

# Inclusive Framework BEPS Agreement

Navigating BEPS Pillar 2 – The G7 statement on the side-by-side system and the path ahead



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### Background

The OECD Inclusive Framework on BEPS (IF) published a statement on implementing a two-pillar solution under BEPS 2.0 back in October 2021<sup>1</sup>. The statement mentioned that “..... consideration will be given to the conditions under which **the US Global Intangible Low-Taxed Income (GILTI) regime will co-exist with the GloBE rules**, to ensure a level playing field”. Since then, no significant development on the GILTI/GloBE rules co-existence mechanism has taken place while over 55 jurisdictions<sup>2</sup> have already implemented or are planning to implement the GloBE rules or a Qualified Domestic Minimum Top-up Tax (QDMTT) with effect from 2024 or 2025.

Under the GloBE rules or a QDMTT, the domestic and foreign low-taxed profits of US MNE groups could be subject to top-up taxes in the foreign jurisdictions despite such profits may have been subject to minimum corporate taxation in the US. Earlier this year, the US expressed concerns about the Pillar 2 rules and proposed certain retaliatory measures (referred to as “revenge tax”) against foreign countries that apply an “unfair foreign tax” to US entities or certain foreign entities owned by US entities. Such measures were included in the proposed section 899 of the original version of the budget reconciliation bill (i.e. the “One Big Beautiful Bill”)<sup>3</sup>.

### The G7 statement

On 28 June 2025, the Canadian government issued a statement (i.e. the G7 statement)<sup>4</sup> outlining a shared understanding between the US and the other G7 countries (i.e. Canada, France, Germany, Italy, Japan, and the UK) on a “side-by-side” system under which **US-parented groups would be exempt from the Income Inclusion Rule (IIR) and Undertaxed Profits Rule (UTPR)** under BEPS Pillar 2 in recognition of the existing US minimum tax rules to which they are subject. In return, the proposed section 899 was removed from the final passed version of the One Big Beautiful Bill.

#### Key points of the G7 statement

- The side-by-side system would fully exclude US parented groups from the IIR and UTPR in respect of both their domestic and foreign profits.
- The side-by-side system would include a commitment to ensure any substantial risks that may be identified with respect to the level playing field, or risks of base erosion and profit shifting, are addressed to preserve the common policy objectives of the side-by-side system.
- Work on the side-by-side system would be undertaken alongside material simplifications to the overall Pillar 2 administration and compliance framework.
- Work on the side-by-side system would be undertaken alongside considering changes to the Pillar 2 treatment of substance-based non-refundable tax credits that would ensure greater alignment with the treatment of refundable tax credits.

<sup>1</sup> The IF statement in 2021 can be accessed via this link: <https://www.oecd.org/content/dam/oecd/en/topics/policy-issues/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.pdf>

<sup>2</sup> For more details, please refer to the OECD's tax report to G20 issued in July 2025 via this link: [https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/07/oecd-secretary-general-tax-report-to-g20-finance-ministers-and-central-bank-governors-g20-south-africa-july-2025\\_d6806e48/d5a361a0-en.pdf#\\_blank](https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/07/oecd-secretary-general-tax-report-to-g20-finance-ministers-and-central-bank-governors-g20-south-africa-july-2025_d6806e48/d5a361a0-en.pdf#_blank)

<sup>3</sup> For more details, please refer to the KPMG publication in this link: <https://kpmg.com/kpmg-us/content/dam/kpmg/taxnewsflash/pdf/2025/05/kpmg-report-international-one-big-beautiful-bill-may-15-2025.pdf>

<sup>4</sup> The G7 statement can be accessed via this link: <https://www.canada.ca/en/department-finance/news/2025/06/g7-statement-on-global-minimum-taxes.html>

- The shared understanding will be further discussed within the OECD IF with a view to expeditiously reaching a solution that is acceptable and implementable to all.

