

Pillar Two Simplified ETR Safe Harbour

7 January 2026

In brief

What happened?

On 5 January 2026, the OECD released additional Pillar Two Administrative Guidance on the Global Anti-Base Erosion (GloBE) Model Rules, which includes a Simplified Effective Tax Rate (ETR) Safe Harbour. The Simplified ETR Safe Harbour is intended to provide multinational enterprise (MNE) groups with a more practical way to demonstrate that no Top-Up Tax is due in a jurisdiction. The measure is designed to reduce compliance and administrative burdens by allowing MNEs to use financial accounting data and simplified computations rather than the full GloBE Rules.

Why is it relevant?

This safe harbour is intended to replace the Transitional Country-by-Country Reporting (CbCR) Safe Harbour, which was scheduled to expire for fiscal years beginning on or after 31 December 2026, but has been extended for one additional year. The Simplified ETR Safe Harbour forms part of the ongoing Administrative Guidance under the GloBE Model Rules and should be reflected in local Qualified Domestic Minimum Top-up Tax (QDMTT) legislation. It is also expected to serve as a basis for further potential simplifications to the GloBE Rules.

Actions to consider

Even where initial scoping and transitional safe-harbour analysis have been completed, the simplified ETR safe harbour will require fresh modelling of jurisdiction-by-jurisdiction outcomes and reassessment of where full GloBE computations remain necessary. Key actions include mapping current data-collection processes, reviewing jurisdictional ETR outcomes under the approach, and identifying systems or controls that may need enhancement.

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

In detail

Overview and eligibility

Under the new Simplified ETR Safe Harbour, an electing MNE group may deem the Top-up Tax in a jurisdiction as zero if the jurisdiction's Simplified ETR meets or exceeds the designated Minimum 15% Safe Harbour Rate, or if the jurisdiction reports a Simplified Loss for the period. The Simplified ETR Safe Harbour will apply to any Fiscal Year starting on or after 31 December 2026, or on or after 31 December 2025 if a jurisdiction chooses this option and specific conditions are met. The safe harbour is not self-executing and must now be legislated domestically by each Inclusive Framework member in accordance with their own processes and timelines (subject to possible European Union (EU) guidance related to the EU minimum tax Directive).

The Simplified ETR is determined by dividing Simplified Taxes by Simplified Income, both calculated at the jurisdictional level. The computation relies primarily on financial accounting data from consolidated financial statements (CFS), typically IFRS or US GAAP, reducing the need for complex tax-based adjustments when compared to the 'full' GloBE rules or domestic Top-Up Tax regimes.

Certain jurisdictions will require the Simplified ETR calculations to be made in accordance with the local financial accounting standard (LFAS) rather than relying on data from group consolidated financial statements. This requirement is expected to mirror the LFAS standard applied for QDMTTs in those jurisdictions. Where LFAS jurisdictions allow taxpayers to elect to apply CFS, this election must be made consistently everywhere that it is available and applied in each subsequent year for purposes of the calculation.

Eligibility is limited to jurisdictions that have had no Top-Up Tax liability for the preceding 24 months. The safe harbour is unavailable for stateless entities, most investment entities (unless tax transparent), and jurisdictions with an outstanding deemed distribution tax recapture balance. MNEs must also demonstrate that their systems adhere to four integrity principles: matching of income and expenses, full allocation of income to jurisdictions, single deduction of losses and expenses, and single recognition of taxes.

Simplified computation

The Simplified Income calculation starts with jurisdictional profit before income tax and adjusts for specific items to better align with the GloBE policy intent. Adjustments include removing excluded dividends and equity gains or losses and adding back disallowed payments such as bribes, kickbacks, and large fines. The measure also includes tailored rules for the insurance and shipping sectors and a simplified treatment of mergers and acquisitions (M&A) by removing the need to reverse purchase price allocations when both income and deferred taxes are properly reflected. However, goodwill impairments or amortisation without a corresponding deferred tax liability must be added back. Optional fair value elections (including a five-year spreading) are available for certain M&A transactions.

Observation: *The Simplified Income computation will be a welcome change for some MNE Groups which would inadvertently fail the transitional CbCR safe harbour because of amounts that were excluded from GloBE Income. This was especially prevalent for the Shipping Industry (which is largely exempt from Pillar Two), or in the case where there were significant share disposals or dividends*

received from non-Constituent Entities, which often resulted in non-eligibility for the transitional CbCR safe harbour but no Top-Up Tax.

