© The Author(s), 2026. Published by Cambridge University Press on behalf of American Society of International Law. This is an Open Access article, distributed under the terms of the Creative Commons Attribution licence (https://creativecommons.org/licenses/by/4.0/), which permits unrestricted re-use, distribution and reproduction, provided the original article is properly cited.
DOI:10.1017/ilm.2026.10162

INTRODUCTORY NOTE TO GLOBAL ANTI-BASE EROSION MODEL RULES (PILLAR 2), SIDE-BY-SIDE: INCLUSIVE FRAMEWORK ON BEPS (OECD)

BY REUVEN AVI-YONAH*

[January 5, 2026]

Abstract: Under the Side-by-Side (SBS) Package adopted by the OECD in January 2026, the global minimum tax of Pillar 2 of the Base Erosion and Profit Shifting (BEPS) rules will not apply to U.S. multinationals. This introductory note evaluates the SBS rule and its effects on Pillar 2.

Introduction

In 2021, over 140 countries reached an agreement in principle to adopt a 15% global corporate minimum tax for large multinationals. This agreement (Pillar 2) has since been adopted as a directive in the European Union and as binding law in thirty-eight other countries. However, while the Biden administration was fully supportive, it failed to enact it in 2022, and the Trump administration announced that it was rejecting Pillar 2 on its first day in office. Eventually, the OECD agreed to exclude U.S. multinationals from the scope of Pillar 2, leading to questions about its continued viability. This note will argue that Pillar 2 can survive side by side with the U.S. international tax rules, because in some ways they impose tougher minimum tax rules on U.S. multinationals than Pillar 2 does on other multinationals.[1]

The Side-by-Side Agreement

On June 26, 2025, Secretary of the Treasury Scott Bessent announced that a compromise has been reached between the United States and the rest of the G7 (Canada, France, Germany, Italy, Japan, and the United Kingdom), providing that Pillar 2 will not apply to U.S. multinationals. As a result, proposed section 899, which would have imposed retaliatory taxation on corporations from countries that apply Pillar 2 (and specifically the UTPR) to U.S.-based multinationals, was removed from the One Big Beautiful Bill Act (OBBBA), which was enacted without it.[2] In January 2026, the OECD and the Inclusive Framework on BEPS approved the side-by-side (SBS) agreement permanently excluding U.S. multinationals from Pillar 2.

The key issue now is whether Pillar 2 can survive in a SBS system with the U.S. international tax regime, which includes the Net CFC Taxable Income (NTCI) rules and the corporate alternative minimum tax (CAMT)?[3]

There are three reasons to believe that the answer is yes.

First, this example of SBS is only the latest iteration of a continuous pattern of U.S. exceptionalism in tax matters.[4] The United States has the Foreign Account Tax Compliance Act (FATCA) and the Intergovernmental Agreements that implement it, while most of the rest of the world has adopted the Common Reporting Standard and Automatic Exchange of Information. The United States has limitations on benefits provisions in its treaties and has not signed the Multilateral Instrument (MLI), while most of the rest of the world has adopted the MLI and the Primary Purpose Test. The United States has its own model treaty, which exists side by side with both the Organisation for Economic Co-operation and Development (OECD) and the United Nations (UN) models, and these two also exist side by side with each other. More fundamentally, the United States has a modified classical system of corporate/shareholder taxation, while most of the rest of the world has integration—but that too comes in two varieties that exist side by side: dividend exemption and imputation. The United States has a foreign tax credit regime, while many other countries exempt foreign source income. Most significantly, the United States has no federal consumption tax, while the rest of the world (including many federal countries) has the VAT/GST.

All these examples show that SBS can work for a long time. It does create frictions, but they are manageable. For example, having both classical and integrationist countries creates biases,[5] but that has not led to a collapse of the system.

Second, it is not true that SBS will put multinationals from countries that adopt Pillar 2 at a competitive disadvantage vis-á-vis U.S. multinationals. That is because, in many ways, the current U.S. tax regime imposes higher tax costs

*Reuven S. Avi-Yonah is the Irwin I. Cohn Professor of Law at the University of Michigan. He specializes in corporate and international taxation and has served as a consultant to the U.S. Department of the Treasury and the OECD on tax competition.

than Pillar 2—especially after the changes enacted by the OBBBA—for three reasons. First, the NCTI is now a true global minimum tax, whereas Pillar 2 is not because of the Substance Based Income Exclusion (SBIE) and Qualified Refundable Tax Credits (QRTC) exceptions. Second, the final 2022 foreign tax credit regulations largely curtail previous ambiguity about how to treat refundable credits in a way that is significantly harsher than the OECD approach. Third, while the NCTI rate (12.6%, or 14% with foreign tax credits) is deficient and should be raised to 15% to be consistent with the international norm, it is not far from the international norm, especially when combined with the CAMT, which is applied at the same rate (15%) and base (book income) as Pillar 2, albeit on a global basis and to a smaller set of U.S. multinationals.

Because of this, the effective tax rate imposed on U.S. multinationals is likely to be similar to the effective tax rate on multinationals that impose Pillar 2. That was true under the pre-2017 regime even though U.S. multinationals had a significant competitive advantage because of the evisceration of Subpart F by check the box and section 954(c)(6).[6] In this regard, it is interesting that the OBBBA abolished the participation exemption because the alleged competitive disadvantage to U.S. multinationals was a major reason for enacting the TCJA and exempting the 10% return on QBAI altogether.[7] Apparently the Republicans realized that there was no competitive disadvantage after all, even though multinationals from other countries will continue to enjoy the benefits of the SBIE and QRTCs.

Third, the biggest difference between the NCTI and CAMT regimes and Pillar 2 is that the U.S. regimes apply to all CFCs together, so permit averaging, while Pillar 2 applies on a country-by-country basis.[8] That was the main reason why the OECD rejected GILTI as a qualifying Income Inclusion Rule (IIR). But that difference is less likely to be important over time because averaging only matters to U.S. multinationals in an excess credit position and it is likely that, over time, more and more U.S. multinationals will be in an excess limit position or neutral—that is, they will have an average overall foreign tax rate of exactly 14%, which is the rate needed to eliminate NCTI.

After the 1986 tax reform, most U.S. multinationals were in an excess credit position because of the reduction of the U.S. tax rate from 46% to 35%. But by 1995, IRS data show that most U.S. multinationals were in an excess limit position and therefore had "trapped income" that they could not repatriate because there would be a 35% tax on a dividend with no attached foreign tax credits.[9] There were three reasons for this. First, averaging in the general basket under the post-1986 foreign tax credit limit regime enabled U.S. multinationals to reduce their average foreign tax rate. Second, other countries cut their corporate tax rate to be closer to the U.S. tax rate. Finally, after the adoption of check the box, U.S. multinationals became able to costlessly shift income from high-tax to low-tax countries, thereby reducing their foreign tax rate. That is why, in 2004, they lobbied for and received a one-year amnesty for repatriations, and why they accumulated so much low-tax income between 2004 and 2017; by then, most large U.S. multinationals were in an extreme excess limit position.

The same pattern is likely to repeat after 2025. Since the U.S. rate on foreign source income is now 14% under NCTI and 15% under the CAMT, and most other countries will adopt Pillar 2 and impose the IIR or the UTPR at 15%, excess credits are less likely. In addition, many countries will have a QDMTT at 15%, and U.S. multinationals will shift income to these countries from countries that have a higher domestic tax rate.

In addition, because NCTI income is in its own separate basket, it cannot be averaged with passive income—and that is the type of income that is most likely to be low taxed because it is more mobile.

For these reasons, Pillar 2 can easily coexist side by side with the NCTI and CAMT, and the OECD was justified in accepting this outcome.

NOTES

1 The analysis below is based on Reuven Avi-Yonah, *Can Side by Side Work?, 120 Tax Notes Int'l 1637 (Dec. 8, 2025).*

2 Jonathan Curry, Stephanie Soong, and Cady Stanton, *Revenge Tax to Be Scrapped as Bessent Teases Pillar 2 Deal*, taxnotes.com (June 27, 2025), https://www.taxnotes.com/tax-notes-today-federal/legislation-and-lawmaking/revenge-tax-be-scrapped-bessent-teases-pillar-2-deal/2025/06/27/7slp4 (subscription access). House Ways and Means Committee Chairman Jason Smith (R-MO) and Senate Finance

Committee Chairman Mike Crapo (R-ID) issued statements regarding Section 899 and the OECD Pillar 2/global minimum tax project, stating that "at the request of Secretary Bessent and in light of this joint understanding to preserve U.S. tax sovereignty and allow U.S. tax laws to co-exist with the Pillar 2 regime, we will remove proposed tax code Section 899 from the One, Big, Beautiful Bill Act, and we look forward to active engagement with Treasury on these important issues." The Ways and Means Committee version of this statement can be found here. The Finance Committee version of this statement can be found here.

3 B. Anthony Billings and Santanu Mitra, *Is the Global Minimum Tax Viable after the U.S. Side-by-Side Tax Exemption?* (Oct. 7, 2025), https://ssrn.com/abstract=5574176 or https://doi.org/10.2139/ssrn.5574176; Adam Kern, Does the U.S. Exception Threaten Pillar Two?, 188 TAX NOTES FED. 387 (2025), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5369714; Adam Kern, *Reports of Pillar Two's Death Are Greatly Exaggerated*, 186 TAX NOTES FED. 1471 (2025).

4 Reuven Avi-Yonah, *Constructive Unilateralism: U.S. Leadership and International Taxation,* 42 INT'L TAX J. 17 (2016).

5 Reuven Avi-Yonah, *The Pitfalls of International Integration: A Comment on the Bush Proposal and Its Aftermath,* 12 INT'L TAX & PUB. FIN. 87 (2005).

6 Reuven Avi-Yonah and Yaron Lahav, *The Effective Tax Rates of the Largest US and EU Multinationals,* 65 TAX. L. REV. 375 (2012).

7 Reuven Avi-Yonah, *Eliminating QBAI — One Step Forward, Two Steps Back?,* 119 TAX NOTES INT'L 1061 (Aug. 18, 2025).

8 Reuven Avi-Yonah, *Should the OECD Accept GILTI as an Income Inclusion Rule?* 119 TAX NOTES INT'L 1413 (Sep. 1, 2025).

9 SOI Winter 1994-5 Bulletin, 95 *TNT* 66-43 (Apr. 5, 1995).

© The Author(s), 2026. Published by Cambridge University Press on behalf of American Society of International Law. This is an Open Access article, distributed under the terms of the Creative Commons Attribution licence (https://creativecommons.org/licenses/by/4.0/), which permits unrestricted re-use, distribution and reproduction, provided the original article is properly cited.
DOI:10.1017/ilm.2026.10162

GLOBAL ANTI-BASE EROSION MODEL RULES (PILLAR TWO), SIDE-BY-SIDE PACKAGE: INCLUSIVE FRAMEWORK ON BEPS (OECD)*
[January 5, 2026]

OECD/G20 Base Erosion and Profit Shifting Project

Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two), Side-by-Side Package

Inclusive Framework on BEPS

*This text was reproduced and reformatted from the text available at the OECD website (visited June 14, 2026), https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/global-minimum-tax/side-by-side-package.pdf.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

This document was approved and declassified by the OECD/G20 Inclusive Framework on BEPS on 5 January 2026 and prepared for publication by the OECD Secretariat.

Please cite this publication as:
OECD (2026), *Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two), Side-by-Side Package: Inclusive Framework on BEPS*, OECD, https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/global-minimum-tax/side-by-side-package.pdf.

Corrigenda to OECD publications may be found at: https://www.oecd.org/en/publications/support/corrigenda.html.

© OECD 2026

Attribution 4.0 International (CC BY 4.0)

This work is made available under the Creative Commons Attribution 4.0 International licence. By using this work, you accept to be bound by the terms of this licence (https://creativecommons.org/licenses/by/4.0/).

Attribution – you must cite the work.

Translations – you must cite the original work, identify changes to the original and add the following text: *In the event of any discrepancy between the original work and the translation, only the text of original work should be considered valid.*

Adaptations – you must cite the original work and add the following text: *This is an adaptation of an original work by the OECD. The opinions expressed and arguments employed in this adaptation should not be reported as representing the official views of the OECD or of its Member countries.*

Third-party material – the licence does not apply to third-party material in the work. If using such material, you are responsible for obtaining permission from the third party and for any claims of infringement.

You must not use the OECD logo, visual identity or cover image without express permission or suggest the OECD endorses your use of the work.

Any dispute arising under this licence shall be settled by arbitration in accordance with the Permanent Court of Arbitration (PCA) Arbitration Rules 2012. The seat of arbitration shall be Paris (France). The number of arbitrators shall be one.

Table of contents

Foreword 4
1 Side-by-Side Package 6
1. Introduction 6
2. Material Simplifications 6
3. Substance-based Tax Incentives 7
4. Side-by-Side System 8
2 Simplified ETR Safe Harbour 10
1. Introduction 10
2. Simplified Jurisdictional ETR 24
3. Simplified Income or Loss 28
4. Simplified Taxes 40
5. Simplified Treatment of Cross-border Income & Taxes 53
6. Tax-Neutral Entities 59
7. Eligibility Restrictions 61
3 Extension of the Transitional CbCR Safe Harbour 68
1. Introduction 68
2. Administrative Guidance 68
4 Substance-based Tax Incentive Safe Harbour 70
1. Substance-based Tax Incentive Safe Harbour 70
2. Qualified Tax Incentives 71
3. Treatment of Qualified Tax Incentives 74
4. Substance Cap 78
5 Side-by-Side System 79
1. Side-by-Side Safe Harbour 79
2. UPE Safe Harbour 86
References 88

Foreword

1. In October 2021 members of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (Inclusive Framework) agreed a two-pillar solution to reform the international tax framework in response to the challenges of digitalisation of the economy. As part of the October Statement, Inclusive Framework members agreed to a co-ordinated system of Global anti-Base Erosion (GloBE) rules that are designed to ensure large multinational enterprises (MNEs) pay a minimum level of tax on the income arising in each jurisdiction where they operate. In the October Statement, it was agreed that the GloBE Rules would have the status of a common approach. Under this common approach, jurisdictions are not required to adopt the GloBE Rules, but, if they choose to do so, they will implement and administer the rules in a way that is consistent with the agreed outcomes. The common approach also means that Inclusive Framework members accept the application of the GloBE Rules applied by other members, including agreement as to rule order and the application of any agreed safe harbours.
2. The GloBE Model Rules were approved and released by the Inclusive Framework on 20 December 2021 *Tax Challenges Arising from Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS* (OECD, 2021[1]). The GloBE Model Rules consist of an interlocking and co-ordinated system of rules which are designed to be implemented into the domestic law of each jurisdiction and operate together to ensure large MNE Groups are subject to a minimum effective tax rate of 15% on any excess profits arising in each jurisdiction where they operate. Consistent with the intention of the Inclusive Framework, the GloBE Rules (including the IIR and UTPR) are designed so that the imposition of top-up tax in accordance with those rules will be compatible with the provisions of the *United Nations Model Double Taxation Convention between Developed and Developing Countries 2021* (the "UN Model Double Tax Convention") (United Nations Department of Economic and Social Affairs, 2022[2]) and the *Model Tax Convention on Income and on Capital: Condensed Version 2017*, (the "OECD Model Tax Convention") (OECD, 2017[3]).
3. The Commentary to the GloBE Model Rules was first approved and released by the Inclusive Framework on 14 March 2022 *Tax Challenges Arising from the Digitalisation of the Economy – Commentary to the Global Anti-Base Erosion Model Rules (Pillar Two), First Edition: Inclusive Framework on BEPS* (OECD, 2022[4]) The Commentary clarifies the interpretation and operation of the provisions in the GloBE Model Rules and includes some examples illustrating how the rules apply to specific fact patterns. The Commentary is intended to promote a consistent and common interpretation of the GloBE Model Rules in order to provide certainty for MNE Groups and to facilitate co-ordinated outcomes among implementing jurisdictions. Although the Commentary is detailed and comprehensive, it does not provide guidance on every aspect of the GloBE Model Rules.
4. The GloBE Model Rules envision that the Inclusive Framework may issue guidance on both the interpretation and the operation of the rules. The Inclusive Framework has provided interpretive guidance to ensure consistent and common interpretation of the GloBE Rules, provide certainty for MNE Groups and facilitate co-ordinated and transparent outcomes under the rules. Once agreed, the Administrative Guidance is incorporated into the Commentary as it supplements or replaces paragraphs in the Commentary or explains how to apply the language of the rules to particular fact patterns.

Side-by-Side Package

5. This document on the Side-by-Side package includes the Simplified Effective Tax Rate (ETR) Safe Harbour, an extension of the Transitional Country-by-Country Reporting (CbCR) Safe Harbour, the Substance-based Tax Incentive Safe Harbour, and a Side-by-Side System. This Administrative Guidance will be incorporated into the Commentary to the GloBE Model Rules.

1 Side-by-Side Package

1. Introduction

6. The Inclusive Framework recognises the Global Minimum Tax (GMT) as a substantial policy initiative which plays an important role in stabilising the international tax system through a common approach. With a view to

preserving these benefits while providing greater stability, simplicity and certainty, the Inclusive Framework has agreed a package of measures relating to the GMT consisting of material simplifications, greater alignment of substance-based tax incentives with qualified refundable tax credits, and a Side-by-Side (SbS) system. This package of measures has been agreed in the context of an unwavering commitment to address substantial level playing field risks along with risks of base erosion and profit shifting (BEPS). These measures are set out in detail in this document and summarised below.

2. Material Simplifications

7. The Inclusive Framework is committed to delivering material simplifications for both taxpayers and tax administrations in connection with the implementation of the GMT. As a first step in this ongoing commitment, the Inclusive Framework has agreed a package of simplifications including: a Simplified Effective Tax Rate (ETR) Safe Harbour; an extension of the Transitional CbCR (country-by-country reporting) Safe Harbour; and a work programme for additional simplifications.[1]

2.1. *Simplified ETR Safe Harbour*

8. A foundational starting point for simplification is the introduction of a permanent Simplified ETR Safe Harbour. This safe harbour seeks to address a key concern of the business community by substantially reducing the compliance burden associated with the GMT in a meaningful share of jurisdictions where in-scope multinational enterprise groups operate. Under this safe harbour, an MNE Group's ETR is determined pursuant to a simple calculation based on the income and taxes drawn from the MNE Group's reporting packages with minimal adjustments. The Simplified ETR Safe Harbour will be available to MNE Groups in all jurisdictions from the beginning of 2027 or the beginning of 2026 in certain circumstances.

2.2. *Extension of the Transitional CbCR Safe Harbour*

9. To allow sufficient time for smooth implementation of the Simplified ETR Safe Harbour, the Inclusive Framework has also agreed to an extension of the Transitional CbCR Safe Harbour for one year. This will provide in-scope taxpayers the choice of opting either for the Simplified ETR Safe Harbour or the Transitional CbCR Safe Harbour during a transition period.

2.3. *Work programme for additional simplification*

10. While the Simplified ETR Safe Harbour represents a significant step towards simplification of the rules, the Inclusive Framework recognises that the journey does not stop here and commits to a work programme[2] to achieve additional clarifications and simplifications, while ensuring the continued integrity of the rules, including:

    - finishing the ongoing work on a routine profits test and a de minimis test (scheduled to conclude within the first half of 2026);
    - continuing to work, in close cooperation with business and other stakeholders (including through the Amsterdam Dialogue format), towards further simplification of the GloBE Rules themselves with a particular focus also on continuity issues, to ensure that taxpayers can benefit from the simplifications under the safe harbour even where, in a subsequent year, they may not qualify for that safe harbour and are required to calculate their ETR under the full GloBE Rules;
    - taking forward further administrative guidance on technical issues relating to the GloBE Rules; and
    - exploring integration of the simplified calculations in the Simplified ETR Safe Harbour into the design of the GMT, recognising the implementation challenges faced by lower capacity jurisdictions in particular.

11. In addition, the Inclusive Framework will do further work to streamline reporting obligations. This work will consider adaptations to the GloBE Information Return, the GIR XML Schema and the related validation rules to apply the agreed safe harbours. To support a co-ordinated implementation of such reporting obligations and prevent issues that might arise in the exchange of GIR information, this work will be concluded in the first half

of 2026 so jurisdictions can adopt the relevant changes to the GIR in time for the Fiscal Years for which the agreed safe harbours apply.

3. Substance-based Tax Incentives

12. Beyond its work on simplifications, the Inclusive Framework recognises tax incentives are a widely used tool to promote substantial investments and economic development. The Inclusive Framework has therefore adopted a safe harbour to allow MNE Groups to continue to benefit from certain tax incentives that are strongly connected to economic substance in the jurisdiction. This treatment is subject to clear and transparent limits that ensure the GMT will continue to provide an effective floor on income tax competition between jurisdictions.

13. The Substance-based Tax Incentive (SBTI) Safe Harbour allows an MNE Group to treat certain Qualified Tax Incentives (QTIs) as an addition to the Covered Taxes of the Constituent Entities located in the jurisdiction. A QTI is one that is generally available to taxpayers and is calculated based on expenditures incurred (an expenditure-based incentive) or on the amount of tangible property produced in the jurisdiction (production-based tax incentive). A Substance Cap limits the allowance for QTIs by reference to the amount of substance in the jurisdiction. The cap is equal to the greater of 5.5% of the payroll costs or depreciation of tangible assets in the jurisdiction. On an elective basis, the MNE Group can use an alternative cap which is equal to 1% of the carrying value of tangible assets in the jurisdiction.

4. Side-by-Side System

14. While the Inclusive Framework considers that the adoption of a co-ordinated GMT, based on a common approach, should be the primary system for ensuring minimum taxation, the Inclusive Framework also recognises that some jurisdictions may already have implemented a tax regime which incorporates minimum taxation requirements with respect to the domestic and foreign income of MNE Groups headquartered in that jurisdiction. Where such tax regimes have and maintain similar policy objectives, overlapping scope, and a complementary policy impact as the GMT; taking into account the success of qualified domestic minimum top up taxes (QDMTTs), and based on the commitment of members to address any BEPS or level playing field risks arising from the GMT and its interplay with the SbS System, the Inclusive Framework has agreed to the SbS and UPE Safe Harbours that apply to MNE Groups headquartered in jurisdictions which the Inclusive Framework has determined meet the requirements for an eligible tax regime.

15. The SbS Safe Harbour will only be available to an MNE Group that has its UPE located in a jurisdiction which has both an eligible domestic tax regime and an eligible worldwide tax regime. These tax regimes will only be eligible if they effectively achieve a minimum level of taxation of MNE Groups' domestic and foreign operations. When it elects for the safe harbour, an MNE Group will not be subject to the IIR or UTPR.

16. Within this context, the Inclusive Framework also agreed a safe harbour for jurisdictions with regimes that only meet the domestic part of the eligibility criteria. The UPE Safe Harbour will provide a safe harbour with respect to the domestic profits of MNE Groups headquartered in jurisdictions which have a pre-existing eligible domestic tax regime. When it elects for the safe harbour, an MNE Group will not be subject to the UTPR in respect of the profits located in the UPE jurisdiction.

17. Where the Inclusive Framework has determined that a jurisdiction has a Qualified SbS or UPE Regime, that jurisdiction shall be listed as such on the Central Record.

18. Upon request by a member jurisdiction, the Inclusive Framework will assess that jurisdiction's pre-existing tax regimes against the eligibility criteria for a Qualified SbS or UPE Regime by the end of the first half of 2026. The Inclusive Framework will assess the eligibility as a Qualified SbS Jurisdiction of any other IF jurisdiction once that jurisdiction initiates such a request to the Inclusive Framework in 2027 or 2028. The assessment of that jurisdiction's eligibility will be undertaken in a timely manner and on the same basis outlined above and taking into account that the Inclusive Framework considers that the adoption of a co-ordinated GMT, based on a common approach for ensuring minimum taxation (particularly through the implementation of QDMTTs) is critically important and should be the primary system. The timing of any access to the SbS Safe Harbour will

take into consideration when the legislation entered into effect and the time necessary to review the eligibility of a regime as well as any information gathered as part of the stocktake.

19. All MNE Groups (including those eligible for the SbS or UPE Safe Harbours) remain subject to the QDMTT in all QDMTT jurisdictions in which they operate. In all QDMTT jurisdictions, the QDMTT for all MNE Groups must continue to be calculated without the pushdown of taxes on controlled foreign companies or foreign branches.

4.1. *Stocktake*

20. The Inclusive Framework's agreement to the SbS package (including the SbS and UPE Safe Harbours) is underpinned by a commitment to ensure that any substantial risks that might be identified with respect to the level playing field or BEPS are addressed to preserve the common policy objectives of the GMT and the SbS system. In furtherance of this commitment, the Inclusive Framework will undertake a stocktake pursuant to an evidence-based objective process to be agreed by the Inclusive Framework and concluded by 2029.

21. The stocktake will take into account data on the effect of the GMT and the SbS system including the level of implementation of QDMTTs. The stocktake also will assess unintended effects such as any emerging material competitive imbalances identified between MNE Groups and any negative trends in taxpayer behaviours including changes in corporate structures to shift profits to achieve low-tax outcomes (for example, inversions or a material increase in profits located in low-tax jurisdictions without QDMTTs). The stocktake will consider all data that is relevant to making an informed judgment on the operation of the GMT and its interplay with any Qualified SbS Regime or Qualified UPE Regime in light of the common policy objectives.

22. Informed by the stocktake, and to uphold the SbS agreement and facilitate its continued operation, the Inclusive Framework commits to take action to address any substantial identified risks to the level playing field or BEPS. The form of any such action will depend upon the common nature and materiality of any risks identified and an assessment of how those risks could be most effectively addressed in a way that preserves the policy objectives of the SbS agreement and the GMT. The Inclusive Framework also commits to consider targeted solutions where more concentrated level playing field risks arise. The stocktake will also enable the Inclusive Framework to identify opportunities for alignment and simplification including opportunities for enhancing alignment of Qualified UPE Regimes with QDMTTs.

4.2. *Reinforcing effectiveness of QDMTTs*

23. Neither of the safe harbours agreed as part of the SbS System will interfere with or prevent QDMTTs applying to the operation of all MNE Groups and those QDMTTs will continue to be calculated without a pushdown of CFC or other owner-level taxes. In addition, all IF members remain committed to crediting QDMTTs on the same terms as any other creditable foreign income tax.

24. In light of the importance of supporting jurisdictions in their implementation of QDMTTs, the Inclusive Framework will continue with the work on reducing administrative burdens for jurisdictions and simplifying compliance for MNE Groups subject to the GMT. This work will include the identification of possible further coordination opportunities that could reduce the compliance burdens for MNE Groups with operations in QDMTT jurisdictions.

25. The Inclusive Framework agrees that conditional or discriminatory taxes will not be recognised as Covered Taxes and will consider further work on how this will be consistently applied. The qualified status of domestic minimum top-up taxes remains dependent on their consistent and non-discriminatory application to MNE Groups, regardless of whether an MNE Group has elected to apply the SbS Safe Harbour. In light of this, the Inclusive Framework notes the role of the peer review and ongoing monitoring in connection with the GMT, including the work on Related Benefits.

26. Finalising the work on integrity measures will preserve the integral role of QDMTTs by ensuring a minimum level of taxation and addressing any risk of competitive distortions.

2 Simplified ETR Safe Harbour

1. Introduction

1.1. *Development of the Simplified ETR Safe Harbour*

1.1.1. Background

1. In many jurisdictions the combination of a broad tax base and the applicable tax rate means that MNE Groups with operations in those jurisdictions will have an effective tax rate that is expected to exceed 15%. MNE Groups also report that where they are liable to Top-up Taxes, these taxes are typically concentrated in a limited number of jurisdictions. There will consequently be many jurisdictions in which MNE Groups will not incur Top-up Tax liabilities. Requiring compliance with the full GloBE Rules would impose compliance costs for MNE Groups and administrative burdens for jurisdictions that have adopted the GloBE Rules in cases where there is a very low risk of there being any Top-up Tax due.
2. The Transitional CbCR Safe Harbour (TCSH) has provided a temporary solution that alleviates much of the compliance and administration burdens. However, in light of the transitional nature of the safe harbour, Business at OECD (BIAC) approached the Inclusive Framework with a proposal for an alternative permanent safe harbour that would provide simplified calculations that an MNE Group can use to demonstrate that it will not have a Top-up Tax liability in a jurisdiction without the need to undertake the full GloBE computations. Such a simplification would also allow tax administrations to focus compliance resources on the jurisdictions where Top-up Tax liabilities are expected to arise.
3. Following extensive discussions at working party level and constructive and ongoing engagements with business stakeholders via the Business at OECD (BIAC) tax committee and its Business Advisory Group on Pillar Two, the Inclusive Framework has sought to develop a Simplified ETR Safe Harbour which seeks to incorporate the key simplifications identified by BIAC in a way that does not give rise to integrity concerns. As with other safe harbours developed through the Administrative Guidance process, this safe harbour deems the Top-up Tax in a jurisdiction to be zero when it applies. Figure 1.1 below provides an overview of this Simplified ETR calculation.

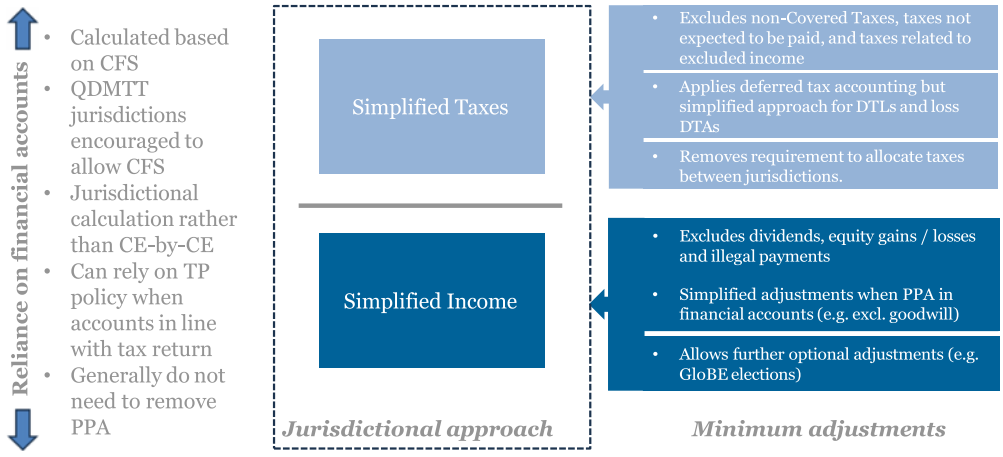


Figure 1.1. Overview of the Simplified ETR calculation

4. The key design elements of the safe harbour, illustrated in Figure 1.1 above and described in further detail below, could be incorporated into the GloBE Model Rules through Administrative Guidance in order to facilitate continuity across years when the MNE Group applies the Simplified ETR safe harbour in some years and not others and provide further compliance simplifications for MNE Groups operating in jurisdictions that do not qualify for the safe harbour. For instance, it may be possible to use some simplifications for purposes of

determining the GloBE ETR (but not necessarily for purposes of determining GloBE Income or Loss). Work on incorporating these simplifications into the GloBE Model Rules will be undertaken in 2026.

1.1.2. Overview of design of safe harbour

5. The following paragraphs describe in further detail the design of the safe harbour as illustrated in the diagram above.

Reliance on the financial accounts

6. The safe harbour calculations will rely primarily on the data collected within the existing accounting systems used by the MNE Group. Both the income and taxes are calculated based on the financial accounting data used to prepare the MNE Group's Consolidated Financial Statements (CFS). QDMTT jurisdictions that have adopted the Local Financial Accounting Standard (LFAS) Rule would, however, by default require the Simplified ETR calculations to be made in accordance with the local financial accounting standard under the same conditions as the full QDMTT calculations (e.g. when all the local constituent entities already collect information in accordance with that standard). Those jurisdictions are not obligated to allow safe harbour calculations based on other financial accounting standards but are encouraged to allow MNE Groups to use the financial accounting standard used to prepare the CFS for the safe harbour calculations when the CFS are prepared under Acceptable Financial Accounting Standards that are widely used by MNE Groups, such as IFRS and US GAAP, and that the jurisdiction's tax administration is familiar with or considers sufficiently similar to the LFAS.

7. Recognising that the existing accounting systems will not always hold sufficiently detailed data at an entity level, MNE Groups will be able to compute the Simplified ETR starting from the jurisdictional data in their accounting systems (i.e. without the need to separately report the Simplified Income or Simplified Taxes for each entity in the jurisdiction), provided that data is consistent with a simple aggregation of the Simplified Income and Simplified Taxes of the local Constituent Entities.

