Manufactures Alliance Webinar
August 25, 2026

Global Tax Integration – After Pillar Two

PANEL

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Any tax advice included in this communication is not intended or written to be used, and it cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer.

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Global Tax Integration – After Pillar Two

- Global Tax Integration – Vision and Purpose
- Pillar Two - 2024 Debut
  - Where is the Form?
  - CbCR Confusion
  - Centralized Filing and Jurisdictional Nuances
- 2025 Alignments
  - Pillar Two Process Improvements
  - GloBE Adjustments and Elections
  - One Big Beautiful Bill Act (OB3)
  - Section 987 Implementation Guidance
- 2026 Re-Alignment
  - P2 Side-By-Side Agreement
  - OB3 Treas. Reg. 1.861-8 Interplay
- Multi-Year Global Tax Integration
  - Modeling for Succes
- Questions and Answers

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Global Tax Integration – Vision and Purpose

- Tax Savings through Process Improvements
- VantagePoint™ - Data Processing Tool
- Multi-Purpose, Multi-Jurisdictional, ***Multi-Year***
  - Common financial data starting point
  - Fully Integrated Calculations
    - GILT, FDII, FTC, 163(j), BEAT, Pillar Two
  - Planning, Provision and Compliance
    - Legal/Tax Structuring, Supply chain
    - Pre/Post-TCJA Multi-Year Controversy Settlements
    - U.S. International Tax Forms
    - GloBE Information Return – OECD GIR-XSD
- Single Relational Database
- SaaS Platform
- U.S. International Tax + Pillar Two

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Polling Question #1

Do you have responsibility for meeting your Company's or Clients Pillar Two tax computations and/or filing obligations?

1) Yes
2) No
3) Not Sure

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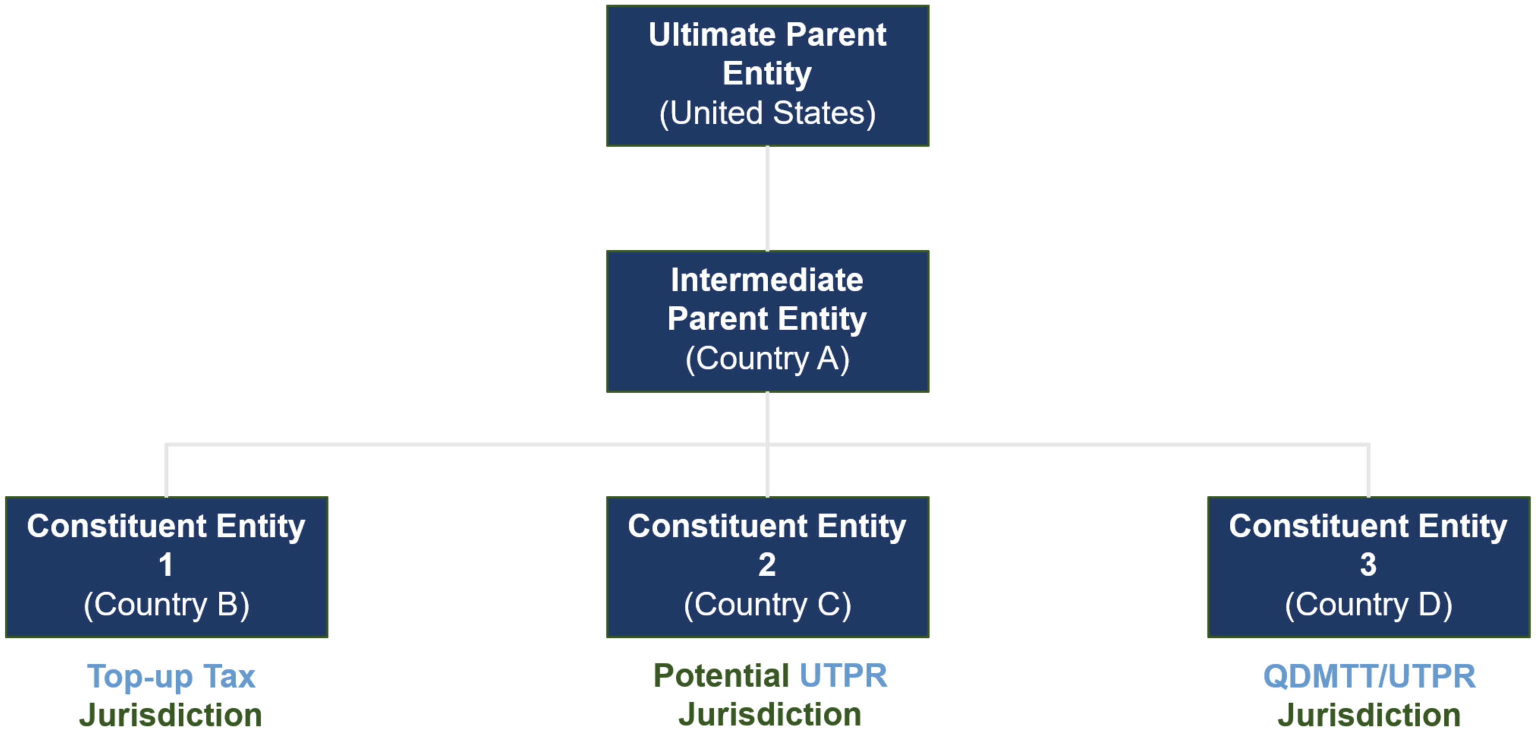
Pillar Two – 2024 Debut

Charging Provisions and Related Ordering Rules



Ordering Rules

1. QDMTT
2. GILTI/CFC
3. IIR
4. UTPR

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Computation of Effective Tax Rate and Top-up Tax

Under Chapter 5 the Top-up Tax of each Low-Taxed Constituent Entity is determined:

- by aggregating each Constituent Entity's GloBE Income or Loss, determined under Chapter 3, and Adjusted Covered Taxes, determined under Chapter 4, with those of other Constituent Entities located in the same jurisdiction to determine an Effective Tax Rate for the jurisdiction;
- by identifying which jurisdiction is a Low-Tax Jurisdiction
- by computing a jurisdictional Top-Up Tax Percentage for each Low-Tax Jurisdiction;
- by applying the Substance-based Income Exclusion to the Net GloBE Income in the Low-Tax Jurisdiction to determine the Excess Profits in that jurisdiction;
- by multiplying the Top-up Tax percentage by such Excess Profit and reducing the result by the amount of any Qualified Domestic Minimum Top-up Tax to determine the Top-Up Tax for each Low-Tax Jurisdiction; and
- by allocating such Top-up Taxes to the Constituent Entities in the Low-Tax Jurisdiction in proportion to their GloBE Income.

The resulting Top-up Tax of each Low Tax Constituent Entity is then charged to a Parent Entity under the Income Inclusion Regime (IIR) or to Constituent Entities located in a UTPR Jurisdiction.

GloBE Information Return (GIR)

- Filing deadline is generally 15 months after the end of MNE's fiscal year
  - CY 2024 – 6/30/2026
  - CY 2025 – 3/31/2027
  - CY 2026 – 3/31/2028
- Jurisdictional QDMTT generally consistent, but depends on independent legislation
- OECD XSD – XML Schema Design
  - Allows standardized transmission and exchange of information
- Multilateral Competent Authority on the Exchange of GloBE Information (GIR MCAA) – legal framework that allows jurisdictions to automatically exchange GIR data with each other – 36 Signatories as of May 29, 2026
- Forte's VantagePoint Software and related services supports the completion of the GIR and jurisdictional QDMTTs through its calculations and reports
- Local country service providers enable final submission including GIR transmission and QDMTT filings

