



TaxNewsFlash

Canada

Global Minimum Tax — Important Changes on the Way

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Canadian entities of large U.S. multinationals may be affected by upcoming changes to the Global Minimum Tax rules. Recently, Canada and the other members of the G7 forum jointly announced plans to implement a “side-by-side system” that would seek to preserve the global progress to implement rules to ensure large multinational enterprises (MNEs) pay a minimum rate of tax under the Organisation for Economic Co-operation and Development’s (OECD) Pillar Two framework, while also addressing U.S. concerns about these rules. Under this new approach, U.S.-parented groups would be exempt from certain Pillar Two rules on the basis they are already subject to U.S. minimum tax rules. The G7 statement, which was issued on June 28, 2025, represents a shared understanding by G7 member countries Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

Although more details are likely to become clear as the side-by-side system is developed, it seems that this approach is intended as a compromise that will allow the U.S. rules to co-exist alongside Pillar Two rules currently being enacted in Canada and other G7 countries. Canadian businesses impacted by Pillar Two should monitor these developments closely to ensure they are complying with all legislative, administrative and compliance changes.

Background

The OECD/G20 Inclusive Framework, which involves more than 140 countries, is working on the global implementation of tax proposals under two specific “pillars”, as part of its BEPS project. To help countries adopt these proposals, the OECD released Pillar Two model rules in 2021 to implement a global minimum tax of 15% for MNEs with annual revenue of at least €750 million. This regime includes an Income Inclusion Rule (IIR) and Undertaxed Profits Rule (UTPR), which is a backstop to the IIR. The UTPR

would allow foreign jurisdictions to impose additional tax on multinationals with an effective rate below 15%.

Canada and many other countries have implemented, or are in the process of implementing, Pillar Two tax rules in their domestic legislation. Canada enacted the *Global Minimum Tax Act* (GMTA) on June 20, 2024, which includes a top-up tax to ensure that MNEs with consolidated revenue above €750 million in at least two of the previous four fiscal years pay a minimum 15% corporate tax rate in each jurisdiction in which they operate. Finance also released draft legislation to enact a UTPR under the *Global Minimum Tax Act* on August 12, 2024. This rule is intended to apply to fiscal years of a qualifying MNE group that begin on or after December 31, 2024. However, Canada's newly elected government must reintroduce draft legislation to implement the UTPR under the GMTA before it can be enacted into law.

The United States released an executive order in response to these measures, which it considers to be “unfair foreign taxes”, to inform the OECD that any commitments made by the previous administration to its two-pillar approach “have no force or effect” in the United States. The United States also proposed to increase U.S. tax on income for individuals and corporations in countries that adopted Pillar Two rules, but agreed to withdraw those proposals following G7 negotiations.

For further details, see *TaxNewsFlash-Canada* 2025-26, [“U.S. Proposals May Trigger Tax Increases for Canadians”](#) and *TaxNewsFlash-Canada* 2025-03, [“U.S. Bill Proposes Additional Tax on Foreign Jurisdictions”](#). For more on Canada's commitment to the OECD's two-pillar solution, see *TaxNewsFlash-Canada* 2024-27, [“Canada Enacts Bundle of Outstanding Tax Measures”](#).

Side-by-side system

The G7 statement outlines a joint intention to implement a side-by-side system and includes four accepted principles that are intended to guide the system's development. Under this system, U.S.-parented groups would be exempt from non-U.S. IIR and UTPR measures on the basis that the U.S. tax system and Pillar Two are intended to address similar concerns and achieve similar results.

The statement provides details on the following four underlying principles:

Provide a scope of exemption for U.S.-parented groups

The statement notes that, under the side-by-side system, U.S.-parented groups would be excluded from the UTPR and the IIR Pillar Two charging provisions for both their U.S. domestic and foreign profits. According to the statement, this exclusion is based on certain aspects of the U.S. tax system that ensure a minimum level of taxation, including recently proposed changes.

