Tax Updates

20 January 2026

Consistent with our commitment to provide updated information on current tax issues, we set below a brief overview of the new Pillar II Administrative Guidance released by OECD.

On 5 January 2026, OECD released additional Administrative Guidance with regards to Pillar II rules. In this context, OECD released an agreed package of measures (Side-by-Side Package), introducing significant changes to the Pillar II framework in principle from 1 January 2026 onwards. The key highlights of this package include:

Side-by-Side (SbS) Safe Harbour

The newly introduced SbS Safe Harbour will exempt MNE Groups headquartered in eligible jurisdictions from the application of both the Income Inclusion Rule (IIR) and the Undertaxed Profits Rule (UTPR).

Currently, the US is the only eligible jurisdiction; however, the OECD Inclusive Framework will consider expanding eligibility to other jurisdictions in the future.

The SbS Safe Harbour is set to take effect prospectively from fiscal years commencing on or after January 1, 2026. For fiscal years 2024 and 2025, MNE groups remain subject to the currently applicable Pillar Two regime and will be required to continue to rely on the Transitional CbCR and UTPR Safe Harbours to mitigate top-up tax exposure. Compliance obligations for such fiscal years are expected to remain unaffected.

Ultimate Parent Entity (UPE) Safe Harbour

The new permanent UPE Safe Harbour will apply for periods beginning on or after 1 January 2026, replacing the transitional UTPR Safe Harbour (which currently applies to periods beginning before 31 December 2025 and ending before 31 December 2026).

MNE Groups may elect to apply the UPE Safe Harbour, ensuring that no top-up tax is payable under the UTPR for undertaxed profits in the UPE's jurisdiction, provided that such jurisdiction has a qualified UPE regime.

The UPE Safe Harbour should not affect the application of the IIR or UTPR to entities outside the UPE's jurisdiction, nor should it impact the operation of Qualified Domestic Minimum Top-up Tax regimes (QDMTTs).

Substance-Based Tax Incentive (SBTI) Safe Harbour

The January 2026 OECD package introduces the SBTI Safe Harbour, allowing MNE Groups to reduce the top-up tax on "Qualified Tax Incentives" (QTIs) to zero, provided certain conditions are met. The reduction is calculated as if QTIs were treated as additional adjusted covered tax paid.

This benefit is subject to a "substance cap", which limits the reduction if payroll costs and tangible assets in the jurisdiction are insufficient (the cap is set at the higher of 5.5% of eligible payroll or depreciation on tangible assets).

To this end, additional calculations and data gathering may be required to ensure compliance and to accurately determine any potential tax liabilities.

MNE Groups can make the SBTI Safe Harbour election for fiscal years beginning on or after January 1, 2026.

Simplified Effective Tax Rate (ETR) Safe Harbour

A permanent Simplified ETR Safe Harbour will operate alongside, and eventually replace, the Transitional CbCR Safe Harbour. While more detailed than the transitional version, it remains less complex than the full global minimum tax rules. Relevant calculations will be based on financial accounting data, with specific adjustments.

The Simplified ETR Safe Harbour will be available to MNE Groups for fiscal years beginning on or after on or after 31 December 2026 or for fiscal years beginning on or after 31 December 2025 under certain conditions.

Extension of the Transitional CbCR Safe Harbour

To support the transition to the new Simplified ETR Safe Harbour, the Transitional CbCR Safe Harbour has been extended by one year.

Transitional CbCR Safe Harbour shall now also cover all fiscal years beginning on or before 31 December 2027 but not including fiscal years ending after 30 June 2029.

How KPMG can help

The latest developments confirm that Pillar II framework is firmly established, while also introducing significant simplifications for MNE groups. It is essential for in-scope MNE Groups to assess the impact of the new Safe Harbours and explore how they can benefit from these provisions.

At KPMG, our dedicated BEPS specialists are ready to support you in evaluating these changes and guiding you through the complexities of Pillar II compliance.

Contact us

Christos Krestas
Partner, Tax

T: + 30 210 60 62 430
E: ckrestas@kpmg.gr

More information at

kpmg.com/socialmedia

This Newsletter aims to provide the reader with general information of the above-mentioned matters. No action should be taken without first obtaining professional advice specifically relating to the factual circumstances of each case`