Global Tax Policy Alert

OECD publishes Pillar Two Side-by-Side System

7 January 2026

In brief

What happened?

The OECD, on 5 January 2026, released Administrative Guidance containing the long-awaited Side-by-Side agreement or 'System' (SbS System) as part of a broader package of Administrative Guidance on the Global Anti-Base Erosion (GloBE) Model Rules or Pillar Two. The SbS System introduces two new Pillar Two safe harbours: (i) the Side-by-Side Safe Harbour (SbS SH) for MNE Groups headquartered in jurisdictions with both eligible domestic and worldwide tax systems; and (ii) the Ultimate Parent Entity Safe Harbour (UPE SH) for MNE Groups with a UPE located in a jurisdiction that has an eligible domestic tax system but not an eligible worldwide tax system.

The Central Record for purposes of the Global Minimum Tax was updated on 5 January 2026 to reflect that the United States is an eligible jurisdiction for the SbS SH. Additional jurisdictions may be added to the Central Record in the future.

Why is it relevant?

The SbS System guidance recognises that some jurisdictions may have existing minimum taxation regimes with similar policy objectives and complementary effects to the GloBE Rules. The new safe harbours are expected to reduce the compliance burden on MNE Groups with a UPE located in an eligible jurisdiction. The SbS System is expected to be available for Fiscal Years commencing on or after 1 January 2026. The safe harbours are not self-executing and must now be legislated domestically by each Inclusive Framework (IF) member in accordance with their own processes and timelines (subject to possible European Union (EU) guidance related to the EU minimum tax Directive).

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. The UPE SH, on the other hand, only sets the UTPR Top-up Tax with respect to the UPE jurisdiction to zero when elected. Importantly, the SbS SH does not alter the expected application of Qualified Domestic Minimum Top-up Taxes (QDMTTs) or Domestic Minimum Top-up Taxes (DMTTs).

Actions to consider

MNE Groups should evaluate how electing the SbS SH or the UPE SH could impact their Pillar Two profile in 2026 and beyond, including potential compliance simplifications and changes to reporting and payment obligations. Jurisdictions are generally expected to adopt the SbS SH effective from 1 January 2026, with retrospective application. However, not all jurisdictions may be able to do so given legal or constitutional constraints. 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.

PwC is hosting a webcast at 12:00pm ET on 13 January that will cover the new GloBE Package (register here).

In detail

Side-by-Side Safe Harbour

When elected by a MNE Group, the SbS SH deems the Top-up Tax imposed under both the IIR and UTPR to be zero. The SbS SH is available to MNE Groups with a UPE located in a jurisdiction that has a Qualified SbS Regime listed in the Central Record. The location of the UPE is the location as determined under Article 10.3 of the GloBE Rules.

A jurisdiction can qualify as having a Qualified SbS Regime if it meets four key criteria:

(i) it must have an eligible domestic tax system;

(ii) it must maintain an eligible worldwide tax system;

(iii) it must provide a foreign tax credit for QDMTTs on the same terms as any other creditable Covered Tax; and

(iv) it must have enacted its eligible domestic and worldwide tax systems prior to 1 January 2026 or, if enacted at a later date, its eligibility for the Qualified SbS Regime will be assessed during 2027 or 2028, rather than in the first half of 2026.

For a tax system to be an eligible domestic tax system, it must have a statutory nominal corporate income tax (CIT) rate of at least 20% after taking into account any preferential adjustments and sub-national CITs. The jurisdiction must also have a QDMTT or a corporate alternative minimum tax (AMT) that is based on financial statement income, applied at a nominal rate of at least 15%. Lastly, there must be no material risk that in-scope MNE groups headquartered in the jurisdiction will face an effective tax rate below 15% on their overall domestic profits, with the assessment considering incentives consistent with the treatment under the GloBE Rules and agreed safe harbours.

