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Tax Alert – Canada

G7 releases statement on Global Minimum Tax (Pillar Two) and Canada rescinds the digital services tax

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

On 28 June 2025, the G7, under Canada's presidency, released a joint statement announcing a new "side-by-side system" approach to the Organisation for Economic Co-operation and Development's (OECD) Pillar Two framework.¹

This announcement follows various discussions over US concerns regarding the Pillar Two rules and other perceived "unfair foreign taxes", which had culminated in proposed US Internal Revenue Code (IRC) Section 899 of the *One Big, Beautiful Bill Act* (OBBBA, H.R. 1). Proposed IRC Section 899 would have imposed punitive US tax measures on certain foreign-parented groups and investors resident in countries with "unfair foreign taxes" (as therein defined), such as digital services taxes (DSTs) and undertaxed profits rules (UTPRs). For more information, see EY Tax Alert 2025 Issue No. 30, [Canada's DST may trigger proposed US IRC Section 899](#), for the potential impact of proposed IRC section 899 on Canada.

As part of the G7 negotiations, the US has agreed to withdraw proposed IRC Section 899 from the OBBBA, contingent on the implementation of the side-by-side system and reciprocal commitments from G7 partners. Notably, the proposed section was omitted in the US Senate-released substitute amendment to the House-passed OBBBA on 28 June 2025 that included tax changes relative to the 16 June US Senate Finance Committee package.

Concurrently, Canada has [announced](#) it will rescind the *Digital Services Tax Act* (the Act) to facilitate broader trade negotiations with the US. As a result, the planned 30 June 2025 collection of the DST has been halted, and legislation to formally rescind the Act is expected shortly.²

¹ For more information, see the full [G7 statement](#) released by the Department of Finance.

² For more information on Canada's DST, see EY Tax Alert 2025 Issue No. 28, [Preparing for digital services tax filing and payment obligations](#).



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As noted in the G7 statement on global minimum taxes, the delivery of a side-by-side system would facilitate further progress to stabilize the international tax system, including a constructive dialogue on the taxation of the digital economy and on preserving the tax sovereignty of all jurisdictions.

While the full scope of the side-by-side system remains to be clarified, key takeaways to date include:

- ▶ **No immediate changes for Canadian-headquartered multinational enterprise (MNE) groups:** These groups remain fully subject to the *Global Minimum Tax Act*.
- ▶ **Exemption for US-headquartered MNE groups:** The income inclusion rule (IIR) and the UTPR would no longer apply to US parented groups, both for domestic and foreign profits.
 - ▶ This exemption appears limited to US ultimate parent entities.
 - ▶ Qualified domestic minimum top-up taxes remain applicable.
 - ▶ There is no indication that US subsidiaries of Canadian MNE groups will benefit from the IIR exemption.
- ▶ **Tax credit treatment under review:** The G7 statement signals a reassessment of the treatment of substance-based non-refundable tax credits to better align with refundable credits.

It is important to note that the G7 statement does not yet constitute enacted or substantively enacted legislation for financial reporting purposes. Further clarity is expected through OECD Administrative Guidance and domestic legislative processes.

Learn more

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