#### **KPMG observations:**

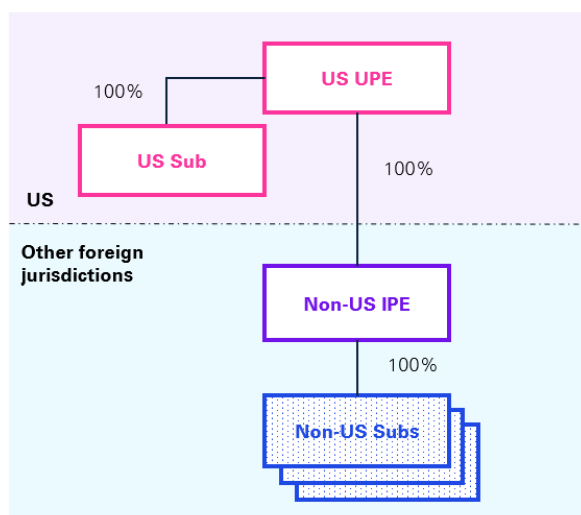
1. While the G7 statement is relatively brief with limited details about the side-by-side system, it is our understanding that:

- the IIR will continue to apply to US subsidiaries of non-US parented groups.
- QDMTT will remain applicable to in-scope MNE groups from all jurisdictions, including US MNE groups<sup>2</sup>.

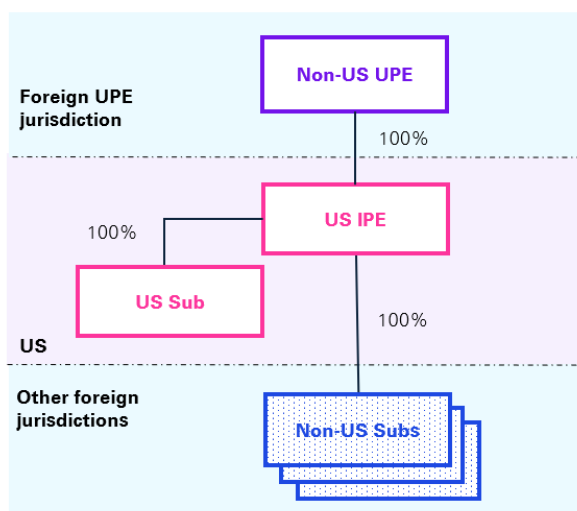
On the other hand, it is unclear from the G7 statement on what is meant by “US parented groups” – i.e. whether the IIR/UTPR exclusion only applies to MNE groups with a US ultimate parent entity (UPE) and not those with a US intermediate parent company (IPE) and a non-US UPE.

The two diagrams below illustrate the issues to be considered under the side-by-side system for MNE groups with a US and a non-US UPE respectively:

**Diagram 1 – An MNE group with a US UPE**



**Diagram 2 – An MNE group with a non-US UPE but an US IPE**



#### **Implications of the G7 statement:**

- US UPE, US Sub, Non-US IPE and Non-US Subs will be exempt from the IIR and/or UTPR (if any) implemented by other foreign jurisdictions.
- Any QDMTT implemented by other foreign jurisdictions will continue to apply to Non-US IPE and Non-US Subs.

#### **Implications of the G7 statement:**

- It is unclear whether the IIR (if any) implemented by the foreign UPE jurisdiction will apply to the group (e.g. to the low-taxed profits of Non-US Subs already subject to the GILTI in the US)
- It is unclear whether the UTPR (if any) implemented by the foreign jurisdictions will apply to the non-US entities and US entities (after the expiration of the transitional UTPR safe harbour).
- Any QDMTT implemented by foreign jurisdictions will continue to apply to the Non-US UPE and Non-US Subs.

2. Certain measures to ensure a level playing field under the side-by-side system are expected given that GILTI is based on global blending and not jurisdictional blending as for BEPS Pillar 2.
3. Co-ownership and joint ventures – The treatment of entities that are co-owned by US entity on one side and non-US entity on the other side would require further consideration. Further complication would arise when such co-owned entities are a joint venture or is treated as fiscally transparent entity under BEPS Pillar 2.
4. The G7 statement mentioned about material simplifications to the overall Pillar 2 administration and compliance framework. It has yet to be seen whether this refers to a permanent safe harbour for jurisdictions with a high effective tax rate that the OECD is currently working on<sup>2</sup>.
5. For jurisdictions which have implemented the GloBE rules or a QDMTT effective from January 2024, the due date for lodging the first GloBE Information Return, global minimum tax return and/or domestic top-up tax return will generally be June 2026. The OECD will need to work out further details of the side-by-side system say, by the end of 2025, to