8. To ensure the safe harbour is robust and does not create opportunities for arbitrage, the safe harbour includes eligibility criteria that mean MNE Groups will be required to ensure that each GloBE tax attribute is allocated once, and only once, to a jurisdiction. For example, an MNE Group will not be eligible if its systems produce GloBE accounts in which there is income includible in Simplified Income which is not allocated to any jurisdiction (or a Stateless Constituent Entity).

9. In order to ensure certainty and reduce volatility in the ETR calculation, the Simplified ETR Safe Harbour will allow MNE Groups to rely on the intragroup pricing determined in line with their transfer pricing policy (as reported on their local tax returns) in determining Simplified Income and Simplified Taxes at the jurisdictional level.

10. In line with the TCSH, the safe harbour also allows for simplifications to the jurisdictional income calculation in the case of mergers and acquisitions by removing the requirement to exclude purchase price allocation (PPA) accounting adjustments from the financial accounts (subject to exceptions further detailed below) when the MNE Group's financial accounts include both income and deferred taxes in relation to these items. In such cases, the adjustments can be avoided without creating distortions to the Simplified ETR because the effect on the Simplified ETR of including income and tax adjustments in respect of a PPA will be similar to a Simplified ETR that was calculated on the basis that neither the income nor tax were included. Most MNE Groups that elect to apply the safe harbour should be eligible for these simplifications, which is expected to provide significant simplification because it will allow more MNE Groups to rely on their existing financial accounting data.

Simplified income

11. The Simplified Income calculation is based on the financial accounting data used to prepare the MNE Group's CFS and incorporates a limited number of adjustments. There are a small number of adjustments that the Inclusive Framework considers consistent with the policy of the GloBE Rules. These include the removal of dividends and equity gains and losses, to ensure the Simplified ETR is not distorted through including income

that is commonly exempted from tax (often on the basis that it has already been brought within the charge to taxation), and which is excluded under the GloBE Rules. These adjustments are designed to be improvements over the Transitional CbCR Safe Harbour that are expected to make the Simplified ETR Safe Harbour more accessible and more stable for MNE Groups. In many cases, these basic adjustments to remove dividends and equity gains and losses are expected to be the only adjustments an MNE Group makes to the jurisdictional income calculation.

12. To address integrity concerns, there may also be some further adjustments to income in certain instances, for instance to adjust for a goodwill impairment or a tax-free step-up in basis. The safe harbour includes optional adjustments and elections that MNE Groups can choose to apply. This allows MNE Groups to make additional adjustments which can be significant to the ETR, for example to align the jurisdictional income with the tax base rules in the local jurisdiction. These adjustments allow for better alignment of the safe harbour with the outcomes under the GloBE Rules while avoiding the need for unnecessary adjustments. Similarly, the safe harbour provides for adjustments relevant for MNE Groups in certain industries, like insurance and shipping, that will allow them to access the benefits of the safe harbour.

13. Overall, the safe harbour significantly reduces the number of adjustments compared to the full GloBE computations. This is achieved by relying on other aspects of the financial accounts, which ensure a reliable measure of the ETR for the jurisdiction. For instance, there are simplifications for GloBE Income items that are reported in equity or Other Comprehensive Income (OCI). Those items do not need to be brought into the Simplified Income computation if the related deferred taxes are at or above the Minimum Rate and is also reported in equity or OCI. Excluding that income and related tax from the Simplified ETR computation will not create distortions because including both in the computation would not move the ETR above or below the Minimum Rate.

Simplified taxes

14. The Simplified Taxes calculation is based on the income tax expense reported in the financial accounts and incorporates deferred tax accounting to address the impact of timing differences and to minimise recordkeeping burdens. Deferred tax expense movements related to deferred tax liabilities are not included in the computation if the MNE Group would have been required to determine whether they may reverse after five years and then trace how long it takes for them to reverse under the GloBE Rules ("recapture rule"). This exclusion minimises recordkeeping burden required by the recapture rule, which was one of the key simplifications identified by BIAC. Deferred tax liabilities that relate to items that are not covered by this recapture rule, such as cost recovery allowances on tangible assets or capitalised R&D expenditure, are included in Simplified Taxes. Furthermore, in order to address level playing field and integrity concerns, the net deferred tax expense is recast at the Minimum Rate pursuant to a simplified methodology. Similarly, the safe harbour relies on simplified calculations to address cases where loss deferred tax assets are inflated through permanent differences (or through high-risk timing differences) between financial accounting and the local tax base. This will allow MNE Groups to access the safe harbour in loss years.

15. The safe harbour also disregards valuation allowances and recognition adjustments so that tax losses and other deferred tax assets are appropriately recognised in the ETR computation, addressing a concern that businesses have raised around the Transitional CbCR Safe Harbour. There is also a simplified approach for cross-border allocation of income and taxes in relation to Permanent Establishments where MNE Groups may elect to include both the tax and income at the Main Entity level. The safe harbour also significantly reduces the cases when MNE Groups are required to recalculate the ETRs of earlier Fiscal Years.

Continuity

16. The safe harbour provides a robust ETR test that is designed to provide stability for MNE Groups by limiting the potential for ETR volatility through simplifications, optional adjustments and consistency requirements. Nevertheless, it may be the case that an MNE Group has a low ETR in a jurisdiction in a particular year and cannot qualify for the safe harbour. Allowing such an MNE Group to re-access the safe harbour will ensure the safe harbour provides enduring simplification for MNE Groups. There are re-entry rules which are designed to

prevent the complexities that would arise from an MNE Group routinely bouncing between the safe harbour and the full GloBE computations.

17. The Inclusive Framework will provide further guidance on how the safe harbour income and tax adjustments apply when an MNE Group leaves the safe harbour and enters the full GloBE computations, with a view to preserving the simplifications that can be relied upon during the safe harbour years. The Inclusive Framework will also consider further guidance on how the safe harbour income and tax adjustments apply when an MNE Group has been subject to the full GloBE computations and enters the safe harbour, with a view to preserving continuity.

Next steps

18. The Simplified ETR Safe Harbour represents another milestone in the Inclusive Framework's ongoing commitment to further simplification of the GloBE Model Rules and the accompanying information reporting requirements. The Inclusive Framework will consider information reporting obligations for purposes of the Simplified ETR Safe Harbour and examine whether reporting simplifications could be extended to cases where the safe harbour does not apply. The Inclusive Framework will also monitor the operation of this safe harbour to ensure that it achieves meaningful simplification and will continue to identify opportunities for further simplifications. In doing so, the Inclusive Framework will also seek to incorporate the simplifications developed for the safe harbour into the full GloBE computations, where appropriate.

19. Work is ongoing on a safe harbour for other low-risk situations from a GloBE perspective, which could arise because the level of profit in the jurisdiction is low (a de minimis test) or low in comparison with the substance in that jurisdiction (a routine profits test). The Inclusive Framework will also consider further simplifications for Investment Entities and Minority-Owned Constituent Entities for the purpose of the Simplified ETR Safe Harbour. The work on these simplifications is scheduled to be concluded in the first half of 2026.

20. The Inclusive Framework will monitor whether any refinements are needed to address any integrity concerns. In particular, the Inclusive Framework will develop an anti-arbitrage rule that would apply under the main rules and any safe harbour. This rule would prevent MNE Groups entering into arrangements to avoid Top-up Tax by shifting GloBE Income and Covered Taxes between jurisdictions.

1.2. *Overview of the Simplified ETR Safe Harbour*

Box 1.2. Overview of the Simplified ETR Safe Harbour

Safe Harbour Test

1. At the election of the Filing Constituent Entity, the Top-up Tax in a Tested Jurisdiction for a Fiscal Year shall be deemed to be zero for that Fiscal Year where:
   a. the Tested Jurisdiction has a Simplified ETR of at least the Minimum Rate, where the Simplified ETR is calculated by dividing the Simplified Taxes by the Simplified Income, or
   b. the Tested Jurisdiction has a Simplified Loss.

Tested Jurisdiction

2. A Tested Jurisdiction consists of Constituent Entities, Permanent Establishments, Joint Ventures, or JV Subsidiaries for which a separate ETR is required to be calculated under the GloBE Model Rules.
3. A Filing Constituent Entity may make an Annual Election to include Constituent Entities that are not Minority-Owned Constituent Entities and Same-country Investment Entities located in the same jurisdiction under Article 10.3 and that are eligible to elect the Simplified ETR Safe Harbour under section 7.2 as a single Tested Jurisdiction for purposes of the Simplified ETR Safe Harbour. A Same-country Investment Entity is an Investment Entity or Insurance Investment Entity if all of its Constituent Entity-owners are also located in the same jurisdiction under Article 10.3 as the Entity and none of those owners have made an election under Article 7.5 or Article 7.6.

(*Continued*)

Box 1.2. (*Continued*)

Source of Information

4. The Simplified Income and Simplified Taxes for a Tested Jurisdiction are calculated based on the financial accounting data used to prepare the MNE Group's Consolidated Financial Statement (CFS) consistent with the principles of Article 3.1.2 and 3.1.3, except as otherwise required by the Simplified ETR Safe Harbour.
5. As an exception to paragraph 4, when a QDMTT jurisdiction has adopted the Local Financial Accounting Standard (LFAS) rule and an MNE Group is required to apply the local financial accounting standard for QDMTT computations, that MNE Group must compute the Simplified Income or Loss and Simplified Taxes for that Tested Jurisdiction using the financial accounts prepared under LFAS rule (unless the QDMTT LFAS jurisdiction allows the use of the accounting standard of its CFS for purposes of the Simplified ETR Safe Harbour).

Simplified income

6. Simplified Income or Loss of a Tested Jurisdiction is calculated by adjusting the Jurisdictional Profit (or Loss) before Income Tax by: Basic Adjustments (i.e. removing Excluded Dividends, Excluded Equity Gains or Losses, and adding expenses accrued for bribes, kickbacks, other illegal payments as well as for fines and penalties that equal or exceed EUR 250,000), any applicable Industry Adjustments, Conditional Adjustments, and any Optional Adjustments elected by the MNE Group.
7. The Jurisdictional Profit (or Loss) before Income Tax (JPBT) of a Tested Jurisdiction is equal to the aggregate Financial Accounting Net Income or Loss of the Constituent Entities in the Tested Jurisdiction plus the Jurisdictional Income Tax Expense (JITE) of those Constituent Entities.

Industry Adjustments

Financial Services Industry Adjustments

8. JPBT excludes the insurance company income described in Article 3.2.9, unless the MNE Group makes an Annual Election not to apply the exclusion.
9. JPBT is adjusted for payments and receipts in respect of Additional Tier One Capital and Restricted Tier One Capital pursuant to Article 3.2.10.

Shipping Industry Adjustments

10. JPBT excludes the International Shipping Income and Qualified Ancillary International Shipping Income described in Article 3.3, unless the MNE Group makes a Five-Year Election not to apply the Shipping Income Exclusion in the computation of the Simplified Income for the Tested Jurisdiction in Fiscal Years in which the computation of the aggregate amount of International Shipping Income and Qualified Ancillary International Shipping Income is positive. The election does not apply to any Fiscal Year in which the computation of the aggregate amount of International Shipping Income and Qualified Ancillary International Shipping Income results in a loss. The election does not apply in any Fiscal Year for which the Simplified ETR Safe Harbour does not apply.

Conditional adjustments for Equity-reported Items

11. No adjustment to JPBT is required for an Equity-reported Item of expense or loss.
12. An adjustment to JPBT is required for an Equity-reported Item of income. However, that adjustment is waived when (i) the income is subject to tax at a rate that equals or exceeds the Minimum Rate and (ii) the related income taxes are accounted in equity or OCI. If the related income tax is a deferred tax liability, the condition (ii) can only be met if it is a Recapture Exception Accrual.
13. The Equity-reported Items are:
    a. Included Revaluation Method Gain or Losses (Article 3.2.1(d)); and
    b. Prior Period Errors and Changes in Accounting Principle (Article 3.2.1(h)).

(*Continued*)

Box 1.2. (*Continued*)

M&A Simplification and Fair-value election

14. In general, Chapter 6 of the GloBE Model Rules relating to corporate restructurings applies for purposes of the Simplified ETR Safe Harbour. Accordingly, the effect of the GloBE-to-book Difference attributable to an M&A Transaction must be removed from the JPBT and JITE to determine Simplified Income and Simplified Taxes, except as provided in section 3.4.2.
15. An MNE Group can apply the M&A Simplification to compute the Simplified ETR provided that all of the assets (except for goodwill) and liabilities for which a GloBE-to-book Difference is identified for the Tested Jurisdiction have the same tax basis before and after the M&A Transaction and corresponding deferred tax assets or liabilities accrued at a rate that equals or exceeds the Minimum Rate.
16. Pursuant to the M&A Simplification:
    a. the effect of the GloBE-to-book Difference on the JPBT for the Tested Jurisdiction is not removed from the computation;
    b. the accrual of the deferred tax assets and liabilities attributable to the M&A Transaction is not included in Simplified Taxes, and
    c. the reversal of deferred tax assets and liabilities attributable to the M&A Transaction, including deferred tax liabilities that are not Recapture Exception Accruals, is included in Simplified Taxes.
17. Any impairment or amortization of goodwill that does not have a corresponding deferred tax liability (or that has a corresponding deferred tax liability recorded at a tax rate below the Minimum Rate) is added back to the JPBT (and the reversal of the related deferred tax liability, if any, is excluded from Simplified Taxes).
18. In a year for which the Simplified ETR Safe Harbour is elected, an MNE Group may make an election under Article 6.3.4 where the tax basis of the assets and liabilities is adjusted to the fair value as determined in connection with a triggering event (including a triggering event related to an M&A Transaction) that occurs for local tax purposes in the current Fiscal Year.
19. In a year for which the Simplified ETR Safe Harbour is elected, an MNE Group may also make an election under Article 6.3.4 in relation to assets and liabilities where the tax basis of the assets and liabilities is adjusted to the fair value as determined in connection with an M&A Transaction that occurred in a prior Fiscal Year, provided that the Article 6.3.4 election was not available for that year. When an election under Article 6.3.4 is made pursuant to this paragraph, the GloBE-to-book Difference of each asset and liability is included in the computation of Simplified Income either in the year of the election or ratably over a five-year period, starting from the year of the election. The Article 6.3.4 election applies to all the assets and liabilities that were transferred in the relevant M&A Transaction.
20. Any amount of gain or loss allocated to a Fiscal Year pursuant to an Article 6.3.4 election is included in the Simplified Income of that Fiscal Year.
21. An M&A Transaction means a transaction in which assets and liabilities are transferred in connection with:
    a. an acquisition of the controlling Ownership Interest of an Entity that is not described in Article 6.2.2, or
    b. a GloBE Reorganization.
22. GloBE-to-book Difference means the difference between the GloBE carrying values of the assets and liabilities acquired in an M&A Transaction (and determined in accordance with Articles 6.2 and 6.3) and the accounting carrying values of those assets and liabilities that is attributable to the M&A Transaction and any corresponding deferred tax assets and liabilities reflected in the financial accounts.

Simplified Taxes

23. The starting point for the determination of the Simplified Taxes for a Tested Jurisdiction is the Jurisdictional Income Tax Expense. This amount is equal to the sum of the current and deferred

(*Continued*)

Box 1.2. (*Continued*)

income tax expense or benefit accrued in the FANIL of the Constituent Entities located in the Tested Jurisdiction and any deferred taxes recorded at the consolidated level that are attributable to Constituent Entities in the Tested Jurisdiction.

24. This amount is then subject to the following adjustments:
    a. Policy-based adjustments (i.e. reduced by current or deferred tax expense attributable to a tax that is not a Covered Tax under Article 4.2.2, and adjusted for tax refunds and credits under Article 4.1.3 (b) and (c));
    b. Adjustment to ensure correlation between Simplified Taxes and Simplified Income (i.e. reduced by the amount of any tax expense associated with items of income that are not included in Simplified Income, under Article 4.1.3(a) and 4.4.1(a));
    c. Adjustments for uncertain taxes and taxes that are not payable promptly (i.e. adjusted for accruals and payments of uncertain tax positions under Articles 4.1.2(c) and 4.1.3(d), reduced by the amount of current tax expense not expected to be paid within three years under Article 4.1.3(e), and adjusted under Article 4.4.6 for accrual or reversal of uncertain tax positions and taxes on distributions);
    d. Deferred Tax Adjustments.
        i. Deferred tax expense is recast at the Minimum Rate using the following formula:

$$\textit{Deferred Tax Expense in Simplified Taxes} * \frac{\textit{Minimum Rate}}{\textit{Accounted Tax rate}}$$

        where:
        - The Deferred Tax Expense in Simplified Taxes is the total amount of deferred tax expense, including the accrual and reversal of deferred tax assets and liabilities that are taken into account in the Simplified Taxes for the Tested Jurisdiction for the Fiscal Year; and
        - The Accounted Tax Rate is the income tax rate used to recognise deferred taxes in the relevant financial accounts (before any valuation allowance).

        ii. Deferred tax expenses are reflected without regard to any valuation allowances, or accounting recognition adjustments.
        iii. Deferred tax expenses are adjusted for changes in the income tax rate under Article 4.4.1(d), and
        iv. Deferred tax expenses related to deferred tax liabilities that are not Recapture Exception Accruals are excluded. The DTL Recapture Rule generally does not apply under the Safe Harbour.
    e. Any Optional Adjustments elected by the MNE Group.

Simplified Adjustment for Negative Taxes in Simplified Loss year

25. In a Fiscal Year for which a Simplified Loss and negative Simplified Taxes are determined for a Tested Jurisdiction, the Simplified Adjustment for Negative Taxes, if any, must be determined.
26. The Simplified Adjustment for Negative Taxes is the negative amount, if any, that results from subtracting the product of the Simplified Loss multiplied by the Minimum Rate from the Simplified Taxes. The Simplified Adjustment for Negative Taxes formula can be expressed as follows:

$$\textit{Simplified Taxes} - (\textit{Simplified Loss} * \textit{Minimum Rate}).$$

27. The Simplified Adjustment for Negative Taxes is carried forward and included in the computation of Simplified Taxes, or Adjusted Covered Taxes in a Fiscal Year to which the safe harbour does not apply, in the same manner as the Excess Negative Tax Carry-forward is included in the computation of Adjusted Covered Taxes.

(*Continued*)

Box 1.2. (*Continued*)

28. In lieu of paragraphs 25 through 27, an MNE Group may elect to determine a Loss DTA Adjustment for a Fiscal Year during the Transitional Period if it had a tax loss, a Simplified Loss and Net Negative Taxes for the Transition Year and each Fiscal Year in the Transitional Period preceding that Fiscal Year. The Loss DTA Adjustment is carried forward and reduces (but not below zero) the amount of the loss DTA reversal tentatively computed in the Simplified Taxes (or Adjusted Covered Taxes) in a subsequent Fiscal Year. The Loss DTA adjustment is reduced at the end of each year by the amount used to reduce the loss DTA reversal in that year, and any outstanding amount is carried forward to subsequent years.
    a. The Loss DTA Adjustment is the sum of: (i) the amount of the loss DTA reflected in the JITE (determined without regard to valuation allowance or accounting recognition adjustment) attributable to permanent differences (including non-economic deductions and exempt income) recast at the Minimum Rate, and (ii) the amount of deferred tax liabilities accrued during the Fiscal Year attributable to goodwill and other intangibles with an indefinite life recast at the Minimum Rate.
    b. An MNE Group has Net Negative Taxes for a Fiscal Year when the JITE for the Tested Jurisdiction, adjusted for valuation allowances and accounting recognition adjustments on deferred tax assets, is nil or a net negative amount.
    c. The Transitional Period is comprised of five consecutive Fiscal Years starting with the Transition Year.
29. If any Excess Negative Tax Carry-forward is outstanding at the beginning of a Fiscal Year, that Excess Negative Tax Carry-forward is included in the computation of Simplified Taxes in the same manner as the Excess Negative Tax Carry-forward is included in the computation of Adjusted Covered Taxes.

Optional adjustments

30. An MNE Group may make any of the GloBE elections permitted under Chapter 3 of the GloBE Model Rules and related Commentary.
31. The Non-Material Constituent Entities Simplified Calculation is available under the Simplified ETR Safe Harbour.
32. The following GloBE adjustments are required for the Simplified ETR computation, unless the MNE Group makes a Five-Year Election not to make the adjustment:
    a. Asymmetric Foreign Exchange Currency Gain or Loss (Article 3.2.1(f));
    b. Accrued Pension Expense (Article 3.2.1(i)); and
33. An MNE Group may make an Annual Election to include in its Simplified Taxes any amount of Covered Taxes accrued as an expense but not included in income tax expense in the financial accounts in accordance with Article 4.1.2(a).
34. An MNE Group may make an Annual Election to include in Simplified Taxes any Covered Taxes related to an Equity-reported Item of income that is included in Simplified Income or Loss under section 3.4.1.
35. An MNE Group may make an Annual Election to include in Simplified Taxes and Simplified Income the amount of any tax credits that:
    a. are Qualified Refundable Tax Credits or Marketable Transferable Tax Credits;
    b. are accounted as tax reduction in the JITE; and
    c. originated in the Fiscal Year of the election or in a prior fiscal year but are not fully utilised as of the year of the election. In the latter case: (i) the amount of the tax credit not yet utilised as of the year of the election is included in the Simplified Income in the year of election, and (ii) the election continues to apply until the tax credit is fully utilised.
36. The election for Substance-based Tax Incentive Safe Harbour is available under the Simplified ETR Safe Harbour.
37. An MNE Group may elect to apply the GloBE Loss election (Article 4.5).

(*Continued*)

Box 1.2. (*Continued*)

Transition Year rules

38. The Transition Year for a Tested Jurisdiction that has not already had a Transition Year is the first year that the MNE Group elects the Simplified ETR Safe Harbour for the Tested Jurisdiction.
39. Articles 9.1.1 to 9.1.3 and the related Commentary apply in determining Simplified Income and Simplified Taxes.

Tax adjustments after year end

40. Where there is an change (increase or decrease) to the Covered Tax liability or income for a Fiscal Year (the transaction year) that is accrued after the end of that Fiscal Year, the increase or decrease in tax or income is included in the Simplified Taxes or Simplified Income for the Fiscal Year in which it is reflected in the financial accounts (the accrual year), except as provided in paragraph 42.
41. An MNE Group may make a Five-Year Election to include all increases or decreases in Covered Tax liability and income that accrue within 12 months of the end of the transaction year in the Simplified Taxes and Simplified Income of the transaction year. This election applies to increases or decreases in Covered Tax liability and income in all jurisdictions in which the MNE Group operates. This election does not apply to Covered Tax liability or income adjustments related to transfer price adjustments and can be made independently of the election for transfer price adjustments in section 5.2.
42. If a net decrease to the Covered Tax liability for a previous Fiscal Year that is not attributable to a decrease in Simplified Income accrued more than 12 months after the end of that Fiscal Year and including that net decrease in the Simplified Taxes of the accrual year would cause the Simplified ETR to be below the Minimum Rate, the MNE Group may exclude the net decrease for that previous Fiscal Year from the Simplified Taxes of the accrual year if:
    a. after adjusting the Simplified Taxes by the net decrease accrued in any Fiscal Year in respect of that previous Fiscal Year and any corresponding deferred tax effects for that previous Fiscal Year, the Simplified ETR for that previous Fiscal Year is not below the Minimum Rate; or
    b. after adjusting the Adjusted Covered Taxes by the net decrease accrued in any Fiscal Year in respect of that previous Fiscal Year and any corresponding deferred tax effects for that previous Fiscal Year, the GloBE ETR for that previous Fiscal Year is not below the Minimum Rate.

Cross-border allocation of income and taxes

43. An MNE Group must follow Articles 3.4, 3.5, and 4.3.2(b) to allocate income and taxes of a Permanent Establishment (PE) and Flow-through Entity.
44. The amount of taxes allocable from a Main Entity to a PE or from a Constituent Entity-owner to a subsidiary Constituent Entity under Article 4.3.2(a), (c), (d), or (e) are excluded from all Tested Jurisdictions, unless the MNE Group makes the Five-Year Election in paragraph 50. However, withholding taxes imposed on distributions from a Constituent Entity by the jurisdiction where that subsidiary Constituent Entity is located are not excluded.
45. In lieu of applying Articles 3.4.4 and 3.4.5, a Filing Constituent Entity may make a PE Simplification Election with respect to Permanent Establishments of Main Entities located in a jurisdiction that has adopted anti-hybrid rules consistent with BEPS Action 2 and that has a taxable branch regime. The election is subject to the condition that any deferred taxes on the Main Entity's income and expenses attributable to domestic operations are not reflected in JITE below the Minimum Rate.
46. Under the PE Simplification Election:
    a. the Simplified Income or Loss of each PE is included in the Simplified Income or Loss of the Main Entity's Tested Jurisdiction to the extent that it is treated as income or loss in the computation of the domestic taxable income under the taxable branch regime in the Main Entity jurisdiction;
    b. the Main Entity's current and deferred taxes related to the income or loss of those PEs as determined under the tax legislation are included in the Simplified Taxes of the Main Entity's Tested Jurisdiction;

(*Continued*)

Box 1.2. (*Continued*)

c. the amount of foreign tax credit used by the Main Entity to reduce its current tax expense related to including the PE's income are included in the Simplified Taxes of the Main Entity's Tested Jurisdiction; and
d. the Simplified Income and Simplified Taxes of the PE's Tested Jurisdiction (or GloBE Income and Adjusted Covered Taxes of the PE's jurisdiction, if the Simplified ETR Safe Harbour does not apply) are determined without regard to Article 3.4.5 and Article 4.3.4.

47. The PE Simplification Election is an Annual Election and is made on a jurisdictional basis. Where a Simplified Loss of a PE has been included in the Simplified Income of a jurisdiction pursuant to the election, the MNE Group must make the election in each subsequent Fiscal Year until the Fiscal Year after the Simplified Income of the Main Entity's jurisdiction has included an equal amount of Simplified Income of that PE.
48. For the purposes of the PE Simplification Election, where there are foreign tax credits attributable to different types of foreign source income, the MNE Group determines the amount of foreign tax credit used in the year and related to PE income by multiplying the total amount of foreign tax credit used in the year by the ratio of the PE income included in taxable income to the total amount of foreign source income included in taxable income. The amount of foreign tax credit included in Simplified Taxes cannot exceed the result of multiplying the nominal tax rate in the Main Entity jurisdiction by the total income of PEs included in Main Entity's taxable income.
49. The PE Simplification Election has no impact on the Simplified ETR Safe Harbour computation of the Tested Jurisdiction of a PE. The Simplified ETR Safe Harbour computations for those Tested Jurisdictions mirror the QDMTT approach and an MNE Group must exclude any taxes paid by a Main Entity on income attributable to a PE from the Simplified ETR computation for the Tested Jurisdiction of the PE, unless an election under paragraph 50 below is made.
50. An MNE Group may make a Five-Year Election to allocate taxes described in Article 4.3.2(a), (c), (d) and (e) to another Constituent Entity in accordance with Articles 4.3.2 and 4.3.3. Where those taxes are allocated to a Constituent Entity that is located in a jurisdiction that does not have a QDMTT, the taxes are included in the Simplified Taxes for the Tested Jurisdiction that includes that Constituent Entity.

Transfer pricing adjustments

Transactions between Constituent Entities located in different Tested Jurisdictions.

51. Where there is a TP taxable income adjustment made after the end of the Fiscal Year, that relates to transaction between Constituent Entities located in different Tested Jurisdictions, the TP taxable income adjustment is included as an adjustment to JPBT of the Fiscal Year in which it accrued (the accrual year). A TP taxable income adjustment is equal to the difference between the transfer price recorded in the financial accounts at the end of the Fiscal Year and the transfer price used to compute taxable income for the year. Any increase or decrease in Covered Tax liability attributable to the TP taxable income adjustment is also included in the accrual year. Where there is a TP taxable income adjustment in a Tested Jurisdiction and no corresponding TP taxable income adjustment in the counterparty, an adjustment equal to the TP taxable income adjustment must be made to the JPBT of the counterparty's Tested Jurisdiction.
52. An MNE Group may make a Five-Year Election to include TP taxable income adjustments and any related increases or decreases in Covered Tax liability that accrue within 12 months of the end of the Fiscal Year for which the TP taxable income adjustments are made (the transaction year) as an adjustment to JPBT and JITE of the transaction year. This election applies to TP taxable income adjustments and any related increase or decrease in Covered Tax liability in all jurisdictions in which the MNE Group operates.

(*Continued*)

Box 1.2. (*Continued*)

Transactions between Constituent Entities located in different Tested Jurisdictions that are accounted at cost

53. Where a Constituent Entity (the seller) has transacted with another Constituent Entity (the buyer) in a different Tested Jurisdiction and the transaction is recorded at cost in the financial accounts, the JPBT 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).
54. The buyer will use the carrying value in the financial accounts of its assets (except intangible assets) and liabilities to determine its Simplified Income. The buyer also must use the corresponding DTA (recast at the Minimum Rate) recorded in respect of the difference between the tax and accounting carrying values in computing its Simplified Taxes. The Simplified Income and Simplified Taxes for the buyer's jurisdiction are calculated based on the Arm's Length Price for any intangible assets that were transferred and based on the carrying value of the asset or liability recorded in its financial accounts for all other assets and liabilities arising from the transaction.

Transactions between Constituent Entities in the same Tested Jurisdiction

55. Paragraph 51 applies to a sale or other transfer of an asset between Constituent Entities that are located in the same Tested Jurisdiction when that sale or transfer results in a loss. If the tax law of the jurisdiction disallows the loss instead of adjusting the sale price to arm's length, the amount of the disallowed loss is deemed to be a transfer pricing adjustment in the amount of the disallowed loss.

Tax Neutral UPEs

56. The Simplified Income or Loss and Simplified Taxes of a UPE that is a Flow-through Entity or a Permanent Establishment described in Article 7.1.4 shall be reduced in accordance with Article 7.1. As an exception, the Simplified Income or Loss and Simplified Taxes of any such Entity shall be deemed to be zero where all the Ownership Interests in the UPE are held by Qualified Persons.
57. The Simplified Income or Loss and Simplified Taxes of a UPE or Constituent Entity described in Article 7.2.3 that is subject to Deductible Dividend Regime shall be reduced in accordance with Article 7.2. As an exception, the Simplified Income or Loss and Simplified Taxes of any such Entity shall be deemed to be zero where:
    a. all the Ownership Interests in the UPE are held by Qualified Persons; and
    b. all the income is distributed as Deductible Dividends.
58. If the Simplified Income or Loss and Simplified Taxes of all the Entities in a Tested Jurisdiction are deemed to be zero under paragraph 56 or 57, the Top-up Tax for the Tested Jurisdiction is deemed to be zero.
59. If the conditions of paragraph 58 are not met, the Top-up Tax for the Tested Jurisdiction is deemed to be zero if the Simplified ETR for the jurisdiction equals or exceeds the Minimum Rate after adjusting Simplified Income or Loss and Simplified Taxes for the Tested Jurisdiction in accordance with paragraphs 56 and 57.
60. For purposes of paragraphs 56 and 57, a Qualified Person means:
    a. in respect of a UPE that is a Flow-through Entity, a holder described in Article 7.1.1 or Article 7.1.2; and
    b. in respect of a UPE that is subject to Deductible Dividend Regime, a holder described in Article 7.2.1.

Tax Transparent Entities

61. The Simplified Income or Loss and Simplified Taxes of a Tax Transparent Entity other than a UPE shall be deemed to be zero where all of the income and taxes of the Tax Transparent Entity (after application of Article 3.5.3) is allocated to Permanent Establishments under Articles 3.5.1(a) and 4.3.2(a) or to Constituent Entity-owners under Articles 3.5.1(b) and 4.3.2(b).

(*Continued*)

Box 1.2. (*Continued*)

62. If the Simplified Income or Loss and Simplified Taxes of all of the Entities in a Tested Jurisdiction are deemed to be zero under paragraph 61, the Top-up Tax for the Tested Jurisdiction is deemed to be zero.

Investment Entity Tax Transparency Election

63. The Top-up Tax of an Investment Entity or Insurance Investment Entity shall be deemed to be zero for a Fiscal Year where it is treated as a Tax Transparent Entity for all of its Constituent Entity-owners due to an election under Article 7.5 or under the definition of Tax Transparent Entity in Article 10.2.

