International Tax News

Start

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Welcome

Our monthly publication offers updates and analysis on international tax developments around the world, authored by specialists in PwC's global international tax network. We hope you find this publication helpful. For more international tax-related content, please visit:

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Cross Border Tax Talks

Doug McHoney, PwC ITS Global Leader, hosts PwC specialists who share insights on issues and developments in the OECD, EU, US and other jurisdictions. Listen to the latest:

Geopolitical reset: Stability and Agility in 2026

Doug McHoney is joined by Craig Stronberg, Senior Director on PwC's Intelligence Team. Doug and Craig discuss why business and tax leaders should focus on the geopolitical landscape to understand its impact on cross-border business, including tax.

Douglas McHoney
Global Leader - International Tax Services Network
+1 314-749-7824
douglas.mchoney@pwc.com

Welcome Video

Doug McHoney, PwC's Global International Tax Services Leader shares some of the highlights from the latest edition of International Tax News

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Legislation

Italy

Tax redemption of tax-deferred net equity reserves

Italy's 2026 Budget Law introduces a one-year, optional 'tax redemption' regime that allows Italian companies to step-up and freely distribute certain untaxed equity reserves at a heavily reduced tax cost. The company may elect to 'redeem' the eligible reserves by paying a 10% substitute tax calculated on the amount of the tax-deferred reserves. Once the substitute tax is paid, the redeemed reserves can be distributed to shareholders without further Italian corporate income tax and regional tax (generally equal to a combined 27.9% rate) at the level of the distributing company. This corporate-level savings of 17.9% improves both effective tax rate and cash repatriation economics.

The tax redemption regime applies to net equity reserves that are tax-deferred (i.e., not previously subject to Italian corporate taxation) and that are recorded in the company's 2024 statutory financial statements and still present in the 2025 financial statements. The rule is intended for Italian-resident companies; references below assume calendar-year taxpayers, which is generally the case in Italy.

The regime is available only in fiscal year 2026. The election is made in the 2025 CIT return to be filed by the end of October 2026. The 10% substitute tax is payable in four annual instalments, with the first instalment due by the end of June 2026. Once elected and paid, the company may proceed to distribute the redeemed reserves free of Italian corporate-level tax.

The dividend withholding tax regime, where applicable to non-Italian shareholders, remains fully in place and is not affected by the redemption.

The tax redemption regime materially reduces Italian corporate-level taxes on distributions of previously untaxed reserves, while leaving shareholder-level withholding mechanics unchanged. MNEs should map their Italian subsidiaries' equity to identify reserves that meet the 2024/2025 balance sheet tests and confirm their tax-deferred nature. Cash-flow planning is needed to schedule the instalments starting June 2026 and align distributions with group treasury objectives. Finally, confirm shareholder-level withholding outcomes based on the investor's residence, applicable EU directives, and treaty positions, noting that the redemption does not alter withholding tax rules.

Alessandro Di Stefano
Italy
+39 348 8408195
alessandro.di.stefano@pwc.com

Andrea Porcarelli
Italy
+39 340 219 0194
andrea.porcarelli@pwc.com

Giuseppe Fortunato
Italy
+39 342 792 7237
giuseppe.fortunato@pwc.com

Legislation

Italy

Dividend exemption and PEX regimes: introduction of minimum thresholds

Under Italian tax law, the dividend exemption and Participation exemption (PEX) regimes provide for a 95% exclusion of dividends and a 95% exemption of capital gains from the CIT base, subject to specific conditions (i.e. only 5% of dividends and capital gains are subject to the 24% CIT rate, resulting in an effective 1.2% tax rate).

New quantitative limits introduced by the 2026 Budget Law restrict these regimes to shareholdings that meet the following thresholds, effective 1 January 2026:

- at least 5% of the investee's share capital; or
- a tax basis of at least EUR 500,000.

Impact on the dividend exemption regime

If neither threshold is met, dividends are fully taxable at the 24% CIT rate. Application is based on the date of the distribution resolution: the new rules apply to distributions resolved on or after 1 January 2026, regardless of when the underlying profits were earned.

Impact on the PEX regime

The qualitative requirements (minimum holding period, classification as a fixed financial asset, non–privileged-tax-jurisdiction residence, and effective business activity) remain unchanged.

If the quantitative thresholds are not met, capital gains are fully taxable at the 24% CIT rate, even if the qualitative conditions are satisfied. The new rules apply to shareholdings acquired on or after 1 January 2026. Shareholdings already held on that date are grandfathered and may continue to apply to the previous regime.

Outbound EU/EEA dividends

The same thresholds also apply for the reduced 1.2% withholding tax on dividends paid to EU/EEA corporate shareholders.

MNEs with minority shareholdings in Italian entities that do not fulfill the conditions to qualify for dividend exemption and the PEX regime should consider consolidating their ownership in order to prevent higher taxes on Italian dividend distributions or disposals of their shareholdings.

Alessandro Di Stefano
Italy
+39 348 8408195
alessandro.di.stefano@pwc.com

Andrea Porcarelli
Italy
+39 340 219 0194
andrea.porcarelli@pwc.com

Giuseppe Fortunato
Italy
+39 342 792 7237
giuseppe.fortunato@pwc.com

Legislation

Italy

Hyper-Depreciation

The **2026 Budget Law** introduces a new uplift of the tax-deductible cost of investments in tangible and intangible qualifying assets, e.g. assets enabling technological and digital transformation of businesses and plants for self-production of energy from renewable sources (new hyper-depreciation, which replaces the existing Transition 4.0. and 5.0. tax credit incentives).

The new uplift of the tax-deductible cost of investments in qualifying assets will apply for the purpose of determining tax-deductible depreciation quotas and finance lease payments.

In particular, for corporate taxpayers investing in qualifying assets allocated to production facilities located in Italy, the acquisition cost of such assets, used as the basis for calculating depreciation and finance lease deductions, will increase through a progressive rate mechanism. Specifically, the uplift will apply as follows:

- **180%** for investments up to **EUR 2.5 million**;
- **100%** for the portion between **EUR 2.5 million and EUR 10 million**;
- **50%** for the portion between **EUR 10 million and EUR 20 million**.

The incentive applies to **investments made from 1 January 2026 through 30 September 2028**.

To access the hyper-depreciation regime, eligible taxpayers are required to submit, via electronic filing, specific communications and supporting certifications relating to the qualifying investments.

The new hyper-depreciation regime significantly enhances Italy's attractiveness for industrial and digital investments, offering uplift rates of up to 180% and a multi-year window through 2028. The shift to a deduction-based mechanism provides greater predictability and smoother tax planning for MNEs. Investors evaluating expansion or modernization in Italy should consider accelerating capex to fully leverage this strengthened incentive framework.

Alessandro Di Stefano
Italy
+39 348 8408195
alessandro.di.stefano@pwc.com

Andrea Porcarelli
Italy
+39 340 219 0194
andrea.porcarelli@pwc.com

Giuseppe Fortunato
Italy
+39 342 792 7237
giuseppe.fortunato@pwc.com

Legislation

China

China Further Updated the Encouraged Catalogue to Facilitate Foreign Investment

On 15 December 2025, China issued the 'Encouraged Industry Catalogue for Foreign Investment (2025 Version)'.