Simplified Taxes are based on income tax expense in the financial accounts, including both current and deferred taxes. Adjustments are made to exclude non-covered taxes, uncertain or unpaid taxes, and deferred tax liabilities not relevant for Pillar Two. Deferred taxes are recast at the Safe Harbour Rate, consistent with the full GloBE Rules. For loss years, negative Simplified Taxes may be carried forward, and transitional rules are provided to address deferred tax assets associated with losses. Optional elections are available to include qualified refundable or transferable tax credits and to apply a GloBE loss election for consistency with the main rules. These options provide flexibility and further simplification for MNE groups in meeting their Pillar Two compliance obligations.

Most elections available under Chapters 3 and 4 of the GloBE Rules also apply under the Simplified ETR Safe Harbour, including loss elections and certain timing and character elections. In addition, groups may elect to treat certain Qualified Refundable or Marketable Transferable Tax Credits as Qualified Tax Incentives, subject to the substance cap.

Observation: *While it is called ‘Simplified Taxes,’ this method offers only very limited simplification. In practice, it closely follows the Model Rules and as a result, most Groups will see considerable differences compared to their financial statements. Although optional adjustments, such as those for Qualified Refundable Tax Credits, may help some Groups meet safe harbour requirements, others might find it more restrictive than the transitional CbCR safe harbour. Importantly, deferred tax expenses linked to deferred tax liabilities (except for Recapture Exception Accruals) are excluded, which may have a significant impact on Groups seeking to use the safe harbour and will often necessitate complex calculations.*

Cross-border simplifications

The safe harbour provides a simplified five-year election for cross-border arrangements involving permanent establishments, hybrid entities, or controlled foreign companies. This election allows related income and tax credits to be aligned within the same jurisdictional ETR computation, eliminating the need for complex inter-jurisdictional tax allocations.

Transfer pricing adjustments are also streamlined—generally, upward adjustments that increase taxable income are reflected in Simplified Income, while corresponding counterparty adjustments are required only when a bilateral advance pricing agreement is in place. The guidance clarifies that post year end transfer pricing adjustments are generally reflected in the year they accrue, with a five-year election available to align income and tax adjustments to the transaction year for adjustments made within 12 months. Special rules apply for transactions recorded at cost and for unilateral TP adjustments to ensure ETR integrity. Where intragroup transactions are recorded at cost in the financial accounts, the Simplified Income of the seller’s Tested Jurisdiction must be adjusted to reflect the transfer price used to determine the taxable income (or the Arm’s Length Price, if the transaction is not taxable).

Administrative and continuity measures

The Simplified ETR Safe Harbour is designed to operate in parallel with the full GloBE computations to ensure smooth transitions between simplified and standard approaches. Deferred tax assets and liabilities arising before the first year of election (the ‘transition year’) are treated in accordance with Articles 9.1.1–9.1.3 of the GloBE rules. Post-year-end tax adjustments generally are recognised in the year they are recorded, with limited need to restate prior-year ETRs.

The guidance also provides a simplified mechanism for handling downward tax adjustments, including refunds, through a 'Qualified Refund Year' concept that can allow refunds effectively to be allocated back to prior years to preserve safe harbour eligibility. This reduces the need for retrospective full GloBE recalculations where no material Top-up Tax risk exists.

A new re-entry mechanism replaces the 'once out, always out' rule from the CbCR Safe Harbour. If an MNE fails to qualify in a particular year, it may re-elect the Simplified ETR Safe Harbour after demonstrating that it had no Top-up Tax liability for two consecutive years.

Next steps

The Inclusive Framework has indicated that it will continue to refine the Simplified ETR Safe Harbour in 2026, with the expectation that jurisdictions will begin domestic implementation shortly thereafter. The OECD also plans to develop further simplifications for other low-risk circumstances, such as de minimis or routine profit tests, that could complement this framework.

Observation: *The Simplified ETR Safe Harbour represents a modest step toward operational simplification under Pillar Two, but it remains far from simple to apply. It should help to reduce the cost and complexity of compliance in jurisdictions consistently above the minimum rate. While this framework offers greater certainty and predictability for both taxpayers and tax authorities, it still requires disciplined data management and internal controls. MNEs will need to ensure their accounting and reporting systems can produce reliable jurisdictional ETR information and demonstrate compliance with the OECD's integrity principles. Groups using multiple accounting standards—particularly where LFAS rules apply—should evaluate how these will interact with consolidated financial statement data under the proposed rules. For some businesses, the ability to elect simplified treatment on a jurisdiction-by-jurisdiction basis will enable a hybrid approach, applying full GloBE calculations only in low-tax or complex jurisdictions.*

Let's talk

For a deeper discussion of how the Simplified ETR Safe Harbour might affect your business, please contact:

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