Global Tax Policy
Alert

OECD announces agreement on a range of new Pillar Two safe harbours

5 January 2026

In brief

What happened?

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

Why is it relevant?

The release of the Package is noteworthy for two main reasons. The first is that the Package offers what was agreed between the G7 members last June, which should prevent the return of the US proposed Section 899. The second point is the unfortunately mixed results on simplification efforts. There is a welcome extension to the temporary CbCR safe harbour for one year. This should reduce the compliance burden for many groups (but only for one additional year). The new simplified ETR safe harbour, however, will require a lot of time and effort to determine if it can be applied. Conscious of this, perhaps, the OECD commits to a (very high level) work programme of more simplification efforts later this year.

Actions to consider

MNE Groups should review the Package to understand which aspects they can or must apply, in which jurisdictions, and what the safe harbours mean for compliance burden mitigation. MNEs should note that the release does not impact domestic compliance requirements, including registrations, and file and pay deadlines, which still need to be met.

PwC is hosting two webcasts that will cover the new GloBE Package. The first webcast is 7 January at 11:00 CET (register here). The second is 13 January at 12:00 ET (register here).

In detail

The Package follows the US withdrawal of support for Pillar Two one year ago, the advancement and subsequent removal of the proposed Section 899 retaliatory measure, and a June 2025 G7 agreement to pursue a SbS approach that accounts for US minimum tax rules. The stated aims of the Package are to preserve the benefits of the global minimum tax rules and provide greater certainty, stability, and simplicity for in-scope MNE groups. The Package will be incorporated into the Commentary to the GloBE Model Rules.

Observation: *Agreeing to these safe harbours was likely necessary to prevent further fracturing of the GloBE project as domestic implementation slowed rapidly in the latter half of 2025, amid fears of US retaliation to countries if they continued to proceed with implementation of the Under-Taxed Profit Rule (UTPR) and increasing calls from industry groups and politicians for pauses and re-evaluations of the rules. Note, however, that this is unlikely to be the last call for safe harbours and further changes, so stability is not guaranteed.*

SbS Safe Harbour

The centrepiece of the Package is the SbS safe harbour, which allows MNEs headquartered in qualifying jurisdictions a deemed top-up tax of zero under the IIR or UTPR across all their domestic and foreign operations (including interests in JVs and JV Subsidiaries) if certain eligibility and election conditions are met. The SbS safe harbour will take effect for fiscal years beginning on or after 1 January 2026. As of 5 January 2026, the United States is the only country identified in the OECD's Central Record as meeting the eligibility criteria.

Jurisdictions eligible for the SbS safe harbour must have both an 'eligible domestic tax system' and an 'eligible worldwide tax system', provide a foreign tax credit for QDMTTs, and meet specified timing requirements.

Observation: *While other countries may seek to demonstrate they too qualify for both the eligible domestic and worldwide tax systems, the reality is that only the US has qualified initially, and further qualifications may be contentious.*

The Package provides for a future stocktake to assess any competitive distortions between companies or jurisdictions by 2029. QDMTTs remain unaffected by the Package and these safe harbours.

Observation: *MNEs will still need to prepare detailed GloBE filings for jurisdictions that have already enacted the GloBE rules in 2024 and 2025. Compliance costs are expected to be significant.*

UPE Safe Harbour

For Fiscal Years beginning from 1 January 2026, a new UPE Safe Harbour will apply (by election). Provided the UPE jurisdiction has a 'Qualified UPE Regime', the organisation will not be subject to the UTPR in respect of the profits located in the UPE jurisdiction. Eligible regimes will be recorded in a Central Record and will also be subject to the same stocktaking provisions described above.

Observation: *Similar to the SbS Safe Harbour, presently only the US would be expected to meet the conditions required for a 'Qualified UPE Regime', but this remains to be seen.*

Simplified ETR Safe Harbour

The IF's main simplification proposal is a new permanent Simplified ETR Safe Harbour (SESH), intended to reduce the compliance burden for many jurisdictions where in-scope MNEs operate. If a Tested Jurisdiction qualifies for the SESH, the top-up tax for such jurisdiction is deemed zero for a Fiscal Year. To qualify, a jurisdiction must either (1) have a 'Simplified ETR' at or above the Minimum Rate (i.e. 15%), or (2) have a 'Simplified Loss'. The computation of both the Simplified ETR and Simplified Loss requires significant data gathering and required adjustments, including special rules for M&A transactions, transfer pricing adjustments, cross-border tax allocations, etc. It is applicable for Fiscal Years from the beginning of 2027, or the beginning of 2026 in specified circumstances.

Observation: *The SESH maintains several onerous aspects of the full Pillar Two computation (e.g., the DTL recapture rule, deferred tax revaluations, etc.). When compared against the Transitional CbCR Safe Harbour and the full Pillar Two computation, the SESH is much closer to the full computation, as its application still requires significant data gathering and calculations under the broader Pillar Two framework. So, while the long-anticipated SESH may be well-intentioned, it will likely be viewed by many taxpayers as failing to achieve significant simplification compared to the full rules.*

Extension of the Transitional CbCR Safe Harbour

To facilitate transition to the new SESH, the OECD extends the existing Transitional CbCR Safe Harbour to all Fiscal Years commencing on or before 31 December 2027, excluding any Fiscal Year that ends after 30 June 2029, by one year. The ETR rate will remain at 17% for the one-year extension. During the transitional period beginning on or before 31 December 2027 but not including a Fiscal Year that ends after 30 June 2029, taxpayers may choose whether to apply the CbCR Safe Harbour or SESH.

Substance-Based Tax Incentives Safe Harbour

Under this safe harbour, certain qualifying tax incentives (QTIs) can be added to Covered Taxes (or Simplified Covered Taxes if SESH is utilised), effectively treating them as if additional tax had been paid. This reduces or eliminates any top-up tax that would otherwise arise solely because the incentive lowered the local tax. The guidance allows an election to include qualified refundable tax credits and marketable transferable tax credits, which are otherwise treated as income items for minimum tax purposes, as QTIs.

QTIs are capped generally at 5.5% of the greater of payroll costs or depreciation. Alternatively, the MNE Group may elect a cap of 1% of the carrying value of tangible assets in the country.

Only tax incentives that are widely available under the law and linked to real activity in the country qualify. This includes incentives based on actual spending or physical production. Incentives exceeding underlying costs, based on profits, or unrelated to tangible activities, do not qualify.

Observation: *Consistent with the OECD's long-standing approach to tax credits, the design of the substance-based tax incentive safe harbour is neither particularly generous nor especially straightforward. The various qualifications and caps mean that the benefits are more likely to accrue in jurisdictions with higher payroll costs and more significant manufacturing activity, limiting its relevance for many developing economies.*

PwC will release more detailed coverage of the main components of the Package in the coming days. Businesses can also sign up for our upcoming webcasts (see 'Actions to consider' above) to learn more.

Let's talk

For a deeper discussion of how the GloBE Package might affect your business, please contact:

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