Compared with the previous version (from 2022), the 2025 Catalogue retains the dual structure of nationwide sub-catalogue and regional sub-catalogue, with 205 new entries and 303 revisions. Specifically:

- The nationwide sub-catalogue has 619 entries, with 100 new and 131 revised, focusing on guiding foreign capital to the advanced manufacturing and modern services, adding items such as nucleic acid drugs R&D and virtual power plant operation.
- The regional sub-catalogue has 1060 entries, with 105 new and 172 revised, tailoring to local advantages by adding region-specific items, such as cruise tourism services in Liaoning, ice-snow equipment R&D in Heilongjiang, high-end construction machinery in Henan, and computing power infrastructure R&D in Guizhou.

The 2025 Catalogue becomes effective 1 February 2026. The 2022 Catalogue will be abolished on that date.

The 2025 Catalogue serves as a key policy guide for foreign investment in China, applicable to scenarios including foreign-invested project approval, preferential tax treatment enjoyment, and regional investment layout.

Foreign-invested projects falling within the Catalogue are eligible for multiple preferential policies:

- tariff exemption for certain imported self-used equipment,
- preferential land supply with a minimum transfer price of 70% of the national industrial land benchmark,
- a 15% corporate income tax rate for investments in western regions and the Hainan Province, and
- tax credit for direct re-investment of foreign investors using profits distributed from tax resident enterprises (TREs) in China.

The revision of the 2025 Catalogue demonstrates China's proactive attitude toward expanding international cooperation and further stabilizesg foreign investors' expectations and confidence.

Long Ma
China
+86 (10) 6533 3103
long.ma@cn.pwc.com

Legislation

Australia

Amended Pillar Two Rules

Amendments have been made to Australia's Pillar Two Rules following the registration of Taxation (Multinational—Global and Domestic Minimum Tax) Amendment (2025 Measures No.1) Rules 2025 that contain minor changes to ensure that Australia's Rules are implemented consistently with that released by the OECD. This includes, among other things:

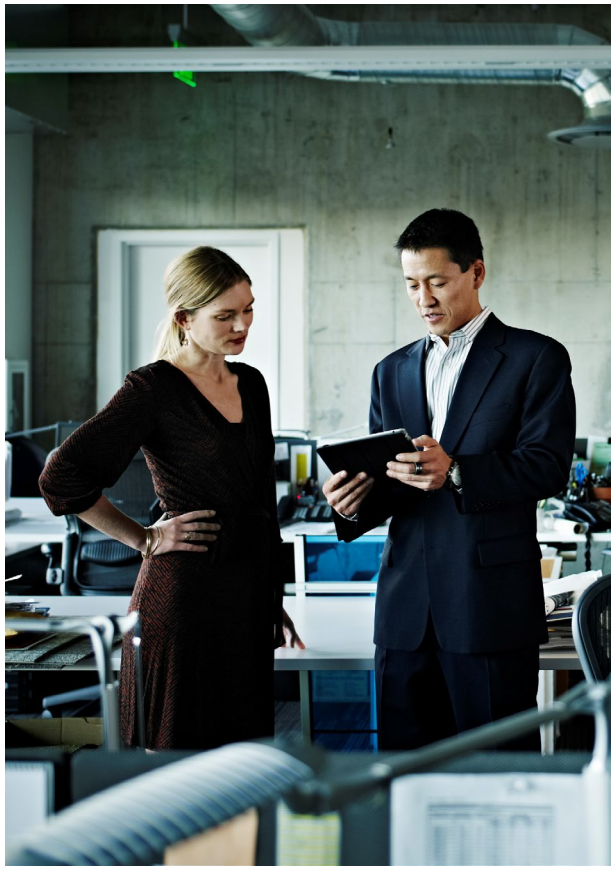
- clarifying the limited circumstances where Securitisation Entities would be liable to pay Undertaxed Profits Rules (UTPR) top-up tax;
- inserting an Equity Investment Inclusion Election and the related rules on Qualified Flow-through Tax Benefits; and
- clarifying the Investment Entity Transparency Election for Regulated Mutual Insurance Companies.

Minor amendments were also made to the Domestic Minimum Tax (DMT) provisions to ensure effective administration of the GloBE taxes.

The Amending Rules are intended to align Australia's legislation with the OECD's GloBE Rules to ensure Australia achieves qualified status. Accordingly, the rules will apply retrospectively to fiscal years beginning on or after 1 January 2024. This amendment does not change the first filing deadline for Applicable MNE Groups, which remains 30 June 2026.

Chris Stewart
Brisbane
+61 (0) 407 005 521
chris.d.stewart@pwc.com

Tony Chen
Sydney
+61 411 830 608
tony.r.chen@au.pwc.com



Legislation

Austria

Tightening of for low-taxation thresholds for Austrian CFC/switch-over rules and intra-group interest and royalty limitation rules

On 29 December 2025, Austria introduced a legislative amendment that changes the thresholds used to determine low taxation for CFC and switch-over rules (passive income of low-taxed corporations) as well as for deduction limitations for interest or royalty payments to related parties (low-taxed interest and royalty payments). The amendment introduces a uniform low taxation threshold of 15%, replacing the previous thresholds of 12.5% (CFC/ switch-over) and 10% (interest/royalties). A foreign corporation is now deemed low-taxed if its actual tax burden abroad is below 15% (below 12.5% through 2025).

The amendment harmonizes the definition of low taxation across the Corporate Income Tax Act and significantly tightens the application of both CFC/switch-over rules (Sec. 10a para. 3) and the non-deductibility rules for low-taxed intra-group interest and royalty payments (Sec. 12 para. 1 subpara. 10).

The new threshold applies to financial years beginning after 31 December 2025. Because no transitional rule applies to switch-over rules, any distributions made on or after 1 January 2026 must be reviewed to confirm whether the underlying profits were taxed at 15% in their year of origin, even if those years predate 2026.

Taxpayers should reassess previous analyses related to Austrian CFC, switch-over, and intragroup interest and royalty limitation rules. The increased threshold notably expands the range of affected jurisdictions, including Cyprus, Ireland, and the United States, particularly for interest and licensing arrangements.

Christof Wörndl
Austria
+43 699 10149682
christof.woerndl@pwc.com

Nicholas Walters
Austria
+43 676 4888144
nicholas.walters@pwc.com

Legislation

Cyprus

Cyprus tax reform bills published

What happened?

As an update to a previous newsletter, on 22 December 2025, the Cyprus Parliament voted on various tax reform bills that aim to reshape the tax system so that it caters with greater flexibility, fairness, and efficiency to modern economic and social demands, as well as improved tax compliance. The relevant law amendments were published in the Government Gazette on 31 December 2025 with an effective date 1 January 2026.

Why is it relevant?

The tax reform bills include a number of international tax amendments.