Ineligible Tested Jurisdictions

64. An MNE Group is not eligible to elect the Simplified ETR Safe Harbour for the following Tested Jurisdictions:
    a. Stateless Constituent Entities, except as provided in section 6.2;
    b. Investment Entities, except as provided in section 6.3; and
    c. Tested Jurisdictions with Constituent Entities in respect of which the MNE Group has made an Eligible Distribution Tax System election under Article 7.3 and there is an outstanding balance of the Deemed Distribution Tax Recapture Account for the jurisdiction at the beginning of the Fiscal Year.

First Election and Re-entry Requirements

65. An MNE Group is eligible to elect the Simplified ETR Safe Harbour for the first time in respect of a Tested Jurisdiction for a Fiscal Year if it did not have a Top-up Tax liability for that Tested Jurisdiction in every Fiscal Year beginning within 24 months before the first day of the Fiscal Year for which the Simplified ETR Safe Harbour is elected.
66. If an MNE Group fails to qualify for the Simplified ETR Safe Harbour in a Fiscal Year after electing it in a previous Fiscal Year for the same Tested Jurisdiction, the MNE Group may re-elect the Simplified ETR Safe Harbour if it did not have Top-up Tax liability in any of the Fiscal Years beginning within 24 months of the first day of the Fiscal Year for which the Safe Harbour was not elected, under either (i) full GloBE Rules or (ii) any Specified Safe Harbour.
67. A Specified Safe Harbour means the Simplified Calculation Safe Harbour for Non-Material Constituent Entities and any other Safe Harbour that the Inclusive Framework agrees on and that it considers should be treated as a Specified Safe Harbour for purposes of the re-entry rule.

Integrity rules

68. To be eligible for the Simplified ETR Safe Harbour, an MNE Group must make the necessary adjustments to its Simplified Income and Simplified Taxes computations to produce outcomes which are consistent with the following four principles:
    a. Matching principle – intragroup income is not recognised in a Fiscal Year later than the Fiscal Year when the corresponding expense is recognised and the amount of income matches the amount of the corresponding expense;
    b. Full allocation principle – all income is allocated to a Tested Jurisdiction;
    c. Single expense and loss principle – expenses and losses are only deducted once and in a single Tested Jurisdiction; and
    d. Single tax principle – taxes are only recorded once and in a single Tested Jurisdiction.
69. When the matching principle is not satisfied, the MNE Group must adjust the JPBT in the Tested Jurisdiction of the Constituent Entity that recognised the expense to eliminate the expense. However, if the matching principle would be failed solely because one of the parties applies the safe harbour using a Local Financial Accounting Standard, the matching principle will be treated as being satisfied.
70. When the full allocation principle is not satisfied, the MNE Group must include the income in the correct Tested Jurisdiction under the Model GloBE Rules.
71. When the single expense and loss principle is not satisfied, the MNE Group must adjust the JPBT in the Tested Jurisdiction of any Constituent Entity that recognised the expense to eliminate the expense.

(*Continued*)

Box 1.2. (*Continued*)

72. Any financial instrument issued by one Constituent Entity and held by another Constituent Entity in the same MNE Group must be classified as debt or equity consistently for both the issuer and the holder based on the financial accounting standard used by the issuer in the computation of its Simplified Income.

Applicability date

73. A Filing Constituent Entity can elect the Simplified ETR Safe Harbour for a Tested Jurisdiction for a Fiscal Year that commences on or after 31 December 2026.
74. [*Optional provision*] A Filing Constituent Entity can elect the Simplified ETR Safe Harbour for a Tested Jurisdiction for a Fiscal Year that commences on or after 31 December 2025 if:
    a. The QDMTT Safe Harbour applies with respect to the Tested Jurisdiction;
    b. Only one Jurisdiction has taxing rights under the GloBE Rules with respect to the Tested Jurisdiction; or
    c. All Jurisdictions that have taxing rights under the GloBE Rules with respect to the Tested Jurisdiction have made the Simplified ETR Safe Harbour available for any Fiscal Years that commence on or after 31 December 2025 under their relevant legislation and an election for the Simplified ETR Safe Harbour is made by the MNE Group with respect to that Tested Jurisdiction in applying the legislation of all those Jurisdictions.

2. Simplified Jurisdictional ETR

Box 2. Simplified Jurisdictional ETR

1. At the election of the Filing Constituent Entity, the Top-up Tax in a Tested Jurisdiction for a Fiscal Year shall be deemed to be zero for that Fiscal Year where:
    a. the Tested Jurisdiction has a Simplified ETR of at least the Minimum Rate, where the Simplified ETR is calculated by dividing the Simplified Taxes by the Simplified Income, or
    b. the Tested Jurisdiction has a Simplified Loss.
2. A Tested Jurisdiction consists of Constituent Entities (including Permanent Establishments), Joint Ventures, or JV Subsidiaries for which a separate ETR is required to be calculated under the GloBE Model Rules.
3. A Filing Constituent Entity may make an Annual Election to include Constituent Entities that are not Minority-Owned Constituent Entities and Same-country Investment Entities located in the same jurisdiction under Article 10.3 and that are eligible to elect the Simplified ETR Safe Harbour under section 7.2 as a single Tested Jurisdiction for purposes of the Simplified ETR Safe Harbour. A Same-country Investment Entity is an Investment Entity or Insurance Investment Entity if all of its Constituent Entity-owners are also located in the same jurisdiction under Article 10.3 as the Entity and none of those owners have made an election under Article 7.5 or Article 7.6.
4. The Simplified Income or Loss and Simplified Taxes for a Tested Jurisdiction are calculated based on the financial accounting data used to prepare the MNE Group's Consolidated Financial Statement (CFS) consistent with the principles of Articles 3.1.2 and 3.1.3, except as otherwise required by the Simplified ETR Safe Harbour.
5. As an exception to paragraph 4, when a QDMTT jurisdiction has adopted the Local Financial Accounting Standard (LFAS) rule and an MNE Group is required to apply the local financial accounting standard for QDMTT computations, that MNE Group must compute the Simplified Income or Loss and Simplified Taxes for that Tested Jurisdiction using the relevant local financial accounting standards (unless the QDMTT LFAS jurisdiction allows the use of the accounting standard of its CFS for purposes of the Simplified ETR Safe Harbour).

2.1. *Tested Jurisdiction*

2.1.1. In general

21. The Simplified ETR Safe Harbour is applied on a Tested Jurisdiction basis. A Tested Jurisdiction consists of a single Constituent Entity or a group of Constituent Entities for which a separate ETR is required to be calculated for the purposes of the GloBE Rules. The term Constituent Entity should be interpreted in the safe harbour rules to include a Permanent Establishment, Joint Venture, or JV Subsidiary where the context requires.

22. The location of a Constituent Entity, Joint Venture or JV Subsidiary is determined by applying Article 10.3 of the GloBE Rules. Generally, Constituent Entities that are located in the same jurisdiction are blended in a single Tested Jurisdictions for purposes of the GloBE Rules and the Simplified ETR Safe Harbour. In some instances, an MNE Group may have multiple Tested Jurisdictions for Constituent Entities located in a single jurisdiction. For instance, each of the following groups of Constituent Entities are treated as a separate Tested Jurisdiction:

    a. all Constituent Entities, including Non-Material Constituent Entities, located in the same jurisdiction, except those described in paragraphs (d) and (e) below;

    b. all members of the same JV Group located in the same jurisdiction;

    c. each stand-alone Joint Venture;

    d. all Constituent Entities of the same Minority-Owned Subgroup located in the same jurisdiction; and

    e. each stand-alone Minority-Owned Constituent Entity (MOCE).

23. In addition, each Investment Entity and Insurance Investment Entity that is eligible for the Safe Harbour as provided in section 6.3 is treated as a separate Tested Jurisdiction and each Stateless Constituent Entity that is eligible for the safe harbour as provided in section 6.2 is treated as a separate Tested Jurisdiction.

24. For example, if an MNE Group has 10 Constituent Entities (that are not MOCEs or Investment Entities), three entities belonging to one JV Group and two entities belonging to different JV Group, one stand-alone MOCE and one Investment Entity (that is eligible for the Simplified ETR Safe Harbour under Section 6.3) located in jurisdiction A, then the MNE Group has five Tested Jurisdictions for the purpose of the Simplified ETR Safe Harbour in jurisdiction A: one Tested Jurisdiction for the 10 Constituent Entities, one Tested Jurisdiction for each of the two JV Groups, one Tested Jurisdiction for the stand-alone MOCE, and one Tested Jurisdiction for the Investment Entity.

25. Excluded Entities are not Constituent Entities of an MNE Group and are not subject to the GloBE Rules (except for purposes of calculating the revenue threshold for an MNE Group to which they belong or unless the MNE Group elects not to treat an Entity as Excluded Entity under Article 1.5.3). Accordingly, as with the GloBE Rules, the income and taxes of Excluded Entities are not included in the Simplified ETR computation for any Tested Jurisdiction (except in the case of an election under Article 1.5.3).

2.1.2. Election for Investment Entities

26. A Filing Consituent Entity may make an Annual Election to include Constituent Entities (that are not MOCEs) and Same-country Investment Entities located in the same jurisdiction under Article 10.3 and that are eligible to elect the Simplified ETR Safe Harbour under section 7.2, in a single Tested Jurisdiction. A Same-country Investment Entity is an Investment Entity and Insurance Investment Entity if all of its Constituent Entity-owners are also located in the same jurisdiction as the Entity and none of those owners have made an election under Article 7.5 or Article 7.6.

2.2. *Source of Information*

2.2.1. Same source of information as for GloBE purposes

27. The Simplified ETR is computed using data from the financial accounts consistently with the principles of Articles 3.1.2 and 3.1.3, except as otherwise required by the safe harbour. This means that in most cases, the

MNE Groups will use financial data for the jurisdiction that was used in the preparation of the UPE's Consolidated Financial Statements (CFS) to determine Simplified Income and Simplified Taxes for the Tested Jurisdiction. For a Tested Jurisdiction that includes a Constituent Entity that is not consolidated on a line-by-line basis (e.g. a Joint Ventures or an Entity held for sale), an MNE Group must use the same data source as required under Article 3.1.2 or Article 3.1.3 for that Entity to compute the Simplified ETR for that Tested Jurisdiction. In the case of a Non-Material Constituent Entity located in the Tested Jurisdiction, an MNE Group may elect to determine its Simplified Income and Simplified Taxes in accordance with the Non-material Constituent Entity Simplified Calculations (see Commentary, Annex A, Chapter 2, Section 2). MNE Groups may also elect to consolidate transactions in the same Tested Jurisdiction under Article 3.2.8 (see section 3.5).

28. For the avoidance of doubt, where Constituent Entities maintain their financial accounts based on a fiscal period that is different to the Fiscal Year of the UPE, paragraphs 13.2 through 13.8 of the Commentary to Article 1.1.1, which apply to all GloBE computations, shall apply also to the Simplified ETR computations.

2.2.2. QDMTT LFAS jurisdictions

29. When a QDMTT jurisdiction has adopted the Local Financial Accounting Standard rule (referred to as a QDMTT LFAS jurisdiction) and an MNE Group is required to apply the local financial accounting standard for QDMTT computations, that MNE Group must use the relevant local accounting standard also in computing the Simplified ETR for QDMTT purposes as required under that rule.

30. The Inclusive Framework recognises that using the CFS accounting standard in both GloBE and QDMTT calculations for all safe harbour jurisdictions allows MNE Groups to centralise their compliance process and thereby reduces compliance burden. It also mitigates opportunities for arbitrage between financial accounting standards under both the GloBE Model Rules and the Simplified ETR Safe Harbour. Therefore, QDMTT LFAS jurisdictions are encouraged to allow MNE Groups to use the accounting standard of its CFS for purposes of applying the Simplified ETR Safe Harbour under their QDMTT legislation.

31. The Inclusive Framework also recognises that QDMTT LFAS jurisdictions may lack familiarity with every Authorised Financial Accounting Standard and may struggle to audit safe harbour computations under some of those standards absent a full reconciliation between the LFAS and the unfamiliar accounting standard of the CFS, which would be a burdensome undertaking for both the MNE Group and the tax authority. At the same time, the MNE Group's local tax team has expertise in applying LFAS for corporate income tax purposes. Accordingly, an MNE Group that would be required to use the LFAS to determine its liability under a QDMTT must use the LFAS in the Simplified ETR Safe Harbour computations unless the jurisdiction specifically allows the use of the financial accounting standard used by the MNE Group in its CFS. For this purpose, the QDMTT jurisdiction may provide an election for an MNE Group to perform the safe harbour computations using any other Authorised Financial Accounting Standard that the jurisdiction's tax administration is familiar with or considers sufficiently similar to the LFAS. In order to facilitate compliance, the Inclusive Framework will collect and publish on the OECD website information on the Authorised Financial Accounting Standards allowed for purposes of the Simplified ETR Safe Harbour in QDMTT LFAS jurisdictions.

32. If an MNE Group elects to use the accounting standard of its CFS in one QDMTT LFAS Jurisdiction, however, it must make the election in all jurisdictions that provide the election and apply the accounting standard used in the CFS to perform the safe harbour computations for all Tested Jurisdictions. This consistency requirement does not extend to Tested Jurisdictions in which the MNE Group would use an accounting standard different from the one used in the CFS pursuant to Article 3.1.3. To avoid manipulation, an MNE Group must also use the same accounting standard to compute its Simplified ETR from one Fiscal Year to another. For example, an MNE Group that elects to apply the Simplified ETR based on the accounting standard of its CFS in one Fiscal Year under a QDMTT that allows for such a computation, must use the accounting standard of its CFS in all subsequent Fiscal Years including upon re-election of the safe harbour after applying the QDMTT based on the LFAS.

2.2.3. Jurisdictional aggregate data

33. The Simplified ETR Safe Harbour applies on a Tested Jurisdiction basis. Simplified Income or Loss and Simplified Taxes of each Constituent Entity must be allocated to the Tested Jurisdiction in which the relevant Constituent Entity or Constituent Entity-owner is located under the GloBE Rules, except as provided under the Simplified ETR Safe Harbour. However, the MNE Group does not necessarily need to determine the Simplified Income and Simplified Taxes on a Constituent Entity-by-Constituent Entity basis.

34. Determining the Simplified Income or Loss and Simplified Taxes on a jurisdictional basis, rather than first on an entity basis and then aggregating the results, will significantly reduce the compliance burden of MNE Groups and address a key business concern. Existing accounting data collection systems (e.g. ERP) employed by MNE Groups often use entity-by-entity data to prepare their CFS. Therefore, much of the data that is required for the Simplified ETR computations is recorded and available at an entity level (e.g. current tax expense, uncertain tax positions). However, a significant amount of data may be recorded at a consolidation level without being allocated to specific entities (e.g. certain stock-based compensation expense and shared service cost allocations). In most cases, allocating the data to a specific Constituent Entity and subsequently aggregating the Constituent Entities' results will not change or improve the accuracy of the Simplified Income or Simplified Taxes when compared to just allocating the data directly to a Tested Jurisdiction. To the extent that an MNE Group's existing data collection system reliably allows the MNE Group to allocate income and taxes to Tested Jurisdictions so that it achieves the same outcome as achieved under the GloBE Rules, they may rely on those systems to determine the Simplified Income or Loss and Simplified Taxes for a Tested Jurisdiction. Where the same outcome is not achieved from this source of data, it is necessary for an MNE Group to make adjustments to the information drawn from their existing data collection systems to arrive at the correct figures in the Simplified ETR calculation. Such a discrepancy may arise, for instance, in the case of income and taxes of a Tax Transparent Entity or a Permanent Establishment.

35. The fact that MNE Groups may not need to compute Entity-specific data under these circumstances does not mean Entity-level data will not be used in the Simplified ETR Safe Harbour. For example, MNE Groups will still need to compute Constituent Entity-specific data for Permanent Establishments and add that to the Simplified Income or Loss and Simplified Taxes for a Tested Jurisdiction. As another example, MNE Groups would need to compute entity-specific data to determine the location of a Constituent Entity under Article 10.3.4(b).

36. The currency translation rules defined for GloBE purposes also apply for ETR Safe Harbour purposes.

3. Simplified Income or Loss

Box 3. Computation of Simplified Income or Loss

1. Simplified Income or Loss of a Tested Jurisdiction is the result determined from adjusting the Jurisdictional Profit or Loss before Income Tax by:
   a. Basic Adjustments (see section 3.2);
   b. Industry Adjustments (see section 3.3);
   c. Any applicable Conditional Adjustments (see section 3.4); and
   d. Any Optional Adjustments elected by the MNE Group (see section 3.5).

3.1. *Jurisdictional Profit (or Loss) before Income Tax*

Box 3.1. Jurisdictional Profit (or Loss) before Income Tax

1. The Jurisdictional Profit (or Loss) before Income Tax (JPBT) of a Tested Jurisdiction is equal to the aggregate Financial Accounting Net Income or Loss of the Constituent Entities in the Tested Jurisdiction plus the Jurisdictional Income Tax Expense (JITE) of those Constituent Entities.

37. The Simplified Income calculation starts from the Jurisdictional Profit (or Loss) before Income Tax (JPBT) determined for the Tested Jurisdiction. The JPBT is calculated by determining the aggregate Financial Accounting Net Income or Loss (FANIL) of the Constituent Entities in the Tested Jurisdiction and then adding the Jurisdictional Income Tax Expense (JITE) of those Constituent Entities (excluding any deferred income taxes reflected in the consolidated accounts) and any amount of Covered Taxes that were not treated as an income tax expense in the FANIL and to which an election under section 4.4.1. applies.

38. FANIL has the same meaning as under the GloBE Model Rules and so it is generally calculated consistently with the GloBE Model Rules using the financial accounts used in the preparation of the Consolidated Financial Statements (see section 2.2.3. above). Consolidation adjustments to eliminate intragroup transactions must be reversed so that the profits and losses from intragroup transactions are recognised in the JPBT, except for transactions that are between Constituent Entities located in the same Tested Jurisdiction where an election under Article 3.2.8 has been made. Similarly, any income or expense attributable to Purchase Price Allocation accounting that is reflected in the aggregate FANIL should be reversed, except as provided under the M&A Simplification described in section 3.4.2.

3.2. *Basic Adjustments to JPBT*

Box 3.2. Basic Adjustments

1. The Basic Adjustments to JPBT are:
   a. Removing Excluded Dividends;
   b. Removing Excluded Equity Gains or Losses; and
   c. Adding expenses accrued for: (i) bribes, kickbacks and other illegal payments as well as for (ii) fines and penalties that equal or exceed EUR 250,000.

3.2.1. Excluded Dividends

39. The JPBT is adjusted to remove Excluded Dividends as defined under Article 3.2.1(b). The adjustment ensures that the Simplified income calculation does not result in double taxation and ensures that the Simplified ETR is not depressed through the inclusion of income which is non-taxable because of a participation exemption or dividends received deduction. In addition, consistent with the treatment under the GloBE Model Rules (as provided under the Commentary to Article 3.2.1(b)), where a movement in policyholder reserves of an insurance company economically matches an Excluded Dividend (net of the investment management fee) from a security held on behalf of a policyholder (for example, unit linked insurance), the movement in the insurance reserves is not allowed as an expense in the computation of Simplified income (i.e. it is excluded from the JPBT).

3.2.2. Excluded Equity Gains or Losses

40. The JPBT is adjusted to remove Excluded Equity Gains or Losses as defined under Article 3.2.1(c) of the GloBE Model Rules. This adjustment ensures the Simplified ETR is not distorted compared to the GloBE ETR through including income and expenses that would be excluded under the GloBE Model Rules and which are commonly exempted from tax through a participation exemption. However, consistent with the treatment under the GloBE Model Rules (as provided under the Commentary to Article 3.2.1(c)), any expenses from movements in policyholder reserves of an insurance company related to Excluded Equity Gains or Losses from securities held on behalf of policyholders (for example, unit linked insurance) are not allowed as deductions in the computation of Simplified income (i.e. they are excluded from the JPBT).

3.2.3. Policy Disallowed Expenses

41. The JPBT is adjusted to exclude any expenses for bribes, kickbacks and other illegal payments, consistently with Article 3.2.1(g). The adjustment is made because the public policy reasons behind the adjustment in the

GloBE Model Rules apply equally in the context of the Simplified ETR Safe Harbour. This rule applies without regard to any financial accounting disclosure requirements.

42. The JPBT is also adjusted to add-back the expense accrued for any fine or penalty that equals or exceeds EUR 250 000 (or an equivalent in the functional currency in which the JPBT was calculated). This threshold applies on a per penalty basis, in the same way as the one for fines and penalties in Article 3.2.1(g). This higher threshold aims at simplifying the compliance burden of identifying and excluding smaller fines and penalties for purposes of the Simplified ETR Safe Harbour.

3.3. *Industry adjustments*

3.3.1. Financial Services Industry Adjustments

Box 3.3.1. Financial Services Industry Adjustments

1. JPBT excludes the insurance company income described in Article 3.2.9, unless the MNE Group makes an Annual Election not to apply the exclusion.
2. JPBT is adjusted for payments and receipts in respect of Additional Tier One Capital and Restricted Tier One Capital pursuant to Article 3.2.10.

GloBE adjustment for recharge for policyholder taxes

43. An MNE Group must apply Article 3.2.9 of the GloBE Model Rules in the computation of the Simplified Income or Loss for the Tested Jurisdiction, unless it makes an Annual Election not to perform the adjustment.

GloBE adjustment for Additional Tier One Capital and Restricted Tier One Capital

44. An MNE Group must apply Article 3.2.10 of the GloBE Model Rules in the computation of the Simplified Income or Loss for the Tested Jurisdiction, regardless of whether the Additional Tier One (AT1) or Restricted Tier One (RT1) instrument is treated as debt or equity in the financial accounts.

45. To ensure symmetry in the Simplified ETR computation, where an item of income or expense attributable to AT1 or RT1 capital accounted in equity (or Other Comprehensive Income) is included in the Simplified Income or Loss pursuant to Article 3.2.10, any corresponding tax accounted in equity (or Other Comprehensive Income) shall also be included in Simplified Taxes.

3.3.2. Shipping Industry Adjustments

Box 3.3.2. Adjustments for Shipping industry

1. JPBT excludes the International Shipping Income and Qualified Ancillary International Shipping Income described in Article 3.3 unless the MNE Group makes a Five-Year Election not to apply the exclusion in Fiscal Years in which the computation of the aggregate amount of International Shipping Income and Qualified Ancillary International Shipping Income is positive. The election does not apply to any Fiscal Year in which the computation of the aggregate amount of International Shipping Income or Qualified Ancillary International Shipping Income results in a loss. The election does not apply in any Fiscal Year for which the Simplified ETR Safe Harbour does not apply.

GloBE adjustment for Shipping Income exclusion

46. An MNE Group that derives International Shipping Income or Qualified Ancillary International Shipping Income in a Tested Jurisdiction must apply Article 3.3 of the GloBE Model Rules and Article 4.1.3(a) in respect of any Covered Taxes on the excluded international shipping income in the computation of the Simplified Income and Simplified Taxes of the Tested Jurisdiction, unless the MNE Group makes a Five-Year election not

to apply Article 3.3 to Fiscal Years in which the computation of the aggregate amount of International Shipping Income and Qualified Ancillary International Shipping Income is positive.

47. The election is made by not applying Article 3.3 and therefore by including International Shipping Income and Qualified Ancillary International Shipping Income in the computation of Simplified Income and not applying Article 4.1.3(a) in the computation of Simplified Taxes. The election can be made also in instances where the computation of either the International Shipping Income or the Qualified Ancillary International Shipping Income results in a loss, provided that the computation of the combined amount of International Shipping Income and Qualified Ancillary International Shipping Income is positive. The election, however, does not apply to a Fiscal Year in which there is a loss from the computation of the aggregate amount of International Shipping Income and Qualified Ancillary International Shipping Income. Further, the election only applies in Fiscal Years for which the Simplified ETR Safe Harbour is elected. Thus, an MNE Group that makes the election must apply Article 3.3 in any Fiscal Year for which it performs the full GloBE computations, as well as in any Safe Harbour Year in which there is a loss from the computation of International Shipping Income and Qualified Ancillary International Shipping Income. However, the five-year period runs from the Fiscal Year for which the election was made and takes into account both Fiscal Years when the Simplified ETR Safe Harbour applied and Fiscal Years when it does not apply.

48. For example, assume that an MNE Group applies the Simplified ETR Safe Harbour and elects not to apply Article 3.3 in Year 1. The MNE Group does not elect the safe harbour and applies full GloBE computations (without reporting any Top-up Tax liability with respect to the Tested Jurisdiction) in Years 2 and 3. The MNE Group must apply Article 3.3 in Years 2 and 3 when applying the full GloBE rules. If it re-elects for the Simplified ETR Safe Harbour in Year 4, however, the MNE Group is still under the Five-year Election and cannot apply Article 3.3 in the computation of the Simplified Income and Simplified Taxes for that Fiscal Year unless it has a loss from the computation of the aggregate amount of International Shipping Income and Qualified Ancillary International Shipping Income in that Fiscal Year. The MNE Group may revoke the Five-Year Election in Year 6 or following (irrespective of whether the revocation year is a Fiscal Year when the MNE Group applies the Simplified ETR Safe Harbour or the full GloBE Rules). After the election is revoked, however, a new election cannot be made with respect to the four Fiscal Years succeeding the revocation year.

3.4. *Conditional Adjustments to Simplified Income*

3.4.1. Adjustments for equity-reported items

Box 3.4.1. Adjustments for Equity-reported Items

1. No adjustment to JPBT is required for an Equity-reported Item of expense or loss.
2. An adjustment to JPBT is required for an Equity-reported Item of income. However, that adjustment is waived when (i) the income is subject to tax at a rate that equals or exceeds the Minimum Rate and (ii) the related income taxes are accounted in equity or OCI. If the related income tax is a deferred tax liability, the condition (ii) can only be met if it is a Recapture Exception Accrual.
3. The Equity-reported Items are:
   a. Included Revaluation Method Gain or Losses (Article 3.2.1(d)); and
   b. Prior Period Errors and Changes in Accounting Principle (Article 3.2.1(h)).

49. In general, GloBE Income or Loss does not include amounts reported in Other Comprehensive Income (OCI) or in equity (together, equity-reported items), which are generally excluded from the computation of FANIL (or deferred until such time the amounts are recycled into the Income Statement). However, there are exceptions for certain equity-reported items, such as Included Revaluation Method Gains or Losses and Prior Period Errors and Changes in Accounting Principle. In these cases, the GloBE Rules require the FANIL to be adjusted to include the relevant equity-reported income or expenses in the computation of the GloBE Income or Loss.

In other words, the amounts are moved from equity or OCI into the FANIL for the purposes of computing GloBE Income. In many cases, there will be deferred taxes associated with such equity-reported items, and so the GloBE adjustments will include both an adjustment to include additional income or expense and a matching adjustment to the Adjusted Covered Taxes to include the corresponding deferred taxes (under Article 4.1.1(c)).

50. The Simplified ETR Safe Harbour provides simplified rules which exclude the requirements to make these GloBE adjustments in certain cases where this would not affect the MNE Group's ability to apply the safe harbour with respect to the Tested Jurisdiction because the Simplified ETR would generally not move above or below the Minimum Rate regardless of whether the adjustment is made or waived.

51. The adjustment is waived in all cases when the Equity-reported Item is a negative amount (i.e. an expense or loss). This is because the adjustment would reduce the Simplified Income and so would in most cases either increase the Simplified ETR (when there would not be an equivalent reduction to the Simplified Taxes) or would have a neutral impact on the ETR (when there would be a corresponding reduction to the Simplified Taxes).

52. When the Equity-reported Item is a positive amount (i.e. income), no adjustment to JPBT is required if the income is subject to tax at a rate that equals or exceeds the Minimum Rate and the related income taxes are accounted in equity or OCI. If the income item is subject to tax in a subsequent period, the related deferred tax liability must be a Recapture Exception Accrual and accrued at a rate that equals or exceeds the Minimum Rate. If those conditions are not present in the case of an Equity-reported item of income, an adjustment under Article 3.2.1(d) or Article 3.2.1(h) will be required.

53. The first requirement for waiver of the adjustment is that the income item is subject to tax in the jurisdiction of the Constituent Entity at a rate that equals or exceeds the Minimum Rate. Including that income and related taxes in the Simplified ETR computation would increase the Simplified ETR. There is no integrity risk in excluding that income. On the other hand, if the income is not taxable or subject to tax at a lower rate, then excluding the income and taxes from the ETR computation would create an integrity risk because including them could bring the Simplified ETR below the Minimum Rate. Likewise, if the related taxes (that are charged at a rate that is lower than the Minimum Rate) were included in current tax expense (on the profit and loss statement) but the income were included in equity or OCI, the exclusion of those taxes from Simplified Taxes and exclusion of the income from Simplified Income this mismatch would present a similar integrity risk.

54. To the extent that the related taxes are deferred taxes accrued at a rate that equals or exceeds the Minimum Rate, these deferred taxes would be recast at the Minimum Rate when included in the Simplified Taxes. Inclusion of such equity-reported income items is generally expected to have a neutral impact on the Simplified ETR because the amount of deferred taxes in the Simplified ETR calculation would be precisely the amount needed to shield the income from the Top-up Tax, without providing any excess taxes that could shelter any other low-taxed profit in the jurisdiction. Thus, the inclusion cannot bring the Simplified ETR for the Tested Jurisdiction above the Minimum Rate if it is otherwise below. Similarly, the inclusion cannot bring the Simplified ETR for the Tested Jurisdiction below the Minimum Rate if it is otherwise above because any additional Simplified Income is accompanied by corresponding additional Simplified Taxes at the Minimum Rate, which cannot shield any other income from Top-up Tax.

55. There is a specific condition for deferred tax liabilities in relation to Equity-reported Items of income. Like current tax expense and accruals of deferred tax assets, the related deferred tax liabilities must also be reported in the equity or OCI and accrued at a rate that equals or exceeds the Minimum Rate. In addition, the deferred tax liability must be a Recapture Exception Accrual. This limitation avoids a more favourable treatment for non-REA deferred tax liabilities reported in equity or OCI than in the income tax expense.

3.4.2. M&A Simplification and Article 6.3.4 election

Box 3.4.2. M&A Simplification

1. In general, Chapter 6 of the GloBE Model Rules relating to corporate restructurings applies for purposes of the Simplified ETR Safe Harbour. Accordingly, the effect of the GloBE-to-book Difference attributable to an M&A Transaction must be removed from the JPBT and JITE to determine Simplified Income and Simplified Taxes, except as provided in section 3.4.2.
2. An MNE Group can apply the M&A Simplification to compute the Simplified ETR provided that all of the assets (except for goodwill) and liabilities for which a GloBE-to-book Difference is identified for the Tested Jurisdiction have the same tax basis before and after the M&A Transaction and corresponding deferred tax assets or liabilities accrued at a rate that equals or exceeds the Minimum Rate.
3. Pursuant to the M&A Simplification:
   a. the effect of the GloBE-to-book Difference on the JPBT for the Tested Jurisdiction is not removed from the computation;
   b. the accrual of the deferred tax assets and liabilities arising from the M&A Transaction is not included in Simplified Taxes, and
   c. the reversal of deferred tax assets and liabilities arising from the M&A Transaction, including deferred tax liabilities that are not Recapture Exception Accruals, is included in Simplified Taxes.
4. Any impairment or amortization of goodwill that does not have a corresponding deferred tax liability (or that has a corresponding deferred tax liability recorded at a tax rate below the Minimum Rate) is added back to the JPBT (and the reversal of the related deferred tax liability, if any, is excluded from Simplified Taxes).
5. In a year for which the Simplified ETR Safe Harbour is elected, an MNE Group may make an election under Article 6.3.4 where the tax basis of the assets and liabilities of a Constituent Entity is adjusted to the fair value as determined in connection with a triggering event (including a triggering event related to an M&A Transaction) that occurs for local tax purposes in the current Fiscal Year.
6. In a year for which the Simplified ETR Safe Harbour is elected, an MNE Group may also make an election under Article 6.3.4 where the tax basis of the assets and liabilities of a Constituent Entity is adjusted to the fair value as determined in connection with an M&A Transaction that occurred in a prior Fiscal Year, provided that the Article 6.3.4 election was not available for that year. When an election under Article 6.3.4 is made pursuant to this paragraph, the GloBE-to-book Difference attributable to each asset and liability is included in the computation of Simplified Income either in the year of the election or ratably over a five-year period, starting from the year of the election. The Article 6.3.4 election applies to all the assets and liabilities that were transferred in the relevant M&A Transaction.
7. Any amount of gain or loss allocated to a Fiscal Year pursuant to an Article 6.3.4 election is included in the Simplified Income of that Fiscal Year.
8. An M&A Transaction means a transaction in which assets and liabilities are transferred in connection with:
   a. an acquisition of the controlling Ownership Interest of an Entity that is not described in Article 6.2.2, or
   b. a GloBE Reorganization.
9. GloBE-to-book Difference means the difference between the GloBE carrying values of the assets and liabilities acquired in an M&A Transaction (and determined in accordance with Articles 6.2 and 6.3) and the accounting carrying values of those assets and liabilities that is attributable to the M&A Transaction and any corresponding deferred tax assets and liabilities reflected in the financial accounts.

