Global Minimum Tax

FREQUENTLY ASKED QUESTIONS

General overview

1. What is the Global Minimum Tax?

The Global Minimum Tax (GMT) is a co-ordinated and comprehensive system of minimum taxation developed by the Inclusive Framework on BEPS (IF) that is designed to ensure that large multinational enterprises (MNE Groups) pay a minimum level of tax on their income in every jurisdiction where they operate. While IF members are not required to adopt the GMT, any jurisdiction that implements the GMT into domestic law commits to ensure that such implementation is in line with the Model Rules, Commentary and Administrative Guidance (GloBE Rules) agreed by the IF.

The GloBE Rules apply an effective tax rate (ETR) test to an MNE Group's operations in each jurisdiction using a common tax base and a common definition of Covered Taxes. If the test determines that an MNE Group has an ETR below the agreed minimum rate of 15%, it is subject to Top-up Tax under the rules. The GloBE Rules have a common way of calculating the amount of Top-up Tax that is due by the MNE Group and determining where that tax is payable.

Jurisdictions may choose to implement the GMT through any one or a combination of the following rules:

i. a Domestic Minimum Top-up Tax (DMTT) that applies to the local entities and operations in the jurisdiction;
ii. an Income Inclusion Rule (IIR) that applies to the subsidiaries of an in scope MNE Group that are owned through a holding company in the jurisdiction; or
iii. a UTPR that operates as a backstop to the other rules by adjusting the tax paid in the local jurisdiction where the MNE Group has unpaid Top-up Tax for that or any other jurisdiction.

These rules are applied by each implementing jurisdiction in accordance with an agreed rule order that ensures an MNE Group will not be subject to Top-up Tax in different implementing jurisdictions in respect of the same undertaxed profit.

2. Which MNE Groups are within the scope of the Global Minimum Tax rules?

The GMT applies to MNE Groups that have consolidated revenues of EUR 750 million in at least two out of the last four years. The current level of implementation suggests that the GMT and Eligible SbS regimes cover more than 90% of such in-scope MNE Groups.

Government entities, international organisations, non-profit organisations, pension funds or investment funds that are Ultimate Parent Entities (UPE) of an MNE Group (and certain holding vehicles of such entities) are excluded from the GMT, however this exclusion does not extend to all entities owned by an excluded entity. An MNE Group owned by an excluded entity that otherwise meets the consolidated revenue threshold will remain within the scope of the GMT.

3. How does the Global Minimum Tax ensure that there are co-ordinated outcomes and avoid the risk of over-taxation?

The GMT is designed to apply evenly to in-scope MNE Groups that are operating across different jurisdictions without creating the risk that overlapping taxation obligations could give rise to over-taxation. It does this by ensuring that the GloBE Rules implemented in each jurisdiction are consistently applied in accordance with an agreed rule order that provides for a hierarchy of taxing rights between jurisdictions and ensures that there is no over-allocation of Top-up Tax liability when more than one jurisdiction has taxing rights to that Top-up Tax under that agreed rule order (see Question 4 below).

It is expected that this rule order will limit the cases where an MNE Group is required to pay Top-up Tax to different implementing jurisdictions in respect of the same jurisdictional low tax profit. There may be cases however, where this could occur. For example, two holding companies in an MNE Group located in different jurisdictions could be subject to Top-up Tax in respect of the profits of a jointly held low-tax subsidiary.

4. What is meant by the "agreed rule order"?

The DMTT, the IIR and the UPR are the three types of provisions under which the GMT Top-up Tax is collected. These provisions are applied in accordance with an agreed rule order embedded in the design of the rules, which preserves the local jurisdiction's primary taxing rights over income arising in the jurisdiction.

Primary right to Top-up Tax under the DMTT

As a starting point, any Covered Taxes levied by the local jurisdiction on the domestic income are taken into account in calculating the jurisdictional ETR. If the jurisdictional ETR is below the minimum rate, the local jurisdiction may then apply a DMTT to collect the Top-up Tax, which would bring the ETR on excess profits of domestic constituent entities up to the minimum rate.

Secondary right to Top-up Tax under the IIR

If the local jurisdiction does not apply a DMTT, the secondary taxing rights to the Top-up Tax are allocated to the jurisdiction in which the UPE is located if that UPE is located in a jurisdiction that has implemented an IIR. If the UPE is located in a jurisdiction that has not implemented an IIR, the rules generally provide that the Top-up Tax will be levied on the highest-level entity in the ownership chain that is located in a jurisdiction with an IIR.

UTPR as a backstop

If the MNE Group has low tax profits that are not subject to Top-up Tax under the previous two rules, the GloBE Rules provide that the rights to the residual Top-up Tax is allocated among all jurisdictions that have implemented the UTPR. This allocation is by reference to a substance-based allocation key, with each jurisdiction collecting its allocated share by applying the UTPR as a denial of deduction under its existing corporate income tax or through an equivalent mechanism.