Actions to consider

Multinational corporations with Cyprus companies in their structures should carefully examine the international-tax relevant provisions of the tax reform bills to ascertain whether and to what extent the amendments introduced affect their operations and plan any necessary actions to ensure full and timely compliance with the new rules while maintaining the efficient arrangement of their tax affairs.

For additional information, please see our PwC Tax Insight.

The amendments relating to submission of tax returns and payment of respective liabilities simplify the processes through aligning certain tax payment penalties with those for return submissions. The statute of limitation amendment provides for a longer timeline.

Stelios Violaris
Cyprus
+357 22 555300
stelios.violaris@pwc.com

Christos S Charalambides
Cyprus
+357 22 553617
christos.charalambides@pwc.com

Eftychios G Eftychiou
Cyprus
+357 22 555277
eftychios.eftychiou@pwc.com

Legislation

Hong Kong

Hong Kong releases consultation paper on CARF and CRS 2.0

The OECD, through the promulgation of the amended Common Reporting Standard (CRS 2.0) and the Crypto-Asset Reporting Framework (CARF), has established global standards aimed at enhancing tax transparency and combating evasion in respect of crypto-assets through automatic exchange of information. CRS 2.0 expands reporting data points to address emerging risks, while CARF focuses on crypto-asset transactions, closing transparency gaps in the digital asset space.

Hong Kong has long aligned its CRS framework with OECD standards, implementing due diligence and reporting requirements. The Financial Services and the Treasury Bureau and Inland Revenue Department have recently launched a public consultation on the upcoming implementation of CARF and CRS 2.0 regulations in Hong Kong. Stakeholders were invited to provide feedback during the consultation period, which ends 6 February 2026.

As these frameworks have been finalised through international consensus, Hong Kong has no discretion to diverge from them. The consultation paper therefore concentrates on areas where choices remain, and the key points for consideration include:

- The introduction of mandatory registration requirements for reporting financial institutions and reporting crypto-asset service providers;
- Enhanced penalty regime and record-keeping requirements which are broadly aligned across both regimes.

In addition, the consultation paper confirms the proposed timeframe for the rollout of CARF from 1 January 2027, and CRS 2.0 enhancements from 1 January 2028, as well as the newly proposed registration deadlines.

Hong Kong's thoughtful CARF and CRS 2.0 consultation ahead of rollout signals commitment to enhancing tax transparency and growing its financial ecosystem responsibly. Feedback from the OECD peer review has been considered, as Hong Kong looks to enhance its local compliance framework. We welcome this proactive engagement and look forward to deeper collaboration across the industry.

https://www.pwchk.com/en/hk-tax-news/2025q4/hongkongtax-news-dec2025-12.pdf

CRS 2.0 and CARF collectively address and close the transparency gap between conventional financial instruments and crypto assets. Hong Kong's proposed adoption of the CARF and CRS 2.0 is intended to align with global efforts to combat tax evasion in the crypto asset space. The consultation paper sets out clear timelines for the adoption of both CARF and CRS 2.0, providing much-needed certainty for reporting financial institutions and reporting crypto-asset service providers. Stakeholders may also consider making submissions to ensure that practical concerns are addressed in the implementing legislation and that the regulatory environment remains conducive to growth in Hong Kong's digital asset industry.

Charles Chan
Hong Kong
+852 2289 3651
charles.c.chan@hk.pwc.com

Legislation

Israel

Final QDMTT legislation enacted

On 31 December 31 2025 Israel enacted legislation implementing a QDMTT aligned with the OECD Model Rules. Future updates to the OECD Rules, Guidance and Commentary, and Israel-specific rules, will be incorporated through Regulations. As previously announced, Israel is not planning to adopt the IIR and UTPR at this stage.

Several implementation rules apply, including calculation and reporting requirements. Key features include:

1. Commencement Date: The QDMTT applies to tax years beginning on or after January 1, 2026. An electronic notification must be submitted to the Israeli Tax Authority (ITA) within one year of this Commencement Date.
2. Computation Method: An Israeli Constituent Entity (CE) must compute and pay top-up tax on a stand-alone basis unless all CEs elect to calculate it on a jurisdictional basis and designate a representative CE. The allocation of top-up tax between CEs is generally based on each CE's GloBE income or another approved allocation method. Where the top-up tax for a group of CEs is computed by each CE on a stand-alone basis, the Substance Based Income Exclusion (SBIE) will not apply.
3. Local Accounting Standard: Subject to meeting the relevant conditions, the calculations must be based on Israeli GAAP, US GAAP or IFRS. If the conditions are not met, the accounting standard of the UPE applies.
4. Dividend Withholding Tax: Withholding taxes on dividends paid to non-Israeli CEs are included in the top-up tax computation.
5. Currency: Subject to specific conditions, the computations are performed in NIS, USD, or the currency used in the UPE's consolidated financial statements.
6. QDMTT Return: Returns must be filed electronically within 15 months after the end of the relevant tax year.
7. Tax Advance Payments: No advanced payments are required for the top-up tax.
8. Special Reporting Period: Groups may request a non-calendar 12-month reporting period.
9. Safe Harbours: Safe Harbours, including the Transitional CbCR Safe Harbour, will be introduced in future Regulations and are expected by 1 July 2026.

Incorporating the OECD GloBE rules by reference may have advantages, but may leave certain areas unaddressed. Groups with multiple Israeli entities may prefer to perform the GloBE calculation on a jurisdictional basis (rather than on a stand-alone basis), but this should be evaluated on a case-by-case basis. The Transitional CbCR Safe Harbour has not yet been enacted, but is expected to be introduced by 1 July 2026.

Vered Kirshner
Israel
+972 3 7954675
Vered.Kirshner@pwc.com

Alex Singer
Israel
+972 3 7954917
Alex.Singer@pwc.com

Yuval Vainer
Israel
+972 3 7955422
Yuval.Vainer@pwc.com

Legislation

Cabo Verde

2026 State Budget Now Published: Global Minimum Tax, CIT Rate Cut, and maintenance of tax incentives

Cabo Verde has enacted its 2026 State Budget, confirming a broad package of tax measures alongside the previously signposted QDMTT under the global minimum tax framework. The Budget was approved by Law No. 69/X/2025 and published in the Official Gazette on 31 December 2025, with measures effective 1 January 2026.

In corporate taxation, the general corporate income tax (CIT) rate is reduced from 21% to 20%. The Budget introduced a qualified global minimum tax of 15%, applicable to constituent entities of MNEs or large national groups with consolidated revenues of at least EUR 750 million in at least two of the four preceding fiscal years, with the tax computed by reference to the relevant entities' ETRs.