M&A Simplification

56. Special rules apply to the computation of Simplified Income and Simplified Taxes when there has been an M&A Transaction. An M&A Transaction is a transfer of assets and liabilities that occurs in connection with either: (i) an acquisition of a controlling Ownership Interest (i.e. a share deal) in a third-party transaction that is

not described in Article 6.2.2, or (ii) a GloBE Reorganization as defined under GloBE rules (i.e. Article 10.1). These rules apply to an M&A Transaction that occurred in the current Fiscal Year or in a previous Fiscal Year. However, the special rules are only relevant to the extent that the assets and liabilities acquired in the M&A Transaction are still reflected in the financial accounts used to determine the aggregate FANIL for a Fiscal Year to which the Simplified ETR Safe Harbour applies.

57. The special rules for M&A Transactions simplify the treatment of a GloBE-to-book Difference, which is the difference that arises as a result of an M&A Transaction between the accounting carrying values of the assets and liabilities transferred in an M&A Transaction that are used to determine the aggregate FANIL for the Tested Jurisdiction and the corresponding GloBE carrying values (determined under Article 6.2 and 6.3). This often occurs in connection with the acquisition of a controlling Ownership Interest of an entity where the Purchase Price Allocation (PPA) accounting is incorporated into the financial accounts that are used to determine the aggregate FANIL. Similarly, a GloBE-to-book Difference may arise in connection with a GloBE Reorganization when a corresponding gain or loss is recognised in the financial accounts used to determine the aggregate FANIL. If the PPA accounting for an M&A Transaction is not reflected in the financial accounts used to determine the aggregate FANIL, there will not be a GloBE-to-book Difference and no need to apply the M&A Simplifications or make an election under Article 6.3.4.

58. These GloBE-to-book Differences affect the amount of depreciation or amortization or other expenses or gains and losses that are reflected in the aggregate FANIL and income tax expense in the Fiscal Year of the M&A Transaction and in subsequent periods. Unless the M&A Simplification applies or an election under Article 6.3.4 is made, the MNE Group must remove the effect of these GloBE-to-book Differences from the JPBT to determine Simplified Income and from income tax expense to determine Simplified Taxes (i.e. the Simplified Income must be computed in accordance with Chapter 6, and the Simplified Taxes must be computed in accordance with Article 4.4, subject to the Deferred Tax Adjustments illustrated under section 4.2.4. below).

59. Adjustments for the GloBE-to-book Differences, however, are not necessary in the Simplified ETR Safe Harbour where the MNE Group is eligible to apply the M&A Simplification. To be eligible to apply the M&A Simplification, all the assets and liabilities that are acquired in connection with M&A Transactions and for which a GloBE-to-book Difference is identified for the Tested Jurisdiction must have the same tax basis before and after the transaction and the MNE Group must have corresponding deferred tax assets or liabilities accrued at a rate that equals or exceeds the Minimum Rate. In other words, the GloBE-to-Book difference identified in connection with the M&A Transaction should have corresponding deferred taxes accrued in the financial accounts. The only exception is for goodwill, which is explained below. Such deferred taxes will be reflected in the financial accounts that are used to determine the aggregate FANIL. If those conditions are not met for all or some of the assets or liabilities acquired in an M&A Transaction, the effect of the GloBE-to-book Difference must be removed from JPBT and from the JITE in line with GloBE Model Rules, unless an election is made under Article 6.3.4.

60. Paragraph 3 of Box 3.4.2 describes the functioning of the M&A Simplification, which affects both the computation of Simplified Income and Simplified Taxes. In general, the GloBE-to-book Differences are not removed from the JPBT and the reversal of any deferred taxes related to the GloBE-to-book Difference are included in the Simplified Taxes.

61. The M&A Simplification does not apply to the assets and liabilities transferred in an M&A Transaction for which a step-up occurs for tax purposes, but only to the assets and liabilities for which the tax basis remains unchanged.

62. Under the M&A Simplification, the accrual of the deferred taxes related to the GloBE-to-book Difference (where the tax basis remains unchanged) is not taken into account in computing Simplified Taxes, regardless of whether the accrual occurs in the year of the M&A Transaction or in a subsequent year. Usually, no adjustment is required to produce this result because under many financial accounting standards, such as IFRS, deferred

taxes on a business combination are initially recognised (reflected) on the balance sheet with a corresponding adjustment to goodwill rather than being recognised in the income tax expense.

63. In contrast, reversals of deferred taxes related to the GloBE-to-book Difference are taken into account. Under the M&A Simplification, the effect of the GloBE-to-book Difference reflected in the aggregate FANIL is neutralised by the reversal of the corresponding deferred taxes. For example, assuming the effect of a GloBE-to-book Difference reflected in the aggregate FANIL for asset depreciation is 100 euro more than without the GloBE-to-book Difference, the effect of the additional depreciation will be neutralized in the Simplified ETR Safe Harbour by the inclusion in Simplified Taxes of the corresponding deferred tax liability reversal of 15 euro.

64. The reversal of a deferred tax liability that relates to a GloBE-to-book Difference and that is not a Recapture Exception Accrual (non-REA DTL) is also included in the Simplified Taxes. Allowing reversals of these non-REA DTLs in the Simplified Taxes represents an exception to the general rule that excludes non-REA DTLs from the computation of Simplified Taxes. However, it does not create an integrity risk because the original accrual of the DTL cannot be taken into account in the Simplified Taxes or Adjusted Covered Taxes computation. Thus, the ETR of a previous year cannot have been overstated due to a DTL that did not reverse for more than five years.

65. Under many Authorised Financial Accounting Standards, including IFRS and US GAAP, deferred tax liabilities cannot be recorded in respect of the initial recognition of goodwill arising on a business combination. As a result, the impairment or amortization of such goodwill would have a distortive effect on the Simplified ETR because it would reduce Simplified Income without a reversal of a deferred tax liability to reduce Simplified Taxes by an amount equal to the Minimum Rate on the impairment or amortization. Therefore, the goodwill impairment and any amortization must be added back to determine the Simplified Income and Simplified ETR. Any deferred tax liability that arises in a subsequent year in respect of such goodwill (e.g. as a result of a tax free step-up in basis of the goodwill with subsequent tax amortization and/or impairment) is also disregarded in the computation of Simplified Taxes because the GloBE carrying value of such goodwill is nil, unless an election under Article 6.3.4 is made (see paragraphs below).

66. Where the applicable accounting standard allows for the amortization of goodwill and the recognition of corresponding deferred tax liabilities on goodwill arising in connection with an M&A Transaction, no adjustment will be required to add back any goodwill impairment or amortization, provided that the goodwill impairment/amortization expense has a corresponding deferred tax liability reversal accounted in the income tax expense at a rate that is equal to or greater than the Minimum Rate. However, any impairment or amortization of goodwill that does not have a corresponding deferred tax liability (or that has a corresponding deferred tax liability recorded at a tax rate below the Minimum Rate) is added back to the JPBT (and the reversal of the related deferred tax liability, if any, is excluded from Simplified Taxes).

67. The assets and liabilities of an M&A Transactions may not be eligible for the M&A Simplifications for different reasons. For instance, if the relevant tax basis remained unchanged with no deferred tax accounting or with deferred taxes accounted at a lower rate than the Minimum Rate, the M&A Simplification does not apply. Instead, the normal GloBE Rules apply to the computation of Simplified Income and Simplified Taxes, i.e. the relevant GloBE-to-Book Difference must be removed from the Simplified Income and Simplified Taxes computations.

68. In addition, the M&A Simplification does not apply if the tax basis of the assets and liabilities was adjusted to the fair value in connection with the M&A Transaction. In that case, the MNE Group has two alternatives for determining Simplified Income and Simplified Taxes. First, it may make an Article 6.3.4 election to include the GloBE-to-Book Difference in the Simplified Income either fully in the year of the election or ratably over five years. The second alternative is to apply the adjustments required by Chapter 6 of the GloBE Model Rules to determine its Simplified Income and Simplified Taxes.

69. In any case in which it is necessary to compute Top-up Tax under the GloBE Model Rules, the effect of the GloBE-to-book Difference must be removed from the computation of Excess Profits and Adjusted Covered

Taxes. The M&A Simplification does not relieve the MNE Group of any obligation to maintain sufficient records related to M&A Transactions to compute its Top-up Tax under the GloBE Model Rules in any subsequent Fiscal Year. In recognition of the complexity and administrative burden related to removing the impact of PPA accounting from the GloBE Income, the Inclusive Framework will give further consideration to methodologies that could simplify removal of the portion of the original PPA amount arising from the M&A Transaction that is reflected in the computation of Excess Profits under the GloBE Model Rules for a particular Fiscal Year. Any such simplification would necessarily require the MNE Group, at a minimum, to produce evidence of the net amount of the PPA that arose in the M&A Transaction.

Article 6.3.4 election

70. The Article 6.3.4 election is available in the Simplified ETR Safe Harbour computation in any circumstance that it is available under the GloBE Model Rules, i.e. in connection with any relevant tax triggering event occurring in the Fiscal Year, including the ones related to M&A Transactions (paragraph 5 of the Box above). The Article 6.3.4 election is also available in connection with triggering events regardless of whether any or all of the gain or loss related to the tax basis adjustment is includible in taxable income. If some or all of the gain or loss is includible in taxable income and the election is made, the related taxes are included in Simplified Taxes. In addition, the Article 6.3.4 election is available under safe harbour in connection with M&A Transactions that occurred in a prior Fiscal Year and under certain conditions.

71. The Article 6.3.4 election allowed under paragraph 6 of the Box above provides an MNE Group with an option to eliminate the GloBE-to-book Difference identified in connection with an M&A Transaction that occurred in a prior Fiscal Year, provided that:

    a. the Article 6.3.4 election was not available in that prior year (e.g. it was either a pre-GloBE year or a transitional safe harbour applied); and

    b. the tax basis of all or some of the transferred assets and liabilities are adjusted to the fair value that is determined in connection with an M&A Transaction. The election applies to all the assets and liabilities transferred in connection with the M&A Transaction, including also assets and liabilities for which the tax basis was not adjusted to fair value, if any.

72. Where the election is made after the year in which the M&A Transaction occurred, the GloBE-to-book Difference is determined based on the accounting carrying values of the assets and liabilities at the beginning of the year in which the election is made. Because the GloBE carrying value of the assets and liabilities is equal to the accounting carrying value as a consequence of the Article 6.3.4 election, the corresponding deferred taxes, if any, in the financial accounts should be used for purposes of determining Simplified Taxes.

73. Paragraph 7 of the Box above specifies that the GloBE-to-book Difference is included in the Simplified Income either in the year of election or ratably over a period of five Fiscal Years, beginning in the Fiscal Year for which the election is made. Where the GloBE-to-book Difference is spread over five years pursuant to an election under Article 6.3.4, the pro rata amount allocated to a Fiscal Year is included in the computation of Simplified Income for that Fiscal Year. If the Safe Harbour does not apply for a Fiscal Year included in the five-year period, the pro rata amount allocated to that Fiscal Year is included in the computation of GloBE Income or Loss. Similarly, if an Article 6.3.4 election was made in a Fiscal Year to which the Safe Harbour did not apply, any gain or loss allocated to a Fiscal Year must be included in the Simplified Income computation.

74. The following example illustrates the application of the M&A Simplification and the requirement of having to add-back to the JPBT the impairment/amortization of goodwill that does not have a corresponding deferred tax liability.

Example 1. Target acquisition with no tax step-up in basis

75. The Parent Entity of an MNE Group acquires the 100% of the Ownership Interests in a Constituent Entity (CE1) for 1000. The net equity (i.e. the carrying value of the assets in excess of the carrying value of liabilities) of CE1 at the time of acquisition is 800. Therefore, the PPA accounting when preparing the CFS is 200 (1000 – 800). In this case, the PPA is entirely allocated to a single tangible asset. The local tax basis of the tangible asset

does not change as a consequence of the share deal (i.e. no step-up in tax basis). Therefore, a corresponding DTL is recognised in connection with the accounted PPA value, equal to 30, based on a CIT rate of 15% (200*15% = 30). The DTL accrual of 30 increases CE1's liabilities and a corresponding amount is allocated to goodwill, such that the net equity increase due to PPA accounting remains 200. This is the PPA accounting typically applied under IFRS and other widely-used Acceptable Financial Accounting Standards.

76. The PPA accounting is represented in the below table.

PPA	Tangible Asset	200
	DTL (15%)	(30)
	Goodwill	30
	Total	**200**

77. The higher accounting basis of the tangible asset and the accounting recognition of the goodwill do not impact the FANIL of CE1 in the year of acquisition. However, those higher values (i.e. the PPA values) will result in higher expenses (and less income) due to higher depreciation of the tangible asset and possible impairment of the goodwill in the subsequent years. In the example it is assumed that the tangible asset is ratably depreciated over five years starting from Year 1, the year after the acquisition, and the goodwill is fully impaired in the fifth year after the acquisition (Year 5). In Year 1 through Year 4, the depreciation expenses accrued in the JPBT are 40 more than if the PPA were excluded (= 200/ 5) and for Year 5, the expenses accrued in JPBT are 70 more than if the PPA were excluded (40 of additional depreciation plus 30 of goodwill impairment). The depreciation of the tangible asset will also determine the reversal of the DTL accrued in relation to the higher accounting basis. In particular, the 40 of annual additional depreciation of the tangible asset will result in a DTL reversal of 6 (= 40*15%) each year.

78. For Year 1 through Year 4, the PPA accounting will have a neutral impact on the Simplified ETR computation because the reduction in JPBT (denominator) will have a proportional reduction in JITE (numerator). It is explained in the below table. The table is based on the assumption that without PPA accounting the Simplified Income is 1000 and Simplified Taxes are 150.

Year 1 – 4	*Simplified ETR without PPA accounting*	*Simplified ETR with PPA accounting*
Simplified Taxes	150	144 (=150 – 6)
Simplified Income	1000	960 (=1000 – 40)
Simplified ETR	**15%**	**15%**

79. For Year 5, the impairment of the goodwill will have to be added-back for ETR Safe Harbour computation pursuant to the M&A Simplification and thus will not impact the Simplified ETR computation. This adjustment will grant a neutral impact on the ETR computation, as represented in the below table.

Year 5	*Simplified ETR without PPA accounting*	*Simplified ETR with PPA accounting and add-back of goodwill impairment*
Simplified Taxes	150	144 (=150 – 6)
Simplified Income	1000	960 (= 1000 – 40 – 30) + 30
Simplified ETR	**15%**	**15%**

80. The adjustment for goodwill impairment eliminates a distortive effect to the Simplified ETR. If the goodwill impairment were not adjusted the Simplified ETR with PPA accounting would be higher than the one without PPA accounting (15%). In particular, the denominator would be lowered by 30 without a corresponding and proportional decrease in numerator, resulting in a Simplified ETR increased to 15.5% (= 144/930).

3.5. *Optional Adjustments*

3.5.1. GloBE Elective Adjustments

Box 3.5.1. GloBE Elective Adjustments

1. An MNE Group may make any of the GloBE elections permitted under Chapter 3 of the GloBE Model Rules and related Commentary.
2. The Non-Material Constituent Entities Simplified Calculation is available under the Simplified ETR Safe Harbour.

81. The GloBE Model Rules contain several elections that MNE Groups can choose to apply in the computation of GloBE Income. Such GloBE elections are also available in Safe Harbour computation, unless specifically excluded.

82. MNE Groups generally make the elections only when the benefits of the elective treatment outweigh the compliance burden of making the relevant income and tax adjustments. Elections may be particularly beneficial in the context of the Simplified ETR Safe Harbour because they may increase the accuracy of the Simplified ETR enough that the MNE Group can avoid the full GloBE computations, which would be more burdensome than making the election.

83. The GloBE elections available under Chapters 3 of the GloBE Model Rules are also available when computing the Simplified Income and Simplified Taxes. Thus, the following elections are available:

    a. Inclusion of all Portfolio Shareholding dividends (Article 3.2.1(b))

    b. Equity Investment Inclusion Election (Article 3.2.1(c));

    c. Election to treat FX hedging as Excluded Equity Gain or Loss (Article 3.2.1(c));

    d. Debt Release (Article 3.2.1(i));

    e. Stock-based Compensation Election (Article 3.2.2);

    f. Realization principle election (Article 3.2.5);

    g. Capital gain spread over five year (Article 3.2.6), and

    h. Intra-group transactions election (Article 3.2.8).

84. The MNE Group can make the elections for a Fiscal Year to which the Simplified ETR Safe Harbour applies and if the election is a Five-Year election, must continue to apply the election until it is revoked. If the MNE Group made any of these elections in a Fiscal Year for which the Simplified ETR Safe Harbour did not apply, the MNE Group must continue to apply the election in subsequent years for which the Simplified ETR Safe Harbour applies until it is revoked.

85. The election for Non-Material Constituent Entities (NMCE) Simplified Computation is also available under the Simplified ETR Safe Harbour. The election is an Annual Election and can be performed for some or all the NMCEs located in the Tested Jurisdiction. Under the election, the Simplified Income of an NMCE is equal to Total Revenue determined in accordance with the Relevant CbC Regulations and Simplified Taxes for the NMCE is equal to the Income Tax Accrued (Current Year) determined in accordance with the Relevant CbC Regulations.

Continuity aspects of the election under Article 3.2.6

86. The Article 3.2.6 election can be made both in a full GloBE year and in a Safe Harbour year. In both cases, a continuity issue may arise because the four Fiscal Years preceding the election year may include one or more years for which the Simplified ETR Safe Harbour was elected.

87. Where the Look-back period includes a year for which the Simplified ETR Safe Harbour was elected, the MNE Group must add the net gain allocable to that year pursuant to Article 3.2.6 to the Simplified Income previously determined for the Fiscal Year and re-determine the Simplified ETR for such Fiscal Year. If the re-determined Simplified ETR exceeds the Minimum Rate, the Additional Current Top-up Tax for that Fiscal Year is deemed to be zero. If the re-determined Simplified ETR for any such Fiscal Year is below the Minimum Rate, the Effective Tax Rate and the Additional Current Top-up Tax, if any, for that Fiscal Year must be computed in accordance with the full GloBE Rules. Any Additional Current Top-up Tax arising in respect of a previous Fiscal Year will not be considered Top-up Tax paid in respect of that Fiscal Year for purposes of applying the requirements of section 7.2.

3.5.2. Optional Exclusions

Box 3.5.2. Optional Exclusions

1. The following GloBE adjustments are required for the Simplified ETR computation, unless the MNE Group makes a Five-Year Election not to make the adjustment:
   a. Asymmetric Foreign Exchange Currency Gain or Loss (Article 3.2.1(f)); and
   b. Accrued Pension Expense (Article 3.2.1(i)).

GloBE adjustment for AFXGL

88. The JPBT must be adjusted to take into account any Asymmetric Foreign Exchange Currency Gain or Loss (AFXGL) determined for the Tested Jurisdiction in accordance with Article 3.2.1(f), unless the MNE Group makes a Five-Year election not to make an adjustment for AFXGL in the computation of Simplified Income and GloBE Income or Loss.

89. The election not to apply Article 3.2.1(f) is a Five-Year Election and is made in the Fiscal Year for which the Simplified ETR Safe Harbour applies by not applying that Article in the computation of Simplified Income and Simplified Taxes for the Tested Jurisdiction. If the election is made, Article 3.2.1(f) does not apply in any Fiscal Year until the election is revoked, regardless of whether the MNE Group elects for the Simplified ETR Safe Harbour or applies the GloBE Rules for that Fiscal Year.

GloBE adjustment for accrued pension expense

90. In all cases where its contributions to a Pension Fund are different from the amounts accrued as an expense in the financial accounts with respect to that Pension Fund, an MNE Group must perform the adjustment required under Article 3.2.1(i) of the GloBE Rules and relevant administrative guidance, unless the MNE Group makes a Five-Year election not to apply Article 3.2.1(i).

91. The election not to apply Art. 3.2.1 (i) is a Five-Year Election that is made by not applying the Article in the computation of Simplified Income and Simplified Taxes for the Tested Jurisdiction in the first Fiscal Year to which the election applies. If the election is made, Article 3.2.1(i) does not apply in any Fiscal Year until the election is revoked, regardless of whether the MNE Group elects for the Simplified ETR Safe Harbour or applies the GloBE Rules for that Fiscal Year.

4. Simplified Taxes

Box 4. Basic calculations

1. The starting point for the determination of the Simplified Taxes for a Tested Jurisdiction is the Jurisdictional Income Tax Expense. This amount is equal to the sum of the current and deferred income tax expense or benefit accrued in the FANIL of the Constituent Entities located in the Tested Jurisdiction and any deferred taxes recorded at the consolidated level that are attributable to Constituent Entities in the Tested Jurisdiction.
2. This amount is then subject to the following adjustments:
   a. Policy-based adjustments
      i. Reduced by current or deferred tax expense attributable to a tax that is not a Covered Tax under Article 4.2.2;
      ii. Adjusted for tax refunds and credits under Article 4.1.3(b) and (c);
   b. Adjustment to ensure correlation between Simplified Taxes and Simplified Income
      i. Reduced by the amount of any tax expense associated with items of income that are not included in Simplified Income, under Article 4.1.3(a) and 4.4.1(a);
   c. Adjustments for uncertain taxes and taxes that are not payable promptly
      i. Adjusted for accruals and payments of uncertain tax positions under Articles 4.1.2(c), 4.1.3(d);
      ii. Reduced by the amount of current tax expense not expected to be paid within three years under Article 4.1.3(e);
      iii. Adjusted under Article 4.4.6 for accrual or reversal of uncertain tax positions and taxes on distributions.
   d. Deferred Tax Adjustments
      i. Deferred tax expense is recast at the Minimum Rate using the following formula:

$$\textit{Deferred Tax Expense in Simplified Taxes} * \frac{\textit{Minimum Rate}}{\textit{Accounted Tax rate}}$$

      where:
      - The Deferred Tax Expense in Simplified Taxes is the total amount of deferred tax expense, including the accrual and reversal of deferred tax assets and liabilities that are taken into account in the Simplified Taxes for the Tested Jurisdiction for the Fiscal Year; and
      - The Accounted Tax Rate is the income tax rate used to recognise deferred taxes in the relevant financial accounts (before any valuation allowance).

      ii. Deferred tax expenses are reflected without regard to any valuation allowances, or accounting recognition adjustments;
      iii. Deferred tax expenses are adjusted for changes in the income tax rate, under Article 4.4.1(d); and
      iv. Deferred tax expenses related to deferred tax liabilities that are not Recapture Exception Accruals are excluded. The DTL Recapture Rule generally does not apply under the Safe Harbour.
   e. Any Optional Adjustments elected by the MNE Group.

4.1. *Jurisdictional Income Tax Expense*

92. The Simplified Taxes calculation starts from the Jurisdictional Income Tax Expense (JITE) determined for the Tested Jurisdiction and then takes into account the adjustments to JITE described below. The JITE is the sum of the income tax expense reflected in the aggregate FANIL of the CEs in the Tested Jurisdiction plus any deferred income taxes related to that FANIL reflected in the consolidated accounts. Where income and expense attributable to PPA accounting is reflected in the financial accounts used to calculate the JPBT and the M&A Simplification applies, the JITE will include deferred taxes attributable to PPA accounting for the M&A Transaction (see section 3.4.2 above).

4.2. *Basic adjustments to JITE*

4.2.1. Policy-based adjustments

93. The JITE is subject to adjustments that are intended to reflect the design choices of the GloBE Model Rules and preserve their intended policy outcomes.

94. Specifically, the JITE is adjusted to remove any amount that is not a Covered Tax, as defined in Article 4.2.1 of the GloBE Model Rules. Further, the MNE Group may elect to add any amount of Covered Taxes that was not treated as an income tax expense in the financial accounts pursuant to Article 4.1.2(a) (see section 4.4.1 below).

95. The JITE is then adjusted for refunds and credits where necessary to align it with Article 4.1.3(b) and (c).

4.2.2. Adjustments to ensure correlation between Simplified Taxes and Simplified Income

96. The JITE must be adjusted to prevent distortions in the Simplified ETR computation stemming from mismatches between income included in Simplified Income and taxes included in Simplified Taxes.

97. In line with Articles 4.1.3(a) and 4.4.1(a) of the GloBE Model Rules, the JITE is adjusted to exclude any tax expense with respect to income that is not included in the Simplified Income. The exclusion applies to any current tax expense related to items of income (e.g. any tax expense accrued in relation to dividends on non-Portfolio Shareholdings) and any deferred expense related to items of income or expense (e.g. any DTAs arising from accrued expenses that are only tax deductible when paid), including any Covered Tax on the International Shipping Income and Qualified Ancillary International Shipping Income in cases where the MNE Group did not make a Five-Year election to include shipping income in the Simplified Income. For the avoidance of doubt, Simplified Taxes are not subject to a positive adjustment when a loss or expense that arises in the current year is deducted for tax purposes but is not included in the computation of Simplified Income.

4.2.3. Adjustments for uncertain taxes and taxes that are not payable promptly

98. The JITE is subject to adjustments that ensure Simplified Taxes does not include any taxes that are not certain to be paid and current taxes that are not payable promptly.

99. The JITE is adjusted to exclude any tax expenses arising from the accrual or reversal of an uncertain tax position (as determined under the relevant financial accounting standard) and Disallowed Accrual in the same manner as Article 4.1.2(c), Article 4.1.3(d) and Article 4.4.6 of the GloBE Model Rules. Consequently, tax expenses associated with an uncertain tax position or Disallowed Accrual will only be included in the Simplified Taxes if and when such taxes are paid.

100. The JITE is further adjusted to exclude any current tax expense for taxes that are not expected to be paid within three years under Article 4.1.3(e).

4.2.4. Deferred Tax Adjustments

101. Income tax expenses attributable to deferred tax assets and liabilities included in the Simplified Taxes are subject to certain adjustments. Where a Covered Tax does not have any timing differences compared to the FANIL (e.g. Zakat) or the relevant financial accounting standard does not provide for deferred tax accounting, the MNE Group will not have any deferred tax expense and therefore will not need to make the adjustments described in this section. Further, where the MNE Group makes a GloBE Loss Election, all income tax expenses or benefits attributable to deferred tax assets and liabilities in the financial accounts are removed from the computation of Simplified Taxes and the deferred tax expense or benefit attributable to the GloBE Loss DTA are included in the computation of Simplified Taxes.

Valuation allowance or accounting recognition adjustment

102. When calculating the deferred tax expense or benefit for the purposes of the Simplified ETR, the MNE Group must ignore the impact of any valuation allowance or accounting recognition adjustment that has been recognised with respect to a deferred tax asset because of an expectation that there may be insufficient taxable income for the deferred tax asset to be utilised in the future. This includes (i) cases where the deferred tax asset was not initially recorded in the financial accounts in the period that a tax loss arose and (ii) cases where the

deferred tax asset was recorded together with an offsetting liability. This adjustment applies in the same way as the adjustment in Articles 4.4.1(c) and 4.4.2(c) and ensures that the Simplified ETR appropriately recognises when tax loss carry-forwards have been offset against taxable income.

Adjustments for change in tax rate

103. The JITE is adjusted to exclude the additional or lower net amount of deferred tax expense resulting from a tax rate change, consistently with the GloBE adjustment under Article 4.4.1(d) of the GloBE Model Rules. This will ensure that any tax rate change that occurs above the Minimum Rate (i.e. when both the original and the new tax rate are above the Minimum Rate), will be excluded pursuant to Article 4.4.1(d) and consistently with the deferred tax recast requirement. To the extent that Article 4.6.2 or Article 4.6.3 would apply in respect of tax rate changes that bring the tax rate from below to above the Minimum Rate or vice-versa, the simplified methodology set out in section 4.6 is available.

Generation and use of tax credits

104. The JITE is adjusted to exclude deferred tax expense attributable to the generation and use of tax credits pursuant to Article 4.4.1(e), except to the extent permitted by the Commentary to that article (i.e. a Substitute Loss Carry-forward DTA).

Exclusion of deferred tax liability that is not a Recapture Exception Accrual

105. Lastly, the JITE is generally adjusted to exclude any deferred tax expenses attributable to deferred tax liability that is not a Recapture Exception Accrual (REA) under Article 4.4.5. This simplifies the compliance burden for MNE Groups because it means the MNE Group will not need to apply the DTL recapture rules in Article 4.4 and therefore will not need to track the period between the accrual and reversal of a deferred tax liability.

106. There are two exceptions to the general rule:

a. when the deferred tax expense arises from reversal of a deferred tax liability attributable to an M&A Transaction and the MNE Group includes the effect of the M&A Transaction in the Simplified ETR computation pursuant to section 3.3.2; and

b. when the deferred tax expense arises from reversal of a deferred tax liability that was included in the computation of the effective tax rate in a prior Fiscal Year under a Qualified IIR, Qualified UTPR, or QDMTT.

107. In the first case, the reversal of the deferred tax liability is included in Simplified Taxes regardless of whether it is an REA. Otherwise, the Simplified ETR would be over-stated because the Simplified Income would be reduced by higher depreciation, amortization or impairment expenses than the taxable income, but the Simplified Taxes would not be reduced by the reversal of the deferred tax liability. A deferred tax liability that relates to an M&A Transaction, however, is not subject to the recapture rules to the extent that deferred tax liability was not accrued in the profit and loss statement (and therefore not included in Adjusted Covered Taxes or Simplified Taxes) in a prior Fiscal Year. Under those circumstances, the accrual of the deferred tax liability could not have avoided Top-up Tax liability in a previous year, which is the concern addressed by the DTL recapture rule.

108. In the second case, the reversal of the deferred tax liability must be included in the Simplified Taxes because it relates to a deferred tax liability that was included in an ETR computation under a Qualified IIR, Qualified UTPR, or a QDMTT in a prior Fiscal Year. If the reversal were excluded, the MNE Group would obtain a double benefit because the DTL would have increased the ETR in the year in which it accrued and was included in the ETR computation and would increase the ETR in the year it reverses if the reversal were excluded.

4.2.5. Recasting of deferred tax expense

109. Deferred tax expenses in the Simplified Taxes must be recast at the Minimum Rate, but only if the related deferred tax assets or liabilities were computed in the financial accounts based on a tax rate that is higher than the Minimum Rate.

110. Recasting deferred tax expense is simplified in the safe harbour. Under the GloBE Rules, each deferred tax asset and liability is recast separately and the deferred tax expense for the jurisdiction is computed based on the recast deferred tax assets and liabilities. Under the safe harbour, the net deferred tax expense that goes into Simplified Taxes is recast. For the purposes of the Safe Harbour computation, the recast should be calculated according to the following formula:

$$\textit{Deferred Tax Expense in Simplified Taxes} * \frac{\textit{Minimum Rate}}{\textit{Accounted Tax rate}}$$

Where:

a. The Deferred Tax Expense in Simplified Taxes is the total amount of deferred taxes, including the accrual and reversal of deferred tax assets and liabilities that are taken into account in the Simplified Taxes for the Tested Jurisdiction for the Fiscal Year; and

b. The Accounted Tax Rate is the income tax rate used to recognise deferred taxes in the relevant financial accounts (before any valuation allowance).

111. For jurisdictions where the corporate income tax system provides for a single tax rate that applies to a single tax basis, the Accounted Tax rate is expected to correspond with such rate. In a jurisdiction where an MNE Group's operations are subject to multiple Covered Taxes with different tax rates and bases, the MNE Group must recast those taxes using a methodology that is consistent with the deferred tax recasting principles of the GloBE Model Rules. The Inclusive Framework will consider providing more detailed guidance under both the GloBE Model Rules and the Simplified ETR Safe Harbour on the computation and the recasting of deferred tax expense for MNE Groups that have operations in a jurisdiction where they are subject to multiple Covered Taxes with different tax rates and bases.