In combination, these rules are designed to be reinforcing so as to encourage jurisdictions to apply a minimum level of taxation on excess income of Group Entities located in their jurisdiction. If they do not, other jurisdictions can apply secondary or backstop rules. The application of these secondary or backstop rules is subject to the application of any safe harbours such as those provided under the Side-by-Side system, which is further explained under the section "Side-by-Side system".

5. How does the Inclusive Framework ensure the Global Minimum Tax is implemented and applied consistently in accordance with the agreed rule order?

The requirements as to rule order apply to any implementing jurisdiction with rules that are recognised as meeting the consistency and co-ordination requirements of the GloBE Rules. To facilitate the recognition of qualified status of each jurisdiction's rules, the IF has developed a simplified transitional qualification procedure that allows for the swift and co-ordinated recognition of the qualified status of a jurisdiction's domestic GMT implementation on a temporary basis.

The IF maintains a central record of countries that have completed the transitional qualification process (see Central Record for purposes of the Global Minimum Tax). Legislation that is recognised as qualified under this transitional mechanism will be subject to a further full legislative review by the IF to assess whether it achieves consistent outcomes with the GloBE Rules. The application of qualified legislation by each implementing jurisdiction will be subject to ongoing monitoring to ensure that rules are applied and administered consistently with the GloBE Rules.

Despite the high degree of consistency expected from the full legislative review and the ongoing monitoring, there remains the possibility, however, that interpretive issues could arise as to the correct calculation or allocation of Top-up Tax in specific cases (e.g. due to differences in the calculation of ownership percentages). The IF is currently exploring the development of a taxpayer-initiated mechanism that would enable greater tax certainty and co-ordination among jurisdictions in their application of domestic rules to specific cases.

6. What are the benefits of the Global Minimum Tax for Inclusive Framework members?

The GMT responds to calls from IF members for more transparent, mechanical, and predictable rules to raise the floor on tax competition and reduce the incentive for MNE Groups to engage in profit shifting. With a minimum effective tax rate of 15%, the GMT will reduce pressure on governments to offer inefficient tax incentives and tax holidays.

At the same time, the design of the GMT continues to provide scope for jurisdictions to offer accelerated depreciation on tangible assets and other types of expenditure-based incentives that encourage substantive investment in jobs and tangible assets without triggering a charge to top-up tax (see the section "Substance in the GMT"). A jurisdictional minimum ETR of 15% is a significant shift from what have historically been very low rates of effective taxation on income of MNE Groups in certain cases. Additional corporate income tax revenues are expected to arise from a global reduction in profit shifting activity as a consequence of widespread adoption of the rules.

As a further protection against base erosion and profit shifting, developing countries may further choose to protect their tax base through the application of a treaty based Subject to Tax Rule (STTR) which was also agreed by the IF alongside the GMT. The STTR allows countries to retain their taxing right, which

they may have otherwise ceded under a tax treaty, on certain base-eroding payments, such as interest and royalties, made to related parties abroad.

Calculation of the Top-up Tax

1. When and how is the Top-up Tax calculated?

An in-scope MNE Group must calculate its ETR for each jurisdiction in which it operates. The starting point for this calculation is the financial accounts of each local constituent entity of the MNE Group that are used in the preparation of the consolidated financial statements. Certain adjustments are then made to better align the income or loss of the local constituent entity with the local tax base (where appropriate) and to ensure a correct allocation of income between jurisdictions. Financial accounts are also used as a starting point for quantifying the taxes incurred on the income derived in each jurisdiction. Some adjustments are made, in particular to ensure alignment with adjusted income and to preserve the integrity of the rules.

The adjusted taxes of the constituent entities located in a jurisdiction are then divided by the adjusted income of those constituent entities to determine the ETR of the MNE Group in that jurisdiction. Where this calculation results in an ETR that is below 15%, the MNE Group is required to pay a Top-up Tax to bring the total amount of tax up to the minimum rate. The Top-up Tax is calculated in relation to the 'excess profits', which is the result of subtracting a substance-based income exclusion from the adjusted income used for the ETR determination. This exclusion removes a fixed return attributable to the substance activities that the MNE Groups undertakes within the jurisdiction from the scope of the Top-up Tax. The Top-up Tax is then collected by implementing jurisdictions in accordance with the agreed rule order.

The calculation of income and taxes under the Simplified ETR Safe Harbour and the Transitional Country-by-Country reporting (CbCR) Safe Harbour requires fewer adjustments than the ordinary rules, and gives the MNE Group an opportunity to demonstrate, in a simplified way, that no Top-up Tax is payable in a jurisdiction. These safe harbours are explained in more detail in the section "Simplified ETR Safe Harbour".