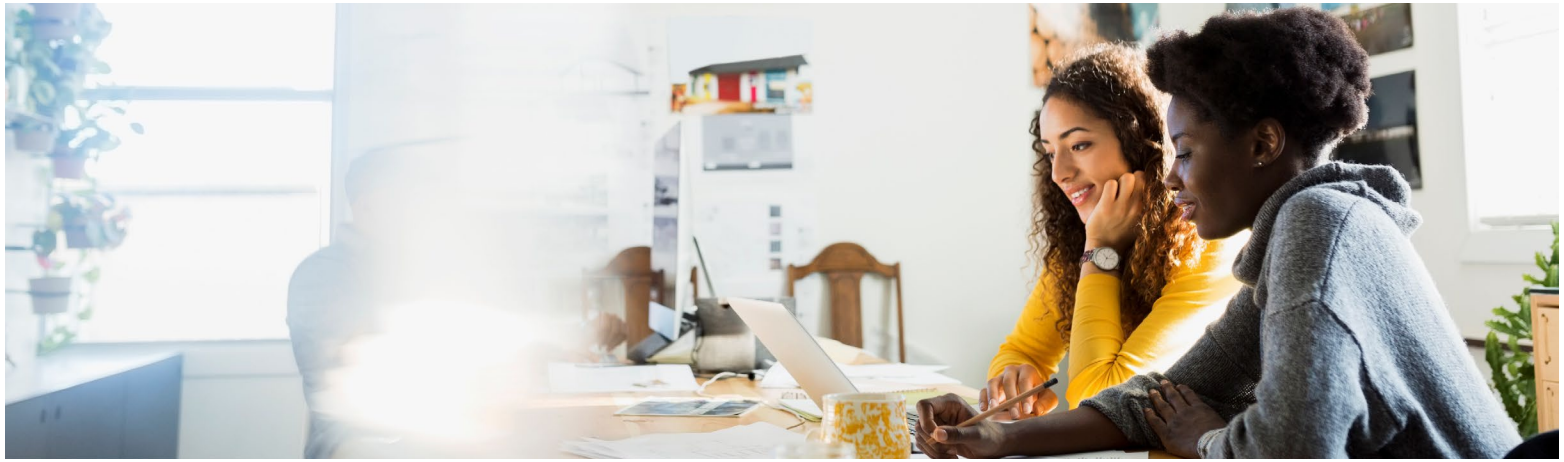
The Budget also maintains a wide suite of corporate tax incentives, including R&D, ICT start-ups, profit reinvestment, corporate financing, and returning emigrants.

For more details, read PwC Cabo Verde's Tax Flash.

Multinational and large domestic groups operating in Cabo Verde should evaluate their ETR positions for Cabo Verde entities under the new 15% QDMTT, align internal data and systems for minimum tax computations, and assess interactions with existing incentives. They should also prepare for the CIT rate cut and respective impacts.

Rosa Areias
Cabo Verde
+51 225 433197
rosa.areias@pwc.com

Catarina Gonçalves
Cabo Verde
+351 225 433121
catarina.goncalves@pwc.com



Legislation

Japan

Japan Tax Update – 2026 Tax Reform Proposals

On 19 December 2025 Japan released its 2026 Tax Reform Proposals, including investment incentives, international tax and Pillar Two changes, cross-border e-commerce measures, and new related-party documentation requirements affecting multinationals.

The 2026 Tax Reform Proposals are focused on continuing to build a strong economy, while at the same time addressing Japan's current high inflation. Multinational enterprises in the e-commerce industry may be interested in consumption tax proposals related to low-value goods, while those contemplating capital investments in Japan may benefit from some of the proposed tax incentives.

The 2026 Tax Reform Proposals may not have as significant an impact for multinational enterprises as the tax reforms of prior years. However, there are still certain provisions to note and assess for impact. Taxpayers are advised to consult with their tax advisors for further details of the Proposals, and of the laws themselves once enacted in March 2026.

Link for more information: 2026 Tax Reform Proposals

Kazuhito Asakawa
Japan
+81 80-4205-7098
kazuhito.asakawa@pwc.com

Ryann Thomas
Japan
+81 80-1014-9707
ryann.thomas@pwc.com

Shintaro Yamaguchi
Japan
+81 80-4171-5438
shintaro.yamaguchi@pwc.com

Legislation

Nigeria

New Income Tax Laws in Nigeria

Four new tax laws became effective in Nigeria on 1 January 2026. These laws include the Nigeria Tax Act (NTA), The Nigeria Tax Administration Act (NTAA), The Nigeria Revenue Service Act (NRSA) and the Joint Revenue Board Act (JRBA), collectively referred to as 'the Acts.'

The Acts comprehensively overhaul the Nigerian tax system to drive economic growth, increase revenue generation, improve the business environment, and enhance effective tax administration across the different levels of government.

Highlights

The primary legislation (the NTA) consolidates all existing income and gains tax acts in consolidated law. It introduces wide-ranging changes to Nigeria's income tax regime. Some of these changes are below:

New definition of 'Nigerian company':

The NTA expands the definition of a 'Nigerian company' to include not only companies incorporated in Nigeria, but also those whose central or effective place of management or control is in Nigeria.

As a result, foreign-incorporated companies that are centrally and/or effectively managed or controlled from within Nigeria will now be subject to tax in Nigeria on their global income (subject to treaty considerations).

Streamlining of Companies Income Tax (CIT) and Capital Gains Tax (CGT):

The CGT rate, which was previously 10%, has now been streamlined with the CIT rate at 30%. This amendment seeks to simplify tax administration in Nigeria and reduce arbitrage.

Introduction of a 'Development Levy':

The NTA introduces a 'Development Levy,' equal to 4% of a Nigerian company's assessable profits (i,e., tax profits before deducting tax depreciation and losses). This levy will replace the Tertiary Education Tax (which currently applies at 3% of assessable profits), together with other ancillary taxes and levies payable by some companies.

Introduction of a Minimum Effective Tax Rate:

The NTA provides for a minimum effective tax rate (ETR) of 15% to be payable by Nigerian companies that:

- are constituent entities of multinational groups with group turnover of at least £750 million (it appears that the currency should actually be Euros and not Pounds); or
- have aggregate annual turnover of NGN 50 billion (about USD33m) and above.

A Nigerian parent company also must pay top-up tax if its foreign subsidiary's tax is lower than the minimum ETR. Companies enjoying incentives such as those operating in Export Processing Zones/Free Trade Zones are not excluded.

ETR is defined as "covered taxes (paid) as a percentage of net income, with net income being profits before tax as reported in the audited financial statements excluding franked investment income and unrealised gains or losses." The OECD's Pillar Two framework considers both current and deferred tax and this may lead to reporting differences for multinationals with operations in Nigeria.

Legislation

Nigeria

New Income Tax Laws in Nigeria (continued)

Introduction of a minimum tax for non-resident companies:

The NTA provides that the profits of non-resident companies (NRCs) that have a taxable presence in Nigeria cannot be lower than the sum arrived at by applying its consolidated 'profit margin' to its total income generated from Nigeria. The Act defines this profit margin as earnings before interest and tax (EBIT), effectively disallowing the deduction of interest costs.

Notwithstanding, the tax payable by NRCs cannot be less than

- 4% of total income from Nigeria, or
- the withholding tax (WHT) rate applicable to the taxable income.

Observation: These provisions effectively introduce a minimum tax for NRCs and need to be carefully analysed. For example, the consolidated profit margin includes contributions from other countries. Given that an entity's performance in the countries where it operates depends on the economic environment and other specific factors relating to its business in those countries, it may not be ideal to use this as a basis to determine the minimum profits that should be attributable to NRCs with a taxable presence in Nigeria.