4.3. *Simplified adjustment for negative taxes in Simplified Loss years*

Box 4.3. Simplified Adjustment for Negative Taxes in Simplified Loss year

1. In a Fiscal Year for which a Simplified Loss and negative Simplified Taxes are determined for a Tested Jurisdiction, the Simplified Adjustment for Negative Taxes, if any, must be determined.
2. The Simplified Adjustment for Negative Taxes is the negative amount, if any, that results from subtracting the product of the Simplified Loss multiplied by the Minimum Rate from the Simplified Taxes. The Simplified Adjustment for Negative Taxes formula can be expressed as follows:

$$\textit{Simplified Taxes} - (\textit{Simplified Loss} * \textit{Minimum Rate}).$$

3. The Simplified Adjustment for Negative Taxes is carried forward and included in the computation of Simplified Taxes, or Adjusted Covered Taxes in a Fiscal Year to which the safe harbour does not apply, in the same manner as the Excess Negative Tax Carry-forward is included in the computation of Adjusted Covered Taxes.
4. In lieu of paragraphs 1 through 3, an MNE Group may elect to determine a Loss DTA Adjustment for a Fiscal Year during the Transitional Period if it had a tax loss, a Simplified Loss, and Net Negative Taxes for the Transition Year and each Fiscal Year in the Transitional Period preceding that Fiscal Year. The Loss DTA Adjustment is carried forward and reduces (but not below zero) the amount of the loss DTA reversal tentatively computed in the Simplified Taxes (or Adjusted Covered Taxes) in a subsequent Fiscal Year. The

(*Continued*)

Box 4.3. (*Continued*)

Loss DTA adjustment is reduced at the end of each year by the amount used to reduce the loss DTA reversal in that year, and any outstanding amount is carried forward to subsequent years.

a. The Loss DTA Adjustment is the sum of: (i) the amount of the loss DTA reflected in the JITE (determined without regard to valuation allowance or accounting recognition adjustment) attributable to permanent differences (including non-economic deductions and exempt income) recast at the Minimum Rate, and (ii) the amount of deferred tax liabilities accrued during the Fiscal Year attributable to goodwill and other intangibles with an indefinite life recast at the Minimum Rate.
b. An MNE Group has Net Negative Taxes for a Fiscal Year when the JITE for the Tested Jurisdiction, adjusted for valuation allowances and accounting recognition adjustments on deferred tax assets, is nil or a net negative amount.
c. The Transitional Period is comprised of five consecutive Fiscal Years starting with the Transition Year.

5. If any Excess Negative Tax Carry-forward is outstanding at the beginning of a Fiscal Year, that Excess Negative Tax Carry-forward is included in the computation of Simplified Taxes in the same manner as the Excess Negative Tax Carry-forward is included in the computation of Adjusted Covered Taxes.

112. In a Fiscal Year for which a Simplified Loss and negative Simplified Taxes are determined for a Tested Jurisdiction, the MNE Group must determine whether there is a Simplified Adjustment for Negative Taxes for the Tested Jurisdiction.

113. A Simplified Adjustment for Negative Taxes arises when the negative Simplified Taxes for the year are less than the Simplified Loss Multiplied by the Minimum Rate. The Simplified Adjustment for Negative Taxes is the negative amount of the difference.

114. The Simplified Adjustment for Negative Taxes is carried forward and included as a negative amount in the computation of Simplified Taxes in the same manner as the Excess Negative Tax Carry-forward is included in the computation of Adjusted Covered Taxes. Likewise, an Excess Negative Tax Carry-forward determined under the GloBE Rules is included in the computation of Simplified Taxes in the same manner as it is included in the computation of Adjusted Covered Taxes.

115. Paragraph 4 of the Box also provides for an alternative, the Loss DTA Adjustment, that an MNE Group may elect to apply in lieu of the Simplified Adjustment for Negative Taxes under certain conditions during the transitional period. This alternative methodology provides MNE Groups coming into the Transition Year in a loss position with temporarily relief from the obligation to compute Simplified Taxes for the purposes of applying the ETR Safe Harbour. When elected, this methodology is applicable for the five-year period beginning with the Transition Year but only for Fiscal Years during the period that have a tax loss, a Simplified Loss and Net Negative Taxes (nil or negative taxes after adjusting for valuation or recognition adjustments). In addition, the methodology is only available for a Fiscal Year after the Transition Year if the MNE Group had a tax loss, a Simplified Loss, and Net Negative Taxes for each Fiscal Year in the five-year period that preceded the Fiscal Year. In other words, the methodology is not available after a Fiscal Year during the five-year period for which the MNE Group had taxable income, Simplified Income, or a positive amount of Simplified Taxes.

116. The Loss DTA Adjustment is equal to the sum of two components:

a. the portion of the current year loss DTA corresponding to permanent differences (e.g. super deductions or exempt income), as reflected in the JITE, without regard to valuation allowance or accounting recognition adjustments, and recast at Minimum Rate; and

b. the deferred tax liabilities accrued in the current year in relation to goodwill and other intangibles with indefinite life, recast at Minimum Rate.

117. The Loss DTA Adjustment that is generated in a Fiscal Year is carried-forward and used in a subsequent fiscal year according to a criterion that is consistent with the utilization rule defined for Simplified Adjustment for Negative Taxes (paragraph 3 of the Box) and for the Excess Negative Tax Carried-forward (Article 4.1.5). In particular, the loss DTA reversal that is tentatively computed in a subsequent fiscal year should be reduced (but not below zero) by the amount of the Loss DTA Adjustment resulting at the beginning of that year as carried forward from the previous fiscal year. At the end of each year, the amount of the Loss DTA adjustment to be carried forward to the subsequent year is reduced by the amount (if any) used to reduce the loss DTA reversal in that year.

4.4. *Optional adjustments*

Box 4.4. GloBE Elective Adjustments

1. An MNE Group may make an Annual Election to include in its Simplified Taxes any amount of Covered Taxes accrued as an expense but not included in income tax expense in the financial accounts in accordance with Article 4.1.2(a).
2. An MNE Group may make an Annual Election to include in Simplified Taxes any Covered Taxes related to any equity-reported item of income that is included in Simplified Income or Loss under section 3.4.1.
3. An MNE Group may make an Annual Election to include in Simplified Taxes and Simplified Income the amount of any tax credits that:
   a. are Qualified Refundable Tax Credits or Marketable Transferable Tax Credits;
   b. are accounted as tax reduction in the JITE; and
   c. originated in the Fiscal Year of the election or in a prior fiscal year but are not fully utilised as of the year of the election. In the latter case: (i) the amount of the tax credit not yet utilised as of the year of the election is included in the Simplified Income in the year of election, and (ii) the election continues to apply until the tax credit is fully utilised.
4. The election for the Substance-based Tax Incentive Safe Harbour is available under the Simplified ETR Safe Harbour.
5. An MNE Group may elect to apply the GloBE Loss election (Article 4.5).

4.4.1. Covered tax

118. An MNE Group may elect to include in its Simplified Taxes any amount of Covered Taxes accrued as an expense but not included in income tax expense in the financial accounts in accordance with Article 4.1.2(a). This is an Annual Election that applies with respect to the Tested Jurisdiction.

4.4.2. Taxes paid in respect of Equity Reported Items included in Simplified Income

119. An MNE Group may elect to include any Covered Taxes related to any equity-reported item that is included in Simplified Income or Loss under section 3. This is an Annual Election that applies with respect to the Tested Jurisdiction.

120. Pursuant to section 3.4.1, the JPBT may be adjusted to include certain equity-reported items. If the adjustments are made, the JITE must also be adjusted to reflect the corresponding taxes associated with the adjustments to Simplified Income. These adjustments are similar those under Article 4.1.1(c) of the GloBE Model Rules and are designed to ensure that the taxes associated with the relevant income are appropriately reflected in the Simplified ETR computation.

4.4.3. Tax Credits that are QRTC or MTTC accounted as tax reduction

121. For simplicity, tax credits that are accounted as tax reduction do not have to be analysed under the safe harbour to determine whether they qualify as Qualified Refundable Tax Credits (QRTCs) or Marketable Transferable Tax Credits (MTTCs). The default rule under the Simplified ETR computation is that no

adjustment is made for tax credits accounted as a tax reduction and they will continue to be treated as a tax reduction in the computation of Simplified Taxes.

122. However, the MNE Group may make an Annual Election with respect to the Tested Jurisdiction to apply the GloBE adjustment for QRTCs and MTTCs accounted as tax reductions under Article 4.1.2(d) with the consequential adjustment to Simplified Income under Article 3.2.4. Accordingly, any tax credit that qualifies as a QRTC or MTTC and that is accounted as tax reduction in the JITE will be added to the Simplified Taxes and Simplified Income if the election is made.

123. The election applies both to tax credits that originate in the Fiscal Year of the election and to tax credits that originated in a prior fiscal year and have not been fully utilised as of the year of the election. In the latter case, the amount of the tax credit to be included in the Simplified Income is equal to the amount of tax credit not yet utilised as of the year of the election. As for tax credits that are utilised over a multiple-year period, the election is applied until the complete utilization of the tax credit. This ensures that the increase to the Simplified Income (in the year of election) is symmetrical to the increase to Simplified Taxes during the relevant period for which the QRTC or MTTC is utilised.

4.4.4. Substance-based Tax Incentives

124. The election in relation to Substance-based Tax Incentives is also available under the Simplified ETR Safe Harbour. The adjustments to GloBE Income and Adjusted Covered Taxes under that election apply equally in the computation of Simplified Income and Simplified Taxes.

4.4.5. GloBE Loss Election

125. Article 4.5 of the GloBE Model Rules provides an election for MNE Groups to effectively carry GloBE Losses forward with the establishment of a deemed deferred tax asset. That election is also available under the Simplified ETR Safe Harbour.

126. The MNE Group needs to make a GloBE Loss Election in the GIR filed for the first Fiscal Year when it has a Constituent Entity located in the jurisdiction for which the election is made. If the election is made, the MNE Group must then continue to apply the election in all subsequent Fiscal Years irrespective of whether the Simplified Safe Harbour or the full GloBE Rules apply in those Fiscal Years.

4.4.6. Other GloBE elections

127. The following GloBE elections provided in Chapter 4 of the GloBE Rules are already required as default treatment in the Safe Harbour computations, therefore allowing an election for those adjustment would be not meaningful:

a. Unclaimed Accrual election (Article 4.4.7)

b. Immaterial decreases in Covered Tax (Article 4.6.1) and

c. Election not to allocate cross-border deferred taxes (paragraph 71.16 in the Commentary to Article 4.4.1).

4.5. *Transition Year rules*

Box 4.5. Transition Year rules

1. The Transition Year for a Tested Jurisdiction that has not already had a Transition Year is the first year that the MNE Group elects the Simplified ETR Safe Harbour for the Tested Jurisdiction.
2. Articles 9.1.1 to 9.1.3 and the related Commentary apply in determining Simplified Income and Simplified Taxes.

128. Unlike the Transitional CbCR Safe Harbour, the Simplified ETR Safe Harbour does not delay the Transition Year for a Tested Jurisdiction. The Transition Year for a Tested Jurisdiction is the earlier of the Transition Year otherwise determined under the GloBE Model Rules and Commentary (including a new Transition Year under paragraph 188.49.2 of the Commentary on the QDMTT definition) or the first Fiscal Year that the MNE Group elects to apply the Simplified ETR Safe Harbour for that jurisdiction. MNE Groups will have a single Transition Year in respect of each Tested Jurisdiction. The Transition Year does not reset when an MNE Group re-enters the Simplified ETR Safe Harbour after exiting in a previous Fiscal Year.

129. For example, assume an MNE Group is required to apply a Qualified IIR with respect to a Tested Jurisdiction. The jurisdiction was eligible for the Transitional CbCR Safe Harbour for the 2024 to 2026 Fiscal Years. The MNE Group elects to apply the Simplified ETR Safe Harbour in 2027 but is not eligible for 2028 and 2029. In 2030, it once again elects the Simplified ETR Safe Harbour. In this case, the Transition Year for the jurisdiction is 2027.

130. Article 9.1.1 and Article 9.1.2 apply to deferred tax assets and liabilities that arose prior to the Transition Year for purposes of calculating Simplified Taxes in the same manner and to the same extent as they apply to the calculation of Adjusted Covered Taxes. Thus, the MNE Group may take into account all of the deferred tax assets and liabilities allowed under Article 9.1.1, except to the extent that any such deferred tax assets are not allowed under Article 9.1.2, in calculating its Simplified Taxes in and after the Transition Year. The reversal of any deferred tax liability that is not treated as a Recapture Exception Accrual (including a deferred tax liability that arose prior to the Transition Year) is excluded from the computation of Simplified Taxes, unless the MNE Group included that deferred tax liability in the computation of Adjusted Covered Taxes for a previous Fiscal Year when it was subject to the GloBE Rules or a QDMTT.

131. Similarly, Article 9.1.3 applies in the same manner as it applies to the determination of the carrying value of an asset and any related deferred tax asset as it applies under the GloBE Model Rules. Thus, for example, the MNE Group must use the transferor's carrying value of an asset that is subject to Article 9.1.3 in calculating its Simplified Income and must use the related deferred tax asset, if any, determined under Article 9.1.3 in calculating its Simplified Taxes.

132. Paragraph 10.8.1 to the Commentary to Article 9.1.3 allows the acquiring Entity of an acquired asset to take into account a deferred tax asset in respect of tax paid by the transferring Entity (or Other Tax Effects) where the acquiring Entity recorded the acquired asset at the transferring Entity's carrying value upon disposition. Under paragraph 10.9 to the Commentary to Article 9.1.3, a Constituent Entity that recorded an acquired asset subject to Article 9.1.3 at fair value in its financial accounts may use the carrying value of that asset for GloBE purposes if it would have otherwise been entitled to a deferred tax asset equal to the Minimum Rate under the Article 9.1.3 Commentary. A Constituent Entity that records the acquired asset at the transferring Entity's carrying value may take into account a deferred tax asset calculated at the Minimum Rate and a Constituent Entity that records the acquired asset at fair value may use the carrying value of the acquired asset provided that the transferring Entity is generally subject to tax on gains from the same type of Article 9.1.3 asset transfers at a rate that equals or exceeds the Minimum Rate (and without the need to identify the specific amount of tax it paid on an asset-by-asset basis in respect of each Article 9.1.3 transfer). The Inclusive Framework will consider further simplifications in relation to compliance with Article 9.1.3 for purposes of both the safe harbour and the full GloBE computations.

133. Because the Simplified ETR Safe Harbour does not extend the Transition Year, Article 9.1.3 does not apply to transfers of assets from a disposing Constituent Entity that is located in a Tested Jurisdiction that applies the Simplified ETR Safe Harbour.

4.6. *Tax adjustments after year end*

Box 4.6. Tax adjustments after year end

1. Where there is a change (increase or decrease) to the Covered Tax liability or income for a Fiscal Year (the transaction year) that is accrued after the end of that Fiscal Year, the increase or decrease in tax or income is included in the Simplified Taxes or Simplified Income for the Fiscal Year in which it accrued (the accrual year), except as provided in paragraph 3.
2. An MNE Group may make a Five-Year Election to include all increases or decreases in Covered Tax liability and income that accrue within 12 months of the end of the transaction year in the Simplified Taxes and Simplified Income of the transaction year. This election applies to increases or decreases in Covered Tax liability and income in all jurisdictions in which the MNE Group operates. This election does not apply to Covered Tax liability or income adjustments related to transfer price adjustments and can be made independently of the election for transfer price adjustments in section 5.2.
3. If a net decrease to the Covered Tax liability for a previous Fiscal Year that is not attributable to a decrease in Simplified Income accrued more than 12 months after the end of that Fiscal Year and including that net decrease in the Simplified Taxes of the accrual year would cause the Simplified ETR to be below the Minimum Rate, the MNE Group may exclude the net decrease for that previous Fiscal Year from the Simplified Taxes of the accrual year if:
   a. after adjusting the Simplified Taxes by the net decrease accrued in any Fiscal Year in respect of that previous Fiscal Year and any corresponding deferred tax effects for that previous Fiscal Year, the Simplified ETR for that previous Fiscal Year is not below the Minimum Rate; or
   b. after adjusting the Adjusted Covered Taxes by the net decrease accrued in any Fiscal Year in respect of that previous Fiscal Year and any corresponding deferred tax effects for that previous Fiscal Year, the GloBE ETR for that previous Fiscal Year is not below the Minimum Rate.

4.6.1. Treatment of changes to the Covered Taxes liability and income after of the end of the Fiscal Year

134. The Consolidated Financial Statements are typically prepared before the tax return is due. As a result, the tax expense in those statements will generally be an estimate of the tax liability for the period. In the following year, the MNE Group will adjust or 'true-up' its consolidated financial statements to correct for differences between the estimated amount and the actual amount. This true-up adjustment is permitted under most Authorised Financial Accounting Standards, unless the difference is significant enough that it is required to be treated as a prior period error.

135. The Simplified Taxes are generally calculated based on the income tax expense in the Consolidated Financial Statements and thus the Simplified Taxes will be computed based on an estimate of the income tax liability for the Tested Fiscal Year. This could result in a misalignment in the measurement of the Simplified ETR in cases where the Simplified Income is based on the updated actual income for the period. This will most commonly occur for transfer pricing adjustments in cases when the corporate income tax liability is computed using a different transfer price to the price of the transaction recorded in the financial accounts, which are discussed in section 5.2 below. To reduce the number of adjustments to the greatest extent possible, the Simplified ETR Safe Harbour generally does not require an MNE Group to adjust its Simplified Taxes to take account of the true-up adjustments to income or taxes that occur after year end. In other words, MNE Groups generally are not required to update the estimate of the JITE and JPBT to reflect the actual liability or income for the period. Instead, by default, the true-up adjustments will be reflected in the Simplified Taxes and Simplified Income of the accrual year.

136. An MNE Group may make a Five-Year Election to include increases or decreases in Covered Tax liability and income (except for increases in tax and income related to transfer pricing adjustments) that accrue within

12 months of the end of the transaction year in the Simplified Taxes and Simplified Income of the transaction year. This election applies to all jurisdictions in which the MNE Group operates. The election does not apply to transfer pricing adjustments because those adjustments are addressed separately in section 5.2. This election for true-up adjustments can be made independent of the similar election that is allowed for transfer pricing adjustments. In the Fiscal Year for which the true-up election is made, any income and taxes accrued in respect of the preceding transaction year must be included in the Simplified Income and Simplified Taxes of the election year. In the Fiscal Year for which the true-up election is revoked, any income and taxes taken into account in the preceding transaction year under the election must be excluded from the Simplified Income and Simplified Taxes of the revocation year.

4.6.2. Treatment of changes to the Covered Tax liability of a prior Fiscal Year more than 12 months after the end of that Fiscal Year

137. The Simplified ETR Safe Harbour generally applies the same simplified approach for dealing with changes to a Covered Tax liability or income for a Fiscal Year that occur more than 12 months after the end of that Fiscal Year has passed. In general, such changes are taken into account in the accrual year, however, there is no election to take them into account in the transaction year. Special rules apply to a decrease in tax liability that does not have a corresponding adjustment to income. This approach will minimise the situations in which MNE Groups are required to recalculate the ETR for a prior Fiscal Year to which the Simplified ETR Safe Harbour had been applied.

Tax changes attributable to income adjustments

138. When the post-year end adjustment increases the Covered Taxes liability (e.g. because the tax authority raises an additional tax assessment) for a previous Fiscal Year ("the transaction year"), MNE Groups include these additional taxes in the financial accounts in the Fiscal Year in which the assessment was made ("the accrual year"). Some MNE Groups include both the income adjustment and the tax adjustment in their financial accounts in the accrual year. Other MNE Groups include the tax adjustment but not the income adjustment in their financial accounts in the accrual year. In those latter cases, the additional taxes could distort the Simplified ETR in the accrual year. The Simplified ETR Safe Harbour requires the MNE Group to include the income adjustment in the accrual year. For this purpose, a change in the Covered Taxes liability attributable to a transfer pricing adjustment is considered a change in the Covered Taxes liability attributable to an increase or decrease in Simplified Income and the amount of the change in the transfer price for tax purposes must be included in the Simplified Income if it is not already reflected in the financial accounts.

139. This approach is simpler than requiring some MNE Groups to adjust their JPBT and JITE and no more burdensome than requiring other MNE Groups to adjust only their JITE. This will also ensure that all Simplified Income and Simplified Taxes are included in a Simplified ETR computation. Moreover, this approach could be considered as a simplification to Article 4.6.1 of the GloBE Model Rules, providing more continuity between the safe harbour and the GloBE Model Rules.

140. In a case where the transfer price is adjusted for tax purposes in the jurisdiction of the seller and the buyer, but the MNE Group records a DTA for the buyer instead of adjusting the carrying value of the asset, the accrual of that DTA is excluded from Simplified Taxes in the same manner as under section 5.2.2.

141. Further, where Article 4.6.3 would require a positive adjustment to Adjusted Covered Taxes, the positive adjustment is included in Simplified Taxes for the Fiscal Year in which the deferred tax asset or liability reverses consistent with Article 4.6.3.

Other tax changes

142. There may be cases when a post-filing adjustment increases or decrease the Covered Tax liability for a prior Fiscal Year without a corresponding increase or decrease in the income for that period. Article 4.6.1 generally includes the tax increase or decrease in the accrual year. However, in the case of a large decrease in a Covered Tax liability, Article 4.6.1 requires the ETR for the prior Fiscal Year to be recomputed and an Additional Current Top-up Tax liability may be charged if the revised ETR is below the Minimum Rate. This is designed

to protect the integrity of the GloBE Rules by preventing MNE Groups from manipulating the timing of tax recognition to inflate the ETR. However, it is not limited to arrangements which are designed to optimise the ETR under the GloBE Rules and applies equally to any case when there is a reduction to the Covered Taxes liability of an earlier year (for example because of a late claim to a relief available in the jurisdiction).

143. Stakeholders have explained that the requirement to recalculate the ETR of the prior Fiscal Year in these situations could reduce the value of the Simplified ETR Safe Harbour because it could require the MNE Group to retrospectively make the full GloBE computations for those earlier years and this may require MNE Groups to develop the systems to collect the necessary information for this even in situations where no post-filing adjustments ultimately materialise.

144. The Simplified ETR Safe Harbour consequently adopts a simplified approach for the treatment of reductions in Covered Tax liability which will reduce the need to recalculate the ETR of prior Fiscal Years. Under this approach, the refund is reflected in the Simplified Taxes in the accrual year and so no adjustments are required to the JITE in that Fiscal Year. Increases in a Covered Tax liability with no corresponding income adjustment are also reflected in the Simplified taxes in the accrual year, consistent with Article 4.6.1.

145. It is possible that including the refund for a previous Fiscal Year or refunds from multiple previous Fiscal Years in the accrual year could lead to the MNE Group's Simplified ETR falling below the Minimum Rate when it would still have been eligible to apply the safe harbour in the prior Fiscal Years if the ETR for those years had been recalculated to take account of the refund for that year. Furthermore, it is possible that no Additional Current Top-up Tax liabilities would be due because the MNE Group would then apply Article 4.6.1 and carry the negative taxes back to those earlier Fiscal Years. This would mean that the MNE Group would lose access to the safe harbour when there is no loss of Top-up Tax. In recognition of this, the Simplified ETR Safe Harbour permits the MNE Group to add back all the refunds for a specific previous Fiscal Year (a Qualified Refund Year) to its Simplified Taxes in the accrual year to the extent those refunds and any corresponding deferred tax effects would not result in a Simplified ETR below the Minimum Rate in the previous Fiscal Year to which those refunds relate (or a GloBE ETR below the Minimum Rate in a Fiscal Year for which the Simplified ETR Safe Harbour did not apply). The definition of Qualified Refund Year is cumulative in the sense that the determination of whether the Simplified ETR is below the Minimum Rate for that previous Fiscal Year takes into account all refunds accrued in respect of that previous Fiscal Year, not just those accrued in the current Fiscal Year.

146. For example, the MNE Group originally claimed the Simplified ETR Safe Harbour in Years 1 and 2. In Year 1, its Simplified Taxes were 300 and its Simplified Income was 1200. In Year 2 its Simplified Taxes were 250 and its Simplified Income was 1500. In Year 3, the MNE Group receives a refund of 100 of the taxes paid in respect of Year 1 and 50 of the taxes paid in respect of Year 2. Its Simplified Income in Year 3 was 1000 and its JITE is 100 (which represents 250 of taxes on the income of that year less the 150 refund). Its Simplified ETR in Year 3 would consequently be 10% (=100/1,000) if the full amount of the refunds were taken into account in that year. However, the MNE Group would still have a Simplified ETR of more than the Minimum Rate in Year 1 (16.7% = [300-100]/1200) after adjusting for the refund of taxes included in the Simplified Taxes of that year. Thus, Year 1 is a Qualified Refund Year and the refund can be allocated to Year 1 and added back to Simplified Taxes of Year 3; the Simplified ETR for Year 3 is then 15% (= [50 + 100]/1000) and the Simplified ETR Safe Harbour applies to Year 3. Year 2 is not a Qualified Refund Year and cannot be added back to Simplified Taxes in Year 3 because the 50 refund would have reduced the ETR in Year 2 below the Minimum Rate (13% = [250-50]/1500). If in Year 4, another refund of 80 were accrued in respect of Year 1, Year 1 would have a Simplified ETR below the Minimum Rate taking into account all refunds related to Year 1(10% = [300-100-80]/1200). Thus, Year 1 would not be a Qualified Refund Year in Year 4 and the 80 refund cannot be added back to Simplified Taxes of Year 4.

147. Further, where Article 4.6.2, Article 4.6.3, or Article 4.6.4 would require a negative adjustment to Adjusted Covered Taxes, the simplification described in this section applies.

5. Simplified Treatment of Cross-border Income & Taxes

5.1. *Cross-border allocation of income and taxes*

Box 5.1. Cross-border allocation of income and taxes

1. An MNE Group must follow Articles 3.4, 3.5, and 4.3.2(b) to allocate income and taxes of a Permanent Establishment (PE) and Flow-through Entity.
2. The amount of taxes allocable from a Main Entity to a PE or from a Constituent Entity-owner to a subsidiary Constituent Entity under Article 4.3.2(a), (c), (d), or (e) are excluded from all Tested Jurisdictions, unless the MNE Group makes the Five-Year Election in paragraph 8. However, withholding taxes imposed on distributions from a Constituent Entity by the jurisdiction where that subsidiary Constituent Entity is located are not excluded.
3. In lieu of applying Articles 3.4.4 and 3.4.5, a Filing Constituent Entity may make a PE Simplification Election with respect to Permanent Establishments of Main Entities located in a jurisdiction that has adopted anti-hybrid rules consistent with BEPS Action 2 and that has a taxable branch regime. The election is subject to the condition that any deferred taxes on the Main Entity's income and expenses attributable to domestic operations are not reflected in JITE below the Minimum Rate.
4. Under the PE Simplification Election:
   a. the Simplified Income or Loss of each PE is included in the Simplified Income or Loss of the Main Entity's Tested Jurisdiction to the extent that it is treated as income or loss in the computation of the domestic taxable income under the taxable branch regime in the Main Entity jurisdiction;
   b. the Main Entity's current and deferred taxes related to the income or loss of those PEs as determined under the tax legislation are included in the Simplified Taxes of the Main Entity's Tested Jurisdiction;
   c. the amount of foreign tax credit used by the Main Entity to reduce its current tax expense related to including the PE's income are included in the Simplified Taxes of the Main Entity's Tested Jurisdiction; and
   d. the Simplified Income and Simplified Taxes of the PE's Tested Jurisdiction (or GloBE Income and Adjusted Covered Taxes of the PE's jurisdiction, if the Simplified ETR Safe Harbour does not apply) are determined without regard to Article 3.4.5 and Article 4.3.4.
5. The PE Simplification Election is an Annual Election and is made on a jurisdictional basis. Where a Simplified Loss of a PE has been included in the Simplified Income of a jurisdiction pursuant to the election, the MNE Group must make the election in each subsequent Fiscal Year until the Fiscal Year after the Simplified Income of the Main Entity's jurisdiction has included an equal amount of Simplified Income of that PE.
6. For the purposes of the PE Simplification Election, where there are foreign tax credits attributable to different types of foreign source income, the MNE Group determines the amount of foreign tax credit used in the year and related to PE income by multiplying the total amount of foreign tax credit used in the year by the ratio of the PE income included in taxable income to the total amount of foreign source income included in taxable income. The amount of foreign tax credit included in Simplified Taxes cannot exceed the result of multiplying the nominal tax rate in the Main Entity jurisdiction by the total income of PEs included in Main Entity's taxable income.
7. The PE Simplification Election has no impact on the Simplified ETR Safe Harbour computation of the Tested Jurisdiction of a PE. The Simplified ETR Safe Harbour computations for those Tested Jurisdictions mirror the QDMTT approach and an MNE Group must exclude any taxes paid by a Main Entity on income attributable to a PE from the Simplified ETR computation for the Tested Jurisdiction of the PE, unless an election under paragraph 8 below is made.
8. An MNE Group may make a Five-Year Election to allocate taxes described in Article 4.3.2(a), (c), (d) and (e) to another Constituent Entity in accordance with Articles 4.3.2 and 4.3.3. The election does not apply to taxes described in Article 4.3.2(a) when a PE Simplification Election is in effect in the Main Entity jurisdiction. Where those taxes are allocated to a Constituent Entity that is located in a jurisdiction that does not have a QDMTT, the taxes are included in the Simplified Taxes for the Tested Jurisdiction that includes that Constituent Entity.

148. In general, MNE Groups must follow Chapters 3 and 4 of the QDMTT Commentary for the cross-border allocation of Simplified Income or Loss and Simplified Taxes. Thus, MNE Groups apply Article 4.3.2(b) and allocate Covered Taxes included in the financial accounts of a Tax Transparent Entity with respect to Simplified Income or Loss allocated to a Constituent Entity-owner pursuant to Article 3.5.1(b) to that Constituent Entity-owner. Where the MNE Group includes a loss attributable to a PE in its Simplified Income pursuant to Article 3.4.5, Article 4.3.4 applies to the determination of Simplified Taxes in both the Main Entity's jurisdiction and the PE's jurisdiction.

149. In general, the Simplified ETR Safe Harbour mirrors the QDMTT approach to the allocation of cross-border taxes from a Main Entity or Constituent Entity-owner to a PE or subsidiary Constituent Entity. An MNE Group must exclude any taxes paid by a Main Entity or Constituent Entity-owner on income attributable to a PE or subsidiary Constituent Entity from the Simplified ETR computation for the Tested Jurisdiction of the Main Entity or Constituent Entity-owner as well as the Tested Jurisdiction of the PE or subsidiary Constituent Entity. This requirement applies also where the PE Simplification Election, set out below, applies. As provided in the QDMTT Commentary, however, this requirement does not apply to withholding taxes imposed on distributions from a subsidiary Constituent Entity by the jurisdiction where that subsidiary Constituent Entity is located.

150. In lieu of applying Articles 3.4.4 and 3.4.5, a Filing Constituent Entity may make a PE Simplification Election with respect to Permanent Establishments of Main Entities located in a jurisdiction that has adopted anti-hybrid rules consistent with BEPS Action 2 and that has a taxable branch regime. The election is subject to the condition that any deferred taxes on the Main Entity's income and expenses attributable to domestic operations are not reflected in JITE at a rate below the Minimum Rate.

151. Under the PE Simplification Election:

    a. the Simplified Income or Loss of each PE is included in the Simplified Income or Loss of the Main Entity's Tested Jurisdiction to the extent that it is treated as income or loss in the computation of the domestic taxable income under the taxable branch regime in the Main Entity jurisdiction;

    b. the Main Entity's current and deferred taxes related to the income or loss of those PEs as determined under the tax legislation are included in the Simplified Taxes of the Main Entity's Tested Jurisdiction;

    c. the amount of foreign tax credit used by the Main Entity to reduce its current tax expense related to including the PE's income is included in the Simplified Taxes of the Main Entity's Tested Jurisdiction; and

    d. the Simplified Income and Simplified Taxes of the PE's Tested Jurisdiction (or GloBE Income and Adjusted Covered Taxes of the PE's jurisdiction, if the Simplified ETR Safe Harbour does not apply) are determined without regard to Article 3.4.5 and Article 4.3.4.