2. How does the Global Minimum Tax address timing differences?

Timing differences arise when items of income or expenses are recognised in the financial accounts in a year but computed in the domestic taxable base in another year. Such timing differences typically give rise to the recognition of deferred tax assets or deferred tax liabilities in the financial accounts. The purpose of the deferred tax accounting is to reflect the tax effect associated with such item of income or expenses under the accrual principle rather than a cash basis principle. In other words, deferred tax accounting neutralises the effect of such timing differences on the ETR.

For GMT purposes, the impact of timing differences on the ETR are addressed using deferred tax accounting, with some safeguards. Certain adjustments to deferred tax expense are needed in order to make it consistent with the GMT income base and the policies underlying the GMT.

For example, assuming an item of expense is recognised in the financial accounts in the current financial year but it is deductible for tax purposes in a later year, a deferred tax asset is recognised in the financial accounts of the current year to reflect that such deduction will be taken in the future when such expense will become deductible under domestic tax law. If such item of expense is includible in the GMT income

base, then accrual and reversal of the corresponding deferred tax asset is taken into account to compute the ETR. In contrast, if such item of expense is not deductible from the GMT income base (e.g. excluded equity capital loss), both the expense and accrual and reversal of the corresponding deferred tax asset should be excluded from the computation of the ETR because it is a permanent difference (rather than a timing difference) for GMT purposes.

The general principle adopted in GMT is that short-term timing differences between the accounting and tax treatment of income and expense items have a neutral impact on the ETR computation and do not trigger Top-up Tax liability. The GloBE Rules rely on deferred tax accounting to achieve this neutrality. Furthermore, this general principle is supplemented by specific guardrails and adjustments aimed at protecting the integrity of the GMT rules. The main safeguards include:

- Taxes on excluded items: deferred taxes on items that are not included within the GloBE tax base (see example above);
- Transition Year rules: the reversal of deferred tax assets generated in pre-GloBE years are excluded in certain circumstances (e.g. where related to items that are not included in the GloBE tax base, such as tax losses that result from non-economic deductions or where generated in connection with tax free transactions, etc.);
- The recast mechanism: deferred taxes accrued above 15% are recast at 15% and deferred taxes on all loss carry-forwards are recast at 15% to ensure that deferred taxes only neutralise the corresponding timing difference and cannot be used to shelter unrelated GloBE Income;
- Valuation adjustments: valuation adjustments to deferred tax assets and liabilities that reflect accounting policy or management's views on future outcomes are removed (e.g. valuation allowance or accounting recognition adjustments, deferred taxes related to uncertain tax positions); and
- Long-term deferred tax liabilities: deferred tax liabilities included in an ETR computation must be recaptured if they are not paid (or do not reverse) within five years, unless those liabilities relate to certain categories of assets or expenses (such as cost recovery allowances on tangible assets, R&D expenses and fair value accounting on unrealised gains).

In addition, the GMT incorporates an alternative mechanism (the "GloBE Loss election") that allows an MNE Group to establish a deemed deferred tax asset on the GloBE Loss derived in a Fiscal Year when it was subject to GloBE (i.e. instead of relying on deferred tax accounting). The deemed deferred tax asset is established at a 15% rate and used in any subsequent Fiscal Year when there is GloBE Income in the jurisdiction.

3. Do the Global Minimum Tax rules apply on top of other rules, like CFC rules? Will this lead to double taxation?

The GloBE Rules operate as a minimum tax by supplementing existing corporate tax rules, such as Controlled Foreign Company (CFC) regimes. Taxes paid on income arising in a jurisdiction, including under CFC regimes, are taken into account for purposes of computing the ETR in a jurisdiction under the IIR and UTPR. To the extent tax is paid at or above the minimum rate as a result of existing rules, including CFC tax regimes, no additional tax is due under the IIR or UTPR. For the QDMTT, however, co-ordination is achieved by crediting the QDMTT against CFC tax obligations, rather than the other way around.

In February 2023, guidance was released containing a simplified, transitional, methodology for allocating Blended CFC Taxes (such as the US Global Intangible Low-Taxed Income (GILTI) regime). For Fiscal Years commencing as from January 2026, this guidance is no longer applicable and from that date, the methodology set out in the June 2024 guidance is applied for allocating both current and deferred taxes arising under cross-crediting CFC and taxable branch regimes to subsidiaries and permanent establishments located in another jurisdiction including income under the US Net CFC Tested Income (NCTI) regime. Accordingly, for MNE Groups that are not eligible for the SbS Safe Harbour, the June 2024 guidance applies to determine the amount of tax arising from a cross-crediting CFC or taxable branch regime that is allocated to each subsidiary jurisdiction including any taxes on NCTI incurred by a US intermediate parent. MNE Groups that are eligible for the SbS Safe Harbour would not, however, allocate the taxes imposed under a cross-crediting regime to their foreign subsidiaries or operations.