Ensure policy alignment and address risks

The statement says that the system should be developed to ensure a level playing field, and address risks of base erosion and profit shifting to achieve common policy objectives.

Simplify Pillar Two compliance

The statement notes that the side-by-side system would be developed alongside additional work to simplify the Pillar Two administration and compliance framework.

Reevaluate treatment of tax credits

The statement advises that the side-by-side system would also be developed in consideration of changes to the Pillar Two treatment of substance-based non-refundable tax credits. These changes would be intended to ensure greater alignment with the treatment of refundable tax credits. Currently, under the Pillar Two regime non-refundable federal R&D credits reduce tax otherwise payable, and are not treated as revenue.

KPMG observations

Given that many affected entities are required to file a GloBE Information Return (GIR) and make their first top-up tax payments in less than a year, it may be challenging to implement changes to meet this timeframe. The G7 members and the broader Inclusive Framework will need to undertake considerable work to develop this side-by-side system and simplify the Pillar Two regime based on the G7 statement, including possible further discussions and negotiations. Many technical, legal, administrative and compliance related matters will have to be quickly addressed, considering that the statement appears to have retroactive application for U.S.-parented groups.

Side-by-side system — Effect on Canadian entities and Canadian-parented groups

Canada's Pillar Two regime — Still in force

It appears that Canadian-parented groups and Canadian subsidiaries of U.S. and non-U.S.-parented groups will still need to navigate and comply with Canada's existing Pillar Two regime, as the G7 statement only announces that U.S.-parented groups' domestic and foreign profits will be excluded from the UTPR and IIR.

Impact on Pillar Two administration and compliance

It's not yet clear how the side-by-side system will affect current Pillar Two compliance requirements. Although Canadian-parented groups are currently required to file a GIR in Canada, it is uncertain whether U.S.-parented groups will have to meet GIR filing obligations under this system, even though these requirements form an important part of

any safe harbour and Qualified Domestic Top-up Tax (QDMTT) compliance process that may be relevant for certain foreign constituent entities.

KPMG observations

The statement's underlying principle to simplify Pillar Two compliance may refer to permanent safe harbour measures currently under discussion.

QDMTT — Canadian subsidiaries of U.S.-parented groups

Canadian subsidiaries of U.S.-parented groups will also need to determine whether they are liable for top-up tax due under the Pillar Two regime, since the G7 statement suggests that a QDMTT can continue to apply in Canada and other Pillar Two jurisdictions. Currently, Canadian companies are required to file a QDMTT return only where a domestic top-up tax is due.

In addition, Canadian subsidiaries of U.S.-parented groups could be required to submit more comprehensive Canadian QDMTT filings following these changes, as it's not yet clear whether U.S.-parented groups would still be required to prepare and file a GIR under this change. There may also be future uncertainty about whether the Ultimate Parent Entity (UPE) of a U.S.-parented group must use group GAAP or local Canadian GAAP for QDMTT computations.

Re-domiciling of Canadian-parented companies

Canadian-parented groups that may be considering re-domiciling the Canadian parent entity to the United States should factor the IIR and UTPR exclusions for U.S.-parented groups into their decision. These groups should also be aware that, during the period the ultimate parent company remains domiciled in Canada, they must meet their Canadian Pillar Two obligations for accounting periods starting on or after December 31, 2023, as required under the GMTA. Further, re-domiciled Canadian parented groups that maintain a Canadian presence would generally be expected to comply with the QDMTT.

KPMG observations

It will be interesting to see whether the side-by-side system is adapted to address any potential incentive for re-domiciliation, especially given the fundamental principle of policy alignment and BEPS risk avoidance underlying the G7 understanding.

Review of tax incentives

Canadian companies may also want to follow the G7's agreement to review the Pillar Two treatment of non-refundable tax credits under the side-by-side regime. In particular, any change to treat non-refundable federal R&D credits as revenue under the Pillar Two

regime, rather than as a reduction to tax otherwise payable, could provide a material benefit to eligible Canadian entities.

We can help

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