152. The election is an Annual Election and is made on a jurisdictional basis. Where a Simplified Loss of a PE has been included in the Simplified Income of a jurisdiction pursuant to the election, the MNE Group must make the election in each subsequent Fiscal Year until the Fiscal Year after the Simplified Income of the Main Entity's jurisdiction has included an equal amount of Simplified Income of that PE. When the PE Simplification Election applies, Articles 3.4.4, 3.4.5, and 4.3.4 do not apply to the computation of Simplified Income or Simplified Taxes of the Main Entity's Tested Jurisdiction or the PE's jurisdiction. While the election is in effect, those articles also do not apply to the computation of GloBE Income or Loss and Adjusted Covered Taxes of the PE's jurisdiction where the Simplified ETR Safe Harbour does not apply to the PE's jurisdiction. For any taxable year in which a PE Simplification Election is in effect for a jurisdiction, Covered Taxes of a Main Entity located in that jurisdiction cannot be allocated to a Permanent Establishment pursuant to Article 4.3.2(a) or an election to apply Article 4.3.2(a) in the safe harbour.

153. For the purposes of the election, the foreign tax credit used is the amount of the income tax reduction attributable to foreign tax credits and may include foreign tax credits that accrued in the taxable year or foreign tax credits that were carried forward from a previous taxable year. However, the foreign tax credit included in

the Simplified Taxes under this election cannot exceed the result of multiplying the nominal tax rate of the Main Entity jurisdiction by the PE's income included in the taxable income of the Main Entity. The election is subject to the condition that any deferred taxes on the Main Entity's income and expenses attributable to domestic operations are not reflected in JITE below the Minimum Rate. This requirement is aimed at mitigating the residual risk that PE taxes could shelter low-taxed income in the Main Entity jurisdiction.

154. For example, Main Entity A is located in jurisdiction A, which has a 20% nominal tax rate. Jurisdiction A has 100 of total income, 20 of which relates to a PE located in Jurisdiction B. The PE's taxable income in Jurisdiction A and Jurisdiction B is equal to its financial accounting income. ME's total taxable income in A is 100, which is subject to a tax rate of 20% in A. PE's taxable income in B is 20, which is subject to a tax rate of 10% in B and the tax paid to Jurisdiction B is 2. Main Entity A has total income tax expense equal to 20 (i.e. 18 in Jurisdiction A and 2 in Jurisdiction B) because it had 100 of total income (from domestic sources and from the PE) which resulted in a pre-foreign tax credit liability of 20 which was then reduced by a foreign tax credit of 2 allowed in respect of the foreign-source income derived through the PE. Rather than excluding the PE income and the corresponding taxes, the MNE Group elects to include the 20 of PE's income in the Main Entity jurisdiction. Under the PE Simplification Election, the Simplified Income of the Main Entity is equal to 100 and not 80 as it also includes the PE Simplified Income of 20 and the corresponding Simplified Taxes amount to 20 as a result of the following computations: the total income tax expense of 20 is reduced by 2 (i.e. the local taxes paid in Jurisdiction B) and increased by 2 (the corresponding PE foreign tax credit used in the year), resulting to 20. The Simplified ETR is 20% (= [20 − 2 + 2])/[80 + 20]). If instead, the MNE Group had paid 5 of tax to Jurisdiction B in respect of the PE's taxable income and Jurisdiction A allowed 5 of foreign tax credits to reduce the tax liability, the MNE Group could only include 4 in the Simplified Taxes because the tax credit add-back is limited to the result of the PE income included in the taxable income of the A Co multiplied by the nominal tax rate of 20%, i.e. 4.

155. For the purposes of the PE Simplification Election, where the amount of foreign tax credit used in the year relates to multiple sources of foreign income, such as PE income and royalty income, the MNE Group determines the amount of the foreign tax credit used in the year and related to PE income on a proportional basis. In particular, the amount related to PE income is determined by multiplying the total amount of the foreign tax credit used in the year by the ratio of the PE income included in taxable income to the total foreign sourced income included in taxable income. This simplification is aimed at relieving the MNE Group from the compliance burden of analytically determining the amount of the foreign tax credits related to PE income actually used in the year by the Main Entity.

156. For example, assuming the Main Entity derives 150 of foreign income in the taxable year, 100 of which relates to foreign PEs and 50 of which relates to a cross-border royalty payment. The total amount of the foreign tax credit used in the year is equal to 15. By applying the proportional calculation indicated in the rule, the MNE determines that the foreign tax credit utilization related to the PE income is equal to 10 (=15 × (100/150)) of the total amount of the foreign tax credit used in the year.

157. An MNE Group may make a Five-Year Election to allocate taxes described in Article 4.3.2(a), (c), (d) or (e) to another Constituent Entity in accordance Articles 4.3.2 and 4.3.3. The election is a group-wide election and applies to all taxes described in Article 4.3.2(a), (c), (d) and (e); it cannot be limited to taxes described in only one of the paragraphs. However, the election does not apply to taxes described in Article 4.3.2(a) when a PE Simplification Election is in effect in the Main Entity jurisdiction. When the election is made:

    a. taxes allocated to a Constituent Entity that is located in a jurisdiction that does not have a QDMTT are included in the Simplified Taxes for the Tested Jurisdiction that includes that Constituent Entity; and

    b. taxes allocable to a Constituent Entity that is located in a jurisdiction that has a QDMTT are excluded from Simplified Taxes of all jurisdictions.

5.2. *Transfer pricing adjustments*

Box 5.2. Transfer pricing adjustments

Transactions between Constituent Entities located in different Tested Jurisdictions

1. Where there is a TP taxable income adjustment made after the end of the Fiscal Year, that relates to transaction between Constituent Entities located in different Tested Jurisdictions, the TP taxable income adjustment is included as an adjustment to JPBT of the Fiscal Year in which it accrued (the accrual year). A TP taxable income adjustment is equal to the difference between the price recorded in the financial accounts at the end of the Fiscal Year and the transfer price used to compute taxable income for the year. Any increase or decrease in Covered Tax liability attributable to the TP taxable income adjustment is also included in the accrual year. Where there is a TP taxable income adjustment in a Tested Jurisdiction and no corresponding TP taxable income adjustment in the counterparty, an adjustment equal to the TP taxable income adjustment must be made to the JPBT of the counterparty's Tested Jurisdiction.
2. An MNE Group may make a Five-Year Election to include TP taxable income adjustments and any related increases or decreases in Covered Tax liability that accrue within 12 months of the end of the Fiscal Year for which the TP taxable income adjustments are made (the transaction year) as an adjustment to JPBT and JITE of the transaction year. This election applies to TP taxable income adjustments and any related increase or decrease in Covered Tax liability in all jurisdictions in which the MNE Group operates.

Special cases

Transactions between Constituent Entities located in different Tested Jurisdictions that are accounted at costs

3. Where a Constituent Entity (the seller) has transacted with another Constituent Entity (the buyer) in a different Tested Jurisdiction and the transaction is recorded at cost in the financial accounts, the JPBT 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).
4. The buyer will use the carrying value in the financial accounts of its assets (except intangible assets) and liabilities to determine its Simplified Income. The buyer also must use the corresponding DTA (recast at the Minimum Rate) recorded in respect of the difference between the tax and accounting carrying values in computing its Simplified Taxes. The Simplified Income and Simplified Taxes for the buyer's jurisdiction are calculated based on the Arm's Length Price for any intangible assets that were transferred and based on the carrying value of the asset or liability recorded in its financial accounts for all other assets and liabilities arising from the transaction.

Transactions between Constituent Entities in the same Tested Jurisdiction

5. Paragraph 1 applies to a sale or other transfer of an asset between Constituent Entities that are located in the same Tested Jurisdiction when that sale or transfer results in a loss. If the tax law of the jurisdiction disallows the loss instead of adjusting the sale price to arm's length, the amount of the disallowed loss is deemed to be a transfer pricing adjustment in the amount of the disallowed loss.

5.2.1. Treatment of cross-border transfer pricing adjustments within 12 months of the end of the transaction year

158. In general, Article 3.2.3 applies in the Simplified ETR Safe Harbour. Thus, MNE Groups will generally follow the prices reflected in their financial accounts when computing Simplified Income. Consistent with Paragraph 97 of the Commentary to Article 3.2.3, this reflects an expectation that Constituent Entities' financial accounts generally will reflect transactions between Group Entities based on the Arm's Length Principle and at the same price. There are two exceptions to this; first, when the Constituent Entity applies a different transfer price for corporate income tax purposes, and second, when the financial accounts record the transaction at cost. The application of Article 3.2.3 in the safe harbour in these cases is explained further below.

159. When an MNE Group computes its taxable income, it may use a transfer price different to the price recorded in its financial accounts. This "TP taxable income adjustment" could be due to an Advance Pricing Agreement (APA) or because the MNE Group self-assesses that the price in the financial accounts is not consistent with the Arm's Length Principle. Where the TP taxable income adjustment was made within 12 months after the end of the transaction year, the MNE Group includes the TP income adjustment as an adjustment to its JPBT for the accrual year. Any difference between the income tax expense reflected in the financial accounts at year end and the amount reflected in the actual Covered Taxes liability for the transaction year that relates to the JPBT adjustment must also be included as an adjustment to JITE for the accrual year. This ensures that the Simplified ETR is not distorted through including taxes accrued based on the transfer price adjusted to arm's length without including the income to which those taxes relate. The adjustments under this section 5.2.1 are required regardless of whether there is a tax adjustment that would trigger application of section 4.6.1.

160. It is expected that in most cases, when the MNE Group makes a TP taxable income adjustment, there will be a corresponding TP taxable income adjustment by the counterparty to the transaction. Where there is a TP taxable income adjustment in a Tested Jurisdiction and no corresponding TP taxable income adjustment in the counterparty, an adjustment equal to the TP taxable income adjustment must be made to the JPBT in the counterparty's Tested Jurisdiction. The risk of double non-taxation arising from a unilateral transfer pricing adjustment in an under-taxed jurisdiction addressed in paragraphs 100-103 of the Commentary to Article 3.2.3 is not present in the Simplified ETR Safe Harbour because under-taxed jurisdictions will not qualify for the safe harbour; instead, under-taxed jurisdictions will be subject to those rules on making unilateral transfer pricing adjustments under the GloBE Rules.

161. An MNE Group may make a Five-Year Election to include TP taxable income adjustments and any related differences in Covered Tax liabilities as adjustments to the JPBT and JITE of the transaction year. In the Fiscal Year for which the election is made, any income and taxes accrued in respect of the preceding transaction year must be included as adjustments to the JPBT and JITE in the election year. In the Fiscal Year for which the election is revoked, any income and taxes taken into account in the preceding transaction year under the election must be excluded from the JPBT and JITE in the revocation year.

5.2.2. Transactions between Constituent Entities located in different Tested Jurisdictions that are accounted at cost

162. Under some Authorised Financial Accounting Standards, intragroup transactions are (or can be) recorded at cost. In such cases, there will be no accounting profit or loss recognised on an intragroup sale of an asset, and the acquiring entity will recognise the transferred assets at the carrying value of the assets before the transfer rather than at their fair value. Article 3.2.3 applies to such transfers and requires the selling Constituent Entity's income to be adjusted so that the transaction is reflected consistently with the Arm's Length Principle. Under the safe harbour, the MNE Group must adjust the JPBT of the seller's jurisdiction to match the price used for the computation of its taxable income, unless the transaction was not taxable, in which case the adjustment to JPBT is based on the Arm's Length Principle. The MNE Group must generally recognise the asset or liability based on the carrying value in the financial accounts and use this to determine the Simplified Income of the acquiring entity's jurisdiction. The MNE Group also must use a corresponding DTA (recast at the Minimum Rate) recorded in respect of the difference between the tax basis (or, if different, the fair value, such as where the transaction was not taxable) and accounting carrying values in computing the Simplified Taxes for the acquiring entity's jurisdiction. This will provide simplification by allowing MNE Groups to rely on their existing financial accounts to the greatest extent possible.

163. However, there is an exception for intangible assets, which must be recognised at the value that was taken into account by the disposing entity in computing its Simplified Income or GloBE Income (i.e. based on the Arm's Length Price). This ensures such assets are treated consistently under the Simplified ETR Safe Harbour regardless of the MNE Group's accounting policy for intragroup transfers and is necessary because the use of a DTA to address the difference between the tax and accounting carrying values would often produce an outcome that is more beneficial to the MNE Group than the outcome that would result from application of the GloBE Model Rules. This is because deferred tax liabilities post-acquisition attributable to amortization of

intangible assets will frequently be subject to the recapture rule in Article 4.4.4 when such assets are transferred at their fair value and subsequently amortized. In contrast, the recapture rule will not apply when the asset was accounted for at cost because it does not apply to deferred tax assets.

5.2.3. Intragroup transactions between Constituent Entities located in the same Tested Jurisdiction

164. Article 3.2.3 also applies to transactions between Constituent Entities located in the same Tested jurisdiction in two circumstances. The first is when there are intragroup transactions between Constituent Entities located in different blending groups (i.e. in different Tested Jurisdictions). These transactions are treated as cross-border transactions for the purposes of the Simplified ETR Safe Harbour and are therefore subject to the same requirements explained above.

165. The second case is when there is a sale of an asset that results in a loss. Article 3.2.3 requires an adjustment to the extent that the loss is not recorded at an arm's length price. The Article 3.2.3 requirements applicable to cross-border transactions apply to a sale or other transfer of an asset between Constituent Entities that are located in the same Tested Jurisdiction that results in a loss. If the tax law of the jurisdiction disallows the loss instead of adjusting the sale price to an arm's length price, the amount of the disallowed loss is deemed to be a transfer pricing adjustment in the amount of the disallowed loss.

6. Tax-Neutral Entities

6.1. *Tax Neutral UPEs*

Box 6.1. Tax Neutral UPEs

1. The Simplified Income or Loss and Simplified Taxes of a UPE that is a Flow-through Entity or a Permanent Establishment described in Article 7.1.4 shall be reduced in accordance with Article 7.1. As an exception, the Simplified Income or Loss and Simplified Taxes of any such Entity shall be deemed to be zero where all the Ownership Interests in the UPE are held by Qualified Persons.
2. The Simplified Income or Loss and Simplified Taxes of a UPE or Constituent Entity described in Article 7.2.3 that is that is subject to Deductible Dividend Regime shall be reduced in accordance with Article 7.2. As an exception, the Simplified Income or Loss and Simplified Taxes of any such Entity shall be deemed to be zero where:
   a. all the Ownership Interests in the UPE are held by Qualified Persons; and
   b. all the income is distributed as Deductible Dividends.
3. If the Simplified Income or Loss and Simplified Taxes of all the Entities in a Tested Jurisdiction are deemed to be zero under paragraph 1 or 2, the Top-up Tax for the Tested Jurisdiction is deemed to be zero.
4. If the conditions of paragraph 3 are not met, the Top-up Tax for the Tested Jurisdiction is deemed to be zero if the Simplified ETR for the jurisdiction equals or exceeds the Minimum Rate after adjusting Simplified Income or Loss and Simplified Taxes for the Tested Jurisdiction in accordance with paragraph 1 and 2.
5. For purposes of paragraphs 1 and 2, a Qualified Person means:
   a. in respect of a UPE that is a Flow-through Entity, a holder described in Article 7.1.1 or Article 7.1.2; and
   b. in respect of a UPE that is subject to Deductible Dividend Regime, a holder described in Article 7.2.1.

166. The GloBE Model Rules contain special rules that are applicable to UPEs that are subject to tax neutral regimes. Flow-through UPEs are subject to special treatment in accordance with Article 7.1, and UPEs subject to Deductible Dividend Regimes are subject to special rules in accordance with Article 7.2. To ensure consistency, the Simplified ETR Safe Harbour incorporates those rules but also provides a simplification for cases where the GloBE Income or Loss and Adjusted Covered Taxes would have been reduced to zero under those rules.

167. As a simplification for MNE Groups, the Simplified Income or Loss and Simplified Taxes of a UPE will be deemed to be zero where all of the income and taxes of the UPE would be reduced to zero as a result of Article 7.1 or 7.2. This avoids the need to determine the Simplified Income or Loss and Simplified Taxes before reducing them to zero. In order to determine whether these amounts would be reduced to zero under Article 7.1, the MNE Group must determine whether all of the UPE's Ownership Interests are owned by persons that meet the criteria set under Article 7.1.1 and Article 7.1.2 of the Model Rules. For UPEs that are subject to Deductible Dividend Regime, the MNE similarly must determine whether all of the UPE's Ownership Interests are owned by persons that meet the criteria set under Article 7.2.1 but must also determine whether all the income of the UPE has been distributed in respect of those Ownership Interests. This approach similarly applies to any Permanent Establishment or Constituent Entity described in Article 7.1.4 or 7.2.3. If all of the Simplified Income or Loss and Simplified Taxes of all of the Entities in the Tested Jurisdiction are deemed to be zero, the Top-up Tax for the Tested Jurisdiction is deemed to be zero.

168. If the Top-up Tax is not deemed to be zero because some of the Ownership Interests are not owned by Qualified Persons or there are other Constituent Entities located in the jurisdiction that are not eligible to apply Article 7.1 or Article 7.2, the Simplified ETR must be computed for the jurisdiction. In performing that computation, Simplified Income or Loss and Simplified Taxes for the Tested Jurisdiction are adjusted to the extent permitted under the simplification. For example, if the Tested Jurisdiction included a Tax Transparent UPE owned exclusively by Qualified Persons and another Constituent Entity that is not a Flow-Through Entity, the Simplified ETR for the Tested Jurisdiction would be determined based only on the Simplified Income or Loss and Simplified Taxes of the other Constituent Entity because those of the UPE would be deemed zero.

6.2. *Tax Transparent Entities*

Box 6.2. Tax Transparent Entities

1. The Simplified Income or Loss and Simplified Taxes of a Tax Transparent Entity other than a UPE shall be deemed to be zero where all of the income and taxes of the Tax Transparent Entity (after application of Article 3.5.3) is allocated to Permanent Establishments under Article 3.5.1(a) and 4.3.2(a) or to Constituent Entity-owners under Articles 3.5.1(b) and 4.3.2(b).
2. If the Simplified Income or Loss and Simplified Taxes of all of the Entities in a Tested Jurisdiction are deemed to be zero under paragraph 1, the Top-up Tax for the Tested Jurisdiction is deemed to be zero.

169. The income of Flow-through Entities is allocated under Article 3.5 and, if the Flow-through Entity is a Tax Transparent Entity that is not the UPE, any Covered Taxes imposed on that income are allocated under Article 4.3.2(b) (see Section 5.1). In many cases, application of Articles 3.5 and 4.3.2(b) will leave the Flow-through Entity with zero income and zero taxes. Therefore, the Simplified Income or Loss and Simplified Taxes of a Tax Transparent Entity will be deemed to be zero where all of the income and taxes of the Tax Transparent Entity would be reduced to zero as a result of Articles 3.5 and 4.3.2(b).

170. A Tax Transparent Entity will often be considered a Stateless Constituent Entity located in a separate jurisdiction with no other Constituent Entities. In other cases, the Tax Transparent Entity may be the only Constituent Entity located in a Tested Jurisdiction for other reasons. In those circumstances, there would not be any Top-up Tax liability under the GloBE Rules because there is no GloBE Income or Loss in the jurisdiction of the Flow-through Entity. Therefore, further, if the Simplified Income or Loss and Simplified Taxes of all of the Entities in a Tested Jurisdiction are deemed to be zero, the Top-up Tax for the Tested Jurisdiction is deemed to be zero.

6.3. *Investment Entity Tax Transparency Election*

Box 6.3. Investment Entity Tax Transparency Election

1. The Top-up Tax of an Investment Entity or Insurance Investment Entity shall be deemed to be zero for a Fiscal Year where it is treated as a Tax Transparent Entity for all of its Constituent Entity-owners due to an election under Article 7.5 or under the definition of Tax Transparent Entity in Article 10.2.

171. Article 7.5.1 provides a Five-Year election to treat an Investment Entity or Insurance Investment Entity as a Tax Transparent Entity. The election is available to Constituent Entity-owners of Investment Entities or Insurance Investment Entities that are subject to tax in its location under a mark-to-market or similar regime based on the annual changes in the fair value of its Ownership Interest in the Investment Entity and the tax rate applicable to the Constituent Entity-owner with respect to such income equals or exceeds the Minimum Rate.

172. This election is also available under the Simplified ETR Safe Harbour (see Section 7.1.2.). Where an election under Article 7.5 is made for each Constituent Entity-owner of the Investment Entity, the Investment Entity will be treated as a Tax Transparent Entity located in a separate Tested Jurisdiction. For this purpose, a Constituent Entity-owner will be considered to have made an election under Article 7.5 if the Investment Entity is in fact a Tax Transparent Entity with respect to that Constituent Entity-owner. The income and taxes of Investment Entities will be allocated pursuant to Article 3.5 and Article 4.3.2(b) (see Section 5.1) and the Top-up Tax for the Investment Entity will be deemed to be zero.

7. Eligibility Restrictions

7.1. *Ineligible Tested Jurisdictions*

Box 7.1. Ineligible Tested Jurisdictions

1. An MNE Group is not eligible to elect the Simplified ETR Safe Harbour for the following Tested Jurisdictions:
   a. Stateless Constituent Entities, except as provided in section 6.2;
   b. Investment Entities, except as provided in section 6.3; and
   c. Tested Jurisdictions with Constituent Entities in respect of which the MNE Group has made an Eligible Distribution Tax System election under Article 7.3 and there is an outstanding balance of the Deemed Distribution Tax Recapture Account for the jurisdiction at the beginning of the Fiscal Year.

7.1.1. Stateless Entities

173. A Stateless Constituent Entity is treated as a separate Tested Jurisdiction for the purposes of the Simplified ETR Safe Harbour. Stateless Constituent Entities are not eligible for the Simplified ETR Safe Harbour and will therefore be subject to the full GloBE computations. This is because the Stateless Constituent Entity will not be taxable in the jurisdiction in which the Entity was created (in the case of a Flow-through Entity) or where the place of business is located (in the case of a Stateless Permanent Establishment). This means a Stateless Constituent Entity is unlikely to have sufficient Simplified Taxes to meet the Simplified ETR test.

174. There may be exceptional cases where a Reverse Hybrid Entity's GloBE ETR is above the Minimum Rate, for example where taxes are allocated to the Reverse Hybrid Entity pursuant to Article 4.3.2(c), (d), or (e). However, the Reverse Hybrid Entity's Simplified ETR would still not meet the Minimum Rate in such a case because the Simplified ETR Safe Harbour does not allow taxes to be allocated to a Tested Jurisdiction under Article 4.3.2(c), (d), or (e). Excluding Stateless Constituent Entities is consequently consistent with the overall design of the safe harbour and will simplify the rules, by avoiding creating new complex boundaries.

175. As an exception, a Stateless Constituent Entity that is a Tax Transparent Entity (including a Tax Transparent Entity that also meets the definition of an Investment Entity) may still be eligible to the Simplified ETR Safe Harbour where all of its income and taxes are allocated to its Constituent Entity-owners under Article 3.5 and Article 4.3.2(b). In these cases, the Top-up Tax for a Fiscal Year for the Stateless Constituent Entity will be deemed to be zero (see Section 6.2).

7.1.2. Investment Entities

176. As an MNE Group is required to compute a separate ETR for Investment Entities under Article 7.4, an Investment Entity(s) will be treated as a separate Tested Jurisdiction for the purposes of applying the Simplified ETR Safe Harbour.

177. As Investment Entities are designed to be tax neutral, it is anticipated that the jurisdiction where the Investment Entity is located will not typically impose corporate income taxes on the Investment Entity and that any such taxes on the income of the Investment Entity would generally be imposed on the investors of the fund. Consequently, it is unlikely an Investment Entity's ETR would meet the Minimum Rate. In light of this, Investment Entities are ineligible for the Simplified ETR Safe Harbour and will be subject to the full GloBE computations.

178. Where the Filing Constituent Entity makes an election under Article 7.5 or Article 7.6, the jurisdiction(s) where the Constituent Entity-owner(s) of the Investment Entity is located will continue to be eligible for the Simplified ETR Safe Harbour. In such cases, the MNE Group must make the necessary adjustments to the Simplified Income and Simplified Taxes of the Constituent Entity-owner(s) in line with the requirements of these elections. So, for example, where an election is made under Article 7.5, the Investment Entity will be treated as a Tax Transparent Entity for the purposes of the Simplified ETR Safe Harbour and the JPBT of the jurisdiction where the Constituent Entity-owner is located must be adjusted to include the FANIL of the Investment Entity. Under section 6.3, the investment Entity will be deemed to have a Top-up Tax of zero if all of the Constituent Entity-owners make an Article 7.5 election. Similarly, where an election is made under Article 7.6, the JPBT of the jurisdiction where the Constituent Entity-owner is located must be adjusted to include any income from distributions or deemed distributions which have been treated as a reduction in the calculation of the Investment Entity's Undistributed Net GloBE Income under Article 7.6. The Inclusive Framework will consider whether a simplified methodology utilising mark-to-market financial accounting data of the Constituent Entity-owner can be utilised for an Investment Entity that is subject to an election under Article 7.6.

179. The Inclusive Framework will also consider further simplifications for Investment Entities for the purpose of the Simplified ETR Safe Harbour.

7.1.3. Tested Jurisdictions subject to an election under Article 7.3

180. An MNE Group that made an Eligible Distribution Tax System election under Article 7.3 for a Tested Jurisdiction cannot elect to apply the Simplified ETR Safe Harbour to that Tested Jurisdiction if there was an outstanding balance of the Deemed Distribution Tax Recapture Account for that Tested Jurisdiction at the beginning of the Fiscal Year. Beginning with the Fiscal Year immediately following the Fiscal Year that the Deemed Distribution Tax Recapture Account for a Tested Jurisdiction is reduced to nil, the MNE Group is eligible to elect the Simplified ETR Safe Harbour for that Tested Jurisdiction.

7.2. *Entry and Re-entry criteria*

Box 7.2. First Election and Re-entry Requirements

1. An MNE Group is eligible to elect the Simplified ETR Safe Harbour for the first time in respect of a Tested Jurisdiction for a Fiscal Year if it did not have a Top-up Tax liability for that Tested Jurisdiction in every Fiscal Year beginning within 24 months before the first day of the Fiscal Year for which the Simplified ETR Safe Harbour is elected.

(*Continued*)

Box 7.2. (*Continued*)

2. If an MNE Group does not make an election for the Simplified ETR Safe Harbour in a Fiscal Year after electing it in a previous Fiscal Year for the same Tested Jurisdiction, the MNE Group may re-elect the Simplified ETR Safe Harbour if it did not have Top-up Tax liability in any of the Fiscal Years beginning within 24 months of the first day of the Fiscal Year for which the Safe Harbour was not elected, under either (i) full GloBE Rules or (ii) any Specified Safe Harbour.
3. Specified Safe Harbour means the Simplified Calculation Safe Harbour for Non-Material Constituent Entities and any other Safe Harbour that the Inclusive Framework agrees on and that it considers should be treated as a Specified Safe Harbour for purposes of the re-entry rule.

7.2.1. First Election

181. Where a Tested Jurisdiction falls in and out of the safe harbour, complexity can arise due to the waiver or modified application of certain GloBE Rules in the Safe Harbour. Further, if an MNE Group frequently fails the Simplified ETR test in a Tested Jurisdiction, this would be an indication that the MNE Group is not consistently subject to high taxation in the jurisdiction and therefore should not be eligible for the Simplified ETR Safe Harbour.

182. Provided that it meets the relevant requirements, an MNE Group is eligible to elect the Simplified ETR Safe Harbour for the first time if it did not have a Top-up Tax liability for the Tested Jurisdiction in each of the Fiscal Years that began within the preceding 24 months. Where an MNE Group seeks to make an election to include Constituent Entities and Same-country Investment Entities as a single Tested Jurisdiction, it is only eligible to apply the Simplified ETR Safe Harbour to that Tested Jurisdiction if did not have Top-up Tax liability with respect to both Constituent Entities and all Same-country Investment Entities in each of the Fiscal Years that began within the preceding 24 months.

183. The first eligibility test is satisfied if the MNE Group had no Top-up Tax liability in every Fiscal Year beginning within 24 months before the first day of the Fiscal Year for which the Simplified ETR is elected for any reason, including as a result of applying the full GloBE computations or qualifying for the Transitional CbCR Safe Harbour. An MNE Group that was not subject to the GloBE Rules or a QDMTT in respect of the Tested Jurisdiction for a Fiscal Year is considered to not have a Top-up Tax liability for that Fiscal Year (regardless of whether it had a Constituent Entity located in the Jurisdiction for that Fiscal Year).

184. The table below illustrates in the last column whether the MNE Group is eligible for the Simplified ETR safe harbour in respect of a Tested Jurisdiction for the current Fiscal Year, in a series of scenarios applying to the preceding two years (Fiscal Year minus 2 and Fiscal Year minus 1). For this purpose, SH means Safe Harbour and TCSH means Transitional CbCR Safe Harbour.

Fiscal Year -2	*Fiscal Year -1*	*Current Fiscal Year*
Not subject to GloBE	Not subject to GloBE	Yes
Not subject to GloBE	Another SH	Yes
Not subject to GloBE	Full GloBE (no Top-up Tax)	Yes
Not subject to GloBE	Full GloBE (Top-up Tax)	No
Full GloBE (No Top-up Tax)	Full GloBE (no Top-up Tax)	Yes
Full GloBE (No Top-up Tax)	Another SH (not TCSH)	Yes
Full GloBE (No Top-up Tax)	Full GloBE (Top-up Tax)	No
Another SH	Full GloBE (no Top-up Tax)	Yes
Another SH	Full GloBE (Top-up Tax)	No

(*Continued*)

(*Continued*)

Fiscal Year -2	*Fiscal Year -1*	*Current Fiscal Year*
Another SH	Another SH	Yes
Full GloBE (Top-up Tax)	Not Subject to GloBE	No
Full GloBE (Top-up Tax)	Full GloBE (No Top-up Tax)	No

7.2.2. Re-entry requirements

185. Provided that it meets the relevant requirements, an MNE Group is eligible to elect the Simplified ETR Safe Harbour for a Tested Jurisdiction in the Fiscal Year immediately following a Fiscal Year when the MNE Group elected the Simplified ETR Safe Harbour for that Tested Jurisdiction. This means MNE Groups can generally elect the Simplified ETR Safe Harbour year-after-year.

After the Simplified ETR Safe Harbour was elected with respect to a Tested Jurisdiction, however, the MNE Group may not be eligible or may not elect for the safe harbour in a given Fiscal Year. If that happens, the MNE Group can only re-elect the Safe Harbour if it had no Top-up Tax liability with respect to the Tested Jurisdiction in every Fiscal Year beginning within 24 months of the first day of the Fiscal Year for which the Safe Harbour was not elected, as a result of applying either: (i) full GloBE computations; or (ii) any Specified Safe Harbour. Where the MNE Group seeks to make an election to include Constituent Entities and Same-country Investment Entities as a single Tested Jurisdiction, the requirement to have no Top-up Tax in the preceding Fiscal Years as a result of applying the full GloBE computations or any Specified Safe Harbour must be met for both the standard Constituent Entities all the Same-country Investment Entities Tested Jurisdiction.

186. A Specified Safe Harbour means the Simplified Calculation Safe Harbour for Non-Material Constituent Entities and any other Safe Harbour that the Inclusive Framework agrees on and that it considers should be treated as a Specified Safe Harbour for purposes of the re-entry rule. The Transitional CbCR Safe Harbour does not qualify as Specified Safe Harbour due to the "once out, always out" approach that does not allow an MNE Group to elect for Transitional CbCR Safe Harbour if it elected for the Simplified ETR Safe Harbour in a previous Fiscal Year in which it was subject to the GloBE Rules. The QDMTT Safe Harbour also does not qualify as a Specified Safe Harbour because the MNE Group might had Top-up Tax liability under the QDMTT in a Fiscal Year in which it elected for the QDMTT Safe Harbour.

187. The re-entry rule does not consider any Additional Current Top-up Tax liability attributable to a previous Fiscal Year (and therefore the re-entry criteria will be met even if there is an Additional Top-up Tax liability in one or both of the preceding Fiscal Years).

188. The table below illustrates in the last column whether the MNE Group is eligible for the Simplified ETR safe harbour in respect of a Tested Jurisdiction for the current Fiscal Year, in a series of scenarios applying to the preceding two years (Fiscal Year minus 2 and Fiscal Year minus 1). For this purpose, SH means Safe Harbour.