Substance in the GMT

1. *What role do the substance carve-out and substance-based tax incentives play in the global minimum tax calculation? What is the likely impact on investment incentives?*

The substance carve-out (i.e. the Substance-based Income Exclusion, or SBIE) excludes from the GloBE tax base a certain amount of income calculated by reference to a fixed return on assets and payroll expenses in each jurisdiction. The SBIE is equal to the sum of (i) 5% of the carrying value of tangible assets located in the jurisdiction and (ii) 5% of the payroll costs for employees that perform activities in the jurisdiction. The GloBE Rules also provide for a 10-year transition period in recognition of the potential impact of the GloBE Rules on existing incentives and existing investment. The Transition Period starts with a 10% carve-out for payroll costs and 8% carve-out for tangible assets, with these carve-out percentages declining to 5% by 2033. A substance carve-out based on assets and payroll costs allows a jurisdiction to continue to offer tax incentives that reduce taxes on routine returns from investment in substantive activities, without triggering additional Top-up Tax.

In addition, the IF has agreed a Substance-based Tax Incentive Safe Harbour which allows MNE Groups to continue to benefit from tax incentives that are strongly connected to the economic substance in the jurisdiction. Under this safe harbour, an MNE Group treats a portion of such incentives as an increase to Covered Taxes in the ETR calculation up to a cap, which is calculated by reference to substance factors (tangible assets and payroll) located in the jurisdiction. The SBTI Safe Harbour therefore provides additional flexibility for jurisdictions to use these incentives to promote substantive investments and economic development while including clear and transparent limits to ensure the GMT continues to deliver on its policy objective.

2. *What is the Substance-based Tax Incentive Safe Harbour?*

The Substance-based Tax Incentive Safe Harbour recalibrates the treatment of substance-based tax incentives under the GMT by allowing an MNE Group to treat certain tax incentives that are strongly connected to substance in a jurisdiction as an addition to Covered Taxes for purposes of calculating the ETR in that jurisdiction.

The new treatment only applies to expenditure-based tax incentives and certain production-based tax incentives (Qualified Tax Incentives, or QTIs). These incentives provide tax relief in direct proportion to expenditure or production incurred. As such, they are generally considered to offer greater value for money, have a stronger connection to economic substance and pose fewer BEPS risks, compared to income-based incentives (see Question 3 below).

An expenditure-based incentive is one where the amount of tax relief available to the taxpayer is based on a portion of qualifying expenditures incurred. It includes only those incentives that are proportionate to (and cannot exceed) expenditure. The definition does not limit the types of expenditure that can be granted tax relief through expenditure-based incentives. This provides flexibility for jurisdictions to use and design incentives based on their domestic priorities and economic circumstances. A production-based incentive will only qualify if the incentive is calculated based on the volume on the production, rather than on its value, and when it is based on the production of tangible property in the jurisdiction.

The treatment of QTIs is limited by a cap which is based on the substance in the jurisdiction (see additional information in Question 4 below).

The IF will monitor QTIs to provide a co-ordinated assessment of whether QTIs are Related Benefits, which are prohibited under the GMT. However, it is not expected that there will be a peer review process of whether a tax incentive qualifies as a QTI or that the IF will publish a list of QTIs.

3. Are income-based tax incentives included within the definition of a Qualified Tax Incentive?

The QTI definition does not include income-based tax incentives (such as reduced rates or tax exemptions). This is because the value of an income-based incentive is related to the taxpayer's profits rather than the amount of its inputs or activity, therefore benefits do not directly depend on economic substance in the jurisdiction. Income-based incentives tend to carry greater risks and costs for a jurisdiction compared to expenditure- and production-based incentives, including that tax benefits go to taxpayers that do not require tax relief to undertake the desired investment, making them a less efficient and effective use of public funds. Income-based incentives are also more susceptible to BEPS risks.

While some income-based incentives have substance-based requirements, such as minimum investment values, these would also not qualify as a QTI. An eligibility condition to receive the benefit, such as a minimum investment requirement, is not equivalent to an incentive that is calculated based on expenditure incurred.

However, income-based incentives are included in the definition of QTI where the amount of the benefit is directly linked to the expenditure and are therefore in substance an expenditure-based incentive. This would apply to exemptions (or lower tax rate) for a certain amount of income where the amount is calculated directly based on the expenditures incurred. For instance, the taxpayer may benefit from an exemption of 1,000 of income under the condition that it incurred 1,000 of eligible expenses. Such an incentive is equivalent to a super deduction (i.e. a deduction that exceeds the amount of the expenditure). The only difference is that the tax is reduced through reducing the taxable revenue instead of increasing the deductible expenses.

Regimes providing benefits to intellectual property (IP regimes) that are compliant with the nexus approach provided in BEPS Action 5 are income-based incentives and therefore not eligible to be treated as a QTI.