OECD GIR XML Schema Design (XSD) - 2025

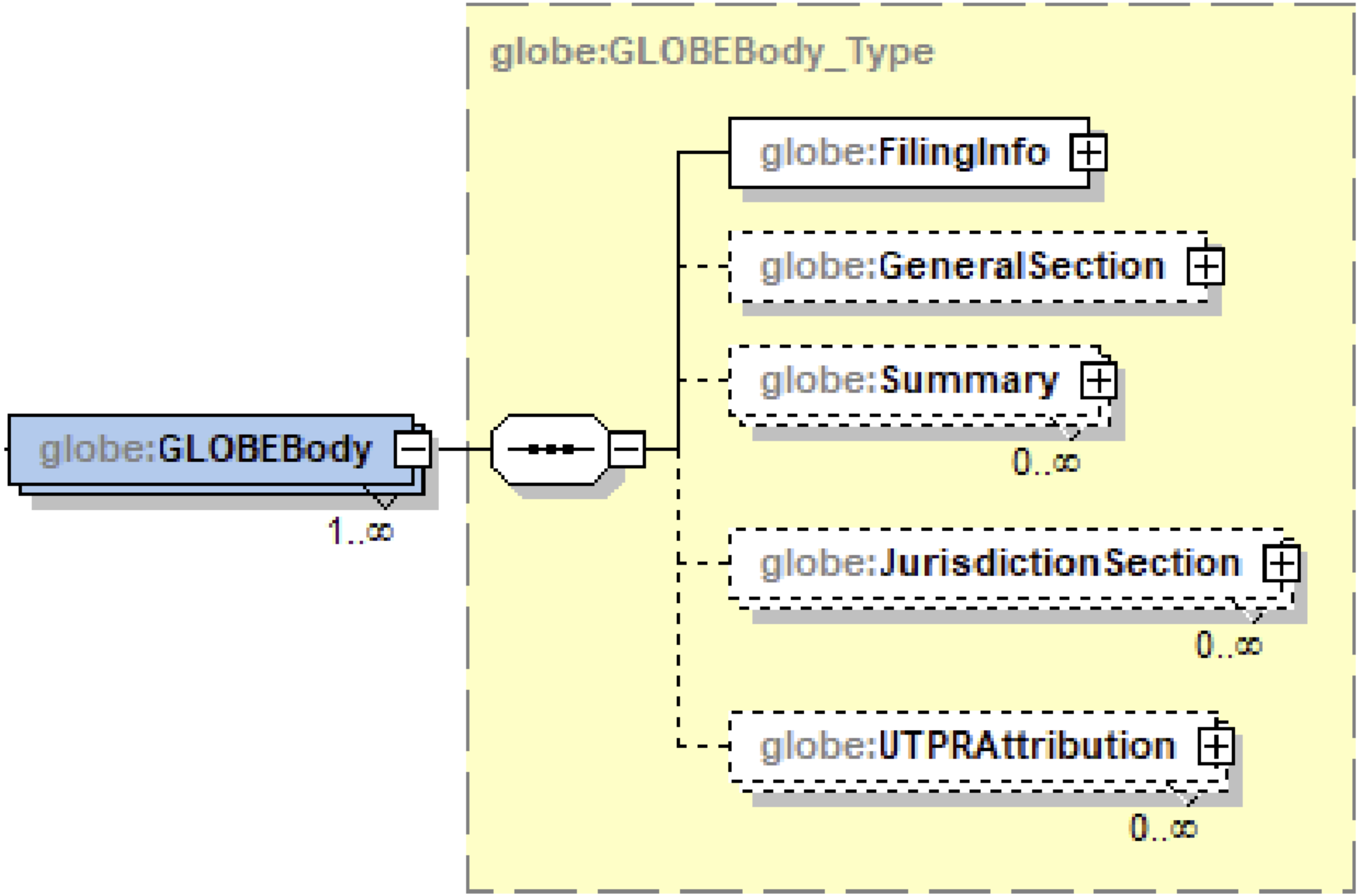
- Where is the Form?

- How Do I Review This?

