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Trumpian Neomercantilism, European Fiscal Capacity and the Global Minimum Tax

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Abstract: This paper explores the second Trump administration's withdrawal from the Global Minimum Tax (GMT) and the implications for the fiscal capacity of the EU and its member states. Agreed in 2021, the GMT seeks to limit profit-shifting by multinational corporations by ensuring they pay at least 15 percent in taxes no matter where they declare their profits. The GMT's central features, the Income Inclusion Rule (IIR) and Undertaxed Payments Rule (UTPR), largely mirror provisions included in the US tax code by the first Trump administration. Following the neomercantilist turn of the second Trump administration, however, the US is pressuring the EU and OECD to abandon the UTPR. Given the urgent need to replace US security capabilities in Europe, modernize creaking infrastructure, and invest in the green transition, the paper argues that defending the GMT and the UTPR rule is crucial to protecting the EU's fiscal capacity and sovereignty.

Keywords: international tax; economic power; regulatory capacity; European integration; multipolarity

1 Introduction

Among the second Trump administration's flood of foreign policy interventions, the declaration to withdraw the United States (US) from the Global Minimum Tax (GMT) agreement may seem like a minor concern. But it reflects the new dominance of neomercantilist thinking in US foreign policymaking generally (cf. Miran 2024; Navarro and Autry 2011),[1] and could have substantial consequences for the fiscal capacity of the European Union (EU) and its member states, which have unanimously

1 Stephen Miran is the Chair of President Trump's Council of Economic Advisers; Peter Navarro is Senior Counselor to President Trump for Trade and Manufacturing.

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transposed the GMT into domestic law (Hakelberg 2025; Young 2024).[2] Given the urgent need to replace US security capabilities in Europe, modernize creaking infrastructure, and invest in the green transition (e.g. Burilkov and Wolff 2025; Draghi 2024; Dorrucci et al. 2024), threats to their fiscal capacity are, however, the last thing the EU and its member states currently need. This holds especially true given the strong empirical relationship between austerity and the rise of extremist parties (Gabriel et al. 2023; Galofré-Vilà et al. 2021; Hübscher et al. 2023). Against this background, we discuss the options European policymakers may consider in response to the Trump administration's opposition to the GMT.

To substantiate our analysis, we first explain the functioning of the GMT and identify the rules provoking resistance from US Republicans. Second, we discuss the neomercantilist worldview dominating the Trump administration's foreign economic policy and explain that what counts in international bargaining shaped by this paradigm is power. Third, we discuss the EU's fiscal challenges, discard alternatives to protecting fiscal capacity via the GMT, and formulate our recommendations. Given the Trump administration's decision to undermine the liberal international order from within (e.g. Brands 2025; Cooley and Nexon 2025; French 2025), what matters in the 21st century is a polity's ability to defend its interests against foreign actors no longer constrained by international norms and law (Münkler 2023). In this context, the EU needs to protect its most important source of power, the common market, and cannot abandon the coercive instruments included in the GMT. Alternatives are conceivable but the GMT has already been adopted by member states, a feat not easily replicated given the unanimity requirement for Council decisions on corporate taxation.

2 The Global Minimum Tax

2.1 Functioning and Emergence

More than 140 countries involved in the Inclusive Framework of the Organisation for Economic Cooperation and Development (OECD) agreed on the GMT in 2021 to limit profit-shifting by multinational corporations (MNCs) (OECD/G20 Inclusive Framework 2021). The GMT is intended to ensure that MNCs pay at least an effective tax rate of 15 percent no matter where they declare their profits, thereby reducing

2 Estonia, Latvia, Lithuania, Malta, and Slovakia have chosen to defer implementation of effective minimum taxation under art. 50 of Council Directive (EU) 2022/2523, which grants member states with less than 12 in-scope multinational groups the right to postpone the introduction of the GMT by up to six years from 2024 (European Commission 2023b).

the incentive to artificially shift profits from countries where economic activity takes place to tax havens. To this end, the GMT comprises three main rules. The Income Inclusion Rule (IIR) enables governments to collect top-up tax from a parent entity under their jurisdiction if a foreign constituent entity controlled by that parent pays less than the effective 15 percent of tax on its profits. The Undertaxed Payments Rule (UTPR), in turn, allows governments to include payments to a foreign parent entity in the taxable profits of a domestic constituent entity if the parent entity pays less than the effective 15 percent. Hence, the UTPR functions as a sanction against countries not imposing the GMT on parent entities via the IIR. When an MNC's home country does not top up, the foreign countries in which it has subsidiaries retain the right to top up instead (Avi-Yonah and Kim 2022).

