft legislation published in July 2022, Finance (No. 2) Bill was introduced in the House of Commons and included measures to implement a ‘Multinational Top-Up Tax’, March 23, 2023.	Legislation Introduced to Parliament	Yes (From December 31, 2023)	No (Intention to implement at later time)	Yes (From December 31, 2023)
<b>EU</b>	Unanimous agreement on EU Global Minimum Tax Directive for the implementation of Pillar Two global minimum tax rules among member states, December 14, 2022.	EU Directive	Yes (From December 31, 2023)	Yes (From December 31, 2024)	Optional for Member States

### EU Member Countries

<b>Germany</b>	The German Federal Ministry of Finance published a consultation including a draft law to implement the EU Global Minimum Tax Directive, March 20, 2023.	Draft Legislation Published	Yes (From December 31, 2023)	Yes (From December 31, 2024)	Yes (From December 31, 2023)
<b>Ireland</b>	Ireland’s Department of Finance published a Feedback Statement including possible draft legislation to implement the EU Global Minimum Tax Directive, March 31, 2023.	Feedback Statement	Yes (From December 31, 2023)	Yes (From December 31, 2024)	No (Intention to implement at later time)
<b>The Netherlands</b>	Open consultation on draft legislation entitled “Minimum Tax Rate Act 2024,” to implement Pillar Two, October 24, 2022.	Draft Legislation Published	Yes (From December 31, 2023)	Yes (From December 31, 2024)	Yes (From December 31, 2023)
<b>Sweden</b>	Swedish Special Investigator submitted an interim report which included draft legislation for the implementation of the EU Global Minimum Tax Directive, February 7, 2023.	Draft Legislation Published	Yes (After December 31, 2023)	Yes (After December 31, 2024)	Yes (After December 31, 2023)

Note: Other jurisdictions who have either introduced, or plan to introduce, Pillar Two enacting legislation: Australia, Azerbaijan, EU member countries (Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, and Spain), Guernsey, Indonesia, Jersey, Malaysia, Mauritius, New Zealand, Norway, Qatar, Singapore, South Africa, Thailand, United Arab Emirates, and Vietnam.

Source: *Joint Committee compilation from text of local jurisdiction statutes and Council Directive (EU) 2022/2523 of 14 December 2022.*