GIR-XSD

Main Body

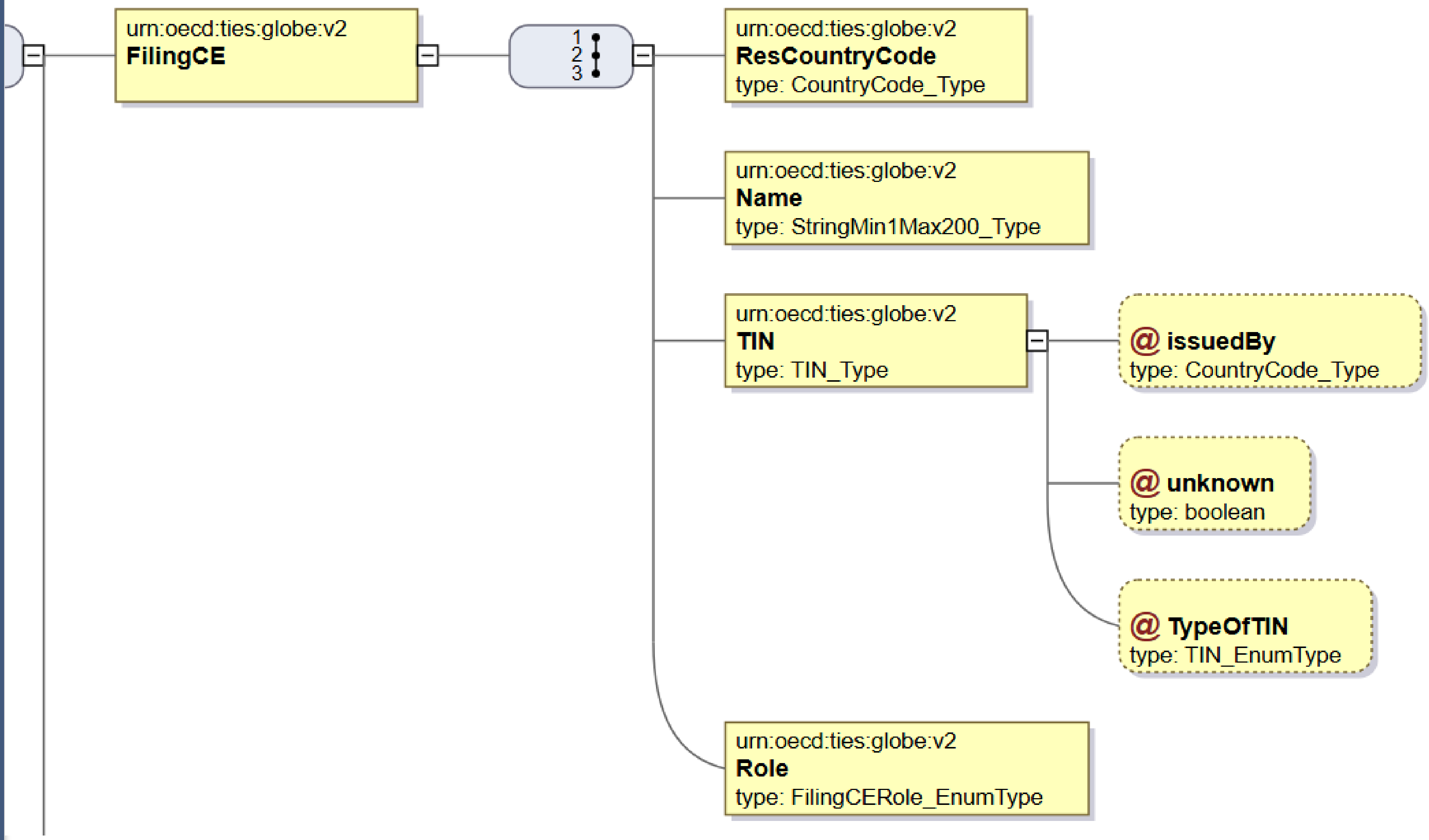
Five Parts



GIR-XSD

Part One

Filing CE



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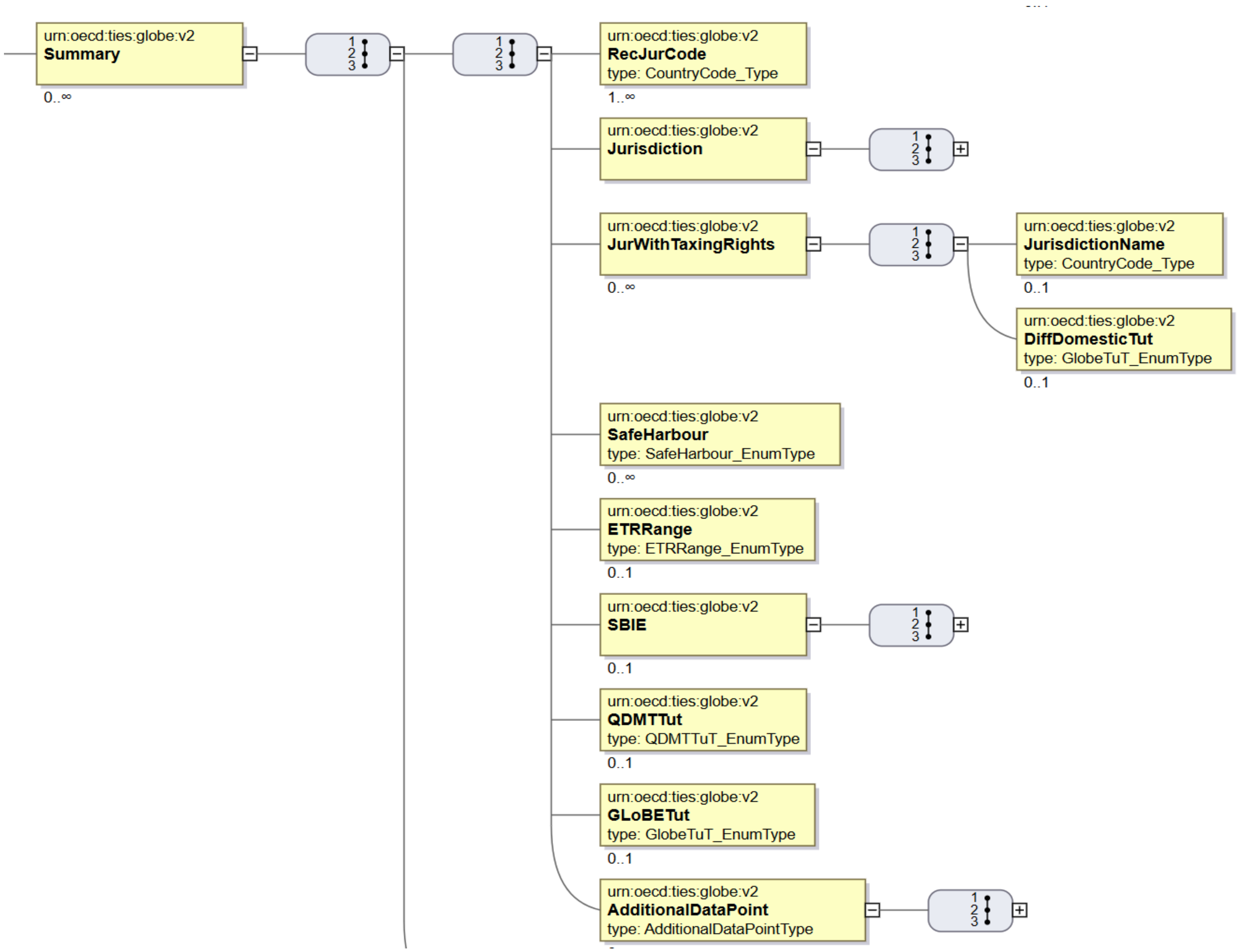
GIR-XSD

Part Three

Summary



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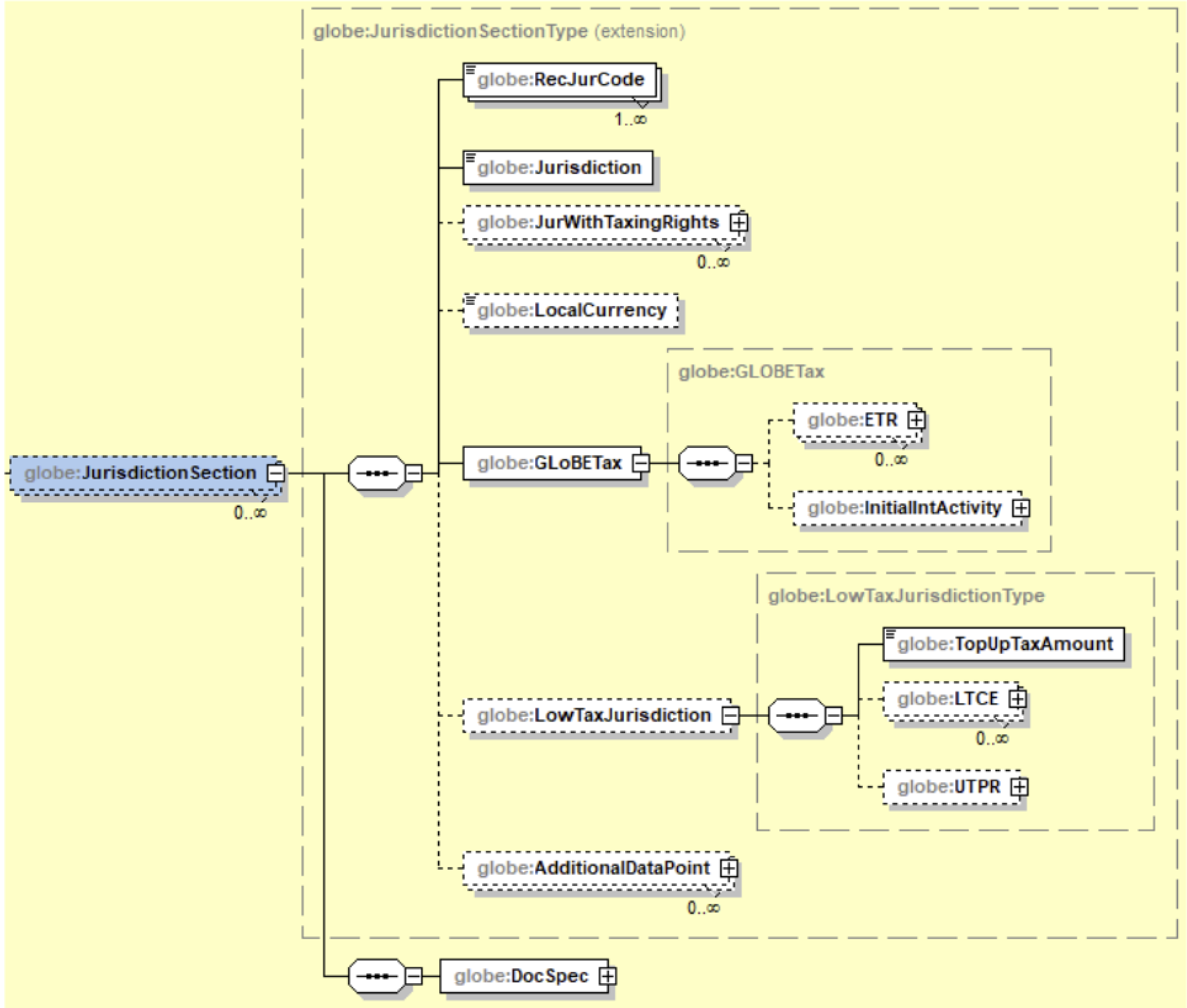
GIR-XSD

Part Four

Jurisdiction



Polling Question #2

Has your Company or any of your clients successfully filed at least one GloBE Information Return?

1) Yes
2) No
3) Not Sure

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Transitional Safe Harbours and Qualified CbCR aka CBCR Confusion

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Country by Country Confusion ???

Form 8975 vs Pillar Two Transitional Safe Harbor

- Form 8975 was never designed for Pillar Two
- “Qualified CbCR” sounded like a simple label — but it wasn’t
- The Safe Harbor uses CbCR data for tax tests — but Form 8975 wasn’t built for those tests
- Timing mismatch: CbCR is filed *after* Pillar Two returns
- Most MNEs discovered their CbCR was *not* Qualified
- The Safe Harbor rules changed multiple times (2023–2026)

Qualified CBCR for TSH

A **Qualified CbCR** is a Country-by-Country Report that:

- Uses **qualified financial statements** (i.e., audited or otherwise acceptable financial accounting standards),
- Is prepared **consistently** with OECD CbCR rules,
- Contains **jurisdiction-level revenue and profit (loss) before tax** that can be used directly for the safe harbour tests,
- Has **no adjustments** except those explicitly allowed in the OECD Administrative Guidance,
- Is filed by an MNE group that is **required to file CbCR** (or completes the required CbCR-equivalent sections if not normally required).