The goal of the first two rules is to pressure tax havens into adopting a Qualified Domestic Minimum Top-Up Tax (QDMTT), the third rule, ensuring that entities under their jurisdiction pay at least the effective 15 percent of tax agreed by the OECD Inclusive Framework. Accordingly, the revenue effects of the GMT can be separated into first round and second round effects. In the first round, tax havens adopt the QDMTT and collect the corresponding revenue. Because the effective tax they impose is now above 15 percent, neither the IIR nor the UTPR apply, leaving foreign governments without additional direct revenues from the GMT (Baraké et al. 2022). Yet, the OECD conceived the GMT mainly to produce second round effects on corporate tax revenue by reducing the gap between effective tax rates levied in tax havens and effective tax rates levied in normal tax countries. As the gap narrows, the incentive for MNCs to shift profits from the latter to the former declines, thereby bolstering the corporate tax bases of normal tax countries (Christensen 2024). Because of this, studies estimating the revenue effect of the GMT by focusing exclusively on first round effects from the different top up taxes miss the point and underestimate potential revenue (e.g. Baraké et al. 2022). The IIR and UTPR were never conceived as instruments for revenue collection. They are sanction mechanisms intended to produce second round effects on corporate tax revenue via QDMTT adoption in tax havens, leading to estimated revenue gains from corporate taxation of between 6 and 8 percent or around €26 billion in the EU (Brun et al. 2025; Hugger et al. 2024).[3]

The extraterritorial character of both the IIR and UTPR implies that any jurisdiction with sufficient market power–that is, a market too big for MNCs to leave–can enforce the GMT unilaterally. Because of this, the GMT is not based on a formal

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3 Fuest and Neumeier (2022) estimate substantially lower revenue gains for a scenario in which MNCs reduce profit shifting and all countries around the world raise their effective tax rates to 15 percent. Yet, their estimates do not take revenue gains in those EU member states into account that taxed corporate profits at an effective rate of below 15 percent before the reform (p. 34) and only include MNCs active in Germany in their calculations, which tends "to understate the revenue effect of a minimum tax" (p. 36).

Table 1: Main differences between the OECD's IIR and the US's GILTI provision.

Provisions	Income Inclusion Rule (IIR) – Global Minimum Tax (OECD)	Global Intangible Low-Taxed Income (GILTI) – US Tax Cuts and Jobs Act
Tax rate	15 percent	10.5 percent
Calculation	Country-by-country	Global aggregation (blending)
Application	Top up tax by parent jurisdiction	Included in US shareholders' taxable income

Avi-Yonah and Kim (2022), Herzfeld (2022).

multilateral agreement but hinges on the domestic adoption of the IIR and UTPR by the world's major economic powers (Christensen 2024). The EU transposed the GMT into European law in 2022 (Council of the European Union 2022), and member states have corresponding legislation in place since 2023, obliging them to apply the IIR and UTPR from fiscal year 2024 (European Commission 2024).[4] The United States has not adopted the GMT, but the situation is complicated by the peculiar emergence of the IIR and UTPR at the OECD. In fact, German negotiators had originally modelled the rules on two provisions included in the US tax code by the first Trump administration's Tax Cuts and Jobs Act (TCJA): the Global Intangible Low-Taxed Income (GILTI) provision for the IIR, and the Base Erosion and Anti-Abuse Tax (BEAT) for the UTPR. Although the IIR and UTPR moved somewhat away from their original templates during OECD negotiations–in part to reflect the Biden administration's tax reform agenda–this implies that the US has legislation in place that closely resembles the GMT (Hakelberg 2025) (Table 1).

