Global Tax Policy
Alert

OECD Inclusive Framework Pillar Two package addresses consistency of rule application and reporting

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In brief

What happened?

The OECD/G20 Inclusive Framework (IF) on 11 September 2026 released a package of Pillar Two materials, including a revised GloBE Information Return (GIR), a framework for the full legislative review of jurisdictions' Pillar Two rules, and Administrative Guidance on certain conditional taxes and issues with respect to Qualified Domestic Minimum Top-up Taxes (QDMTT) fiscal-period mismatches.

The revised GIR implements reporting changes arising from the January 2026 Side-by-Side (SbS) Package. For qualifying US-parented groups applying the SbS safe harbour, certain Income Inclusion Rule (IIR) and Undertaxed Profits Rule (UTPR) reporting is reduced, although QDMTT reporting generally remains. Following the IF release, US Treasury separately welcomed the revised GIR.

Why is it relevant?

The released package affects several aspects of Pillar Two implementation. The revised GIR implements the SbS reporting changes and will require another XML transition. The full legislative review introduces more detailed review of jurisdictions currently operating under transitional qualified status, including a process for taxpayers to identify potential inconsistencies in domestic implementation. The Administrative Guidance could affect whether certain domestic taxes count toward a jurisdiction's GloBE Effective Tax Rate (ETR) and how the QDMTT safe harbour applies when local and group fiscal periods do not align.

Actions to consider

Multinational enterprise (MNE) groups should assess how the revised GIR and safe harbours affect their reporting obligations, including continuing requirements in QDMTT jurisdictions, and prepare for the forthcoming XML schema. Businesses also should monitor legislative reviews in relevant jurisdictions and consider providing stakeholder input where domestic rules differ from the GloBE framework. Groups potentially subject to conditional taxes should assess the new Covered Tax guidance.

In detail

Revised GIR implements the SbS Package

The revised GIR generally applies to fiscal years commencing on or after 31 December 2025, although certain explanatory clarifications also apply to earlier filings. It incorporates reporting for the SbS, Ultimate Parent Entity, Simplified ETR, and Substance-based Tax Incentive (SBTI) safe harbours.

For qualifying US-parented groups applying the SbS safe harbour, certain IIR and UTPR reporting is reduced, while QDMTT reporting generally remains. Use of the SBTI safe harbour does not eliminate all jurisdictional reporting even where top-up tax is reduced to zero.

The GIR transitional simplified jurisdictional reporting continues to be available through fiscal years beginning on or before 31 December 2028 and ending by 30 June 2030, while leaving open whether some constituent entity reporting simplifications will become permanent. A forthcoming XML schema will replace the January 2025 version following a future cut-off date.

Observation: The changes provide some degree of simplified reporting for groups eligible for the SbS safe harbour but do not materially reduce Pillar Two reporting for most MNE groups. QDMTT obligations remain relevant, and another XML transition will require systems changes following validation, correction, local-form, and filing-infrastructure challenges arising during the first GIR filing cycle.

The GIR also adds reporting on Qualified Tax Incentives and other ‘Benefits.’ The IF is developing guidance on ‘Related Benefits’ and a separate monitoring process. Until that process is established, stakeholders may provide input on benefits through the legislative review.

Full legislative review

The full legislative review moves beyond the transitional qualification process, which relied largely on self-certification. Jurisdictions currently listed in the OECD Central Record with transitional qualified status remain subject to review.

The process will assess IIRs, UTPRs, Domestic Minimum Top-up Taxes (DMTTs), and QDMTT safe harbour eligibility against the GloBE Rules and applicable guidance. It also will examine whether local GIR and routine tax-return requirements seek information beyond the agreed framework. Other IF jurisdictions, taxpayers, and stakeholders may identify potential inconsistencies. These may result in recommendations or monitoring, while significant unresolved inconsistencies ultimately could lead to prospective loss of qualified status.

Observation: Businesses will have a formal opportunity to identify domestic implementation differences that could affect their Pillar Two positions. Transitional qualified status therefore should not be viewed as the final assessment of a jurisdiction’s rules.

New Administrative Guidance

The September Administrative Guidance addresses two issues: Explicitly Conditional Taxes and the application of QDMTT accounting and safe harbour rules where fiscal periods do not align.

Explicitly Conditional Taxes

The guidance addresses so-called ‘Explicitly Conditional Taxes,’ which are designed to apply because a taxpayer is subject to a Qualified IIR or Qualified UTPR elsewhere and is not eligible for the SbS safe harbour. Conversely, the guidance also targets taxes that are turned off because a taxpayer is not subject to a Qualified IIR or Qualified UTPR or applies the SbS safe harbour. These taxes generally are not Covered Taxes, and a conditional DMTT generally cannot qualify as a QDMTT, subject to a limited exception for certain 2024 regimes.

Observation: Groups operating in jurisdictions with taxes linked to foreign IIR or UTPR exposure should consider whether those taxes are expected to be recognised as Covered Taxes and included in the GloBE ETR.

Observation: One of the original premises of Pillar Two was that the OECD IF was indifferent as to which jurisdiction collected the 15% if the floor was met somewhere in respect of each jurisdiction of operation via regular tax, QDMTT, IIR, or UTPR. This guidance inverts that claim by excluding from Covered Taxes an income tax that has, in fact, been assessed and paid, but in a form that the Administrative Guidance does not recognise. As a result, an MNE group taxed above the minimum rate may still owe top-up tax.

QDMTT fiscal-period mismatches

The guidance also addresses situations where the fiscal period required for a QDMTT differs from the period used by the MNE group. It clarifies when local financial accounting standards may be used and how the QDMTT safe harbour operates when the QDMTT period and Ultimate Parent Entity fiscal year do not align, including special rules for fiscal years beginning in 2024.

What’s next?

A revised GIR XML schema is expected soon. Further guidance on discriminatory taxes is expected by 31 December 2026, while the IF is developing guidance and a separate monitoring process for Related Benefits. The IF also is exploring a taxpayer-initiated mechanism to coordinate jurisdictions’ application of their domestic Pillar Two rules in specific cases.

Let's talk

For a deeper discussion of how this Pillar Two package might affect your business, please contact:

Global tax policy leadership

Will Morris, *United States*
+1 (202) 213 2372
william.h.morris@pwc.com

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

Tax policy specialists

Chloe Fox, *Ireland*
+353 87 7211 577
chloe.fox@pwc.com

Stewart Brant, *United States*
+1 415 328 5853
stewart.brant@pwc.com

Subject matter specialists

Philip Ramstetter, *United States*
+1 513-254-6201
philip.s.ramstetter@pwc.com

Steve Kohart, *United States*
+1 203-517-6174
steven.p.kohart@pwc.com

Patrick Coughlin, *United States*
+1 708-218-8172
patrick.coughlin@pwc.com