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Qualified CBCR for TSH

Why the Qualified CbCR matters

The Transitional Safe Harbour is meant to be a simplification, but only if the data is reliable.

- Using a Qualified CbCR ensures:
- No manipulation of profit or tax numbers,
- Consistency with financial accounting,
- Jurisdiction-level comparability,
- Integrity of the simplified ETR and routine profit calculations

Qualified CBCR for TSH

Practical internal test
You can ask yourself these three questions:

1. **Did we use audited financials as the source for revenue, profit, and tax?**
2. **Did we avoid making adjustments beyond what OECD allows?**
3. **Does our CbCR contain every data point needed for the safe harbour tests?**

You should be able to answer all three of these as **yes**.

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Qualified CBCR vs TSH

Category	Form 8975 Provides	Safe Harbour Requires
Revenue	Total revenue	GloBE revenue reconciliation (if needed)
Profit	Profit before tax	GloBE income reconciliation (if needed)
Taxes	Paid + accrued	Covered taxes + deferred tax adjustments
Employees	Number of employees	Payroll amount (GloBE definition)
Tangible Assets	Book value	GloBE tangible asset amount
Substance-Based Exclusion	✕ Not provided	Payroll × x% + assets × y%
Jurisdictional Grouping	Entities by jurisdiction	PE splitting + stateless allocation
Safe Harbour Tests	✕ Not provided	De Minimis, Simplified ETR, Routine Profits
Elections	✕ Not provided	Safe Harbour, QDMTT, simplified calc

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Transitional CbCR Safe Harbour (TCSH) Checklist

#	Questions	Article Reference	Response
1	**SBIE Validation**		
A	**Objective: Avoid SBIE miscalculations or unsupported claims.**		
1.1	Have you identified eligible payroll costs by jurisdiction?	2022 November AG / Article 5	
1.2	Are payroll amounts tied to employees physically located in the jurisdiction?	2022 November AG / Article 5	
1.3	Have you identified eligible tangible assets, excluding disallowed assets?	2022 November AG / Article 5	
1.4	Are depreciation bases and timing rules applied correctly?	2022 November AG / Article 5	
1.5	Have you tracked phase-down percentages for the relevant year?	2022 November AG / Article 5	
2	**Safe Harbours & Transitional Rules**		
A	**Objective: Confirm eligibility and documentation sufficiency.**		
2.1	Have you assessed eligibility for Transitional CbCR Safe Harbour by jurisdiction including confirmation of prior period eligiblity?	2022 November AG	
2.2	Are CbCR data inputs aligned with GIR definitions (not just legacy CbCR values)?	2022 November AG	
2.3	Have you confirmed no disqualifying adjustments apply to Financial Statements?	2022 November AG	
2.4	Are safe harbour conclusions documented and retained (not assumed)?	2022 November AG	
2.5	Have you considered any Hybrid Arbitrage Arrangement Adjustments?	2023 December AG	
2.6	Have you considered any UTP Adjustments?	2022 November AG	
2.7	Is there any jurisdiction that fails Transition Safe Harbor?	2022 November AG	

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Jurisdictional Experiences

MCAA 36 Signatories as of May 29, 2026

JURISDICTION OF THE COMPETENT AUTHORITY	DATE OF SIGNATURE
1. AUSTRALIA	28-01-2026
2. AUSTRIA	26-06-2025
3. BARBADOS	12-05-2026
4. BELGIUM	16-06-2025
5. CANADA	06-02-2026
6. CROATIA	24-12-2025
7. CYPRUS	12-05-2026
8. CZECHIA	11-05-2026
9. DENMARK	11-06-2025
10. FINLAND	30-09-2025
11. FRANCE	09-07-2025
12. GERMANY	19-09-2025
13. GIBRALTAR	14-01-2026
14. GREECE	18-03-2026
15. HONG KONG, CHINA	21-04-2026
16. HUNGARY	31-10-2025
17. IRELAND	08-07-2025
18. ISLE OF MAN	09-04-2026
19. ITALY	30-06-2025
20. JAPAN	24-06-2025
21. KOREA	09-07-2025
22. LIECHTENSTEIN	29-09-2025
23. LUXEMBOURG	26-06-2025
24. NETHERLANDS	14-08-2025
25. NEW ZEALAND	08-07-2025
26. NORWAY	01-09-2025
27. PORTUGAL	02-07-2025
28. ROMANIA	09-04-2026
29. SINGAPORE	14-04-2026
30. SLOVAK REPUBLIC	16-06-2025
31. SLOVENIA	22-12-2025
32. SOUTH AFRICA	02-10-2025
33. SPAIN	04-07-2025
34. SWEDEN	04-11-2025
35. SWITZERLAND	28-08-2025
36. UNITED KINGDOM	01-07-2025

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Jurisdictional experiences preparing GIR and Transmitting

- UK
- IRE
- CA
- Netherlands
- Belgium

Jurisdictional experiences - UK

GIR Submission Protocol

Submission Details

Date / Time (UTC)	2026-07-20 13:19:43 UTC
Submitting User	Dominika Dobosz (Dominika.Dobosz@mazars.co.uk)
Status	Success
Message	GIR file submitted successfully.

HMRC Identification

Pillar 2 ID	XXPLR0022002335
File Name	GB2024GB-XXPLR0022002335-c3e0548750834ece957d2cd9ad60b4f9.xml

Submitted XML Content

Your GloBE Information Return (GIR) has been successfully submitted

Pillar 2 ID: XXPLR0022002335

GIR Reference ID: GB2024GB-XXPLR0022002335-c3e0548750834ece957d2cd9ad60b4f9

Accounting period: 1 January 2024 to 31 December 2024

Received: 2:19pm on 20 July 2026

You do not need to take any further action.

If you have any queries, please contact the Pillar 2 team at pillar2mailbox@hmrc.gov.uk

Thank you.

HM Revenue and Customs
Customer Compliance Group

2025 Alignments and Process Improvements

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System Orientated Improvements

- Commitment to fully integrated platform
- Specialized Pillar Two Account Types
  - Addresses Translation Variances, and
  - Intercompany Transaction Reporting Differences
- Qualified CbCR + -> IRS Form 8975 Bridge
- Visualization and Reporting
  - GIR-XML Reporting - Key Data elements
  - GIR-XML Query
  - XLS Style Sheet Visualization
  - Hard Copy PDF Output

Pillar Two GloBE Adjustments

Pillar Two GloBE Adjustments

1. **Adjustments to Financial Accounting Net Income (or Loss)**

These convert book income into GloBE Income.

- **Excluded Dividends** — Dividends from controlled entities and certain portfolio holdings are removed.
- **Excluded Equity Gains/Losses** — Gains/losses from disposition or fair-value changes of equity interests are excluded.
- **Policy Disallowed Expenses** — Certain fines, penalties, and non-deductible items are added back.
- **Asymmetric Foreign Currency Gains/Losses** — Adjustments for FX items treated differently for tax vs accounting.
- **Prior Period Errors & Changes in Accounting Policy** — Restatements are neutralized for GloBE purposes.
- **Accrued Pension Expense Adjustments** — Replace accounting pension expense with contributions.
- **Investment Property Fair-Value Adjustments** — Remove unrealized fair-value movements.
- **Impairment Reversals** — Certain reversals are excluded.
- **Revaluation Adjustments** — Unrealized revaluations are removed.
- **Capital Gains Adjustments** — Certain gains/losses are excluded depending on asset type.
- **Hybrid Mismatch Adjustments** — Remove income/expense mismatches arising from hybrid instruments.

Pillar Two GloBE Adjustments

2. Adjustments for Covered Taxes (to compute Adjusted Covered Taxes)

These reconcile tax expense to GloBE Covered Taxes.