Indeed, the nexus approach allows for a preferential rate on income from intellectual property to the extent it was generated by qualifying expenditures but the amount of the incentive in the IP regime itself is not a function of the amount of expenditure. In practice, the nexus approach treats expenditures only as a proxy for substantive activities. However, it is not the *amount* of qualifying expenditures that acts as a proxy for such activities, it is instead the *proportion* of qualifying expenditures over the total expenditure that is used to determine the proportion of income that may benefit from an IP regime. For instance, a full exemption could apply to 1,000 euros of income even if only one euro of expenses was incurred in the jurisdiction, provided this one euro is the only expense incurred by the group on this particular intellectual property.

4. *Why is there a cap on how much Covered Taxes can be increased by Qualified Tax Incentives?*

The Substance Cap helps to ensure the treatment under the Substance-based Tax Incentive Safe Harbour is only provided for tax incentives which are strongly connected to substance in the jurisdiction. While expenditure-based and production-based incentives are naturally more strongly connected to substance, tax incentives could still be provided in relation to less substantive activities or to expenditure outside the jurisdiction. The Substance Cap limits the QTI treatment to the substance in the jurisdiction using a simple calculation based on SBIE data, which is readily available in most jurisdictions. This ensures the safe harbour is straightforward to apply and provides certainty to MNE Groups making new investments because it avoids individually analysing incentives to determine the extent to which they connected to substance in the jurisdiction.

5. *Has the treatment of QRTCs changed under the new rules for substance-based tax incentives?*

The GMT provides for a specific treatment for tax credits that are refundable within four years (Qualified Refundable Tax Credits or QRTCs) and for certain marketable tax credits (Marketable Transferrable Tax Credits or MTTCs). For purposes of calculating the ETR and Top-up Tax calculation, both QRTCs and MTTCs are treated as GloBE Income (i.e. included in the denominator in the ETR calculation). They also do not reduce Covered Taxes (the numerator in the ETR calculation). This treatment applies because QRTCs and MTTCs are similar to government grants and typically, the financial accounts also include these credits as income. This treatment of QRTCs and MTTCs has not changed with the introduction of the Substance-based Tax Incentive Safe Harbour.

However, under the Substance-based Tax Incentive Safe Harbour, a taxpayer may choose to treat a QRTC or MTTC (in whole or in part) as a QTI, provided such QRTC or MTTC meets the definition of a QTI (see Question 2 above). When this election is made, the QRTC or MTTC is still included in the numerator in the ETR calculation but is not included in GloBE Income. This is because QTIs are also not included in GloBE Income (they do not increase the denominator of the ETR calculation) for purposes of the Substance-based Tax Incentive Safe Harbour.

Simplified ETR Safe Harbour

1. What is the Simplified ETR Safe Harbour?

The Simplified ETR Safe Harbour is a key part of the Side-by-Side (SbS) Package. This safe harbour is designed to address the most important concerns raised by multinationals in respect of the GMT by substantially reducing the compliance burden in respect of their operations in high-taxed jurisdictions, including QDMTT jurisdictions. The safe harbour allows an MNE Group to compute a simplified ETR for each jurisdiction using data that is collected as part of the preparation of its consolidated financial statements, with as few adjustments to that data as possible to arrive at a reliable proxy for an ETR under the GMT.

2. What are some of the main simplifications introduced by the Simplified ETR Safe Harbour?

The Simplified ETR Safe Harbour responds to industry concerns by providing a number of simplifications that will significantly reduce the compliance burden for MNE Groups. The Simplified ETR Safe Harbour, for instance:

- Relies on jurisdictional financial accounting data prepared for accounting consolidation purposes and allows MNE Groups to take advantage of a centralised compliance process.
- Allows jurisdictional computations, rather than entity-by-entity computations, so that MNE Groups can use existing accounting systems without the need to trace each adjustment to a particular entity.
- Simplifies the areas of greatest complexity and record-keeping burdens for MNE Groups. For example, the M&A Simplification avoids the need to remove purchase price allocation adjustments if the related deferred taxes are accrued at a rate of 15% or more.
- Follows a modular design that requires very few mandatory adjustments but allows an MNE Group to make further optional adjustments if needed to improve accuracy of the ETR computation and access the safe harbour.
- Allows an MNE Group to re-elect the safe harbour after it was failed in a previous year.
- Does not apply any buffer rate, meaning that an MNE Group will qualify if its Simplified ETR in the jurisdiction is at least 15%.

3. What are the main differences between the Simplified ETR Safe Harbour and the Transitional CbCR Safe Harbour?

The Transitional CbCR Safe Harbour uses CbCR information as a proxy for determining whether a Tested Jurisdiction has an ETR that is at or above the Minimum Rate under the GMT. Reliance on CbCR as the basis for an ETR is less accurate than a full GloBE calculation, resulting in both false positives and false negatives (because it does not include some significant GloBE adjustments like the removal of equity gains and loss from the income) and is more manipulable, which gives rise to integrity risks (for instance because of location rules). This is why the Transitional CbCR Safe Harbour was only agreed by the IF as a

temporary measure and the ETR threshold under that safe harbour increases in every year of application up to 17% for Fiscal Years beginning in 2026.