2.2 Reasons for Republican Resistance

If the GMT goes back to tax reform introduced by the first Trump administration, why is the second Trump administration opposed to it? According to the budget reconciliation bill passed by the House of Representatives on 22 May 2025 (the supposed "One Big Beautiful Bill"), Congressional Republicans currently plan to make the GILTI and BEAT provisions from the first Trump administration's TCJA–which will otherwise expire at the end of 2025–permanent. This implies that the effective tax rate imposed on the foreign profits of US MNCs would stay at 10.5 percent (KPMG 2025). Moreover, whereas the GMT calculates taxes paid to foreign governments on a country-by-country basis, triggering a top up whenever the tax paid in a single country is below the effective 15 percent, the GILTI provision allows

4 See note 2 above for EU member states having deferred implementation beyond 2024 because they have fewer than 12 in-scope multinational groups under their jurisdiction.

for blending, thus triggering a top up only when an MNC's overall foreign tax burden is below the GILTI rate (Clausing 2021). Hence, US MNCs would continue to pay less than the globally agreed 15 percent on their foreign profits if the so-called One Big Beautiful Bill passes the Senate in its current version. This would bring their EU subsidiaries into the scope of EU member states' UTPRs from 2027, when a transitional safe harbor granted by the EU to US MNCs expires.

Hence, top up taxes triggered by EU member states' UTPRs would undo the tax cuts Congressional Republicans want to make permanent for US MNCs. In fact, the Biden administration had tried in vain to convince Congressional Republicans of aligning tax rates and tax base calculation under GILTI with the provisions of the GMT by arguing that EU countries would otherwise collect additional revenue via their UTPRs (Kysar 2022). Instead of giving in to this reasoning, however, Congressional Republicans now want to pressure the EU and OECD Inclusive Framework into abandoning the UTPR altogether. To this end, they included coercive measures in the so-called One Big Beautiful Bill, targeting individuals and corporations from countries having adopted the UTPR.[5] These include higher withholding tax rates on dividend and royalty payments to individuals and corporations resident in countries with UTPRs, and higher income tax rates for US subsidiaries of MNCs resident in countries with UTPRs. According to the reconciliation bill passed by the House, these rates would increase by 5 percent for each year in a four year time period after adoption in which a foreign country has a UTPR in place, reaching a theoretical maximum of 20 percent (KPMG 2025).

3 The US Pivot to Neomercantilism

3.1 Neomercantilist Thinking and Current US Policy

Preventing foreign governments from taxing subsidiaries of US MNCs at source – and thereby retaining the ability to undercut the globally agreed effective minimum tax rate of 15 percent – chimes well with the neomercantilist thinking dominating the second Trump administration's foreign economic policy (cf. Miran 2024; Navarro and Autry 2011). In contrast to the liberal paradigm, neomercantilism downplays joint gains from international cooperation. Instead, this paradigm sees a zero-sum world in which international conflict is about relative gains. That is, one country always wins at the expense of another (Helleiner 2021). Hence, the goal of foreign economic policy is to extract as much surplus abroad as possible while limiting the ability of

5 The coercive measures would also apply to countries having adopted Digital Services Taxes or Diverted Profits Taxes.

foreign countries to extract surplus from the domestic market. This requires the protection of the domestic market through tariffs on foreign exports, investment regulation and withholding taxes on outflows of capital income, while simultaneously opening foreign markets through a reduction of foreign tariffs, regulation and withholding taxes. Obviously, such double standards can only be brought about when a power imbalance enables economic coercion (Broekhuijsen and Apeldoorn 2025; Hakelberg 2020; Hearson 2021).

From this zero-sum perspective, which has also spread among US residents (Chinoy et al. 2025), it does not make sense for the US to bear the costs of being the guardian of a liberal international order that allows rising powers to catch up economically (Colby 2021; Münkler 2023). Instead, the second Trump administration embraces multipolarity, strives to make the Western hemisphere its exclusive sphere of influence, and attempts to force and lure as much economic activity and capital into the US market as possible (Ignatieff 2025; Williams 2025). Following the logic of relative gains, the Trump administration wants to secure the minerals and shipping routes around Greenland at the expense of Denmark and its great power rivals (Milne 2025), it imposes tariffs on its closest trading partners to make MNCs shift production into the United States (Gridneff et al. 2025), and it offers wealthy foreigners permanent residency in return for US$ 5 million so that they move their assets, consumption and investment into the country (Politi 2025). At the same time, the Trump administration puts pressure on the EU to remove digital services and AI regulation weighing on the profits of Big Tech (Murphy et al. 2025), and seeks to defend the ability of these companies to channel their profits tax-free out of the common market by targeting whatever it labels discriminatory taxes, including UTPRs but also digital services taxes and diverted profits taxes (McCormick and Sevastopulo 2025; Webber et al. 2025). These interventions cannot be reduced to spectacle for a domestic audience or mere bargaining chips. They are pillars of a neomercantilist strategy, covering US retreat from its unipolar moment. Hence, they cannot be fully addressed through technical fixes.