- **Current Tax Expense Adjustments** — Remove non-covered taxes; include covered taxes only.
- **Deferred Tax Adjustments** — Apply GloBE deferred tax rules, including recapture and 15% cap.
- **Tax Credits Classification** — Distinguish QRTCs, MTTCs, and non-qualified credits.
- **Qualified Tax Incentive Add-Backs** — Add QTI amounts to Covered Taxes (new 2026 guidance).
- **Blended Tax Rate Adjustments** — Required when multiple tax regimes apply.
- **Loss Deferred Tax Asset Adjustments** — Apply special rules for DTAs on losses.

3. Adjustments for GloBE Income Allocation & Entity Classification

These ensure proper jurisdictional allocation.

- **Permanent Establishment (PE) Attribution** — Allocate income and taxes to PEs.
- **Flow-Through Entity Adjustments** — Apply special rules for partnerships and tax-transparent entities.
- **Investment Fund & JV Adjustments** — Remove income of Excluded Entities; apply JV rules.
- **Stateless Income Adjustments** — Allocate stateless income to appropriate jurisdictions.
- **Intra-Group Transactions Adjustments** — Remove unrealized profits and align with GloBE principles.

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Pillar Two GloBE Adjustments

4. Adjustments for Substance-Based Income Exclusion (SBIE)

These reduce GloBE Income based on payroll and tangible assets.

- **Payroll Carve-Out** — Deduct 5% (transitionally 10%) of eligible payroll.
- **Tangible Asset Carve-Out** — Deduct 5% (transitionally 8%) of eligible tangible assets.
- **Jurisdiction-Level SBIE Allocation** — Apply carve-outs at the jurisdiction level.

5. Adjustments for Safe Harbours (Transitional & Permanent)

Safe harbours modify or replace certain GloBE calculations.

- **Transitional CbCR Safe Harbour Adjustments** — Replace full GloBE computation if CbCR thresholds met.
- **Simplified ETR Safe Harbour Adjustments** — Use simplified ETR rules (applicable 2027+).
- **Substance-Based Tax Incentive Safe Harbour** — Treat QTIs as Covered Taxes (2026 guidance).
- **Side-by-Side Safe Harbour Adjustments** — For U.S. UPEs, remove IIR/UTPR computations.
- **UPE Safe Harbour Adjustments** — Additional simplifications for qualified UPE jurisdictions.

Pillar Two GloBE Adjustments

6. Adjustments for Top-Up Tax Computation

These finalize the jurisdictional top-up tax.

- **Blended GloBE ETR Adjustments** — Compute jurisdictional ETR using adjusted income and taxes.
- **Top-Up Tax Percentage Adjustments** — Apply 15% minimum rate minus jurisdictional ETR.
- **QDMTT Interaction Adjustments** — Apply domestic minimum tax offsets.
- **IIR & UTPR Allocation Adjustments** — Allocate top-up tax among parent entities.

7. GIR-Specific Reporting Adjustments

These are not computational adjustments but required disclosures.

- **Constituent Entity Classification** — Identify Excluded Entities, Investment Entities, Flow-Through Entities.
- **Jurisdictional Blending Adjustments** — Report income/taxes after blending.
- **Transitional Relief Adjustments** — Apply transitional rules for first-year filings.
- **Central Filing Adjustments** — Required when using the GIR central filing mechanism.

Pillar Two GloBE Adjustments

GIR Codes

- GIR2001 - Net Taxes Expense
- GIR2002 - Excluded Dividends
- GIR2003 - Excluded Equity Gain or Loss
- GIR2004 - Included Revaluation Method Gain or Loss
- GIR2005 - Disposition of assets and liabilities excluded
- GIR2006 - Asymmetric Foreign Currency Gains or Losses
- GIR2007 - Policy Disallowed Expenses
- GIR2008 - Prior Period Errors
- GIR2009 - Changes in Accounting Principles
- GIR2010 - Accrued Pension Expense
- GIR2011 - Debt releases
- GIR2012 - Stock-based compensation
- GIR2013 - Arm™s length adjustments
- GIR2014 - Qualified Refundable Tax Credit
- GIR2015 - Election for Gains and losses
- GIR2016 - Election for Adjusted Asset Gain

GIR Codes

- GIR2016 - Election for Adjusted Asset Gain
- GIR2017 - Intragroup Financing Arrangement expense
- GIR2018 - Election for intragroup transactions
- GIR2019 - Insurance company taxes charged to policyholders
- GIR2020 - Additional Tier One Capital distributions paid
- GIR2021 - CEs joining and leaving an MNE Group
- GIR2022 - Flow-thru Entity
- GIR2023 - Deductible Dividend Regime
- GIR2024 - Taxable Distribution Method election
- GIR2025 - International Shipping Income
- GIR2026 - Transactions between CEs
- GIR2301 - Article 4.3.2 (a)
- GIR2302 - Article 4.3.2 (b)
- GIR2303 - Article 4.3.2 (c)
- GIR2304 - Article 4.3.2 (d)
- GIR2305 - Article 4.3.2 (e)

GIR Codes

- GIR2305 - Article 4.3.2 (e)
- GIR2306 - Article 4.3.3 (a)
- GIR2307 - Article 4.3.3 (b)
- GIR2308 - Article 4.3.4
- GIR2309 - Article 4.3.2 - Blended CFC regime
- GIR2401 - Expense in the profit before taxation
- GIR2402 - Reduction to Covered Taxes in prior year
- GIR2403 - Qualified Refundable Tax Credit
- GIR2404 - Qualified Flow-thru Tax Benefits
- GIR2405 - Income tax excluded from GloBE Income or Loss
- GIR2406 - Non-Qualified Refundable Tax Credit
- GIR2407 - Covered Taxes refunded
- GIR2408 - Uncertain tax position
- GIR2409 - Current tax not to be paid within three years
- GIR2410 - Post-filing adjustments
- GIR2411 - Net Asset Gain or Net Asset Loss

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Pillar Two GloBE Adjustments

GIR Codes

- GIR2411 - Net Asset Gain or Net Asset Loss
- GIR2412 - Reduction of the UPE that is a Flow-thru Entity
- GIR2413 - Deductible Dividend Regime
- GIR2414 - Deemed Distribution Tax
- GIR2415 - Taxable Distribution Method election
- GIR2416 - Total Deferred Tax Adjustment Amount
- GIR2417 - Change in Covered Taxes recorded in equity
- GIR2418 - Change in Covered Taxes recorded in equity
- GIR2501 - Items excluded from GloBE Income or Loss
- GIR2502 - Disallowed Accruals
- GIR2503 - Unclaimed Accruals
- GIR2504 - Deferred tax asset
- GIR2505 - Changes in the tax rate
- GIR2506 - Generation and use of tax credits
- GIR2507 - Substitute Loss Carry Forward DTA
- GIR2508 - Disallowed Accruals

GIR Codes

- GIR2506 - Generation and use of tax credits
- GIR2507 - Substitute Loss Carry Forward DTA
- GIR2508 - Disallowed Accruals
- GIR2509 - Recapture Deferred Tax Liability paid
- GIR2510 - Loss Deferred Tax Asset not included
- GIR2511 - Reduction to a tax rate
- GIR2512 - Increase to a tax rate
- GIR2513 - CEs joining and leaving an MNE Group
- GIR2514 - UPE that is a Flow-thru Entity
- GIR2515 - Subject to Deductible Dividend Regime
- GIR2516 - Transactions between CEs