Introduction of 'Controlled Foreign Company' rules:

The NTA taxes undistributed profits of foreign companies controlled by Nigerian companies, where the foreign subsidiary's profits could have been distributed without harming the foreign company's business.

CGT on indirect transfers of shares in Nigerian companies:

The indirect transfer of ownership in a Nigerian company will be subject to CGT in Nigeria if the sale results in a change in the ownership structure of a Nigerian company, or a change in ownership or interest in assets located in Nigeria.

With this change, foreign ultimate shareholders of Nigerian subsidiaries must consider the Nigerian CGT implications of share disposals outside Nigeria.

The tax reform laws have now been enacted and are fully effective. Taxpayers should review the new provisions without delay, assess their operational and compliance impacts, and update internal processes, systems, and documentation accordingly. Early evaluation and planning will be essential to ensure smooth transition and ongoing compliance under the new framework.

Esiri Agbeyi
PwC Nigeria
+234 708 727 3056
emuesiri.agbeyi@pwc.com

Emeka Chime
PwC Nigeria
+234 802 594 7675
chukwuemeka.x.chime@pwc.com

Seyifunmi Olakunde
PwC Nigeria
+234 903 537 4098
seyifunmi.olakunde@pwc.com

Legislation

South Korea

Introduction of domestic minimum top-up tax (DMTT) in South Korea

South Korea's recent government bill introduces a domestic minimum top-up tax (DMTT) regime, effective for fiscal years beginning on or after 1 January 2026. The final version of the Bill will be proclaimed at the end of February 2026 after being finalized in a cabinet meeting.

For more information, please see our PwC Insight.

The introduction of the domestic minimum top-up tax (DMTT) regime in Korea, effective for fiscal years beginning on or after 1 January 2026, marks a significant step in aligning Korea's tax framework with Pillar Two. The proposed rules under the amended Law for Coordination of International Tax Affairs (LCITA) closely follow the GloBE regime for the calculation of adjusted covered taxes, but with important QDMTT-specific exclusions, particularly regarding the allocation of certain foreign taxes to domestic constituent entities (CEs). The Bill also provides flexibility in the allocation of DMTT among domestic CEs, allowing for either a statutory or designated allocation method, and introduces detailed compliance requirements for filing and payment. The final version of the Bill will be proclaimed at the end of February 2026 after being finalized in a cabinet meeting.

Given these developments, companies operating in Korea as part of multinational groups should assess the DMTT's impact on their group structure and tax positions. Key action items include: (1) reviewing current tax and accounting processes to ensure accurate identification and exclusion of foreign-sourced covered taxes as required under the new rules; (2) evaluating which DMTT allocation method—statutory or designated—best aligns with the group's operational and tax planning objectives; (3) preparing for enhanced compliance obligations, including the timely preparation and submission of DMTT returns and supporting documentation; and (4) engaging with relevant stakeholders within the group to establish clear internal protocols for DMTT allocation agreements and documentation. Early preparation will be critical to manage compliance risks and optimize the group's overall tax position under the new regime.

Michael Kim
South Korea
+82 2-709-0707
michael.kim@pwc.com

Hong-Hyeon Kim
South Korea
+82-2-709-3320
hong-hyeon.kim@pwc.com

Si-Joon Sung
South Korea
+82-2-709-0284
si-joon.x.sung@pwc.com

Administrative

Australia

Exemptions from lodging Australian IIR/UTPR and Australian DMT Tax Returns

Multinational enterprise (MNE) groups within the scope of Australia's Pillar Two rules are actively preparing to meet their first compliance obligations, with initial Australian Pillar Two tax returns due by 30 June 2026. The Australian Taxation Office (ATO) has also advanced its guidance efforts, issuing several new materials. This includes the Taxation Administration (Exemptions from Requirement to Lodge Australian IIR/UTPR Tax Return and Australian DMT Tax Return) Determination 2025, which sets out circumstances in which MNE group members are not required to lodge:

- an Australian Domestic Minimum Tax (DMT) return, and/or
- an Australian Income Inclusion Rule/Undertaxed Profits Rule (IIR/UTPR) return.

Broadly, a lodgment exemption will apply where the law could not give rise to any IIR or UTPR tax liability for the entity in Australia. Examples include subsidiaries of an Australian tax consolidated or multiple entry consolidated (MEC) group, certain foreign-resident entities, securitisation vehicles and eligible flow-through entities.

Importantly, there are no lodgment exemptions for the Global Information Return (GIR) or Foreign Lodgment Notification (FLN). These must still be lodged as required

Eligibility for lodgment exemptions must be assessed each fiscal year, as changes in group structure, residency, safe-harbour elections, tax consolidation membership, or other jurisdictions' application of a Qualified IIR may affect the outcome.

Where an exemption applies, entities should retain working papers demonstrating how each exemption condition set out in the Determination was met, as the ATO may request supporting evidence.

For entities that remain in scope, the ATO is expected to release the final format for the combined global and domestic minimum tax return ahead of the 30 June 2026 deadline. Groups should begin designing data-collection processes and preparing draft return templates now.

For further information about Australian Pillar Two lodgment obligations, refer to this Tax Alert.

Chris Stewart
Brisbane
+61 (0) 407 005 521
chris.d.stewart@pwc.com

Helen Fazzino
Melbourne
+61 438 388 819
helen.fazzino@au.pwc.com

Tony Chen
Sydney
+61 411 830 608
tony.r.chen@au.pwc.com

Administrative

Australia

Australia's Global and domestic minimum tax lodgment obligations – transitional approach

Summary: The ATO has finalized Practical Compliance Guideline (PCG) 2025/4 outlining its transitional approach to penalty enforcement for Australia's Pillar Two lodgment obligations. In particular, during the transition period for fiscal years commencing on or before 31 December 2026 and ending on or before 30 June 2028, the ATO will adopt a transitional, OECD-aligned penalty relief framework. This includes a 'soft-landing' approach to penalties where MNE Groups can demonstrate good-faith efforts and reasonable measures to understand and meet their lodgment obligations.

The ATO's guidance also summarizes the required forms and notifications required for in-scope MNE Groups.

With the first Pillar Two lodgment obligations in Australia due in less than six months (by 30 June 2026), the ATO's guidance provides important clarity and a pragmatic compliance approach. While penalties for late lodgment may be significant, the ATO has confirmed that full remission of penalties for late lodgment will apply where taxpayers show they acted in good faith and took reasonable measures to comply. However, taxpayers must be prepared to demonstrate their efforts and to engage proactively with the ATO if issues arise.

The ATO's expectation around 'taking reasonable measures' is the same regardless of whether MNE Groups have their headquarters in Australia or overseas. This expectation extends to how the MNE Group's tax function manages the obligations of each Australian Group Entity.

MNE groups should review and strengthen their systems, processes, and governance frameworks now to meet upcoming requirements and position themselves to benefit from the ATO's transitional compliance approach. Establishing a clear workplan will also help address the ATO's increasing expectations of taxpayers over time.

