UK agrees transition toward new global tax system

News story

The UK has today (21 October 2021) agreed a route forward to transition away from its Digital Services Tax (DST) towards a new global tax system that will ensure multinationals pay their fair share in the countries where they do business.

- UK agrees deal on how to transition from its Digital Services Tax (DST) to new global tax system
- New DST-credit system will be used for transition
- Historic tax reforms agreed by 136 countries earlier this month ensure multinationals pay their fair share in the countries where they do business

The deal struck by the UK, US and other European countries outlines a DST-credit system which will bridge the gap between the UK's DST and the start of the new system – which is due to be implemented in 2023.

On 8 October 2021, OECD-led discussions resulted in 136 countries agreeing a plan for a new system where multinationals pay their fair share of tax in the countries they do business (known as Pillar One), whilst countries operate a minimum 15% corporation tax rate (known as Pillar Two).

Chancellor Rishi Sunak said:

> Following the landmark deal achieved earlier this month, I am delighted we have agreed a way forward on how we transition from our Digital Services Tax to the newly agreed global tax system.

> This agreement means that our Digital Services Tax is protected as we move to 2023, so its revenue can continue to fund vital public services.

As part of today's deal the US will not levy tariffs in response to the UK's DST, which was introduced in April 2020. The UK will also keep the revenue raised from the DST until the Pillar One reforms become operational. The DST credit agreement outlines that once Pillar One is in effect, firms will be able use the difference between what they have paid in DST from January 2022, and what they would have paid if Pillar One had been in effect instead, as credit against their future corporation tax bill.

This means that the UK will not lose out on tax revenue in the transition period, as for each business, the UK either retains the amount raised that Pillar One would have delivered if it had been in place originally, or the total revenue from our DST.

The DST will then be removed in favour of the global solution, which was always the UK's intention.

The UK has been spearheading the push for an international solution to the challenge of taxing technology multi-nationals for nearly a decade, with the Chancellor making securing a global agreement a key priority of the UK's G7 Presidency. The credit system provides a fair and sustainable solution.

The UK will continue discussions with our global partners over the coming months as we look towards beginning the implementation process in due course.

Further information

- The UK introduced a temporary Digital Services Tax (DST) in April 2020 to ensure that multinationals paid tax on the sales they make in the UK.
- It has always been the intention of the UK to remove its Digital Services Tax once a global agreement is in place. As acknowledged in 8 October's OECD agreement, the UK, and some of the other countries with DSTs, have been discussing with the US how to coordinate our transition from nationally levied DSTs to the new Pillar 1 system.
- The agreement signed is between the US, UK, France, Italy, Austria and Spain
- Under Pillar One of the historic OECD 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 25% of any profit above the 10% margin reallocated and

then subjected to tax in the countries they operate. Pillar 1 will be implemented through a Multilateral Convention (MLC) with this aiming to come into effect in 2023.

- Under Pillar Two, the G7 also agreed to implement a 15% global minimum corporation tax, aiming to become effective from 2023. This will be operated on a country by country basis, creating a more level playing field for UK firms and cracking down on tax avoidance.

- View the joint press release here

- View the joint written statement here

Published 21 October 2021