In contrast, the Simplified ETR Safe Harbour is a permanent simplification that relies on a simplified and stripped-down set of data points based on the GloBE Rules themselves, which allows for more accurate ETR calculation (reducing the risk of false positives or negatives), and has more robust integrity measures, which allows the threshold to be set at 15% (the same rate as the GMT itself).

The Simplified ETR Safe Harbour contains more adjustments than the Transitional CbCR Safe Harbour but many of these are at the option of the taxpayer which provides a better opportunity for MNE Groups to meet the safe harbour and avoid the full calculations required under the GloBE Rules. Unlike the Transitional CbCR Safe Harbour, which applies a minimum rate of 17% in 2026 and 2027, the Simplified ETR Safe Harbour only requires the MNE Group to demonstrate that it has a 15% ETR which further limits the circumstances under which the MNE Group would be required to recalculate the ETR under the detailed GloBE calculations. In addition, the newly developed Substance-Based Tax Incentives Safe Harbour is also available under the Simplified ETR Safe Harbour which means that MNE Groups can increase their simplified taxes in instances where they benefit from QTIs.

Finally, an MNE Group can be eligible for the new Simplified ETR Safe Harbour even if it has not always been eligible for it in the past years, i.e. it does not include a “once out always out” rule. An MNE Group that was not eligible in a previous year can re-elect the safe harbour when it has not been liable for Top-up Tax in the jurisdiction for two consecutive years.

4. Does the Simplified ETR Safe Harbour apply in QDMTT jurisdictions?

Yes, the Simplified ETR Safe Harbour will be applied in every jurisdiction where the GMT applies including jurisdictions that have introduced a QDMTT. QDMTT jurisdictions have also agreed that an MNE Group should generally be permitted to rely on financial accounting information prepared in accordance with the accounting standard used in its consolidated financial statements to demonstrate that it meets the requirements of the safe harbour. The IF recognises that using the consolidated financial accounting standard in both IIR/UTPR and QDMTT calculations for all safe harbour jurisdictions mitigates arbitrage opportunities, allows MNE Groups to centralise their compliance process and thereby reduces compliance burden.

5. How does the Simplified ETR Safe Harbour facilitate compliance with the Global Minimum Tax?

The GMT applies in respect of every jurisdiction in which an MNE Group operates. However, in most of those jurisdictions the MNE Group will be subject to ETRs above 15%. In these situations, the Simplified ETR Safe Harbour provides MNE Groups with a simplified way of demonstrating that they do not have a Top-up Tax liability in these jurisdictions. The safe harbour will eventually replace the Transitional CbCR Safe Harbour, which was intended as a temporary measure to provide MNE Groups with sufficient time to build the systems and data collection processes necessary to comply with the GMT. With the introduction of the Simplified ETR Safe Harbour, businesses now have a simple, reliable, consistent and robust way to demonstrate that they are paying an ETR of above 15% in a jurisdiction.

The Simplified ETR Safe Harbour is not the last word on simplification, rather it is intended to be a foundation for a broader simplification project. As part of its ongoing work, the IF will explore ways to incorporate some of the safe harbour simplifications into the GloBE Rules so that they are available even where the safe harbour does not apply. The IF has also committed to continue with the work on reducing administrative burdens for jurisdictions and simplifying compliance for MNE Groups subject to the GMT. This work will include the identification of possible further co-ordination opportunities that could reduce the compliance burdens for MNE Groups with operations in QDMTT jurisdictions.

6. Does the Simplified ETR Safe Harbour apply in a jurisdiction that has a net loss?

An MNE Group that has an economic or accounting loss in a jurisdiction can generally be considered to be low-risk and the Simplified ETR Safe Harbour addresses such situations by deeming the safe harbour test satisfied when a Simplified Loss is determined.

However, an MNE Group that determines a Simplified Loss for a year must also determine whether an excess negative tax carry-forward arises for that year. This aims at addressing the residual risk that a permanent difference between tax and accounting income that occurred in a loss year could effectively be deducted or excluded from GloBE Income in a subsequent year via a carry-forward mechanism.

A simplified computation is also provided to determine any excess negative tax carry-forward. The computation is based on the Simplified Loss and Simplified Taxes and does not require the computation of the GloBE Loss and Adjusted Covered Taxes under Article 4.1.5 of the Model Rules. Furthermore, the safe harbour provides an alternative methodology for addressing the risk of excess negative taxes during a transitory period. The alternative method simply adjusts the deferred tax asset attributable to the loss carry-forward to remove the amount caused by the permanent difference.