allow sufficient time for these jurisdictions to implement the necessary changes. In addition, it has yet to be seen whether the side-by-side system will be implemented through the OECD’s additional administrative guidance on the GloBE rules, an introduction of a new safe harbour or some other means. Jurisdictions will also need to consider whether domestic legislative changes are necessary to implement the system.

## The OECD and EU responses

The OECD released a statement<sup>5</sup> on 28 June 2025 in response to the G7 statement. The OECD statement welcomed (1) the agreement reached between the US and G7 countries and (2) the current engagement with the broader OECD IF regarding the proposed side-by-side arrangement, noting that it would provide businesses worldwide with the certainty and stability they need in international tax framework.

The European Commission indicated in a press conference in early July that the side-by-side arrangement can be implemented through a permanent safe harbour without the need for amending the European Union’s Directive on Pillar 2.

## Hong Kong business considerations

### Implications of the G7 statement for US parented groups’ financial reporting and Pillar 2 compliance

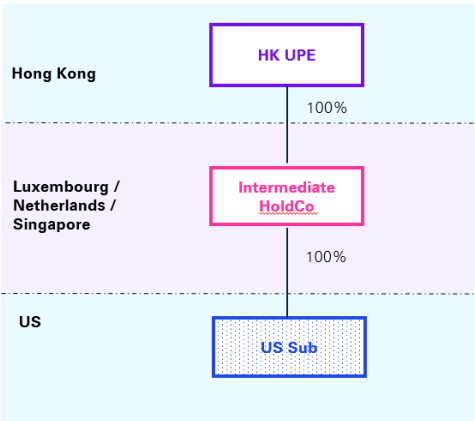
Despite the shared understanding mentioned in the G7 statement, the enacted Pillar 2 legislation of various implementing jurisdictions has yet to be amended to reflect the outcome of the side-by-side system. Accordingly, for tax provision for financial reporting purposes, US parented groups need to continue to consider the applicability of the transitional UTPR safe harbour for 2025 and provide for any foreign IIR or UTPR top-up tax liabilities based on the enacted Pillar 2 legislation of the relevant jurisdictions. For Pillar 2 compliance for 2024 and/or 2025, a pragmatic approach would be to closely monitor the progress of implementing the side-by-side system by various jurisdictions and re-prioritise the Pillar 2 compliance preparation work accordingly.

### HKMTT implications for US parented groups with subsidiaries in Hong Kong

These groups should be mindful that although they should be entitled to the IIR/UTPR exclusion under the side-by-side system, the Hong Kong minimum top-up tax (HKMTT) remains applicable to their constituent entities (CEs) in Hong Kong for fiscal years beginning on or after 1 January 2025. This means that these US-parented groups will need to (1) recognise the current tax provision in respect of any HKMTT liabilities in their consolidated financial statements for fiscal year 2025 onwards and (2) get prepared for the compliance requirements under the HKMTT regime (e.g. filing of top-up tax notification and top-up tax return in Hong Kong).

### IIR implications for Hong Kong-parented groups with subsidiaries in the US

It is common for Hong Kong headquartered groups to invest into the US via an intermediate holding company (see the below example):



<sup>5</sup> The OECD’s statement can be accessed via this link: <https://www.oecd.org/en/about/news/speech-statements/2025/06/statement-by-the-oecd-secretary-general-on-g7-progress-on-international-tax-co-operation.html>

The Pillar 2 financial reporting and compliance obligations of Hong Kong parented groups with subsidiaries in the US remain unchanged. In the above example, the US subsidiary of the group will be subject to the IIR in Hong Kong for fiscal years beginning on or after 1 January 2025 as the IIR exclusion under the side-by-side system only applies to US parented groups. For fiscal year 2024, the application of the IIR implemented in Luxembourg / Netherlands will need to be considered.

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