Fiscal Year -3	*Fiscal Year -2*	*Fiscal Year -1*	*Current Fiscal Year*
Simplified ETR SH	Full GloBE (no Top-up Tax)	Full GloBE (no Top-up Tax)	Yes
Simplified ETR SH	Full GloBE (no Top-up Tax)	Specified Safe Harbour	Yes
Simplified ETR SH	Specified Safe Harbour	Specified Safe Harbour	Yes
Simplified ETR SH	Full GloBE (no Top-up Tax)	Full GloBE (Top-up Tax)	No
Simplified ETR SH	Full GloBE (Top-up Tax)	Full GloBE (no Top-up Tax)	No
Simplified ETR SH	Full GloBE (Top-up Tax)	Specified Safe Harbour	No

7.3. *Integrity rules*

Box 7.3. Integrity rules

1. To be eligible for the Simplified ETR Safe Harbour, an MNE Group must make the necessary adjustments to its Simplified Income and Simplified Taxes computations to produce outcomes which are consistent with the following four principles:
   a. Matching principle – intragroup income is not recognised in a Fiscal Year later than the Fiscal Year when the corresponding expense is recognised and the amount of income matches the amount of the corresponding expense;
   b. Full allocation principle – all income is allocated to a Tested Jurisdiction;
   c. Single expense and loss principle – expenses and losses are only deducted once and in a single Tested Jurisdiction; and
   d. Single tax principle – taxes are only recorded once and in a single Tested Jurisdiction.
2. When the matching principle is not satisfied, the MNE Group must adjust the JPBT in the Tested Jurisdiction of the Constituent Entity that recognised the expense to eliminate the expense. However, if the matching principle would be failed solely because one of the parties applies the safe harbour using a Local Financial Accounting Standard, the matching principle will be treated as being satisfied.
3. When the full allocation principle is not satisfied, the MNE Group must include the income in the correct Tested Jurisdiction under the Model GloBE Rules.
4. When the single expense and loss principle is not satisfied, the MNE Group must adjust the JPBT in the Tested Jurisdiction of any Constituent Entity that recognised the expense to eliminate the expense.
5. When the single tax principle is not satisfied, the MNE Group must adjust the JITE in the Tested Jurisdiction of any Constituent Entity that recognised the tax expense to eliminate the tax expense.
6. Any financial instruments issued by one Constituent Entity and held by another Constituent Entity in the same MNE Group must be classified as debt or equity consistently for both the issuer and the holder based on the financial accounting standard used by the issuer in the computation of its Simplified Income.

189. The Simplified ETR Safe Harbour is only available where an MNE Group reliably allocates its relevant GloBE tax attributes to different Tested Jurisdictions. The Simplified ETR Safe Harbour should not be available if the MNE Group double counts of certain attributes (for example, allocating the same GloBE expense to multiple jurisdictions) or if there are attributes which are not allocated to any Tested Jurisdiction (for example, GloBE Income which is not allocated to any Tested Jurisdiction or a Stateless Constituent Entity). Accordingly, an MNE Group is only eligible for the Simplified ETR Safe Harbour if the MNE Group makes all adjustments necessary to ensure that its Simplified Income and Simplified Taxes computations produce outcomes which are consistent with the Model GloBE Rules and any simplifications under the Safe Harbour and satisfy the following four principles:

   a. Matching principle – Intragroup income is not recognised in a Fiscal Year later than the Fiscal Year when the corresponding expense is recognised and the amount of income matches the amount of the corresponding expense;

   b. Full allocation principle – All profit or loss is allocated to a Tested Jurisdiction;

   c. Single expense and loss principle – Each expense and each loss is deducted only once and in a single Tested Jurisdiction; and

   d. Single tax principle – Taxes are only recorded once and in a single Tested Jurisdiction.

190. An MNE Group that does not meet these requirements cannot access the Simplified ETR Safe Harbour unless it makes any necessary adjustments to conform to those principles. For simplicity, expenses, losses, and taxes

that are reflected in the accounts for more than one jurisdiction are excluded from the computation of Simplified Income and Simplified Taxes in all those jurisdictions. This avoids the need to develop rules to determine the jurisdiction for which the expense, loss, or taxes should be allowed. For the matching principle, the adjustment is made in the jurisdiction in which the expense was recorded, and for the full allocation principle, the adjustment is made for the jurisdiction in which the income is reported under the GloBE Rules.

191. To prevent MNE Groups from routinely failing the Simplified ETR Safe Harbour as a result of differences between the accounting standard of the CFS and the LFAS required in a QDMTT jurisdiction, the matching principle is treated as satisfied if the matching principle would be failed solely because one of the parties applies the safe harbour using a Local Financial Accounting Standard. However, any financial instrument issued by one Constituent Entity and held by another Constituent Entity in the same MNE Group must be classified as debt or equity consistently for both the issuer and the holder based on the financial accounting standard used by the issuer in the computation of its Simplified Income. This uniform classification requirement is consistent with the Commentary to definition of Ownership Interest under Article 10.1 of the GloBE Model Rules.

192. The full allocation principle requires that all of the profit or loss of each Constituent Entity, without regard to elimination adjustments in the consolidation process, is reflected in the Simplified Income of the Tested Jurisdiction that includes that Constituent Entity.

193. For the sake of clarity, if an expense is economically deducted only once by the MNE Group, the single expense and loss principle of paragraph (c) is met irrespective of whether that expense was recorded by more than one Constituent Entity due to intra-group cost-sharing or recharging agreements. Assume, for example, that A Co and B Co are Constituent Entities of the ABC MNE Group, and they are both located in Jurisdiction A. A Co incurs an expense of 100 that is then re-charged on B Co. A Co will record an expense of 100 and offset it with 100 of income received from B Co. B Co, in turn, will record and deduct the expense of 100. Paragraph (d) is met because the expense of 100 is economically deducted only once, irrespective of the fact that it was recorded and deducted by both A Co and B Co.

194. The single expense and loss principle and the single tax principle do not apply where the expense, loss or tax is subject to the simplification for PE income in section 5.1.

195. The Inclusive Framework will provide future guidance to address other integrity concerns, including concerns arising from mismatches between LFAS and CFS accounting standards in both the Simplified ETR Safe Harbour and the full GloBE computations.

7.4. *Applicability date*

Box 7.4. Applicability date

1. A Filing Constituent Entity can elect the Simplified ETR Safe Harbour for a Tested Jurisdiction for a Fiscal Year that commences on or after 31 December 2026.
2. [*Optional provision*] A Filing Constituent Entity can elect the Simplified ETR Safe Harbour for a Tested Jurisdiction for a Fiscal Year that commences on or after 31 December 2025 if:
   a. The QDMTT Safe Harbour applies with respect to the Tested Jurisdiction;
   b. Only one Jurisdiction has taxing rights under the GloBE Rules with respect to the Tested Jurisdiction; or
   c. All Jurisdictions that have taxing rights under the GloBE Rules with respect to the Tested Jurisdiction have made the Simplified ETR Safe Harbour available for any Fiscal Years that commence on or after 31 December 2025 under their relevant legislation and an election for the Simplified ETR Safe Harbour is made by the MNE Group with respect to that Tested Jurisdiction in applying the legislation of all those Jurisdictions.

196. Implementing Jurisdictions and QDMTT-only Jurisdictions must incorporate the Simplified ETR Safe Harbour framework in their domestic legislation and make it available for any Fiscal Year beginning on or after 31 December 2026.

197. An Implementing Jurisdiction or QDMTT-only Jurisdiction, however, is allowed to make the safe harbour available for any Fiscal Year beginning on or after 31 December 2025. When that is the case, the Filing Constituent Entity can make an election for the Simplified ETR Safe Harbour in instances when: (i) the QDMTT Safe Harbour applies with respect to the Tested Jurisdiction; (ii) only one Jurisdiction that has taxing rights with respect to the Tested Jurisdiction; or (ii) all jurisdictions that have taxing rights with respect to the Tested Jurisdiction have adopted the earlier application of the Simplified ETR Safe Harbour and an election for the safe harbour with respect to that Tested Jurisdiction is made by the MNE Group in applying the legislation of all those jurisdictions. For this purpose, whether a Jurisdiction has taxing rights under the GloBE Rules is described in paragraphs 23 to 27 of the GloBE Information Return.

3 Extension of the Transitional CbCR Safe Harbour

1. Introduction

1. In December 2022, the Inclusive Framework agreed on a Transitional CbCR Safe Harbour (TCSH) to reduce the compliance burden on MNE Groups operating in high-taxed jurisdictions and provide transitional relief as the GloBE Rules come into effect. The safe harbour allows MNE Groups to avoid undertaking detailed GloBE calculations in respect of a jurisdiction if they can demonstrate, based on their qualifying CbCR and financial accounting data, that in that jurisdiction they have an ETR that equals or exceeds an agreed rate (the Simplified ETR test), no excess profits after excluding routine profits (the routine profits test), or revenue and income below the de minimis threshold (the de minimis test). As agreed in December 2022, the TCSH was made available for a Transition Period that covered all Fiscal Years beginning on or before 31 December 2026 but not including a Fiscal Year that ends after 30 June 2028.

2. In December 2025, however, the Inclusive Framework agreed on a Simplified ETR Safe Harbour (SESH) that is designed as a replacement for the Simplified ETR Test in the TCSH. Although work is ongoing on a de minimis safe harbour and routine profits safe harbour to replace those tests currently available in the TCSH, this work is not yet ready for approval by the Inclusive Framework.

3. To support an orderly transition from the TCSH to the SESH, the Inclusive Framework has agreed the following Administrative Guidance that extends the application of the TCSH to Fiscal Years beginning on or before 31 December 2027 but not including a Fiscal Year that ends after 30 June 2029. The Transition Rate for 2026 Fiscal Years will also apply to 2027 Fiscal Years.

2. Administrative Guidance

4. The text in strikethrough will be deleted and the text in bold will be added to the definition of Transition Period in paragraph 2 of the box 1.1 of Annex A1 (Transitional CbCR Safe Harbour) to the Commentary:

   2. Transition Period covers all the Fiscal Years beginning on or before 31/12/202**7**~~6~~ but not including a Fiscal Year than ends after 30/06/202**9**~~8~~.

5. The text in bold will be added to paragraph (c) of the definition of Transition Rate in paragraph 2 of the box 1.1 of Annex A1 (Transitional CbCR Safe Harbour) to the Commentary:

   c. 17% for Fiscal Years beginning in 2026 **and 2027**.

6. The text in strikethrough will be deleted and the text in bold will be added to the last sentence of paragraph 2 of Annex A1 (Transitional CbCR Safe Harbour) to the Commentary:

   2. . . . The safe harbour is also limited to a transitional period that applies to Fiscal Years beginning on or before 31/12/202**7**~~6~~ but not including a Fiscal Year that ends after 30/6/202**9**~~8~~.

7. The text in bold will be added to the last sentence of paragraph 20 of Annex A1 (Transitional CbCR Safe Harbour) to the Commentary:

20. . . . The Transition Rate is 15% for Fiscal Years beginning in 2023 and 2024, 16% for Fiscal Years beginning in 2025, and 17% for Fiscal Years beginning in 2026 **and 2027**.

8. The text in strikethrough will be deleted and the text in bold will be added to the second sentence of paragraph 24 of Annex A1 (Transitional CbCR Safe Harbour) to the Commentary:

24. . . . This means that for most MNE Groups, the Transition Period will provide **up to four** ~~three~~ Fiscal Years of compliance relief for the IIR **and the QDMTT**, **and up to three** ~~two~~ Fiscal Years of compliance relief for the UTPR. The safe harbour would only apply during the Transitional Period (i.e., beginning on or before 31/12/202**7**~~6~~ but not including a Fiscal Year that ends after 30/6/202**9**~~8~~). . .

4 Substance-based Tax Incentive Safe Harbour

1. The SBTI Safe Harbour allows an MNE Group to treat certain substance-based tax incentives (QTIs) as an addition to the Adjusted Covered Taxes of the Constituent Entities located in the jurisdiction. These adjustments are limited by a Substance Cap that is calculated by reference to the MNE Group's payroll and tangible assets in the jurisdiction.

1. Substance-based Tax Incentive Safe Harbour

2. The SBTI Safe Harbour eliminates the Top-up Tax that would otherwise be attributable to QTIs. This recognises that incentives that are provided in relation to substantive activities in a jurisdiction are less susceptible to BEPS risks and are therefore less likely to give rise to the risks that the GMT was designed to address. The SBTI Safe Harbour applies by reducing the Top-up Tax payable in a jurisdiction where, and to the extent that, the Top-up Tax is attributable to the use of QTIs in that jurisdiction.

Substance-based Tax Incentive Safe Harbour

1. At the election of the Filing Constituent Entity, the amount of Top-up Tax in a Tested Jurisdiction that corresponds to Qualified Tax Incentives for the Fiscal Year is deemed to be zero.
2. The Top-up Tax that corresponds to the Qualified Tax Incentives is equal to the difference between:
   (i) the Top-up Tax for the Tested Jurisdiction calculated under the treatment of Qualified Tax Incentives provided in paragraph 4, and
   (ii) the Top-up Tax that would have been calculated for the Tested Jurisdiction if the election had not been made.
3. A QTI means a generally available Tax Incentive to the extent that the amount of the incentive is calculated based on expenditures incurred, or on the amount of tangible property produced in the jurisdiction. An incentive is a Tax Incentive if it reduces the current or future liability for a Covered Tax in the jurisdiction but also includes a QRTC or an MTTC when the Filing Constituent Entity has made an Annual Election to treat that credit as a QTI. An expenditure-based tax incentive is not qualified if the value of the tax benefit from the incentive exceeds the amount of expenditure incurred.
4. When the Substance-based Tax Incentive Safe Harbour election is made, the Adjusted Covered Taxes of the Constituent Entities located in the jurisdiction are increased by the lower of the amount of QTIs used in the Fiscal Year and the Substance Cap for the Tested Jurisdiction.
5. The Amount of a QTI used in a Fiscal Year is:
   (i) the reduction in the Covered Tax liability in the Fiscal Year due to the utilisation of a tax credit, or
   (ii) the amount of enhanced allowance or super deduction claimed in the Fiscal Year multiplied by the statutory tax rate, or
   (iii) the amount of income attributable to eligible expenditure that is exempt multiplied by the statutory tax rate or, in case of application of a preferential tax rate, that amount of income attributable to eligible expenditure multiplied by the difference between the statutory and preferential tax rates.

(*Continued*)

(*Continued*)

6. The Substance Cap for a MNE Group for a jurisdiction for a Fiscal Year is:
   (i) 5.5% multiplied by the greater of the sum of the Eligible Payroll Costs of Eligible Employees that perform activities for the MNE Group in the jurisdiction or the depreciation and depletion recorded in the Financial Accounting Net Income or Loss in respect of Eligible Tangible Assets located in the jurisdiction for that Fiscal Year, or
   (ii) if the MNE Group makes a Five-Year Election for the jurisdiction, 1% of the carrying value of Eligible Tangible Assets located in the jurisdiction (excluding land and other non-depreciable assets) for that Fiscal Year.
7. If a Filing Constituent Entity revokes an election to use the computation provided in paragraph 6(ii), the depreciation and depletion in respect of an Eligible Tangible Asset shall be excluded in applying paragraph 6(i) if the carrying value of that asset was included in the Substance Cap in a previous Fiscal Year to which the Substance-based Tax Incentive Safe Harbour applied.
8. A Filing Constituent Entity can make the Substance-based Tax Incentive Safe Harbour election for a Tested Jurisdiction for a Fiscal Year that commences on or after 1 January 2026.

2. Qualified Tax Incentives

3. The QTI definition applies to *expenditure-based tax incentives* as well as certain *production-based tax incentives*. The definition generally applies to tax incentives that reduce the liability for a Covered Tax of the taxpayer. It therefore does not apply to an incentive that reduces the liability for a non-Covered Tax or an incentive that applies only to expenditures incurred in producing income excluded from GloBE Income, or to subsidies and grants, even if these were related to the taxpayer's expenditure. A Filing Constituent Entity can however make an election to treat a Qualified Refundable Tax Credit (QRTC) or a Marketable Transferable Tax Credit (MTTC) as a QTI provided the credit qualifies as an expenditure- or production-based tax incentive.

2.1. *Expenditure-based tax incentive*

4. An expenditure-based tax incentive is one where the amount of tax relief available to the taxpayer is based on a portion of qualifying expenditures incurred. Expenditure-based tax incentives operate, through the tax system, to reduce the final economic cost of a taxpayer's inputs by a fixed and determinable amount. Jurisdictions that offer expenditure-based incentives typically target them at expenditures that are specific to, or incurred in, activities that are expected to have positive spillovers such as research and development, productivity improvements, or positive environmental impacts. Because expenditure-based tax incentives are calculated as a portion of costs incurred, they have a direct and clear connection with the investment they are intended to incentivise. By reducing the taxpayer's marginal cost of that investment, they are expected to address recognised instances of market failure and encourage additional investment at the margin that would have not otherwise have occurred.

5. The policy, scope and design of expenditure-based tax incentives vary across jurisdictions. The QTI definition consequently is intended to apply broadly and does not limit which tax incentives are eligible based on the type of expenditure that the incentive applies to. This provides for a neutral treatment of expenditure-based tax incentives and avoids the need for a complex line drawing exercise that could result in arbitrary or uncertain outcomes. It also provides flexibility for jurisdictions in the design of their expenditure-based tax incentives while ensuring that the treatment of QTIs remains transparent and administrable and does not result in uncertainty or impose undue compliance burdens on businesses. Nonetheless, the QTI treatment is targeted at tax incentives that are designed to encourage investments in substance in the jurisdiction. The Substance Cap therefore limits the increase to Adjusted Covered Taxes for QTIs based on the level of substance in the jurisdiction.

2.1.1. Different forms

6. Expenditure-based tax incentives can be provided in different forms. Some incentives are provided in the form of a credit against the payment of the tax liability, while others such as enhanced allowances or "super

deductions" provide tax relief in the form of an additional deduction in computing the tax liability. These differences are not relevant in determining whether an expenditure-based tax incentive is a QTI. Instead, the key requirement is that the amount of the incentive must be calculated directly by reference to the expenditure incurred. This means an incentive that exempts a certain amount of income from tax could also be treated as an expenditure-based tax incentive provided the amount that is exempt is calculated directly by reference to expenditure.

7. Tax allowances for capital expenditure that only give rise to timing differences do not fall within the definition of QTIs. An incentive that accelerates the standard capital expenditure deduction schedule, such as immediate expensing, would consequently not be within scope. This is because the deferred tax mechanisms used in the GloBE Rules already address these timing differences and prevent such incentives from giving rise to Top-up Taxes. However, if these incentives also include super deductions or enhanced allowances that result in an exclusion of income that is in excess of the original investment or expenditure, the excess amount gives rise to a permanent difference in the same way as a tax credit or an allowance and may be considered as an expenditure-based tax incentive under these rules.

2.1.2. Exclusion if the amount of the tax benefit exceeds the expenditure incurred

8. The QTI definition excludes an expenditure-based tax incentive from being treated as a QTI if the value of the tax benefit of the incentive exceeds the expenditure (upon which the amount of the incentive was calculated) incurred. When making this assessment, the relevant tax incentive is considered together with all other tax incentives provided in respect of the same item of expenditure. This reflects the policy that expenditure-based tax incentives should be designed to provide targeted subsidies for a portion of the expenditure incurred in order to promote investments that would otherwise not be made without the state support. The allowance for expenditure-based tax incentives is calculated by reference to the value of tax benefit from the incentive. The value of a tax benefit is the maximum amount by which the tax liability can be reduced by the tax incentive. For a tax credit, this will be the amount of the tax credit. For incentives provided in the form of a super deduction, enhanced allowance or exemption, the value of the tax benefits from the incentive will be the amount of the additional deduction or excluded income multiplied by the statutory tax rate.

2.2. *Production-based tax incentive*

9. Incentives may be designed to support a desired activity but not be based directly on expenditure. For example, production-based tax incentives are based on the amount of production or reduction in industrial byproducts created during the production by the taxpayer. Production-based tax incentives can apply based on the units produced or on a reduction in negative externalities such as emissions. These incentives are generally provided in the form of a tax credit and typically calculate the amount of relief based on the amount of a defined output produced by the taxpayer (e.g. widgets or clean energy). In economic terms, such incentives reduce the taxpayer's marginal cost for each unit of output, thereby providing jurisdictions with a more direct and efficient way of incentivising desirable outputs from targeted industries.

10. While these incentives are based on the output of the economic activity (in contrast to expenditure-based tax incentives which are based on the expenditure that is input into that economic activity), they are conceptually similar to expenditure-based tax incentives because the amount of the incentive is directly based on the level of activity or investment. The key distinction is that, while expenditure-based tax incentives provide relief in proportion to costs incurred, production-based tax incentives reward production, by granting tax relief in proportion to the output generated. These incentives are often used as a substitute for expenditure-based tax incentives where it is considered difficult to reliably define and measure the cost of inputs going into the activity (for example, the cost of improving the efficiency of a manufacturing process).

11. The QTI definition therefore includes production-based tax incentives. However, the definition includes limitations which are designed to ensure production-based tax incentives are only eligible when the amount of the incentive is directly based on the level of activity in the jurisdiction. Firstly, production-based tax incentives are only eligible when the incentive is calculated based on the volume of the production. Incentives that are calculated based on the value of the production are excluded. This is because incentives that are based on the

actual value of goods or revenues from sale are considered income-based tax incentives. Secondly, production-based tax incentives are only included when they are based on the production of tangible property in the jurisdiction. This includes production in relation to manufacturing activities as well as the production of electricity and includes processing activities such as extraction and refining. This limits the definition to production which is strongly associated with substance in the jurisdiction. Finally, the definition requires that the incentive is based on the units produced in the jurisdiction providing the incentive.

2.3. *Calculation based on incurred expenditure or output produced*

12. The QTI definition requires that the incentive is calculated based on expenditure that has been incurred or output that has been produced by the time that the amount of the incentive is determined. This limitation is intended to ensure that an incentive is only eligible when the amount of the incentive is calculated based on actual activities or on the cost of a previous investment. It consequently excludes incentives from being eligible when the amount of the incentive is calculated in respect or expenditures or production that had already been made before the incentive was in effect or on the basis of a commitment to future expenditure or production when no actual expenditure has been incurred or units have been produced when the amount of the incentive is determined. An administrative procedure where an administrator confirms that the project meets the eligibility requirements (including, if applicable, also the estimated maximum amount of the incentive based on estimated future expenditures) for the incentive in advance of the expenditures being incurred would not prevent the incentive being eligible provided that the amount of the incentive is finally determined when those costs have actually been incurred.

13. Expenditure is incurred when it is accrued in the financial accounts used to calculate the Financial Accounting Net Income or Loss or when a payment is made. Consequently, an incentive would be eligible if it was calculated based on the expenditure incurred in connection with an acquisition of an asset, even if the asset is non-depreciable or the depreciation expenses start accruing at a later date. Similarly, an incentive would meet the requirement if it were calculated based on the depreciation expense recognised in the period in relation to an asset that was acquired in a previous period. The expenditure does not need to be incurred in the same period that the amount of the incentive was determined. An incentive would meet the requirement when it is calculated based on expenditures made in previous periods (except when these expenditures pre-date the incentive coming into effect). This reflects some substance-based tax incentives are only provided once the expenditures made in respect of the qualifying projects have been completed, to ensure that the obligations to fulfil the incentive have been met. Likewise, a production-based tax incentive can also meet this requirement when the incentive was provided in respect of output in a previous period. For instance, some production-based tax incentives are provided in the period that the units of production are sold because this facilitates the effective supervision and administration of the incentive and may be when the desired positive externalities are realised.

14. Finally, the requirement does not mean that the incentive must be utilised in the year that it was calculated to be treated as an eligible incentive. Consequently, an incentive that is only utilised in a fiscal year after the expenditure or production has occurred would still be eligible.

2.4. *Incentive must be generally available*

15. The QTI definition requires that the incentive is generally available to taxpayers. This excludes incentives that include eligibility criteria that restrict the incentive to in-scope MNE Groups, for example if specific legal restrictions ensure the incentive is only provided to MNE Groups with consolidated revenues exceeding the revenue threshold of Article 1.1 of the GloBE Model Rules.

16. It also excludes an incentive that would not have arisen independently of a governmental arrangement. This is defined in paragraph 8.3 of the Commentary to Article 9.1.2 and includes any agreement, ruling, decree, grant or similar arrangement between an MNE Group and General Government. An incentive arises independently of the governmental arrangement if no critical aspect of the incentive relies on discretion by the General Government. For instance, an incentive would not be prevented from being eligible as a QTI merely because the grant of the incentive requires a decision or acknowledgement that the taxpayer has satisfied or is obligated to satisfy the published or statutory criteria for that incentive.

2.5. *Ongoing monitoring*

17. The Inclusive Framework is developing guidance that clarifies when benefits provided by a jurisdiction must be treated as a return of tax that reduces Adjusted Covered Taxes, as well as further guidance on the identification of benefits that are related to the implementation of the GMT (Related Benefits). This guidance will be supported by an ongoing monitoring process to ensure a co-ordinated assessment of whether benefits are Related Benefits.

18. As part of this, the Inclusive Framework will also develop an ongoing monitoring process that monitors QTIs and ensures a co-ordinated assessment of whether QTIs are Related Benefits. This recognises that the treatment of QTI as an increase to Adjusted Covered Taxes when no such taxes are paid means there is a similar risk an incentive could be designed so that it formally meets the definition of a QTI but in practice operates to mitigate the impact of the GMT rather than functioning as a targeted incentive to promote a particular substantive activity or investment in a jurisdiction. The Inclusive Framework will do further work to address concerns raised by those incentives and also ensure that those determined to be Related Benefits will be excluded from being treated as QTIs.

3. Treatment of Qualified Tax Incentives

3.1. *Adjustments for QTIs*

19. When the SBTI Safe Harbour election is made, adjustments in respect of QTIs are made to the Effective Tax Rate calculation for the Tested Jurisdiction. These are made at the jurisdictional level and so are applied after the Adjusted Covered Taxes and GloBE Income has been calculated under Chapters 3 and 4 of the GloBE Model Rules.

20. In broad terms, QTIs are treated as an increase to the Adjusted Covered Taxes in the Tested Jurisdiction. The amount of that increase is the lower of the amount of those QTIs that are used in the Fiscal Year and the Substance Cap. The methodology for calculating the amount of QTIs used in a Fiscal Year and the Substance Cap are explained in detail in this section and Section 3 below.

21. Unlike QRTCs and MTTCs, QTIs are not included in GloBE Income. This means the treatment of an incentive as a QTI could be more beneficial to an MNE Group than the treatment provided for QRTCs and MTTCs. To address this, an MNE Group can make an Annual Election to treat certain QRTCs or MTTCs as a QTI. In such cases, the QRTC or MTTC is excluded from GloBE Income and is instead treated as a reduction to Adjusted Covered Taxes, before the QTI adjustment to increase Adjusted Covered Taxes is applied in the same way as it applies to any other type of QTI. The Substance Cap applies to the total adjustment for QTIs.

22. This election can only be made for a QRTC or MTTC that meets the definition of a QTI (i.e. for a QRTC or MTTC which is expenditure-based or production-based). The election can be made for some QRTCs or MTTCs and not others and can also be made for only part of the income of a QRTC or MTTC. Consequently, an MNE Group is expected to make the election only to the extent of the Substance Cap. Any QRTC or MTTC (or part of a QRTC or MTTC) which is not subject to the election continues to be treated as a QRTC and MTTC and is included in GloBE Income. When the election is made in respect of a QRTC or MTTC that is treated as taxable income, the tax that is attributable to the part of the QRTC or MTTC that is excluded from GloBE Income is excluded from Adjusted Covered Taxes under Article 4.1.3(a) of the GloBE Model Rules.

Example of the adjustments for QTIs

An MNE Group has Net GloBE Income of 11,000 in Jurisdiction A. This includes 1,000 of QRTCs which are expenditure-based and meet the definition of a QTI. The MNE Group's pre-credit tax liability is 1,500 but this is reduced by the 1,000 of QRTCs and 500 of non-refundable expenditure-based credits which also meet the QTI definition. The MNE Group's Adjusted Covered Taxes under Chapter 4 of the GloBE Model Rules would consequently be 1,000 (the 1,500 of pre-credit liability reduced by the 500 of non-refundable credits). The

(*Continued*)

(*Continued*)

MNE Group's Effective Tax Rate for the jurisdiction would be 9.1% (1,000/11,000) and a Top-up Tax liability would be due.

The Filing Constituent Entity elects to apply the SBTI Safe Harbour. The Substance Cap for the Fiscal Year is 1,100.

If the MNE Group only adjusts the non-refundable expenditure-based credit, its Adjusted Covered

Taxes would be increased to 1,500. It's revised ETR would be 13.6% (1,500/11,000).

As there is 600 of Substance Cap remaining, the MNE Group elects to treat 600 of the QRTC as a QTI. Consequently, the GloBE Income is reduced by 600. The remaining 400 of QRTCs is still treated as a QRTC and is therefore still included in GloBE Income.

The revised ETR under the SBTI Safe Harbour is therefore 14.4% (1,500/10,400).

3.2. *Calculating the amount of Qualified Tax Incentives used in a Fiscal Year*

23. As noted above, an MNE Group can elect to treat a certain amount of QTIs as Adjusted Covered Taxes when calculating its ETR in a jurisdiction for the purposes of the SBTI Safe Harbour. The amount that is adjusted is the lower of the QTIs used in the Fiscal Year and the substance cap. The following paragraphs set out how to calculate the amount of a QTI used in the Fiscal Year.

3.2.1. Tax credits

24. When the QTI is a tax credit, the amount of QTIs used in the Fiscal Year is simply the amount of the tax credit that was used to reduce the Covered Tax liability in the period. For example, if the corporate income tax liability before tax credits was 100 and this was reduced to 40 after the application of tax credits, the amount of QTIs used in the period would be 60. If the taxpayer also utilised another 20 of tax credits that are QTIs that were carried forward from an earlier Fiscal Year, then the amount of QTIs used in the period would be 80 (representing the 60 of credits generated and used in the Fiscal Year and the 20 of credits carried forward from the earlier period). In such a case, the QTI adjustments apply after Article 4.4.1(e) of the GloBE Model Rules has been applied. Consequently, any deferred tax expenses attributable to the reversal of a deferred tax asset would continue to be excluded when a tax credit carried forward from an earlier period is utilised but then there may be a separate QTI adjustment to increase the Adjusted Covered Taxes.

3.2.2. Super deductions, enhanced allowances and exemptions calculated based on expenditure

25. As the QTI adjustment is made through an increase to the Adjusted Covered Taxes, the amount of a super deduction, enhanced allowance or exemption from income needs to be expressed in terms of its tax value. This is equal to the additional tax deduction (this will typically be the excess of the deduction over the expenditure incurred but could also be the total amount of the deduction where the expenditure incurred would otherwise be non-deductible under the domestic tax laws) or income that is exempted multiplied by the statutory tax rate in the jurisdiction. For example, if an incentive provided a 150% deduction for the expenditure, the value of the super deduction (i.e. the additional deduction) will be equal to 50% of the expenditure multiplied by the statutory tax rate. Similarly, if an incentive exempted an amount of income that is equal to 50% of the expenditure, then the value of the exemption is equal to the amount that is exempt multiplied by the statutory tax rate.

26. The amount of the super deduction or enhanced allowance or exemption used in the Fiscal Year will be equal to the value of the super deduction or allowance or exemption that is claimed. A super deduction or allowance or exemption is claimed when it is included in the computation of the Covered Tax liability. So, assume the taxpayer is eligible for a 300% deduction for the expenditure (i.e. a 200% super deduction in addition to the deduction for the expenditure incurred) and has qualifying expenditures of 1,000. Its Financial Accounting Net Income or Loss is 2,000 (which is comprised of 3,000 of other income minus the qualifying expenditures of 1,000). The QTI gives the taxpayer an additional tax deduction of 2,000 which reduces its taxable profit to nil. The QTI used in the period is equal to the 2,000 of deduction multiplied by the statutory tax rate.

27. It is possible that a super deduction or exemption results in the taxpayer making a taxable loss for the period. For example, if the taxpayer's Financial Accounting Net Income or Loss in the above example was changed to 1,000, the taxpayer would have incurred a tax loss of 1,000. In this case, the taxpayer would only derive the full benefit of the QTI when the tax loss is used in a later period. Nonetheless, the QTI adjustment would be made in the year that the super deduction or exemption is claimed (i.e. the Fiscal Year in which the loss arose). This QTI adjustment would increase the Adjusted Covered Taxes in that year and would therefore reduce the amount of any Additional Top-up Tax liability or Excess Negative Tax Carry Forward (under Article 4.1.5 or Article 5.2.3 of the GloBE Model Rules), which would be expected to arise in these circumstances due to the recognition of deferred tax assets. As the amount of Additional Top-up Tax charged under Article 4.1.5 of the GloBE Model Rules or an Excess Negative Tax Carry Forward will be reduced, the approach will provide a benefit to MNE Groups in later Fiscal Years when the loss is utilised because the reversal of the DTA will not be offset (to the same extent) by the Excess Negative Tax reduction to Covered Taxes.