3.2 How to Counter Neomercantilism

Since neomercantilism relies on coercion, what matters for polities confronted with foreign economic policy based on this paradigm is their relative economic power. This concept can be decomposed into three elements: structural power, market power, and regulatory capacity (Hakelberg 2020, 2025). Structural power is based on "political authority over the central nodes in the international [networks] through which money, goods, and information travel" (Farrell and Abraham 2019: 45). A government with jurisdiction over central nodes such as interbank payment

systems, securities exchanges, and MNC headquarters can glean critical information on the flow of money and goods and exert power by excluding foreign actors from these flows (Farrell and Abraham 2019: 55–56; Christensen 2024). Similarly, market power reflects the extent to which the profits of foreign MNCs depend on business in a particular economy. Governments with political authority over financial or consumer markets that are too big to leave for MNCs can exert power by making access conditional on political and economic concessions (Damro 2015; Hakelberg 2016).

Whether governments can wield structural and market power in specific policy fields, however, depends on their regulatory capacity. Governments need centralized bureaucracies staffed with experts, who are capable of analyzing information on the flows of money and goods, drafting rules and regulations that limit access to nodes and markets, and enforcing these measures unequivocally across the jurisdiction (Bach and Newman 2007; Posner 2009). The EU has traditionally had strong regulatory capacity in trade and competition policy where the European Commission has exclusive competences for the entire common market and credible enforcement mechanisms at its disposal (e.g. Bauerle Danzman and Meunier 2024; Damro 2015). In international tax policy, however, the EU has long suffered from regulatory fragmentation because corporate taxation remains an exclusive competence of member states. This implies that common countermeasures to profit-shifting can be vetoed in the Council by a single member state. At the same time, the European Court of Justice (ECJ) has routinely struck down countermeasures introduced by individual EU governments because of violations of the freedom of establishment and the principle of non-discrimination (Römgens and Roland 2021; Roland and Römgens 2022). As a result, the EU has had to follow the lead of the US government, which possesses the regulatory capacity to turn US international tax policy into global standards at the OECD (Hakelberg 2015; Lips 2019; Rixen 2008).

Against this background, the significance of transposing the GMT into European law becomes clear. The Directive on effective minimum taxation delegates the authority to determine whether third countries comply with the GMT to the European Commission (Council of the European Union 2022: 56). It obliges all member states to apply the UTPR against constituent entities of MNCs whose headquarters are not subject to the GMT in their country of residence. Hence, GMT legislation centralizes regulatory capacity for the first time with the European Commission and provides an enforcement mechanism, enabling the EU to harness its structural and market power in international tax policy (Hakelberg 2025). In case the Trump administration decides to attack EU member states' tax bases by significantly undercutting the globally agreed effective minimum of 15 percent or applying narrow rules for the computation of taxable profits, the European Commission can now determine noncompliance with the GMT and direct member states to apply a countermeasure

that imposes significant costs on US MNCs and the US Treasury. The UTPR thus provides a safeguard against the Trump administration's neomercantilist strategy.

4 Addressing European Fiscal Challenges

4.1 Unprecedented Investment Needs

Already before the second Trump administration took office, the Draghi report on EU competitiveness had identified an additional investment need of around €800 billion annually for the period 2025–2030 to achieve the green transition, boost productivity and strengthen defense and security (Draghi 2024: 282). A similar report from the European Central Bank (ECB) put the annual need for digital investment at €125 billion, for green investment at €477 billion, and for transport infrastructure at €205 billion (European Central Bank 2024: 11). While these figures do not differentiate between public and private investment, Pisani-Ferry and Tagliapetra (2024: 5) estimate that the public share of additional green investment between 2025 and 2030 would range from 25 to 50 percent, depending on the member state. Likewise, Dorrucci and coauthors (2024) suggest, the EU and its member states have to invest an additional €900 billion over the period 2025–2031 to manage the climate crisis, become digital and defend themselves.