Chris Stewart
Brisbane
+61 (0) 407 005 521
chris.d.stewart@pwc.com

Helen Fazzino
Melbourne
+61 438 388 819
helen.fazzino@au.pwc.com

Jonathan Malone
Sydney
61 408 828 997
jonathan.r.malone@au.pwc.com

Administrative

Australia

Update on public country-by-country reporting

Australia's public country-by-country (CBC) reporting regime, effective for reporting periods beginning on or after 1 July 2024, requires certain large groups to publicly disclose selected tax and financial information for Australia, specified countries, and their remaining global operations. Recent administrative developments include:

- ATO Practice Statement (PS) Law Administration (LA) 2025/2, which sets out the ATO's administrative approach to the Commissioner of Taxation's discretion for granting exemptions from public CBC reporting. Exceptions will be granted only in exceptional circumstances. This Tax Alert summarizes the earlier draft guidance, which is substantively the same as the final.
- ATO draft guidance on preparing the public CBC report, including draft instructions and the XML Schema. For further information refer to this Tax Alert.

The first public CBC report is due to the ATO by 30 June 2026 for groups with a 30 June 2025 year-end. Non-compliance can result in significant penalties (up to AUD 825,000), underscoring the need for multinational to determine whether they fall within scope, and if so, prepare accordingly. Exemptions will be rare and must be supported by strong, evidence-based justification. Early engagement with the ATO and carefully prepared documentation will be essential as groups prepare their inaugural public CBC submissions.

Nick Houseman
Sydney
+61 421 051 314
nick.p.houseman@au.pwc.com

Georgie Hockings
Melbourne
+61 417 534 787
georgie.hockings@au.pwc.com

Sarah Stevens
Sydney
+61 2 8266 1148
sarah.m.stevens@au.pwc.com

Administrative

Luxembourg

Luxembourg opens Pillar Two registration and tax declarations for in-scope entities

On 6 January 2026 the Luxembourg authorities opened the registration and tax filing process for Pillar Two purposes. In Luxembourg, registrations and first filings are due within 18 months after the close of the first Pillar Two year (i.e., by 30 June 2026 for calendar year-groups in scope since 2024).

Pillar Two entities are expected to register on an entity-by-entity basis in Luxembourg through the online MyGuichet platform, which is used for other tax reporting in Luxembourg.

The registration process allows groups to make certain elections, such as designating a group filing entity for the GIR and designating a paying 'umbrella entity' for Luxembourg QDMTT and UTPR purposes (no designation can be made for IIR). When selecting a GIR filing entity, it is important to consider whether the chosen jurisdiction:

- has implemented Pillar Two rules,
- participates in automatic information exchange for the GloBE Information Return (\GIR), e.g., under EU DAC 9 rules or the OECD Multilateral Competent Authority Agreement (MCAA), and
- provides adequate safeguards for information dissemination.

Luxembourg implemented DAC 9 exchange of information at the end of 2025 and signed the MCAA in June 2025.

If the registered Pillar Two information changes (e.g., a new filing entity, dissolution or migration of a company), Luxembourg entities must either make a corrective filing or deregister for Pillar Two purposes in Luxembourg. The deadline would be 15 months after the end of the group fiscal year during which the change occurred.

Late, missing or incorrect registrations are subject to a lump-sum penalty of €5,000 per infringement.

Luxembourg also published procedures for filing the GIR and declaring any top-up tax due in Luxembourg (QDMTT, IIR, UTPR). The top-up tax declaration is a self-assessment of top-up tax to be paid by the Luxembourg entities. The form does not contain QDMTT information such as adjusted covered taxes or Pillar Two income, and the QDMTT information for Luxembourg entities is expected to form part of the GIR.

For further details, please refer to the insight of PwC Luxembourg:

https://www.pwc.lu/en/newsletter/2026/luxembourg-opens-pillar-2-registration-for-in-scope-entities.html

Administrative

Luxembourg

Luxembourg opens Pillar Two registration and tax declarations for in-scope entities (continued)

Philippe Ghekiere
Luxembourg
+352 62133 3228
philippe.ghekiere@pwc.lu

Lilia Samai
Luxembourg
+352 62133 3408
lilia.samai@pwc.lu

Anthony Husianycia
Luxembourg
+352 62133 3239
anthony.husianycia@pwc.lu

Key takeaways

Registration and Pillar Two compliance filings for Luxembourg entities have a 30 June 2026 deadline for calendar-year groups in scope since 1 January 2024. Groups should consider the elections available during the registration process; missing those elections could substantially complicate the Pillar Two compliance process.

Luxembourg could be chosen as a GIR filing jurisdiction, with broad exchange of information guaranteed through EU DAC 9 rules and the MCAA. The QDMTT for Luxembourg entities will be included in the GIR, though an additional top-up tax return could be due to declare QDMTT, IIR or UTPR taxes due in Luxembourg.

Administrative

Singapore

Pillar Two registration process and guidance

On 31 December 2025, the Inland Revenue Authority of Singapore (IRAS) published guidance on the online registration process for Multinational Enterprise Top-up Tax (MTT) and Domestic Top-up Tax (DTT). The 'Form for Registration of MNE Group under the Multinational Enterprise (Minimum Tax) Act 2024' has also been issued, although online submission will only be accepted beginning in May 2026, with the exact date to be communicated soon.

In addition, on 7 January 2026, the IRAS issued the second edition of its Pillar Two e-Tax Guide. Among the notable changes:

- There will be extended record-keeping periods of up to 10 years to cater to certain look-back provisions under the legislation (e.g. recapturing deferred tax liabilities). This potentially increases the compliance burden for affected MNE groups.
- In a clarification, 'annual revenue' refers to the consolidated group revenue in the UPE's consolidated financial statements. Revenue split across different line items should be aggregated. Appropriate adjustments should be made for items such as cost of sales and other operating expenses, net investment gains, and extraordinary or non-recurring income/gains.
- For consistency in determining whether the relevant Euro-denominated thresholds are met, MNE groups with non-December year ends whose UPE presentation currency is not in Euros should apply the average exchange rate for the month of December of the previous financial year when converting amounts into Euros.

The IRAS also revised its e-Tax Guide on the tax exemption for foreign income to clarify the treatment of Pillar Two taxes when assessing whether the relevant qualifying conditions for tax exemption are met.

Depending on their financial year-end, MNE Groups will have to notify the IRAS of their liability to register under the Multinational Enterprise (Minimum Tax) Act 2024 beginning in May 2026. This marks the beginning of the compliance process for in-scope groups under the new tax regime.

While the registration form is straightforward, many data points must be collated and decisions made on matters such as the status of the constituent entities, which one will be the designated local filing entity, etc. MNE Groups should start the information collation process early to avoid missing the notification deadline.

Lennon Lee
Singapore
+65 8182 5220
lennon.kl.lee@pwc.com

Tan Tay Lek
Singapore
+65 9179 2725
tay.lek.tan@pwc.com

Judicial

India

DDT paid on dividends by taxpayer to non-resident parent company subject to concessional DTAA rate

The Bombay High Court set aside a ruling of the Board for Advance Rulings and held that dividend distribution tax (DDT) paid by an Indian company on dividends distributed to its UK parent is subject to the concessional 10% tax rate prescribed under Article 11 of the India-UK tax treaty. The court reaffirmed that, pursuant to Section 90(2) of the Income-tax Act, 1961 (the Act), the provisions of an applicable tax treaty prevail over conflicting domestic law, and that unilateral amendments to Indian tax legislation cannot curtail or diminish tax treaty benefits.