7. Are MNE Groups subject to simplified reporting obligations for the Simplified ETR Safe Harbour?

Consistent with other existing safe harbours, an MNE Group will be able to use the GloBE Information Return (GIR) for the application of the Simplified ETR Safe Harbour. Completing the jurisdictional sections of the GIR for those jurisdictions where the Simplified ETR Safe Harbour applies will be easier because the safe harbour relies on simplified computations that require fewer data points than the full GloBE computations. The IF is currently working on guidance for how an MNE Group should complete the GIR when the safe harbour applies. This guidance is expected to be available in time for MNE Groups to be able to collect the relevant data and prepare their GIR for the year the safe harbour takes effect.

Side-by-Side system

1. What is the Side-by-Side system?

The SbS system recognises that jurisdictions may already have robust tax regimes that achieve outcomes consistent with the GMT. By allowing these regimes to operate alongside each other, the SbS system addresses concerns with respect to the duplication of compliance costs and seeks to stabilise the GMT in

these cases. The SbS system relies on the fact that QDMTTs will remain unaffected, and that the GMT, which is based on a common approach, should remain the primary system for ensuring minimum taxation.

Under the SbS Safe Harbour, MNE Groups headquartered in an eligible jurisdiction are not subject to tax under the IIR and the UTPR in respect of either their foreign or domestic profits but rather are subject to tax under the tax rules that apply in the eligible headquarter jurisdiction. The SbS system only applies to MNE Groups headquartered in jurisdictions that are recognised by the Inclusive Framework as having an eligible tax regime that is in line with agreed requirements (see Questions 3 and 4 below). While the SbS system provides for an exception under the IIR and the UTPR it does not affect the application of the QDMTT, which continues to apply to all MNE Groups (see Question 2 below).

The UPE Safe Harbour is based on the design of the SbS Safe harbour but provides for a narrower exclusion. It applies only excludes MNE Groups headquartered in an eligible jurisdiction from tax under the UTPR with respect to their profits arising in the eligible jurisdiction jurisdiction. The safe harbours do not apply to MNE Groups headquartered in non-eligible jurisdictions, even when they have operations in eligible jurisdictions.

The SbS and UPE Safe Harbours are applicable for Fiscal Years commencing on or after 1 January 2026 (or, in the case of an SbS regime that would be recognised at a later stage, a later year as listed in the Central Record). The adoption of these Safe Harbours into domestic law after this date is expected to be done so with retroactive effect, taking into account that they are wholly relieving for taxpayers but they do not apply to prior Fiscal Years (commencing on or before 31 December 2025).

2. What is the impact of the Side-by-Side system on the application of QDMTTs?

The status of QDMTTs is not impacted by the SbS package, which recognises the integral role QDMTTs play in ensuring a minimum level of taxation of MNE Groups. All MNE Groups, including those eligible under the SbS and UPE Safe Harbours, remain subject to QDMTTs on income earned in QDMTT jurisdictions. In addition, QDMTTs will continue to be calculated without a pushdown of CFC or other owner-level taxes, and IF members remain committed to credit QDMTTs on the same terms as any other creditable foreign income tax. Therefore, the QDMTT is expected to play an important role in preserving a minimum level of taxation for all jurisdictions by allowing GMT tax revenues to be collected in the jurisdiction where those profits are earned rather than by another jurisdiction (under the IIR, UTPR or CFC rules).

The SbS package also seeks to reinforce the effectiveness of such QDMTTs. In particular, the SbS package recognises that qualified status of DMTTs remains dependent on their consistent and non-discriminatory application to all MNE Groups, regardless of whether an MNE Group has elected to apply the SbS Safe Harbour. More broadly, the package also provides that conditional or discriminatory taxes will not be recognised as Covered Taxes. The Inclusive Framework is engaged in ongoing work that will ensure that identification and treatment of discriminatory taxes is done on a consistent basis amongst implementing jurisdictions.

3. What are the eligibility criteria for the SbS and UPE Safe Harbours?

The eligibility criteria for the SbS Safe Harbour cover the jurisdiction's tax treatment of both domestic and foreign income.

- The domestic tax system criteria include a nominal 20% corporate income tax rate, the requirement to have an 15% alternative minimum tax based on financial statement income, and that there be "no material risk" that in-scope MNE Groups will be subject to an ETR on their domestic profits below 15%.
- The foreign tax system criteria are generally met when the tax regime has comprehensive rules to tax CFCs and foreign branches on their active and passive income, incorporating substantial mechanisms that operate unilaterally to address BEPS risks and producing outcomes under which there are no material risks that in-scope MNE Groups will be subject to an ETR on the profits of foreign operations below 15%.
- In addition, the tax system must provide a foreign tax credit for QDMTTs.