Since the second Trump administration stressed its willingness to withdraw the US from the European security architecture, these estimates have been drastically revised upwards. According to Burilkov and Wolff (2025), the EU and the United Kingdom (UK) need to invest an additional €250 billion annually in the short term to replace US military capabilities and credibly deter Russia. Accordingly, the European Council endorsed the "ReArm Europe" plan at its meeting in March 2025. The plan provides for the European Commission to activate the Stability and Growth Pact's national escape clause, thereby allowing member states to spend an additional €650 billion on defense over four years. In addition, the European Commission foresees a new financial instrument, endowed with €150 billion and backed by the EU budget, to provide member states with loans to invest in pan-European defense capabilities (Dermine 2025; von der Leyen 2025). In every scenario, the challenges to European fiscal capacity are massive. Yet, economists are confident that needed investment can be financed through public debt at the national and European levels, with additional output bolstering tax revenue and enabling repayment (e.g. Draghi 2024; Dorrucci et al. 2024; Ilzetzki 2025; Trebesch and Marzian 2025).

Among other things, this presupposes, however, that additional corporate profits resulting from a public demand side stimulus are taxed by EU member states

and not shifted to tax havens. According to the most reliable estimates (Tørsløv et al. 2023), large EU member states lose between a fifth and a third of their corporate tax revenue to profit-shifting. For France this amounts to €13 billion and for Germany to €23 billion annually. Strikingly, it is often US MNCs, which shift profits from large EU member states to tax havens outside the EU, with 46 percent of all shifted profits ending up in these locations. The UTPR enables EU governments to claw back some of these shifted profits as long as the US government chooses to tax them at an effective rate below 15 percent. Alternatively, Congress could make GILTI equivalent to the IIR and tax the profits US MNCs shift to non-EU havens at an effective rate above 15 percent. In both cases, the incentive to shift profits out of large EU member states would be reduced, thereby easing downward pressure on corporate tax rates, bolstering national fiscal capacity, and strengthening parliaments' *de facto* sovereignty over capital taxation (Hakelberg and Rixen 2021).

4.2 Defending Global Minimum Taxation

The GMT stabilizes the tax revenues of EU member states at a time of unprecedented investment needs. It also bolsters the EU's economic power by centralizing regulatory capacity with the European Commission. In a multipolar world marked by geopolitical uncertainty and neomercantilist foreign economic policy, these are important assets. Hence, the EU should defend the GMT despite the second Trump administration's ostensible withdrawal. As we have seen, provisions introduced into the US tax code under the first Trump administration served as templates for the GMT's decisive rules. Accordingly, the US has legislation in place that is very similar to the GMT, regardless of the disruptive rhetoric included in executive orders. What is more, Congressional Republicans have already passed legislation extending these provisions beyond 2025 in the House of Representatives. Hence, senators can easily solve the problem of non-equivalence by using this legislative opportunity to bring tax rates and the computation of taxable profits under GILTI in line with GMT rules (also see Christensen 2025).

An EU committed to the GMT as it currently stands, armed with credible sanctions, could nudge them in this direction. After all, if Congress simply perpetuates the GILTI provision from the TCJA as proposed by the House, EU member states are obliged under the UTPR to collect top up taxes from subsidiaries of US MNCs. In addition, any QDMTT levied by EU member states such as Luxembourg, Ireland, or the Netherlands, through which US MNCs have traditionally channeled their profits out of the common market (Tørsløv et al. 2023), would not be fully credited against tax payments due under GILTI if the US parent is in an excess foreign tax credit position

(Wardell-Burrus 2023).[6] Hence, senators would forfeit additional tax revenue to the benefit of EU governments and expose US MNCs to double taxation of their foreign income if they do not align GILTI with the GMT.