Example of calculation mechanism for a super deduction, allowance or exemption

Jurisdiction A has a corporate income tax with a 15% statutory tax rate. The jurisdiction provides a super deduction which is eligible to be treated as a QTI. The example ignores the Substance-based Income Exclusion and assumes the Substance Cap is greater than the value of the tax benefit of the super deduction for simplicity.

An MNE Group has 1,000 of Financial Accounting Net Income or Loss for Fiscal Year X1. The taxable income (before the super deduction is applied) is also 1,000. The additional super deduction is equal to 1,500. The MNE Group consequently has no taxable profit in the jurisdiction and does not pay any Covered Tax in the period. It has a tax loss of 500 which can be carried forward to reduce the tax liability in future years and therefore recognises a DTA of 75. There is consequently negative Adjusted Covered Taxes in the Fiscal Year of 75.

In Fiscal Year X2, the MNE Group has 500 of Net GloBE Income in Jurisdiction A. It utilises the tax loss from Fiscal Year X1 against this income and so pays no corporate income tax in that year. The DTA in relation to the tax loss is reversed and so increases the Adjusted Covered Taxes by 75.

If the SBTI Safe Harbour election is not made, the MNE Group would pay a Top-up Tax liability of 150 (calculated as 1,000 of Net GloBE Income multiplied by the 15% Top-up Tax Percentage). Additionally, there would be an Excess Negative Tax Carry Forward of 75.

In Fiscal Year X2, the 75 of Adjusted Covered Taxes would therefore be reduced by the 75 Excess Negative Tax Carry Forward and so the MNE Group would incur a Top-up Tax liability of 75 (500 of Net GloBE Income multiplied by the 15% Top-up Tax percentage). Therefore, the total Top-up Tax liability over the two years would be 225 and the tax value of the super deduction would be fully neutralised through Top-up Taxes.

The MNE Group consequently decides to make the SBTI Safe Harbour election. The ETR for Fiscal Year X1 is therefore recalculated under the agreed conditions for treating QTIs in the safe harbour. As the super deduction is treated as reducing the Covered Tax, the adjustment for QTI is made to the numerator. Therefore, the Adjusted Covered Taxes are increased by the amount of the super deduction that is used in Fiscal Year X1. This is equal to 225, which is calculated by multiplying the 1,500 additional deduction by the 15% statutory tax rate.

The Adjusted Covered Taxes are therefore 150 (-75 +225) and the revised ETR is 15% (150 divided by 1,000). There is consequently no Top-up Tax in Fiscal Year X1. There is also no Excess Negative Tax Carry Forward. As a result, the Adjusted Covered Taxes in Fiscal Year X2 are not reduced and so will be equal to 75 (because of the reversal of the DTA from the utilisation of the loss). The ETR in Fiscal Year X2 is therefore also equal to 15% (75 divided by 500) and no Top-up Tax liability is due.

3.2.3. Income calculated based on expenditure that is subject to a preferential tax rate

28. The QTI definition also includes certain tax incentives that provide a preferential tax rate when those incentives calculate the eligible income based on a portion of expenditures incurred. The amount of these incentives also needs to be expressed in terms of their tax value in order to determine the adjustment for QTIs. This is equal to

the amount of the income subject to the preferential rate multiplied by the difference between the statutory tax rate and the preferential tax rate.

29. For example, assume the statutory tax rate in a jurisdiction is 20%. The jurisdiction provides an incentive which applies a reduced tax rate of 15%. The income which is eligible for the reduced rate is calculated based on a percentage of the taxpayer's qualifying expenditures. If 2,000 of income was taxed at the reduced rate, the value of the incentive would be equal to 100 (2,000 * 5%).

4. Substance Cap

30. The amount of the adjustment for QTIs is limited by the Substance Cap in the jurisdiction. This ensures that the amount of the allowance for QTIs is limited by reference to the amount of substance in the jurisdiction. The cap has been designed based on the measure of substance developed in the Substance-based Income Exclusion (SBIE). This provides a jurisdictional level measure that removes the need to assess each incentive individually to evaluate whether, and the extent to which, it is provided in relation to "substance". Reliance on the same factors that are used in the calculation of the SBIE will reduce compliance costs and the potential for disputes. There is however some additional flexibility on how the cap is calculated which recognises there are differences in the labour and asset intensity between different industries and better aligns the cap with the design of existing substance-based tax incentives.

31. There are two methods to calculate the Substance Cap for the jurisdiction. The first method is based on the greater of 5.5% of the payroll costs or the depreciation and depletion expense in respect of Eligible Tangible Assets. This method utilises depreciation rather than carrying value as this is often expected to produce a more stable and consistent measure of substance over time and reduce volatility in the level of the Substance Cap. This method takes the higher of the payroll cost or the depreciation so that the cap provides an appropriate measure of substance in relation to incentives which are either predominantly payroll or asset based. Under this method, the Eligible Payroll Costs also includes payroll costs that are capitalised and included in the value of Eligible Tangible Assets (i.e. payroll costs that are excluded from the SBIE under Article 5.3.3(a) of the GloBE Model Rules). These costs do not need to be excluded from Eligible Payroll Costs to prevent double counting because this method for computing the Substance Cap is based on either the payroll or tangible assets.

32. The first method applies unless the MNE Group makes a Five-Year Election to utilise the second method for a jurisdiction. The second method is based on the carrying value on Eligible Tangible Assets (excluding land and other non-depreciable assets). This method is designed to provide an appropriate measure of substance in relation to incentives which are given on the initial capital expenditure on an asset. This is because the second method would tend to provide greater relief in the initial years of the life of an asset where the carrying value tends to be higher, and so may provide greater alignment to the Fiscal Years in which the benefit of the tax incentive is received.

33. If the MNE Group revokes an election to apply the second method, then the assets for which carrying value was previously included in calculating the Substance Cap must be excluded from the calculation of the depreciation and depletion expense in paragraph 6(i). This prevents an MNE Group from benefiting from applying the second method at the beginning of the useful life of an asset and then switching to the first method once an asset's carrying value has been reduced by depreciation or depletion.

5 Side-by-Side System

1. While the Inclusive Framework considers that the adoption of a co-ordinated GMT, based on a common approach, should be the primary system for ensuring minimum taxation, the Inclusive Framework also recognises that some jurisdictions may already have implemented a tax regime which incorporates minimum taxation requirements with respect to the domestic and foreign income of MNE Groups headquartered in that jurisdiction. Where such tax regimes have and maintain similar policy objectives, overlapping scope, and a complementary policy impact as the GMT, taking into account the success of qualified domestic minimum top up taxes (QDMTTs), and based on the commitment of members to address any BEPS or level playing field risks arising from the GMT and its interplay with the SbS System, the Inclusive Framework has agreed to the SbS and

UPE Safe Harbours that apply to MNE Groups headquartered in jurisdictions which the Inclusive Framework has determined meet the requirements for an eligible tax regime.

1. Side-by-Side Safe Harbour

2. The SbS Safe Harbour provides a mechanism for recognising cases when an MNE Group is headquartered in a jurisdiction with a tax system that imposes minimum tax requirements with respect to domestic and foreign income. It provides a safe harbour for such MNE Groups to minimize compliance and administration costs consistent with the policy objectives of the GMT. The operating mechanics of the SbS Safe Harbour are set out in the box below.

Side-by-Side Safe Harbour

1. At the election of the Filing Constituent Entity, the Top-up Tax for a jurisdiction for a Fiscal Year shall be deemed to be zero for purposes of the IIR and the UTPR where the Constituent Entities located in the jurisdiction are eligible for the Side-by-Side Safe Harbour ("SbS Safe Harbour"). The Constituent Entities of an MNE Group are eligible for the Side-by-Side Safe Harbour for a Fiscal Year if the UPE of that MNE Group is located in a jurisdiction with a Qualified SbS Regime for the Fiscal Year.
2. Where an election for the SbS Safe Harbour has been made, the Top-up Tax arising with respect to any interest in a Joint Venture or JV Subsidiary owned by a Constituent Entity of an MNE Group will also be deemed to be zero under the IIR and the UTPR if the UPE of that MNE Group is located in a jurisdiction with a Qualified SbS Regime.
3. A jurisdiction has a Qualified SbS Regime if it:
   a. has an eligible domestic tax system;
   b. has an eligible worldwide tax system;
   c. provides a foreign tax credit for QDMTTs on the same terms as any other creditable Covered Tax; and
   d. enacted its eligible domestic tax system and eligible worldwide tax system prior to 1 January 2026 or a later date in accordance with the procedures set out in paragraph 27 of this document.
4. An eligible domestic tax system is one that has:
   a. at least a 20% statutory nominal corporate income tax (CIT) rate after taking into account preferential adjustments and sub-national corporate income taxes (where applicable);
   b. a QDMTT or a corporate alternative minimum tax that is based on financial statement income, subject to appropriate adjustments consistent with the policy objectives of minimum taxation, at a nominal rate of at least 15%, and is applicable to a substantial portion of the aggregate income of in-scope MNE Groups' operations in the jurisdiction; and
   c. no material risk that in-scope MNE Groups headquartered in the jurisdiction will be subject to an effective rate of tax (evaluated taking into account incentives consistent with the treatment of such incentives under the GloBE Rules and agreed safe harbours) on the overall profits of their domestic operations below 15%.
5. An eligible worldwide tax system is one that:
   a. has a comprehensive tax regime applicable to all resident corporations on foreign income and which is imposed on a broad base that:
      i. includes the active and passive income of foreign branches and controlled foreign companies regardless of whether or not that income is distributed; and
      ii. is only subject to limited income exclusions which are consistent with the policy objectives of minimum taxation (for example, excluding categories of income which are generally high taxed);
   b. incorporates substantial mechanisms which operate unilaterally to address BEPS risks; and
   c. has no material risk that in-scope MNE Groups headquartered in the jurisdiction will be subject to an effective rate of tax (evaluated taking into account incentives consistent with the treatment of such incentives under the GloBE Rules and agreed safe harbours) on the overall profits of their foreign operations below 15%.

(*Continued*)

(*Continued*)

6. Where the Inclusive Framework has determined that a jurisdiction has a Qualified SbS Regime, that jurisdiction shall be listed as such on the Central Record.
7. An MNE Group with its UPE located in a jurisdiction that has a Qualified SbS Regime can elect for the SbS Safe Harbour for Fiscal Years commencing on or after 1 January 2026 or a later year as listed in the Central Record.

3. Where an MNE Group has its UPE located in a jurisdiction with a Qualified SbS Regime and has made the election for this safe harbour to apply, the SbS Safe Harbour will apply to all of that MNE Group's controlled domestic and foreign operations. The SbS Safe Harbour can only be elected by MNE Groups which have their UPE located in a jurisdiction with a Qualified SbS Regime (as determined applying Art. 10.3).
4. Where the safe harbour applies then, for the purposes of applying the IIR and UTPR, the Top-up Tax is deemed to be zero with respect to all of that MNE Group's Constituent Entities, including Stateless Constituent Entities and Minority-owned Constituent Entities. The Top-up Tax will also be reduced to zero under the IIR that would otherwise apply at the level of an Intermediate Parent Entity (including a Partially-owned Parent Entity).

1.1. *Application to JVs*

5. Where an MNE Group has made an election for the SbS Safe Harbour to apply, the Top-up Tax will also be deemed to be zero with respect to such an MNE Group's interests in a Joint Venture or JV Subsidiary. This will apply regardless of whether or not there are also Constituent Entities in the same jurisdiction as the Joint Venture or JV Subsidiary. However, the application of this safe harbour will not affect the application of the IIR or the UTPR to any other MNE Group's interest in the same Joint Venture or JV Subsidiary.
6. The election will also not affect the Top-up Tax of an Entity which would have been a Joint Venture of an MNE Group eligible for the SbS Safe Harbour except for the fact that the Entity was itself an Ultimate Parent Entity of an MNE Group that is subject to the GloBE Rules (that is, an Entity which would have been a Joint Venture except for the application of paragraph (a) of the definition of Joint Venture in Art. 10.1). Accordingly, the SbS Safe Harbour would not apply to an MNE Group with its UPE located in a jurisdiction without a Qualified SbS Regime even if 50% of the Ownership Interests in its UPE are held by a different MNE Group which is eligible for the SbS Safe Harbour.

1.2. *No impact on QDMTT*

7. The SbS Safe Harbour does not affect the application of QDMTTs and does not deem any Top-up Tax to be zero for the purposes of a QDMTT calculation. A QDMTT will continue to apply (including to the foreign operations of MNE Groups headquartered in a jurisdiction with a Qualified SbS Regime) and to be calculated without taking into account taxes imposed on Permanent Establishments or direct and indirect owners in respect of income of their controlled foreign companies as required under paragraph 118.30 of the Commentary to the definition of QDMTT. Any such QDMTT will be creditable under the GMT and any Qualified SbS Regime. Accordingly, a jurisdiction cannot allow an MNE Group to apply the SbS Safe Harbour for the purposes of the QDMTT.

1.3. *No application to MNE Groups not headquartered in a jurisdiction with a Qualified SbS Regime*

8. The SbS Safe Harbour will not affect the application of the IIR or the UTPR with respect to any MNE Group with its UPE located in a jurisdiction which does not have a Qualified SbS Regime. For example, an MNE Group with its UPE located in a jurisdiction which does not have a Qualified SbS Regime is not eligible to elect the SbS Safe Harbour and both the IIR and UTPR will continue to apply to all of its operations. An MNE Group with a UPE located in a jurisdiction which does not have a Qualified SbS Regime cannot elect for the SbS Safe Harbour in respect of its operations, including in respect of its operations in jurisdictions with a Qualified SbS Regime.

1.4. *Eligibility criteria*

1.4.1. Eligible domestic tax system

9. In order to have a Qualified SbS Regime, a jurisdiction must have an eligible domestic tax system. This contains three requirements.

Nominal tax rate of at least 20%

10. The first requirement is that the statutory nominal corporate income tax (CIT) rate is at least 20%, taking into account (where applicable) preferential adjustments (following paragraph 11) and sub-national corporate income taxes (following paragraph 12). The statutory nominal tax rate is the tax rate generally imposed on in-scope MNE Groups on a comprehensive measure of income. A jurisdiction will have a statutory rate on a comprehensive measure of income where that rate is applicable to a broad tax base which is not subject to material exclusions.

11. In determining the nominal rate, the statutory rate is adjusted to reflect any preferential adjustments that generally apply to all income of in-scope MNE Groups. If taxpayers are entitled to a deduction, exclusion or tax credit equal to a certain percentage of the included income an equivalent adjustment would be made to the statutory nominal corporate income tax rate. For example, if a jurisdiction has a 20% tax rate but taxpayers are entitled to a deduction equal to 25% of their income, the jurisdiction will have a 15% statutory nominal corporate income tax rate for the purposes of this requirement. Similarly, if taxpayers are entitled to exclude 25% of their taxable income, or are entitled to a tax credit equal to 5% of their taxable income, the jurisdiction would be treated as having a 15% statutory nominal tax rate for these purposes.

12. This rate may take into account sub-national corporate income taxes provided that such taxes are structured so that in the case of all sub-national jurisdictions, the combined rate generally applicable to in-scope MNE Groups will be equal to or greater than 20%. Accordingly, the combined tax rate (taking into account any deduction or crediting in the national tax amount) which is applied to the sub-national jurisdiction with the lowest tax rate is the relevant rate for jurisdictions with different sub-national corporate income tax rates. If a jurisdiction has a corporate income tax regime which meets this requirement, it is unnecessary to consider any other tax regimes applicable in that jurisdiction.

Corporate alternative minimum tax

13. The second requirement is that there is a QDMTT or a corporate alternative minimum tax based on financial statement income at a nominal rate of 15% or above. Under a corporate alternative minimum tax, corporations are subject to taxation based on the higher of the amount of tax liability under the corporate alternative minimum tax rules and the amount of tax liability under their regular corporate income tax rules. This minimum tax may be subject to appropriate adjustments that are consistent with the policy objectives of a minimum tax. While a QDMTT would meet this requirement, a corporate alternative minimum tax based on financial statement income can satisfy this requirement without meeting the requirements of a QDMTT.

14. A corporate alternative minimum tax must be based upon financial statement income (of either the MNE Group as a whole or a subset of that MNE Group). However, adjustments are allowed if they are consistent with the policy objectives of minimum taxation. For example, adjustments to financial statement income which seek to adopt depreciation schedules from the tax system or to align the treatment of stock compensation are considered to be consistent with the policy objectives of minimum taxation. Similarly, an exclusion of high tax income from the alternative minimum tax would also be consistent with the policy objectives of minimum taxation. Furthermore, a corporate alternative minimum tax liability may be offset by foreign or domestic tax credits where those credits are provided consistently with the policy objectives of minimum taxation. For example, the corporate alternative minimum tax could be applicable to the worldwide income of the taxpayer and count foreign tax credits towards meeting the required minimum rate.

15. The corporate alternative minimum tax must be applicable to a substantial portion of the aggregate income of MNE Groups that are in-scope of the GloBE Rules (in-scope MNE Groups). This criterion considers the total net income in the jurisdiction of in-scope MNE Groups rather than the total net income of taxpayers which are

in-scope of the relevant corporate alternative minimum tax regime. For example, a corporate alternative minimum tax which only applied to the MNE Groups operating in the jurisdiction with net income above a set threshold would satisfy this requirement if the threshold were set at a level such that a substantial portion of the collective sum of net income of all in-scope MNE Groups' net income from operations in the jurisdiction were included within the corporate alternative minimum tax. This criterion does not require a substantial portion of the net income of each in-scope MNE Group to be subject to the corporate alternative minimum tax.

No material risk of ETR outcomes below 15%

16. The third requirement is that there is no material risk that MNE Groups with their UPE located in the jurisdiction and in-scope of the GloBE Rules will be subject to an effective rate of tax on the overall profits of their domestic operations below 15%. The assessment of the minimum effective tax rate should be made based on the design and operation of the GloBE Rules (including applicable safe harbours and following the same treatment of incentives including substance-based tax incentives). A material risk is a risk that is of significant magnitude and probability that policymakers would foreseeably consider it as the basis for revising an applicable tax regime.

17. An evaluation of this criterion is based on a pragmatic assessment of the overall operation of the tax system applicable in the relevant jurisdiction, including the availability and treatment of tax credits and incentives under the tax system. The mere possibility that MNE Groups could have an effective overall rate of tax on their domestic operations below 15% based on a hypothetical scenario does not mean that a jurisdiction will not satisfy this requirement. For example, a jurisdiction could still satisfy this requirement if it had a corporate tax regime which produced an effective tax rate slightly below 15% on certain types of income but MNE Groups which benefited from this incentive were likely to have substantial other income from domestic operations which was taxed well above 15% such that the average tax rate was highly likely to be above 15%. On the other hand, a regime would not satisfy this requirement if MNE Groups are eligible for tax incentives in that jurisdiction and the potential scope and size of those incentives give rise to a material risk that MNE Groups will be subject to an effective rate of tax that is below 15% on those operations.

18. This criterion is to be considered holistically, over time, and at an aggregate level (and not considering each MNE Group separately). This criterion could be met due to the application of a jurisdiction's corporate alternative minimum tax (depending on its design) and may also take into account any legislated regimes to address BEPS risks (such as anti-hybrid rules in line with BEPS Action 2 and interest limitation rules in line with BEPS Action 4).

1.4.2. Eligible worldwide tax system

19. In order to have a Qualified SbS Regime, a jurisdiction must also have an eligible worldwide tax system. This has three requirements.

Comprehensive tax regime

20. The first requirement is a comprehensive tax regime applicable to all corporations on foreign income. The base used for the calculation of foreign income must be broad and not subject to material exclusions. The income must include both the active and passive income of controlled foreign companies even when that income is not distributed to its shareholders. For these purposes, controlled foreign companies must include any foreign company that is controlled by a domestic owner.

21. The only exception to this comprehensive inclusion requirement is that there may be limited exclusions from taxable income where those exclusions are consistent with the policy objectives of minimum taxation. For example, where the regime only excludes income which is generally taxed at a high rate in the source jurisdiction (for example, income from the extractive sector such as oil and gas). If, however, a regime excluded a type of highly mobile income (such as royalty income), it would not meet this requirement.

Mechanisms to address BEPS risks

22. The second requirement is that the regime must include appropriately targeted but substantial mechanisms designed to address significant BEPS risks. For example, a regime could satisfy this requirement by having rules which prevented foreign tax credits arising with respect to active income being used to offset a (pre-credit) tax liability arising with respect to passive income. Similarly, a regime could satisfy this requirement by requiring a taxpayer to separately consider inclusions from CFCs which are subject to low taxation from those subject to high taxation in the CFC jurisdiction. A regime will not satisfy this second requirement unless it includes a mechanism to prevent foreign tax credits on high tax active income from offsetting a (pre-credit) tax liability arising from low tax passive income.

No material risk of ETR outcomes below 15%

23. The third requirement is that there is no material risk that in-scope MNE Groups headquartered in the jurisdiction will be subject to an effective rate of tax on the profits of their collective foreign operations below 15%. This assessment of the minimum effective tax rate should be made based on the design and operation of the GloBE Rules (including applicable safe harbours and following the same treatment of incentives). A material risk is a risk that is of significant magnitude and probability that policymakers would foreseeably consider it as the basis for revising an applicable tax regime.

24. An evaluation of this criterion is based on a pragmatic assessment of the overall operation of the tax system applicable in the relevant jurisdiction as well as the creditable foreign taxes which are recognized under that tax system. The commentary applicable to the third criterion of an eligible domestic tax system with respect to a material risk of ETR outcomes below 15% is also generally applicable to this criterion.

1.4.3. Foreign tax credit for QDMTTs

25. In order to have a Qualified SbS Regime, a jurisdiction must allow a foreign tax credit for QDMTTs on the same terms as any other creditable Covered Tax. The foreign tax credit for QDMTTs may be subject to foreign tax credit limitations which are generally applicable.

1.4.4. Eligible domestic and worldwide tax systems assessment date

26. Upon request by a member jurisdiction, the Inclusive Framework will assess that jurisdiction's pre-existing tax regimes against the eligibility criteria for a Qualified SbS Regime by the end of the first half of 2026.

27. The Inclusive Framework will assess the eligibility as a Qualified SbS Jurisdiction of any other Inclusive Framework jurisdiction once that jurisdiction initiates such a request to the IF in 2027 or 2028. The assessment of that jurisdiction's eligibility will be undertaken in a timely manner on the same basis outlined above and taking into account that the Inclusive Framework considers that the adoption of a co-ordinated GMT, based on a common approach for ensuring minimum taxation (particularly through the implementation of QDMTTs) is critically important and should be the primary system. The timing of any access to the SbS Safe Harbour will take into consideration when the legislation entered into effect and the time necessary to review the eligibility of a regime as well as any information gathered as part of the stocktake.

1.5. *Effective date*

28. The SbS Safe Harbour is applicable for Fiscal Years commencing on or after 1 January 2026 or a later year as listed in the Central Record. Where a jurisdiction adopts the SbS Safe Harbour into its domestic law after this date, it is expected to do so with retrospective effect taking into account the fact that it is an election which is wholly relieving for taxpayers. If, contrary to this expectation and despite this fact, a jurisdiction is unable to adopt this Safe Harbour from 1 January 2026 due to constitutional grounds or other superior law, that jurisdiction must implement this Safe Harbour from the earliest practical date.[3] The SbS Safe Harbour does not affect Fiscal Years commencing before 1 January 2026.

1.6. *Information Reporting for SbS Safe Harbour*

29. An MNE Group will be able to make the SbS Safe Harbour election in the GloBE Information Return in a field that will be added to Section 1. Further work will be done on revisions to the GIR and the XML Schema to specify a field to indicate that the SbS Safe Harbour is being elected and to identify particular fields that might not be required for MNE Groups that elect the SbS Safe Harbour. For example, some data points may not be required for such MNE Groups, because those data points relate only to the operation of the IIR and UTPR, which will not be relevant where the SbS Safe Harbour has been elected. In any case, an MNE Group which makes the SbS Safe Harbour election in a jurisdiction with an IIR or UTPR will provide only Section 1 of the GIR to that jurisdiction and is not required to complete Section 1.4 (the high-level summary of GloBE information).

30. The SbS Safe Harbour does not affect the reporting obligations for Fiscal Years commencing before 1 January 2026. In addition, MNE Groups that elect for the SbS Safe Harbour remain subject to the QDMTT and, accordingly, will remain subject to GIR filing obligations for QDMTT purposes. Thus, an MNE Group that makes the SbS Safe Harbour election will provide any QDMTT-only Jurisdiction with Section 1 of the GIR (with the exception of Section 1.4 providing the high-level summary of GloBE information) and the Jurisdictional Section for that jurisdiction. If a jurisdiction has both a QDMTT and an IIR and/or a UTPR, an MNE Group that makes the SbS Safe Harbour election will provide that Jurisdiction with Section 1 of the GIR (but is not required to complete Section 1.4 with the high-level summary of GloBE information) and the Jurisdictional Section for that jurisdiction.

31. Furthermore, as previously agreed by the Inclusive Framework, the reporting of aggregated GIR and QDMTT data on an anonymised basis will be considered as part of the peer review and monitoring process to be developed by the Inclusive Framework, such as the GloBE Income, Adjusted Covered Taxes, ETR, the Substance-based Income Exclusion, as well as Top-up Taxes.

1.7. *Notification of material changes to a Qualified SbS Regime*

32. A jurisdiction listed on the Central Record is required to notify the Inclusive Framework if it materially amends its Qualified SbS Regime within three months of the relevant change (for example, the date of enactment where the change arises from legislation). Upon receipt of such a notification, the Inclusive Framework will consider the best path forward. For these purposes, an amendment is material if it could have foreseeably impacted an Inclusive Framework determination on eligibility as a Qualified SbS Regime. For example, a material change could include a reduction in the corporate tax rate, the repeal of a CFC Tax Regime or the introduction of a new income exclusion, exemption or preferential regime. However, a jurisdiction is not required to notify the Inclusive Framework if it has made an amendment to an aspect of a Qualified SbS Regime where that aspect was not taken into account in establishing that there was no material risk that in-scope MNE Groups headquartered in the jurisdiction will be subject to an effective rate of tax of below 15% on the profits of their domestic or foreign operations. Nevertheless, a jurisdiction is still required to notify the Inclusive Framework if it has materially expanded the availability of a tax incentive or preferential regime.

2. UPE Safe Harbour

33. The operating mechanics of the UPE Safe Harbour are set out in the box below. The UPE Safe Harbour applies for Fiscal Years commencing on or after 1 January 2026 and effectively replaces the Transitional UTPR Safe Harbour which expires at the end of 2025.

UPE Safe Harbour

1. At the election of the Filing Constituent Entity, the Top-up Tax for the UPE Jurisdiction for a Fiscal Year shall be deemed to be zero for purposes of the UTPR where the Constituent Entities located in the UPE Jurisdiction are eligible for the UPE Safe Harbour. An MNE Group will be eligible for the UPE Safe Harbour for a Fiscal Year if the UPE of that MNE Group is located in a jurisdiction with a Qualified UPE Regime for that Fiscal Year.

(*Continued*)

(*Continued*)

2. A jurisdiction has a Qualified UPE Regime if it has an eligible domestic tax system which was enacted and in effect as at 1 January 2026. An eligible domestic tax system is one that has:
   a. at least a 20% statutory nominal corporate income tax (CIT) rate after taking into account preferential adjustments and sub-national corporate income taxes (where applicable);
   b. a QDMTT or a corporate alternative minimum tax based on financial statement income, subject to appropriate adjustments consistent with the policy objectives of minimum taxation, at a nominal rate of at least 15%, and is applicable to a substantial portion of the aggregate income of in-scope MNE Groups' operations in the jurisdiction; and
   c. no material risk that in-scope MNE Groups headquartered in the jurisdiction will be subject to an effective rate of tax (evaluated taking into account incentives consistent with the treatment of such incentives under the GloBE Rules and agreed safe harbours) on the overall profits of their domestic operations below 15%.
3. Where the Inclusive Framework has determined that a jurisdiction has a Qualified UPE Regime, that jurisdiction shall be listed as such on the Central Record.
4. The UPE Safe Harbour is applicable for Fiscal Years commencing on or after 1 January 2026.

35. Where an MNE Group has its UPE located in a jurisdiction with a Qualified UPE Regime and makes an election for the UPE Safe Harbour, the Top-up Tax for that MNE Group is deemed to be zero for the purposes of applying the UTPR with respect to all of its Constituent Entities located in the UPE Jurisdiction. The location of the UPE is determined applying the rules in Art. 10.3.

36. The UPE Safe Harbour will not affect the application of the IIR or the UTPR with respect to any MNE Group with its UPE located in a jurisdiction which does not have a Qualified UPE Regime. Similarly, the UPE Safe Harbour does not affect the application of the IIR or UTPR with respect to any of an MNE Group's Constituent Entities which are located outside of the UPE Jurisdiction. The UPE Safe Harbour has no impact on the operation of QDMTTs.

2.1. *Eligibility criteria*

37. The criteria for an eligible domestic tax system for the purposes of having a Qualified UPE Regime are the same as the eligible domestic tax system criteria for a Qualified SbS Regime. The Commentary applicable to those paragraphs is equally applicable to the UPE Safe Harbour.

2.1.1. Eligible domestic tax system enacted before 2026

38. In order to have a Qualified UPE Regime, a jurisdiction must have an eligible domestic tax system which was enacted and in effect on 1 January 2026. A domestic tax system which meets these requirements as at that date will remain eligible notwithstanding non-material changes that have been made to that legislation (for example, to simplify the drafting) that take effect following 1 January 2026.

39. Upon request by a member jurisdiction, the Inclusive Framework will assess that jurisdiction's pre-existing tax regimes against the eligibility criteria for a Qualified UPE Regime by the end of the first half of 2026.

2.2. *Effective date*

40. The UPE Safe Harbour is applicable for Fiscal Years commencing on or after 1 January 2026. This is the same effective date as for the SbS Safe Harbour. The commentary applicable to the effective date for the SbS Safe Harbour is equally applicable to the UPE Safe Harbour.

2.3. *Information Reporting for UPE Safe Harbour*

41. The GIR will be amended to include an additional data point for the MNE Group to make an election for the UPE Safe Harbour. As the general section of the GIR provides information on the corporate structure of the

MNE Group, including identification of the UPE and the jurisdiction where it is located, MNE Groups will not be required to provide any additional information to demonstrate their eligibility for the safe harbour.

2.4. *Notification of material changes to a Qualified UPE Regime*

42. A jurisdiction listed on the Central Record is required to notify the Inclusive Framework if it materially amends its Qualified UPE Regime. The commentary on the notification of material changes to a Qualified SbS Regime is equally applicable to this requirement.

NOTES

1 The Inclusive Framework is grateful for the contributions from the Business at OECD Tax Committee and the wider stakeholder community and looks forward to continuing constructive engagement.

2 In addition to the work on substantive rules, the Inclusive Framework is also focusing on the tax compliance dimension with ongoing work through the Amsterdam Dialogue format on a common up-front compliance and risk assessment framework, using a collaborative approach involving business and academia, with a view to delivering the policy objectives of the GMT in a way that limits compliance costs and promotes consistency across implementing jurisdictions.

3 In such a case, each UTPR Jurisdiction (including those that have adopted the SbS Safe Harbour) would be taken into account in applying the allocation formula in Art. 2.6.1, and a jurisdiction that has not yet adopted the SbS Safe Harbour would not be allocated more than its UTPR Percentage of the UTPR Top-up Tax Amount.

References

[1] OECD (2022), *Tax Challenges Arising from the Digitalisation of the Economy – Commentary to the Global Anti-Base Erosion Model Rules (Pillar Two), First Edition: Inclusive Framework on BEPS*, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, https://doi.org/10.1787/1e0e9cd8-en.

[2] OECD (2021), *Tax Challenges Arising from Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS*, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, https://doi.org/10.1787/782bac33-en.

[3] OECD (2017), *Model Tax Convention on Income and on Capital: Condensed Version 2017*, OECD Publishing, Paris, https://doi.org/10.1787/mtc_cond-2017-en.

[4] United Nations Department of Economic and Social Affairs (2022), *United Nations Model Double Taxation Convention Between Developed and Developing Countries 2021*, United Nations, https://doi.org/10.18356/9789210001007.