



TaxNewsFlash

Canada

Global Minimum Tax — OECD Agrees on Side-by-Side System

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The Organisation for Economic Co-operation and Development (OECD) announced on January 5, 2026 that the OECD/G20 Inclusive Framework on base erosion and profit shifting (BEPS) has reached agreement on key elements of a “side-by-side” package allowing for continued coordinated operation of Pillar Two global minimum tax arrangements. The “side-by-side system” is intended to preserve the global progress to implement rules to ensure large multinational enterprises (MNEs) pay a minimum rate of tax under the OECD Pillar Two framework, while also addressing U.S. concerns about these rules. Under this 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.

Canadian MNEs and entities of large U.S. MNEs should follow developments related to the side-by-side system. In light of this agreement, it's not yet clear whether Canada will proceed with draft legislation to implement the “Undertaxed Profits Rule” (UTPR) component of the Pillar Two regime in the *Global Minimum Tax Act* (GMTA), or whether it will delay the currently proposed effective date of December 31, 2024 (i.e., the rules would apply to U.S. MNEs for 2025).

More generally, this agreement reinforces Canada's commitment to the GMTA. As a result, Canadian MNEs (and foreign MNEs with Canadian operations) must act quickly to satisfy substantial compliance obligations and determine potential minimum tax liabilities that will be imposed as early as June 30, 2026.

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 UTPR, which is a backstop to the IIR. The UTPR would allow foreign jurisdictions to impose additional tax on multinationals with an effective tax 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 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 GMTA 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 government must reintroduce draft legislation to implement the UTPR under the GMTA before it can be enacted into law.

Canada and the other members of the G7 forum (France, Germany, Italy, Japan, the United Kingdom and the United States) jointly announced plans to implement a “side-by-side system” on June 28, 2025.

For further details, see *TaxNewsFlash-Canada* 2025-32, “[Global Minimum Tax — Important Changes on the Way](#)”, *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](#)”.

Side-by-side system

The side-by-side package includes five key components that:

- Simplify measures to reduce compliance burdens for MNEs and tax authorities in calculating and reporting under the Pillar Two rules
- Introduce a new targeted substance-based tax incentive safe harbor
- Include new safe harbors for MNE groups that have an ultimate parent entity located in an eligible jurisdiction that meets minimum taxation requirements (the United States is listed as an eligible jurisdiction for this purpose)
- Introduce a “stocktake” process to ensure a “level playing field” for all Inclusive Framework members, and
- Reinforce the central importance of the qualified domestic minimum top-up tax (QDMTT) regime to the global minimum tax.

KPMG observations

It appears that Canada will have to amend the GMTA and draft new legislation to implement certain components of the side-by-side package, including the simplification measures, the proposed relief for tax incentives, and the carve-out for eligible jurisdictions.

KPMG's member firm in the U.S. has published its own preliminary analysis and observations on the OECD's announcement. Please see, "[KPMG report: Overview of Pillar Two side-by-side package](#)".

We can help

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