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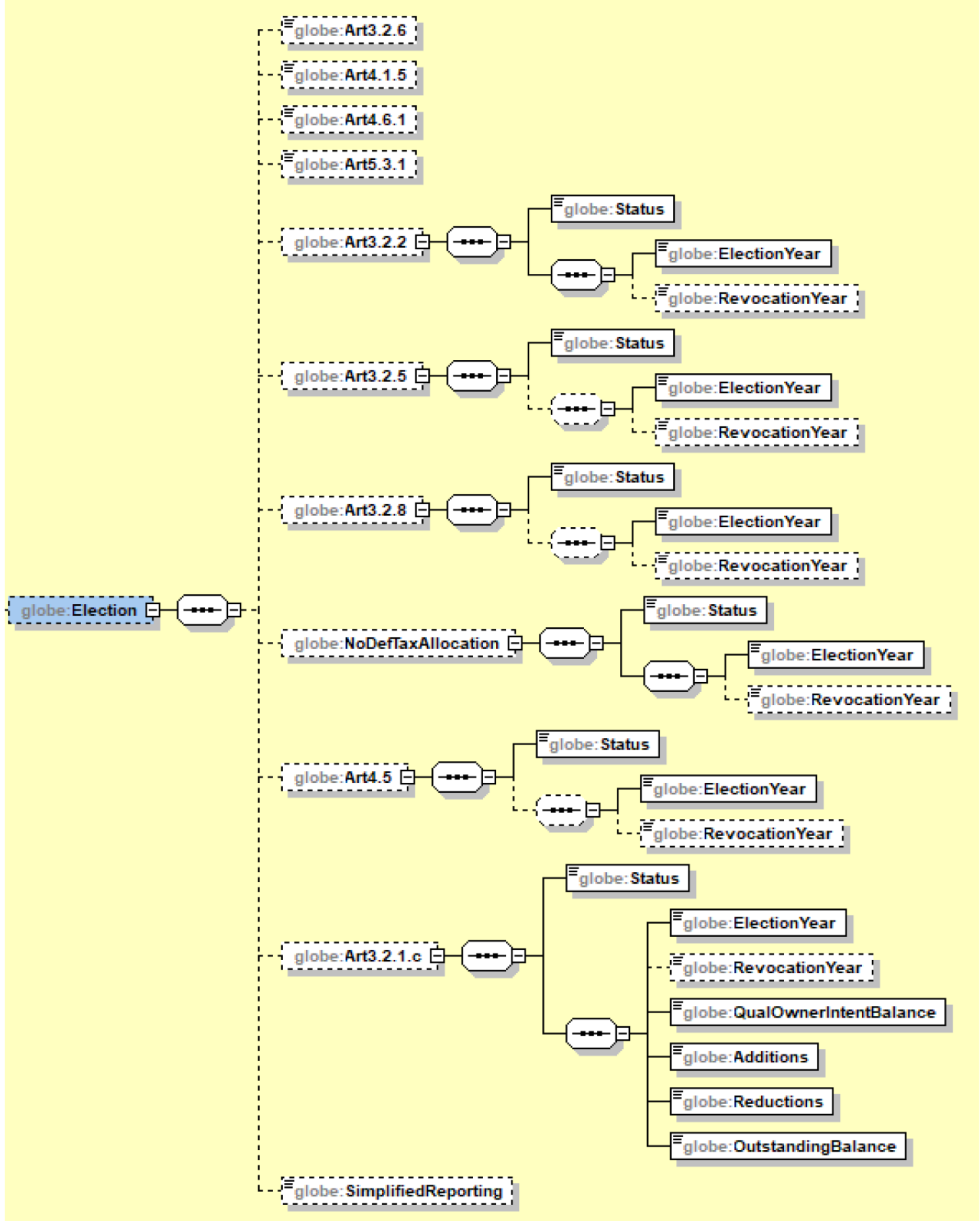
Elections

P2 – Elections - Jurisdictional

ETR > Election

Globe Body > Jurisdiction Section > Globe Tax > ETR > Election



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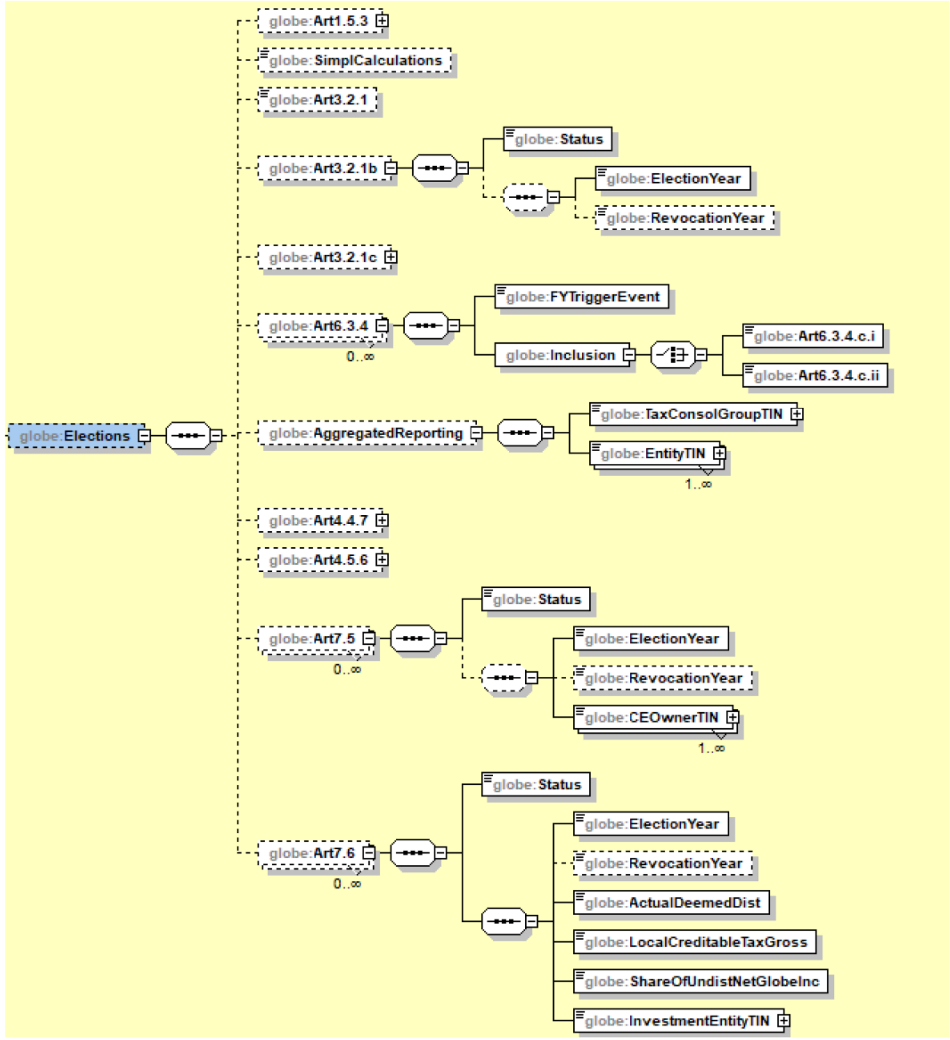
P2 – Elections Constituent Entity

CE Computation > Elections

Globe Body > Jurisdiction Section > Globe Tax > ETR > ETR Status > ETR Computation > CE Computation > Elections

Note: Sub-elements under element Art1.5.3 are replicated for Art3.2.1b, Art 3.2.1c, Art4.4.7, and Art4.5.6.



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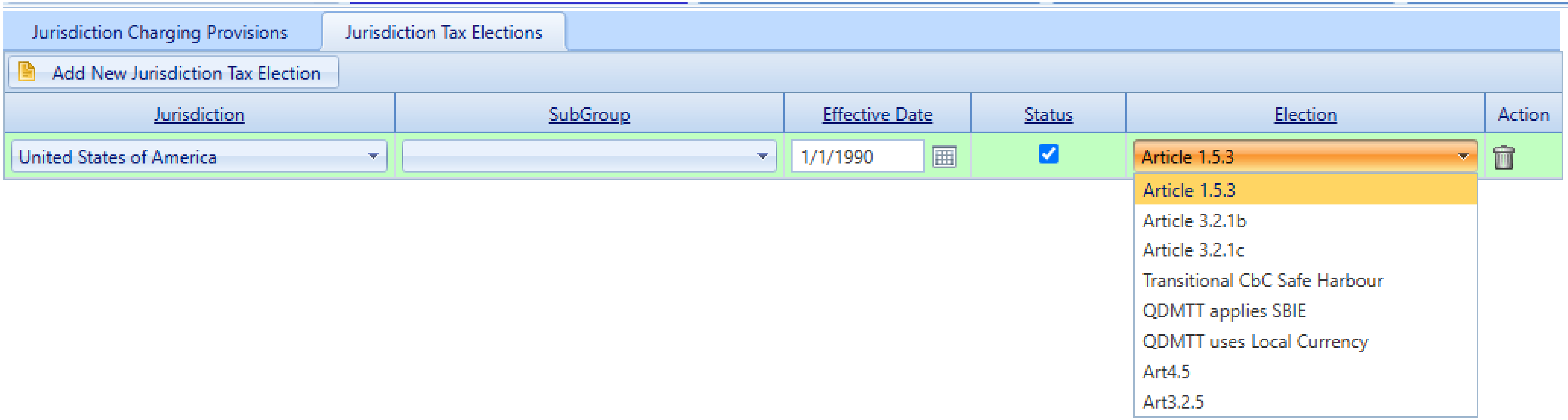
Elections



