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– The US outlook is mixed. The new administration has flagged a pro-growth policy agenda that involves deregulation and corporate tax cuts. However, it has also begun implementing protectionist trade policy, which may affect consumer and business confidence and weigh on growth.

- **Inflation in advanced economies continues to decline**, but is showing signs of stickiness in countries like the US and the UK. While many central banks have begun to ease monetary policy, core inflation is not expected to return to central bank targets until later in 2025 or 2026.

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**Exchange rate**

- The Australian dollar has depreciated against the US dollar over the past few months, primarily reflecting developments in the United States.
  - On 24 February 2025 at 4.30pm AEDT, the Australian dollar was trading at just below 64 US cents, which was below the 2024-25 MYEFO assumption of 66 US cents.
  - The Trade Weighted Index (TWI) was 60.5 on 24 February 2025, below the MYEFO assumption of 62.0.
- A depreciation in the exchange rate, all else equal, increases the domestic price level (due to higher import prices) and increases US dollar denominated commodity prices and raises nominal GDP.

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- Since late 2024, oil prices have firmed slightly following the OPEC+ decision to maintain voluntary output cuts into 2025, and the United States' imposition of additional sanctions on the Russian oil industry.
- OPEC+ has extended voluntary output cuts until the end of 2025 and broader cuts until 2026. However, internal divisions within the cartel could limit its ability to meaningfully restrict supply and support prices.
- US President Donald Trump recently issued an executive order to boost US oil and gas output.
  - Any boost in production will take time, as upstream investment typically lags production growth.
  - Industry players may continue to prioritise shareholder returns over investment in new oilfields.

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**US opposition**

- There has been some public criticism of the incentive from US sources, mostly focusing on the impact of the incentive on US businesses.
  - The incentive will apply equally to all entities that meet the eligibility thresholds, regardless of their jurisdictions. It is not discriminatory.
  - It is expected to capture two US-headquartered entities, Google and Meta, as well as TikTok (subject to further consultation).
- President Trump has instructed the US Treasury to identify foreign taxes, including proposed taxes, that it deems extraterritorial or discriminatory against US businesses. Some media commentary has highlighted that the incentive might be included on this list and may attract US retaliation.
  - The incentive is a competition policy matter, not a tax policy matter. It is intended not to collect revenue, and only strengthens an existing obligation rather than creating a new one.
  - The purpose of the Executive Order is to address tax measures with a high impact on US businesses.

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**Opposition from the US**

- The America First Trade Policy Memorandum of 20 January 2025 instructs the US Treasury Secretary to "*investigate whether any foreign country subjects United States citizens or corporations to discriminatory or extraterritorial taxes*".
- It references Section 891 of the US Tax Code, which enables the US to double the tax rates applied to foreign individuals and businesses operating in the US, under certain conditions.
- Some commentary has highlighted the risk of the incentive being subject to s891 retaliation. There is a high degree of uncertainty around what measures will be identified in this US process.

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SB25-000121

# US DIRECTION ON OECD AND MULTINATIONAL TAX

## Headline Statement

- We will work with the Trump Administration to continue our mutually beneficial economic relationship, engaging with the incoming US administration on a range of issues, including those that relate to the international tax system.

## Key Points

- The US Treasury Secretary has been directed by President Trump to investigate foreign taxes applying extraterritorially or discriminatorily against US corporations or citizens.
- The Government is committed to ensuring multinationals pay their fair share of tax in Australia and has a long history of working bilaterally and in international forums such as the OECD to address international taxation issues including profit shifting and tax avoidance.
- Australia recently legislated for a global minimum tax pursuant to the OECD/G20 Two Pillar Solution, parts of which the US has been critical.
  - Further taxes may be identified when the US Treasury Secretary reports in March and April on his investigations.

## Policy Commitments

- The Government made an election commitment to support the OECD/G20 Two-Pillar Solution to address the tax challenges of the digitalised economy.
  - In 2024 the Government implemented all aspects of Pillar Two by introducing a global and domestic minimum tax and signing the statement of support for the subject to tax rule.
  - Pillar One remains under negotiation.

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## Background – US Executive Memorandums and Legislation

- President Trump issued two memorandums on his first day in office requiring the US Secretary of the Treasury to investigate foreign taxes applying extraterritorially or discriminately against US corporations or citizens, or that are not compliant with US tax treaties.

- The *Organization for Economic Co-operation and Development (OECD) Global Tax Deal Memorandum* requires the US Secretary of the Treasury to include with his report "a list of options for protective measures or other actions that the United States should adopt or take in response" to the identified discriminatory and extraterritorial taxes, or those inconsistent with US tax treaties.

s 33(a)(iii)

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- The *America First Trade Policy Memorandum* has a narrower scope regarding tax matters, requiring the Secretary of the Treasury to investigate whether any foreign country subjects US citizens or corporations to discriminatory or extraterritorial taxes . This report is due by 1 April 2025.

- US House Republicans have also introduced a Bill into Congress (the *Defending American Jobs and Investment Act*) that provides enforcement of remedies against the extraterritorial and discriminatory taxes of foreign countries.

  – The Bill proposes raising the tax rate up to 20 percentage points over four years on the US income of wealthy investors and corporations of foreign countries imposing such taxes on the US and other tools to penalise identified foreign countries

## Background – OECD/G20 Two Pillar Solution: Pillar Two

- The global minimum tax has two main rules, both of which are reflected in Australia's legislation passed in late 2024, – the Income Inclusion Rule (IIR) which applies from 1 January 2024 - and the Undertaxed Profits Rule (UTPR), which took effect in Australia on 1 January 2025 (but for which a transitional safe-harbour will apply to certain jurisdictions, including the US until 2026).

- The IIR allows jurisdictions in which a multinational (MNE) parent entity is located to collect top-up tax if the MNE has subsidiaries operating in jurisdictions with an effective tax rate of less than 15 per cent.

- The UTPR allows jurisdictions (as a backstop when minimum tax rules of other jurisdictions have not been applied) to tax a share of the profits of a foreign entity of an MNE if the MNE has an effective tax rate of less than 15 per cent in that foreign jurisdiction.

- As of February 2025, approximately 70 jurisdictions have announced or taken steps to implement either or both a global minimum tax and a domestic minimum tax. Of these jurisdictions, 36 have published draft legislation or enacted legislation that commenced in 2024. The bulk of the remaining jurisdictions' legislation will commence in 2025.

  – However, only approximately 29 other countries have enacted a UTPR including Indonesia, New Zealand, South Korea, Thailand, Türkiye and a vast majority of EU Member States. Six other countries have processes ongoing to enact a UTPR including Canada, Japan, Lithuania, Norway, Slovakia and the United Kingdom.

**Background – OECD/G20 Two Pillar Solution: Pillar One**

- Pillar One consists of Amount A (a partial reallocation of taxing rights to countries where goods and services are consumed) and Amount B (simplification of some transfer pricing practices by MNEs).

- Pillar One is still officially under negotiation at the OECD and has not reached consensus.

**Background – News Bargaining Incentive**

- The News Bargaining Incentive is a competition policy matter that will address a market power imbalance by ensuring large digital platforms contribute to the sustainability of news and journalism in Australia.

- The Incentive has attracted some criticism from US sources, which characterise it as a tax matter (see SB25-000110).