Furthermore, the court held that the DDT is, in essence, a tax on the dividend income of shareholders; only the incidence and mode of collection have been shifted to the distributing company for administrative convenience. Accordingly, the court held that any DDT collected in excess of the 10% tax treaty cap would be contrary to Article 265 of the Constitution of India.

For more information see our PwC Insights.

The Bombay High Court decision clarifies that under the India-UK tax treaty, the lower tax treaty rate for dividends will apply to the DDT paid by Indian companies to UK shareholders. The court emphasised that what matters is the nature of the income (dividend) and that the more beneficial provisions of the tax treaty can be considered under section 90(2) of the Act. The decision also highlights that changes in domestic law do not override tax treaty obligations and that tax treaties should be interpreted in good faith and in line with their intended purpose.

Although the DDT was abolished from financial year 2020–21 onwards, this decision holds significant implications for ongoing litigations and potential refund claims relating to earlier years. Indian companies that paid DDT at the higher domestic rate prescribed under section 115-O of the Act, while their foreign shareholders were eligible for lower dividend tax rates under the applicable tax treaties, may now have a legal foundation to seek refunds of excess DDT paid. Such action would be subject to the facts of each case, the provisions of the relevant tax treaty, as well as the limitation and procedural rules. Taxpayers should carefully assess their specific circumstances.

Sriram Ramaswamy
Partner on Secondment
+1 646-901-1289
sriram.ramaswamy@pwandaffiliates.com

Chengappa Ponnappa
India
+91 98451 88834
chengappa.ponnappa@pwandaffiliates.com

Judicial

India

Legal advisory services do not give rise to a service PE or a virtual service PE in India under the India–Singapore tax treaty unless 90-day criteria is satisfied – Delhi High Court

The Delhi High Court, in a recent judgement , held that the taxpayer, a Singapore-based legal advisory firm, did not constitute a service permanent establishment (PE) or a virtual service PE in India under Article 5(6)(a) of the India-Singapore Double Taxation Avoidance Agreement (tax treaty). The court affirmed that only days of actual service rendered in India by employees physically present in India are to be counted towards the 90-day threshold for service PE. Furthermore, the court rejected the Revenue's argument that services rendered remotely (virtually) from outside India could create a virtual service PE in the absence of physical presence. The court held that the tax treaty does not envisage or recognise the concept of a virtual service PE.

For more information see our PwC Insights.

The Delhi High Court has reaffirmed that, under the India-Singapore tax treaty, only days of actual service rendered in India by employees physically present in India are relevant for determining the existence of a service PE. The concept of a virtual service PE, based on remote or digital service delivery without physical presence, is not recognised under the current tax treaty framework. Unilateral amendments to domestic law (such as the concept of Significant Economic Presence) or minority views in international commentary cannot override the express language of a tax treaty.

Sriram Ramaswamy
Partner on Secondment
+1 646-901-1289
sriram.ramaswamy@pwandaffiliates.com

Chengappa Ponnappa
India
+91 98451 88834
chengappa.ponnappa@pwandaffiliates.com

Judicial

India

Tax Residency Certificate alone is not sufficient to claim treaty relief

The Supreme Court has held that the Authority for Advance Ruling correctly rejected the application for advance ruling for a transaction which is designed prima facie for the avoidance of income tax.

The case involved taxability of gains earned by Mauritius entities from the sale of shares of a Singapore company, deriving substantial value from assets in India. The shares of the Singapore company were purchased prior to 1 April 2017 and sold after that date.

The Supreme Court order states that a tax residency certificate (TRC) is not binding on any authority or court unless the authority or court enquires into the same. Furthermore, the Supreme Court held that the provisions of general anti-avoidance rules (GAAR) that are effective after 1 April 2017 can apply to a transaction where investment was made prior to 1 April 2017 but tax benefit was obtained after the aforesaid date if it involved any arrangement for tax avoidance.

The Court also held that the concept of judicial anti-avoidance rules (JAAR) operates in parallel with the GAAR provisions and empowers Indian authorities to deny benefits of Double Taxation Avoidance Agreements (DTAAs) in cases involving treaty abuse or conduit structures.

For more information, see our PwC Insight.

This decision raises the threshold for availing of relief under the DTAA. It lays down that mere possession of a TRC will not be sufficient to claim DTAA benefits. Taxpayers must be prepared to demonstrate tax residency, effective control and management, and commercial substance in the home jurisdiction. The Supreme Court has clarified that the GAAR provisions can be invoked to any income-earning transaction forming part of an 'arrangement,' regardless of whether the underlying 'investment' was made prior to 1 April 2017 and if the benefit was obtained after the cut-off date. Furthermore, the Supreme Court has held that the concept of JAAR continues to operate in parallel with GAAR

Sriram Ramaswamy
Partner on Secondment
+1 646-901-1289
sriram.ramaswamy@pwandaffiliates.com

Chengappa Ponnappa
India
+91 98451 88834
chengappa.ponnappa@pwandaffiliates.com

Judicial

France

Non-conformity with the Parent Subsidiary Directive of the CVAE applicable to credit institutions

Case law of the European Court of Justice (ECJ) in Banca Mediolanum (1 August 2025 C-92/24 to C-94/24) provides that a company established in an EU Member State cannot be subject to non-corporate taxation on dividends from EU subsidiaries beyond the 5% lump sum allowed under the Parent Subsidiary Directive (2011/96/EU).

In the case at hand, a French bank sought a refund of CVAE (contribution on added value) paid on dividends received from EU subsidiaries, arguing that these dividends are already subject to the 5% addback under corporate income tax and that including them in the CVAE base results in excess taxation of the dividends received, which is contrary to EU law. In a 9 December 2025 decision, the Paris Administrative Court of Appeal confirmed that dividends must be excluded from the CVAE basis in this situation.

Taxpayers in a similar situation should analyze the opportunity to file claims for prior years and adjust future CVAE calculations accordingly.

Guilhem Calzas
France
+33 (0) 6 98 02 94 77
guilhem.calzas@avocats.pwc.com

Judicial

Singapore

Payments received by quasi-owners of a subsidiary for warranties and undertakings given pursuant to the sale of the holding company held not to be employment income

In the case of UZF and another v The Comptroller of Income Tax [2025] SGITBR 4, the Income Tax Board of Review ruled that payments received by the taxpayers pursuant to a sale and purchase agreement are not employment income, but capital receipts which are not taxable.

The taxpayers were key employees of a Singapore company. Pursuant to the sale of shares in the holding company, the taxpayers were required to provide certain warranties and undertakings to the buyer for which they received a series of payments, the calculation of which included amounts that would be subject to the future performance of the Singapore company. They also entered into new employment agreements with the Singapore company. The Comptroller of Income Tax assessed the receipts to tax on the basis that they arose from the taxpayers' employment with the Singapore company.