An eligible worldwide tax system must similarly satisfy three main criteria. Such a system must impose a comprehensive tax regime on all resident corporations' foreign income, encompassing both active and

passive income of controlled foreign companies regardless of distribution status, with only limited income exclusions consistent with the policy objectives of minimum taxation. The system must also incorporate substantial unilateral mechanisms aimed at mitigating base erosion and profit shifting (BEPS) risks to ensure integrity in taxing foreign-source income. Lastly, the system should present no material risk that in-scope MNE groups headquartered in the jurisdiction will be subject to an effective tax rate below 15% on the overall profits of their foreign operations, evaluating incentives in line with the GloBE Rules and agreed safe harbours.

Observation: *The United States is already listed on the IF's Central Record as having a Qualified SbS Regime, confirming that it meets the necessary criteria for an eligible domestic and worldwide tax system. However, it remains unclear how the IF will approach and analyse the more subjective aspects—such as evaluating the material risk of low effective tax rates and the robustness of unilateral BEPS measures—when reviewing and assessing additional jurisdictions' tax systems for eligibility.*

As noted above, jurisdictions are generally expected to adopt the SbS SH effective from 1 January 2026, with retrospective application. However, if a jurisdiction is unable to implement the safe harbour from that date due to constitutional or other superior legal constraints, the jurisdiction is expected to collect only the portion of the UTPR Top-up Tax that corresponds to the amount it would have been allocated assuming the other UTPR jurisdictions, which have adopted the SbS SH, have each fully collected their respective shares. This approach recognises that the other jurisdictions continue to apply a qualified UTPR regime despite the adoption of the SbS SH, and it limits the non-adopting jurisdiction's collection to its proportionate share of UTPR Top-up Tax under these circumstances.

Observation: *MNE Groups will need to closely monitor the legislative developments in each jurisdiction concerning the enactment of the SbS System. Understanding the exact dates when jurisdictions legally implement the SbS System and the corresponding effective dates is critical for MNE groups to determine their eligibility to elect the safe harbour and to manage compliance and financial reporting obligations.*

Observation: *US-parented MNE Groups remain subject to the full scope of the GloBE Rules for Fiscal Years 2024 and 2025, including all related compliance obligations such as calculations, reporting, and filings, even if such MNE Groups qualify for and elect to use the SbS SH beginning in 2026 or later Fiscal Years. As a result, these MNE Groups should continue to prepare to meet the complete compliance requirements for the initial years before potentially benefiting from the administrative simplifications afforded by the SbS SH in subsequent years.*

The SbS SH applies to interests in Joint Ventures (JVs) and JV Subsidiaries. This means that the Top-up Tax arising under the IIR and UTPR with respect to such JV interests is also deemed to be zero. However, the safe harbour does not affect the tax obligations or Top-up Tax liabilities of other groups holding interests in the same JV or JV subsidiary.

The SbS SH does not affect the operation or application of QDMTTs or DMTTs. MNE Groups electing the SBS SH are expected to remain fully subject to QDMTTs and DMTTs, which continue to apply independently of the SbS SH. Accordingly, QDMTT and DMTT compliance obligations remain in effect going forward despite an election to apply the SbS SH.

Importantly, the SbS SH does not relieve a MNE Group from its obligation to file a GloBE Information Return (GIR), though the compliance may be simplified as a result of electing the SbS SH. Information reporting for the SbS SH includes a dedicated election field to be added to Section 1 of the GIR. MNE Groups electing the SbS Safe Harbour will indicate their election in this field, which may exempt the group from reporting certain data points related solely to the IIR and UTPR calculations. In addition, MNE Groups electing the SbS SH must continue to comply with QDMTT reporting obligations, including

submitting the relevant sections of the GIR for QDMTT purposes alongside their SbS SH election reporting.

Jurisdictions listed as having a Qualified SbS Regime are required to notify the IF within three months of enacting any material amendments to their regime. A material change includes modifications that could foreseeably impact the jurisdiction's eligibility or the assessment of risks related to minimum taxation, such as changes in corporate tax rates, the repeal of key tax provisions, or expansion of tax incentives. Upon receiving such notification, the IF will undertake a review to determine appropriate responses, which may include reassessing the jurisdiction's Qualified SbS status.