Jurisdiction Charging Provisions
Jurisdiction Tax Elections
Add New Jurisdiction Tax Election
Jurisdiction
SubGroup
Effective Date
Status
Election
Action
United States of America
1/1/1990
Article 1.5.3
Article 1.5.3
Article 3.2.1b
Article 3.2.1c
Transitional CbC Safe Harbour
QDMTT applies SBIE
QDMTT uses Local Currency
Art4.5
Art3.2.5

Polling Question #3

Which of the following countries do you plan on using for filing your GloBE Information Return?

1) Netherlands
2) Germany
3) A Different EU Country
4) United Kingdom
5) None of the Above
6) Not Sure or N/A

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Implementing Section 987 Guidance

- Timeline
  - December 2024 – Final 987 FEEP Regulations
    - Foreign Exchange Exposure Pool (FEEP) method
    - Annual Recognition Election
    - Current Rate Election
    - 10 year Amortization Election – Pre-transition gain/loss
    - Loss Suspension Rules
  - February 2026 - Notice 2026-17
    - Equity and Basis Pool Method
  - August 14, 2026 -Proposed Regulations REG-103844-26
    - CFC Exemption Election
    - 120 month Amortization – Pre-election gain/loss
      - Small QBU Asset Threshold – Less than $50 million

Methods for Tracking Pools

Feature	FEEP Method	CRE Method	Equity & Basis Pool Method
	Foreign Exchange Exposure Pooling	Current Rate Election	Equity and Basis Pool
Source	2024 Final §987 Regulations	2024 Final §987 Regulations election	Announced in Notice 2026-17 as a simplification alternative
Complexity	Very High	High	Moderate
Tracks historical asset basis by pool	Yes	Limited	No detailed asset pool tracking
Tracks remittances	Yes	Yes	Yes
Measures currency exposure	Asset/liability based	Net investment based	Equity and basis based

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Sec 987 Elections

FEEP – Default method if no election is made

Elections available starting for tax years beginning after December 31, 2024

- *Pre-transition gain/loss – 10 Yr Amortization election – One time election*
- CRE – Current rate election – Removes historical asset tracking
- ARE – Annual recognition election – Removes suspended loss limitation
- Equity and Basis Pool Method – Deemed CRE
- CFC Exemption Election – Deemed CRE

Prop Reg REG-103844-26

- Election would allow CFC to not compute 987 gain or loss on remittances
  - Exception – Inbound nonrecognition transactions
- Applicability
  - Taxpayers may rely on the Proposed Regulations
  - Applicable to tax years beginning after 12/31/2024
- Pre-election section 987 gain or loss
  - Mandatory recognition over 120 months unless small QBU
- Small QBU rule
  - No pre-election section 987 gain or loss with respect to QBU that has average assets of less than $50 million for three preceding years
  - All QBUs of the same country would be aggregated as a single QBU of exempt CFC
- Applicable to partnerships owned by exempt CFCs
- Expanded consistency rules

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Sec 987 Forms Reporting

- Form 8964-ELE – Section 987 Elections
  - Authorized person must attach form to it's original timely filed return for which elections are made for first year in which section 987 regulations apply. Subsequent year elections are filed before the start of the tax year.
  - Equity & Basis Pool method and CFC Exemption elections were not available at time of print. In addition to checking the CRE box attach a statement specifically referencing the intent to make these additional elections.
  - Expanded consistency rules under the proposed regulations would apply to all CFCs and QBUs in the same affiliated group
- Form 8964-TRA – Section 987 Transition Information
  - An owner must complete Form 8964-TRA for a section 987 QBU with a currency different from its owner.
  - What about the exempt CFC QBUs that meet the small QBU rules?

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2026 Re-Alignment
Side-by-Side Package and OB3

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The Side-by-Side Package and Safe Harbours

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Overview of the Side-by-Side Package

- On January 5th, 2026, the OECD Inclusive Framework released Administrative Guidance proposing a "Side-by-Side agreement" creating a limited safe harbor for certain U.S. parented MNE Groups.
- Why?
  - Perhaps the unwillingness of the U.S. to cede taxing authority to the OECD. And the memory of proposed Section 899...?
- The new Side-by-Side System would create two safe harbors:
  - (1) the Side-by-Side Safe Harbor; and
  - (2) the Ultimate Parent Entity Safe Harbor
- So why is this a "limited" safe harbor?
  - First, it is proposed to be effective for fiscal years beginning after January 1st, 2026. So, taxpayers in scope for 2024 and 2025 would still potentially be subject to tax and reporting rules (depending on the country of operations / subsidiaries).

Overview of the Side-by-Side Package (*continued*)

- So why is this a “limited” safe harbor? (*continued*)
  - Second, it would only apply to certain calculations:
    - The Side-by-Side Safe Harbor would set the Top-up Tax otherwise collectible with respect to an MNE Group under an Income Inclusion Rule (IIR) or Undertaxed Profits Rule (UTPR) to zero.
    - The Undertaxed Profits Safe Harbour would set the UTPR Top-up Tax with respect to the UPE jurisdiction to zero when elected.
  - The Side-by-Side Safe Harbor would not alter the expected application of QDMTTs or DMTTs.
  - U.S. Parented MNE Groups would still be subject to reporting requirements.

UPE Safe Harbour - *Effectively replaces the UTPR SH expired after 2025*

1. Election of the Filing Constituent Entity – top-up Tax for the UPE jurisdiction is deemed to be zero for UTPR purposes
2. Qualified UPE Regime = (*same as a Qualified SbS Regime*)
   a. At least 20% nominal corporate income tax rate – after considering preferential adjustments and sub-national corporate income taxes
   b. QDMTT or corporate alternative minimum tax (CAMT) based on financial statement income of at least 15%
   c. No material risk
3. Central Record – based on the Inclusive Framework determinations
4. Fiscal Years commencing on or after January 1, 2026

Transitional CbCR and Substance-Based Safe Harbours

- Transitional CbCR Safe Harbour extended
  - Transitional Safe Harbour extended through 2027
  - Includes fiscal years that start before December 31, 2027 and end before June 30, 2029
  - 17% safe harbour rate for 2027

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Polling Question #4

MNE groups with an UPE headquartered in the United States can apply the Side-by-Side System for its 2025 tax year.

1) True
2) False

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Substance-based Tax Incentive Safe Harbour

- Allows an MNE Group to treat certain substance-based qualified tax incentives (QTIs) as an *addition* to the Adjusted Covered Taxes of the Constituent Entities located in the jurisdiction, potentially reducing or eliminating top-up taxes.
- The *annual* election can be made for fiscal years beginning on or after ***January 1, 2026***, and is subject to a substance cap based on payroll and tangible assets in the jurisdiction.
- The safe harbor is designed to reduce compliance burden in substance based jurisdictions and highlights genuine substance based incentives (i.e. manufacturing and payroll based operations) vs low substance, profit shifting incentives.
- Will have a significant impact to US subsidiaries of non-US parented MNEs due to heavy R&D activities in the US.

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OB3 and Treas. Reg. 1.861-8 Interplay

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IRC Section 904(b)(5) – Adjustment after TR 1.861-8

904(b)(5) **Deductions Treated As Allocable To Foreign Source Net CFC Tested Income** — Solely for purposes of the application of subsection (a) with respect to amounts described in subsection (d)(1)(A), the taxpayer's taxable income from sources without the United States shall be determined by allocating and apportioning—

> 904(b)(5)(A) — any deduction allowed under section 250(a)(1)(B) (and any deduction allowed under section 164(a)(3) for taxes imposed on amounts described in section 250(a)(1)(B)) to such income,
>
> 904(b)(5)(B) — no amount of interest expense or research and experimental expenditures to such income, and
>
> 904(b)(5)(C) — any other deduction to such income only if such deduction is directly allocable to such income.