The Board however found that the receipts were for the warranties and undertakings given by the taxpayers in their capacity as quasi-owners of the Singapore company.

Taxpayers purporting to earn a capital gain are frequently subject to scrutiny and challenge by the Singapore tax authority. Determination of the appropriate tax treatment, particularly in complicated situations such as in the case is fact-sensitive, and proper supporting documentation of the facts is critical.

Lennon Lee
Singapore
+65 8182 5220
lennon.kl.lee@pwc.com

Tan Tay Lek
Singapore
+65 9179 2725
tay.lek.tan@pwc.com

Treaties

Peru

Peru - UK tax treaty enters into force

Peru has published in its Official Gazette (El Peruano) the text of the Convention between the Republic of Peru and the United Kingdom of Great Britain and Northern Ireland for the elimination of double taxation with respect to taxes on income and on capital gains and the prevention of tax evasion and avoidance, confirming that the treaty will enter into force on 21 January 2026.

As a result, the treaty's provisions will begin applying based on the treaty's 'effective date' rules (generally: Peru from 1 January of the year following entry into force (i.e., 1 January 2027); the United Kingdom from the relevant tax years/financial years beginning after entry into force, per the UK order's effective-date mechanics).

The treaty is particularly relevant for groups with UK-Peru cross-border flows (dividends, interest, royalties, capital gains and services characterization), and it includes an anti-abuse Principal Purpose Test entitlement-to-benefits rule consistent with post-BEPS treaty practice. This increases the practical importance of demonstrating commercial rationale and economic substance in intermediate holding/financing/licensing structures, especially where taxpayers claim treaty rate reductions.

Gabriela Haro
PwC Peru
gabriela.haro@pwc.com

Daniela Comitre
PwC Peru
daniela.comitre@pwc.com

Treaties

Singapore

Singapore's agreement with Denmark on the automatic exchange of financial account information terminated

The Denmark-Singapore competent authority agreement on the automatic exchange of financial account information in accordance with the OECD common reporting standard was terminated with effect from 1 January 2026.

Singapore has signed the Addendum to the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information on 26 November 2024 and the exchange relationship with Denmark remains activated so the exchange of information will continue to take place under that mechanism instead of the bilateral agreement.

Lennon Lee
Singapore
+65 8182 5220
lennon.kl.lee@pwc.com

Tan Tay Lek
Singapore
+65 9179 2725
tay.lek.tan@pwc.com

Treaties

Australia

Treaty updates – Croatia, Ukraine and Portugal

Australia signed new tax treaties with both Croatia and Ukraine in late 2025. These new treaties reduce withholding tax rates on dividends, interest, and royalty payments made between the relevant countries and are designed to encourage cross-border trade and investment with more certainty and lower compliance costs.

The tax treaty signed between Australia and Portugal on 30 November 2023 is currently before the Australian Parliament.

Taxpayers conducting transactions involving Australia and Croatia, Ukraine, or Portugal should monitor the legislative progress of the relevant treaties. The treaties are not yet effective, as they will only apply once both countries complete their domestic legislative processes and the agreements enter into force.

Nick Houseman
Sydney
+61 421 051 314
nick.p.houseman@au.pwc.com

Jonathan Malone
Sydney
+61 408 828 997
jonathan.r.malone@au.pwc.com

OECD/EU

OECD

OECD announces Pillar Two Side-by-Side Package

On 5 January 2026 the OECD announced that 147 members of the Inclusive Framework (IF) on BEPS have agreed to a new package of administrative guidance under the Pillar Two global minimum tax rules (the 'GloBE rules'). The agreed 'Side-by-Side Package' (the Package) offers what was agreed between the G7 members last June, which should address the US proposed Section 899.

The Package includes: a permanent simplified ETR safe harbour (SH); a one-year extension of the transitional Country-by-Country reporting (CbCR) SH; a substance-based tax incentive SH; a Side-by-Side (SbS) SH and an Ultimate Parent Entity (UPE) SH for eligible countries. The Package also includes a commitment to conduct future stocktakes of the SbS and UPE SHs.

The one-year extension to the temporary CbCR SH should reduce the compliance burden for many groups (but only for one additional year). However, the new simplified ETR SH will require a lot of time and effort to determine if it can be applied, including fresh modelling of jurisdiction-by-jurisdiction outcomes and reassessment of full GloBE computations.

The SbS SH, when elected, sets the Top-up Tax otherwise collectible with respect to an MNE Group under an Income Inclusion Rule (IIR) or Undertaxed Profits Rule (UTPR) to zero. It does not alter the expected application of Qualified Domestic Minimum Top-up Taxes (QDMTTs) or Domestic Minimum Top-up Taxes (DMTTs). The Central Record was updated on 5 January 2026 to reflect that the United States is an eligible jurisdiction for the SbS SH, although additional jurisdictions may be added in the future. The UPE SH only sets the UTPR Top-up Tax with respect to the UPE jurisdiction to zero when elected.

The SHs are not self-executing and must be legislated domestically by each IF member in accordance with their own processes and timelines. Jurisdictions are generally expected to adopt the SbS SH effective 1 January 2026, with retrospective application. For additional information, please see the following Global Tax Policy Alerts:

OECD announces agreement on a range of new Pillar Two safe harbours (5 January, 2026)

OECD publishes Pillar Two Side-by-Side System (7 January 2026)

Pillar Two Simplified ETR Safe Harbour (7 January 2026)

Substance-based tax incentive safe harbour for Pillar Two Groups (7 January 2026)

MNE Groups should review the Package to understand which aspects they can or must apply, in which jurisdictions, and what the SHs mean for compliance burden mitigation. MNE Groups should consider revisiting and ensuring full compliance with all GloBE compliance obligations for 2024 and 2025, as the requirements for those years remain unchanged regardless of whether a SbS SH election is made for 2026 or any subsequent year.

Will Morris
USA
+1 202-213-2372
william.h.morris@pwc.com

Edwin Visser
Netherlands
+31 (0) 88 7923 611
Edwin.visser@pwc.com

Pat Brown
USA
+1 203-550-5783
pat.brown@pwc.com

Glossary

Acronym	Definition
ATAD	anti-tax avoidance directive
BEPS	Base Erosion and Profit Shifting
CFC	controlled foreign corporation
CIT	corporate income tax
DAC6	EU Council Directive 2018/822/EU on cross-border tax arrangements
DST	digital services tax
DTT	double tax treaty
ETR	effective tax rate
EU	European Union
MNE	Multinational enterprise
NID	notional interest deduction
PE	permanent establishment
OECD	Organisation for Economic Co-operation and Development
R&D	Research & Development
VAT	business test value added tax
WHT	withholding tax

Contact us

For your global contact and more information on PwC's international tax services, please contact:

Douglas McHoney
Global Leader - International Tax Services Network
+1 314-749-7824
douglas.mchoney@pwc.com

Geoff Jacobi
International Tax Services
+1 202 262 7652
geoff.jacobi@pwc.com

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