Observation: *The Administrative Guidance does not outline a specific procedure regarding adoption of appropriate responses, but presumably an appropriate response must be agreed by consensus at the IF. Thus, to the extent the jurisdiction that has a Qualified SbS Regime is an IF member (e.g., the United States), such jurisdiction would need to agree to any proposed response prior to removal from the Central Record or other responses.*

The SbS System is accompanied by an agreement to perform ongoing monitoring and engage in a 'stocktake' process to be concluded by 2029. The stocktake is intended to assess the impact of the GloBE system and the SbS System and to evaluate if any competitive imbalances or base erosion risks arise. In the event that such risks are identified, the IF has indicated that it will take coordinated action to address such matters to preserve the integrity and policy objectives of the GloBE Rules. Jurisdictions adopting or materially amending their SbS regimes must notify the IF within three months of enactment to facilitate oversight and coordinated reviews.

Observation: *The planned stocktake is not a 'sunset' or automatic expiration of the SbS System. Rather, it represents an agreement by IF members to conduct a comprehensive review of the operation and impact of both the GloBE Rules and the SbS System by 2029. Based on the evidence and findings of the stocktake, adjustments or policy responses may be considered and implemented. While the Administrative Guidance does not provide procedural details on this point, any such adjustments, pursuant to the OECD's and the IF's consensus-based approach, presumably would require all IF members to consent to the proposed revisions.*

UPE Safe Harbour

The UPE SH is narrower than the SbS SH in that it only applies with respect to the UPE jurisdiction and only with respect to the UTPR. The UPE SH is available to MNE Groups with a UPE located in a jurisdiction that has a Qualified UPE Regime listed in the Central Record.

For a tax regime to be a Qualified UPE Regime it must meet the 20% statutory CIT threshold described in the SbS SH, it must also have a QDMTT or an alternate minimum tax based on financial accounting income at a rate not less than 15%, and it must ensure that there is no material risk for in-scope MNE groups of sustaining an effective tax rate below 15% on their domestic operations. The domestic tax system must be enacted and effective as of 1 January 2026. Unlike eligibility for the SbS SH, there is no ability to later adopt a Qualified UPE Regime. Further, a jurisdiction must request review of its system during the first half of 2026. No country is currently listed as having a Qualified UPE Regime.

Upon electing the UPE Safe Harbour, the MNE group's Top-up Tax liability under the UTPR with respect to all Constituent Entities located within the UPE jurisdiction is deemed zero for fiscal years commencing on or after 1 January 2026. This election has no bearing on the IIR or UTPR liabilities applicable to the group's operations outside the UPE jurisdiction, nor does it impact compliance requirements regarding IIRs, UTPRs, or QDMTTs elsewhere. The election applies only with respect to the UTPR because the IIRs of other countries would not apply to the UPE jurisdiction.

Like the SbS SH, jurisdictions with Qualified UPE Regimes are listed on the Central Record following assessment and IF consensus approval. Similar considerations to the SbS SH apply with respect to the effective date and notifications of material changes to a Qualified UPE Regime.

Tax accounting considerations

For financial reporting purposes, IFRS and US GAAP require the effects of a change in tax law to be accounted for in the period in which the law is substantively enacted or enacted, respectively.

The OECD's Administrative Guidance is generally not considered tax law, as most jurisdictions with Pillar Two regimes in force will need further legislative action to incorporate the guidance into local law. The tax effects of the guidance should be accounted for in the period when the legislative steps are completed and therefore considered substantively enacted or enacted, as applicable.

Companies should consider whether financial statement disclosure is needed to the extent the guidance is expected to have a significant impact.

Let's talk

For a deeper discussion of how the SbS System 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

Global 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

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

Beth Bell
United States
+1 202-297-9551
beth.bell@pwc.com

Doug McHoney
United States
+1 314-749-7824
douglas.mchoney@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

Andy Wiggins
United Kingdom
+44 7803 737681
andrew.wiggins@pwc.com

Eric Suplee
United States
+1 941-773-6873
eric.m.suplee@pwc.com

Jennifer Schiellack
United States
+1 262-370-0684
jennifer.l.schiellack@pwc.com

© 2026 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

This content is for general information purposes only and should not be used as a substitute for consultation with professional advisors.

Solicitation