The alternative strategy of appeasing the Trump administration by instead making the GMT match GILTI more closely or declaring equivalence despite different tax rates and approaches to the computation of taxable profits does not convince. The first option would bring down the effective minimum tax rate, thereby increasing the incentive for corporate profit-shifting again and undermining fiscal capacity. It would also require at least 46 countries, which have already signed the GMT into law (Perez 2025), instead of a single country to change domestic legislation. Moreover, the EU would have to decide by unanimity on an amendment of its corresponding directive, a feat that is traditionally hard to achieve in corporate taxation (Genschel 2002; Römgens and Roland 2021). Giving in to US demands would also signal that the EU and OECD Inclusive Framework are willing to adjust to changes in US international tax policy despite a global agreement, which would encourage future interventions by the Trump administration.

The second option of declaring equivalence is even worse since it would provide US MNCs with an undue competitive advantage. GILTI applies lower statutory tax rates and allows US MNCs to blend taxes paid in tax havens with taxes paid in normal tax countries. In contrast, the GMT operates on a country-by-country basis, thereby ensuring that an MNC's constituent entities pay at least 15 percent no matter where they are located (see above). Declaring equivalence would thus lead to permanently lower effective tax rates for US MNCs relative to other MNCs. In fact, the EU and OECD should know from experience with the automatic exchange of information on bank accounts, where lenient US standards were declared equivalent to stringent global rules, that not leveling the playing field will only push capital into the US (Beer et al. 2019; Casi et al. 2020; Hakelberg and Schaub 2018).

But won't standing up to the Trump administration lead to the imposition of countermeasures and escalate the looming trade war with the US? House Republicans have indeed included increases in withholding taxes and corporate profit taxes for US subsidiaries of MNCs resident in countries applying UTPRs in the so-called One Big Beautiful Bill (see above). These measures would, however, make portfolio and direct investment in the United States much less attractive, potentially leading to downturns in US financial markets and undermining the Trump administration's onshoring agenda. At the time of writing, international banks and other

6 A US company is an excess foreign tax credit position if it has paid more foreign taxes on its foreign income than the amount of US tax it would otherwise owe on the same income. If the US undercuts the effective tax rate of 15 percent applicable under the GMT while foreign countries continue to apply it, the number of US MNCs in an excess foreign tax credit position is likely to increase.

MNCs were lobbying US senators to remove coercive measures against UTPR adopters from the supposed One Big Beautiful Bill, stressing the substantial volume of investment and job creation they are responsible for in the United States (Arnold and Alex 2025). Given that the Trump administration has given in to financial market pressure before (Chávez et al. 2025a), EU and OECD policymakers may thus be best advised to hold their nerves while market actors explain the consequences of planned countermeasures.

Moreover, if the Trump administration decided to link the issues of international taxation and trade, this would shift the conflict to a policy field where the European Commission possesses excellent regulatory capacity and can therefore harness the EU's economic power. Hence, trade war with the EU is hard to win (Bauerle Danzman and Meunier 2024; Damro 2015; Freudlsperger and Meunier 2024). In fact, the first Trump administration already threatened to raise tariffs for countries introducing digital services taxes, which fall predominantly on Big Tech. But this threat was never realized and essentially backfired as it led to an accelerated diffusion of these taxes, thereby worsening the Trump administration's bargaining position in the OECD Inclusive Framework (Gelepithis and Hearson 2022; Heering et al. 2025; Lips 2020; Young 2024). Since then, the centrality of the US in the global trade of goods has declined further, leading analysts to believe that even the most export dependent EU member states could adjust to a substantial increase in US tariffs (Beattie 2024; Sharma 2025).

Finally, replacing the GMT with other EU legislation against profit shifting is bound to produce more problems than it solves. First, member states have to adopt any EU legislation that further harmonizes corporate taxation and provides safeguards against tax avoidance by unanimity. Given heterogeneous preferences and veto power for individual member states this is unlikely to happen outside rare historical conjunctures and without US support (Hakelberg 2025; Wasserfallen 2014). Hence, the key advantage of the GMT is that it has already been transposed into EU law and implemented by member states.