Any amount or deduction which would (but for subparagraphs (B) and (C)) have been allocated or apportioned to such income shall only be allocated or apportioned to income which is from sources within the United States.

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Interest Expense Apportionment – CFC Stock Basis + E&P

- CFC Stock Valuation = Tax Basis plus E&P
- Characterization of CFC Stock – Two Options
  - Asset Base
  - Modified Gross Income
- In either case the characterization is based on the income generated by the CFC (including its chain of ownership)
- Net CFC Tested Income is either 951A or 245A with the split determined by the inclusion percentage
- Bottom line is 1.861-8 rules apply first – impacting overall interest apportionment for other statutory groups including other FTC limitation baskets
- Finally, 904(b)(5) then takes the amount of interest expense apportioned to 951A and reassigns it to U.S. Source income in a similar manner as 904(b)(4) reassignment of 245A as a denominator adjustment

Interest Expense Apportionment – CFC Stock Basis + E&P

Multi-Entity Apport Audit Trail		
Subject:	**GRP 1120 Filing Group**	
Scenario:	**WAM_FDII Pres**	
Tax Year:	**2026**	
Purpose:	**U.S. Tax**	
Date and Time:	**8/21/26 9:16**	**Version:**
Item of Income	**Currency**	**Asset**
1 US Parent US Parent		
245A - General	USD	134,935,163
FD-DEI General FSI	USD	0
General FSI	USD	120,000
GILTI	USD	92,904,464
U.S. DEI	USD	50,000,000
U.S. FD DEI	USD	0
U.S. Non DEI	USD	0
Total	**USD**	**277,959,627**
Denominator	**USD**	**277,959,627**

Multi-Entity Apport Audit Trail		
Subject:	**GRP 1120 Filing Group**	
Scenario:	**WAM_FDII Pres**	
Tax Year:	**2026**	
Purpose:	**U.S. Tax**	
Date and Time:	**8/21/26 9:16**	**Version:**
Item of Income	**Currency**	**Asset**
1 US Parent US Parent		
245A - General	USD	0
FD-DEI General FSI	USD	0
General FSI	USD	0
GILTI	USD	0
U.S. DEI	USD	50,000,000
U.S. FD DEI	USD	0
U.S. Non DEI	USD	0
Total	**USD**	**50,000,000**
Denominator	**USD**	**50,000,000**

Interest Expense Apportionment – CFC Stock Basis + E&P

A&A Account Type Summary Report by Statutory Group

Account Description	Total	DEI - U.S. Source	FD-DEI U.S. Source	FD-DEI General FSI	245A - General	GILTI
Total Income	**198,325,000**	**119,685,000**	**16,500,000**	**31,840,000**	**0**	**30,300,000**
Third Party Interest Deduction	(67,637,500)	(25,103,923)	(3,427,512)	(6,614,057)	(20,144,313)	(12,347,695)
R&D Expense	(10,022,000)	(7,248,937)	(999,301)	(1,773,762)	0	0
Stewardship Expense	(5,126,000)	(1,902,536)	(259,759)	(501,255)	(1,526,664)	(935,786)
Other Deductions	(5,585,000)	(3,370,430)	(464,654)	(896,643)	0	(853,273)
Total Deduction	**(88,370,500)**	**(37,625,826)**	**(5,151,226)**	**(9,785,717)**	**(21,670,977)**	**(14,136,754)**
Taxable Income before Adjustments	**109,954,500**	**82,059,174**	**11,348,774**	**22,054,283**	**(21,670,977)**	**16,163,246**
Section 163(j) Disallowed Interest - System	28,072,593	10,419,253	1,422,571	2,745,130	8,360,792	5,124,847
Taxable Income after Section 163(j)	**138,027,093**	**92,478,427**	**12,771,345**	**24,799,413**	**(13,310,185)**	**21,288,093**

FTC Summary Report

FTC Summary	Total	General	General Section 245A	Passive	Section 951A	U.S.
Section 904(b)(4) Adjustment:						
Section 904(b)(4) Adjustment	15,131,268	0	15,131,268	0	0	0
Foreign Source Income after 904(b)(4)	125,629,383	16,934,491	0	0	12,020,578	96,674,314
Section 904(b)(5) Adjustment:						
Interest Expense Adjustment (allocated & apportione	0	0	0	0	4,926,642	(4,926,642)
R&D Expense Adjustment (allocated & apportioned)	0	0	0	0	0	0
Stewardship Expense Adjustment (allocated & apport	0	0	0	0	638,292	(638,292)
All Other Expense Adjustment (apportioned)	0	0	0	0	853,273	(853,273)
User Input Adjustment on TB	0	0	0	0	0	0
Foreign Source Income after 904(b)(5)	125,629,383	16,934,491	0	0	18,438,785	90,256,107

Stewardship depends on toggle selection.

Scenario:	Tax Period:	Purpose:	Entity:	Chart:
0 P2 OB3 Case Study	Not Applicable	Not Applicable	Not Applicable	Not Applicable

R&D Apportionment | Optional Method | FTC | Sec. 163(j) | Subpart F | DPAD | Forms Options | GILTI/FDII | Tax Cuts & Jobs Act | Dividend & Sec987 | APB 23 | GloBE

Treat Stewardship as Allocable for 904(b)(5)	1/1/2026	No	Yes/No

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Global Tax Integration – Use Cases

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VantagePoint™ - Global Tax Use Cases

- Base Case – Multi-year as-filed results
  - Cross-border Transfer Pricing Settlements
  - U.S. International Tax Impact – Pre/Post-TCJA
    - Tax Law Parameters based on effective dates
  - S.965 Transition Tax
- Mult-year Tax Attribute Studies
  - NOL,OFL,ODL, SLL
  - FDII, FTC optimization
- Post-Merger Integration Structuring
- Provision Support
- International Tax Compliance
  - E-File 1118, 5471, 8992, 8993, 8991, 8990, 4626, etc.
- GloBE Information Return via OECD-XSD

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Wrap Up and Q&A

QUESTIONS & CONTACT

We appreciate the opportunity to spend time with you today and hope you found the presentation interesting and informative.

For additional questions, please contact:

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With over 30 years of industry experience, Mark has helped many of the country's most successful enterprises implement all aspects of international taxation. A hallmark of Mark's career has been leveraging technology to improve tax department performance.

Prior to founding Forte International Tax, Mark held leadership positions at PwC, Ernst & Young, and CliftonLarsonAllen. Mark leads the firm on its mission of achieving global tax minimization through process efficiency.

BIO

Wendy McDonald, CPA

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Wendy has years almost 20 years of experience in the tax field. She recently joined Forte to assist with a myriad of international consulting projects, including foreign tax credit, GILTI, Subpart F, FDII, expense apportionment, tax compliance, and IC-DISC.

Prior to working at Forte, Wendy was a Senior Manager at EY in their International Tax Quantitative Services Group. Wendy helped organize and present at EY's International Tax Reporting Conference following TCJA and has presented at TEI.

Wendy is a CPA in Ohio and has a bachelor's degree from the University of Notre Dame and a Masters in Taxation from DePaul University.

BIO

Velia Flores, CPA

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Velia has over 20 years of experience in the tax field. She started her career with EY's International Tax Outsourcing group and has extensive experience assisting clients with all aspects of federal tax planning as it relates to US multinational companies.

Prior to working at Forte, Velia was a Senior Manager at Berman Hopkins CPAs where she was the international tax lead on various compliance and consulting projects. She also has experience working in the tax departments of several multinational companies including L3Harris and SunMicrosystems.

Velia is a CPA in Illinois and has a bachelor's degree from DePaul University.

QUESTIONS & CONTACT

We appreciate the opportunity to spend time with you today and hope you found the presentation interesting and informative.

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