The UPE Safe Harbour applies only the domestic tax system criteria as its operation is limited to the operations in the jurisdiction where the MNE is headquartered.

4. What jurisdictions qualify for the SbS and UPE Safe Harbours?

Jurisdictions with tax regimes that meet the eligibility criteria of the SbS Safe Harbour or the UPE Safe Harbour may request an assessment of their eligibility by the IF. To date, the United States is the only jurisdiction that has been added to the Central Record as having a Qualified SbS Regime, following consideration of its tax regime by the IF.

The qualification process is triggered when a jurisdiction considers, based on its current laws enacted and in effect, that it meets the eligibility criteria, and requests the IF, within the applicable timeframe, to determine whether it has a regime eligible for the SbS or UPE Safe Harbour. Assessments are expected to proceed as follows:

- Pre-existing tax regimes (i.e. regimes enacted prior to 1 January 2026) that seek to qualify for the SbS or UPE Safe Harbour are expected to be assessed by the IF in the first half of 2026.
- Other tax regimes may seek to qualify for the SbS Safe Harbour and would be assessed if a jurisdiction initiates such a request to the IF in 2027 or 2028. These assessments will be undertaken in a timely manner and on the same basis as previous assessments, taking into account that the IF considers that a common and co-ordinated GMT should be the primary system for ensuring minimum taxation.

5. What measures are in place to address level playing field and BEPS risks associated with the Side-by-Side system?

The SbS system is designed to address level playing field and BEPS risks in various ways.

First, the system is predicated on the continued application of QDMTTs without regard for the SbS Safe Harbour. Regardless of where they are headquartered, all MNE Groups will continue to be subject to QDMTTs on their income earned in QDMTT jurisdictions.

Second, the eligibility of any tax regime for the Safe Harbours is subject to robust and comprehensive criteria. In particular, both safe harbours require that there are no material risks that in-scope MNE Groups will be subject to an ETR below 15% (on domestic profits for the UPE Safe Harbour, and on both domestic

and foreign profits for the SbS Safe Harbour). This determination is based on a pragmatic assessment of the overall operation of the tax system, including the availability and treatment of tax credits and incentives.

Third, the eligibility of any tax regimes for the safe harbours is assessed by the IF, supported by relevant data, to ensure that the eligible tax regime is robust and does not create opportunities for arbitrage. Any subsequent material changes to an eligible regime will be notified to and considered by the IF.

Fourth, the system is underpinned by a stocktake which will assess unintended effects such as any emerging material competitive imbalances identified between MNE Groups and any negative trends in taxpayer behaviours including changes in corporate structures to shift profits to achieve low-tax outcomes. The IF has also committed to take action to address any substantial identified risks to the level playing field or BEPS, including consideration of targeted solutions where more concentrated level playing field risks arise. In parallel, the IF will continue and finalise the work on integrity measures to preserve the integral role of QDMTTs by ensuring a minimum level of taxation and addressing any risk of competitive distortions.

6. How will information reporting obligations work for the Side-by-Side system?

As set out in Question 2 above, the SbS system does not impact the application of QDMTTs. Accordingly, MNE Groups that elect for the SbS or UPE Safe Harbour still need to report the information required by QDMTT jurisdictions in which it operates.

In other jurisdictions, MNE Groups will be able to elect for the SbS or UPE Safe Harbour in the GIR. Those MNE Groups would be expected to report at least the location of their UPE, which should be one of the jurisdictions with a Qualified SbS Regime or a Qualified UPE Regime that will be published in the Central Record.

Making an election in the GIR reduces the compliance burden and avoids the need for a separate notification process.

Where is more information available?

The GloBE webpage (regularly updated) provides a comprehensive list of resources on the GloBE Rules. They include:

- The GloBE Model Rules (2021), which serve as a model for legislation the rules in domestic law, the Commentary, which clarifies the interpretation and operation of the provisions in the GloBE Model Rules, and Agreed Administrative Guidance.
- The GloBE Information Return (2025), which sets out a standardised information return to facilitate compliance with and administration of the GloBE Rules.
- The Central Record for purposes of the Global Minimum Tax, which includes an overview of qualified legislation and Eligible SbS Regimes.
- An Implementation Handbook on the minimum tax (2023), which provides an overview of the key provisions of the rules and the considerations to be taken into account by tax policy and administration officials and other stakeholders in assessing their implementation options.
- The "Model rules in a nutshell" provides an overview of the GloBE Rules and the key operative provisions.

- A Fact sheet summarising the 5-step process for applying the GloBE Rules.
- Qualified Status under the Global Minimum Tax – Questions and Answers provide further detail on the transitional qualification mechanism and the peer review and ongoing monitoring process.

In addition, a series of short webinars (published in 2022) in English provides a summary insight into the OECD BEPS Action Plan, including eight videos on the Global Minimum Tax. Two videos are available in English, French, Spanish and Arabic.