Second, the GMT has the advantage over previous anti-tax avoidance directives, which mainly set minimum standards for national countermeasures (Roland and Römgens 2022), that it addresses the problem not only vis-à-vis third countries but also among EU member states. Before GMT adoption, member states could, for instance, not impose controlled foreign company (CFC) rules on subsidiaries in other member states because the ECJ interpreted national countermeasures against profit shifting as discriminatory (Genschel et al. 2011; Hakelberg 2017). The GMT now ensures that all member states levy at least an effective tax rate of 15 percent on corporate profits and provides for a harmonized sanctions regime if they fail to do so, thereby reducing the incentive to shift profits between EU member states more effectively than previous provisions.

Third, any legislation aiming to protect the EU tax base, needs to prevent US MNCs from operating untaxed in the common market. Accordingly, Commission proposals for a Common Consolidated Corporate Tax Base (CCCTB) always provided for common withholding taxes, exit taxation, and CFC rules vis-à-vis third countries (European Commission 2016a, 2016b). Likewise, its successor, the current proposal for a Business in Europe Framework for Income Taxation (BEFIT), incorporates the GMT's enforcement mechanisms (European Commission 2023a). That is, no matter how exactly the EU addresses the challenge of harmonizing and protecting a common tax base, it will involve rules that curb the current ability of US MNCs to channel their profits tax free out of the common market (Hakelberg 2017). For a neo-mercantilist Trump administration, that is enough to consider them discriminatory as recent statements on the value added taxes of EU member states, which apply to all goods and services no matter their origin, have demonstrated (Chávez et al. 2025b). Stopping the US at the UTPR line is therefore clearly the best plan A.

5 Conclusions

The GMT's main rules, the IIR and the UTPR, were modelled on provisions included in the first Trump administration's TCJA. Hence, the US has legislation in place that is very similar to the GMT. Congressional Republicans dislike the GMT's more stringent country-by-country approach to the computation of taxable profits and the higher effective tax rate, but their intention to make GILTI and BEAT permanent before they expire at the end of 2025 gives them a legislative opportunity to adjust US legislation to the GMT. Hence, there is an easy unilateral route to preventing EU governments from applying the UTPR to US MNCs from 2027. By committing to the GMT as globally agreed and transposed into European law, the EU could nudge Congressional Republicans in this direction, since the UTPR enables the European Commission to make credible sanction threats. Because of the Trump administration's neo-mercantilist mindset, appeasement via the adjustment of global rules agreed by 140 countries or determining a false equivalence is likely to produce further demands and create an undue competitive advantage for US MNCs.

Countermeasures against UTPR adopters included by House Republicans in the so-called One Big Beautiful Bill make portfolio and direct investment in the United States substantially less attractive. They are thus likely to backfire at the Trump administration if adopted. Likewise, a renewed attempt by the Trump administration to link international taxation to trade negotiations is unlikely to produce the desired results, given that the European Commission's excellent regulatory capacity allows the EU to harness its full economic power in this policy field. Hence, EU policymakers should hold their nerves while market reactions to proposed

countermeasures, increased budgetary shortfalls and additional tariffs put pressure on the Trump administration to change course.

At a more general level, defending the GMT and its enforcement mechanisms is a necessary part of any effort to build European sovereignty. The Trump administration is committed to withdrawing from the European security architecture, a step that is unlikely to be reversed, even if Democrats should be able to return to power (Ignatieff 2025; Münkler 2023). In addition, senior officials responsible for foreign economic policymaking are willing to disrupt the liberal trading order to coerce foreign governments into a joint devaluation of the US Dollar and the long-term financing of US sovereign debt under unfavorable conditions (Miran 2024; Sobel and Kamin 2025; Tett 2025). In this context, the EU needs the fiscal capacity to bolster its defense capabilities (Burilkov and Wolff 2025), deepen the common market (Draghi 2024), and facilitate the massive rollout of green technology, the one area where it still enjoys a competitive advantage (Schnabel 2024).

The EU also needs the regulatory capacity to harness the economic power provided by the common market if it is to prevail in a more hostile multipolar world order. What it can no longer accept is the ubiquitous practice of US MNCs to channel their profits tax-free out of the common market (Tørsløv et al. 2023). And what it can no longer rely on is an export-led growth model that produces foreign dependencies and vulnerabilities in international bargaining. Hence, removing EU-internal trade barriers and regulatory hurdles, including through the harmonization of corporate taxation, and strengthening domestic investment and consumption is the way to go from here (Draghi 2025; Amiel and Vallée 2025).

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