Inside Side-by-Side

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MST Program

1. Recap of Side-by-Side

Overview of the SbS Package

01

SbS System

- SbS Safe Harbor
- UPE Safe Harbor
- Stocktake

02

Material Simplifications

- Extension of Transitional CbCR Safe Harbor
- Simplified ETR Safe Harbor (first tranche of a permanent safe harbor)
- Work program for additional simplification

03

Substance-based tax incentives

- Alternative calculation for expenditure and production based incentives
- For U.S. Groups relevant outside the United States
- For non-U.S. Groups also relevant in the United States

SbS Safe Harbor: Overview

- The top-up tax of an MNE Group electing the SbS Harbor is deemed to be zero for purposes of the IIR and UTPR, but not for the QDMTT.
- The SbS Safe Harbor applies to Fiscal Years beginning on or after January 1, 2026.

SbS Safe Harbor Eligibility Requirements

An MNE Group may elect the SbS Safe Harbor treatment if its UPE is located in a jurisdiction with a Qualified SbS Regime.

A jurisdiction has a Qualified SbS Regime if it:

1. has an eligible domestic regime
   - 20% or greater corporate income tax rate
   - 15% or greater financial statement based alternative minimum tax or a QDMTT
   - no material risk that in-scope MNE Groups headquartered in the jurisdiction will be subject to an effective rate of tax (evaluated considering incentives) on the overall profits of their domestic operations below 15%
2. has an eligible worldwide regime
   - taxes resident corporations on foreign income, including active and passive income of foreign branches and CFCs
   - mechanisms to address base erosion and profit shifting (BEPS) risks
   - no material risk that in-scope MNE Groups headquartered in the jurisdiction will be subject to an effective rate of tax (evaluated considering incentives) on the overall profits of their foreign operations below 15%
3. provides a foreign tax credit for QDMTTs on the same terms that apply to other foreign income taxes
4. enacted such domestic and worldwide regimes prior to January 1, 2026, or a later date in accordance with procedures set out in the SbS Package.

The OECD Central Record lists the United States as meeting the requirements for a Qualified SbS Regime.

Substance-based Tax Incentives

- A substance-based tax incentive (SBTI) Safe Harbor is now provided for Qualified Tax Incentives (QTIs), which is intended to cover tax incentives that the Inclusive Framework views as tied to economic substance within a jurisdiction.
- MNE Groups can make the SBTI Safe Harbor election for Fiscal Years beginning on or after January 1, 2026, subject to a per jurisdiction cap.
- The QTI definition covers different forms of incentives (e.g., tax credits, super deductions) and must meet the following criteria:

Expenditure or Production Based

- Must be calculated based on eligible expenditures or,
- In the case of production-based incentives, on the basis of the amount of tangible property produced in a jurisdiction

Generally Available

- Must generally be made available to taxpayers (not limited to certain classes of taxpayers or granted on a discretionary basis)
- Procedures that require an administrator to confirm that a project meets eligibility requirements does not prevent the incentive from qualifying

Covered Taxes

- Must reduce the current or future liability of a Covered Tax
- Incentives such as subsidies, grants or incentives that give rise to timing differences do not qualify

Generosity

- The value of the tax benefit of the incentive may not exceed the expenditures

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SESH: Overview

- **The Side-by-Side Package introduces the Simplified ETR Safe Harbor as a permanent Safe Harbor**
  - Generally effective for Fiscal Years beginning on or after December 31, 2026 (Groups may have option to apply 1 year earlier if a jurisdiction so enacts and certain conditions are satisfied)
  - When elected for a Tested Jurisdiction, Top-up Tax is deemed to be 0 (and full GloBE calculation does not need to be completed) if the Simplified Jurisdictional ETR equals or exceeds 15% or the jurisdiction has a Simplified Loss
  - Computed on a jurisdictional basis (rather than Constituent Entity-by-Constituent Entity)
  - Calculated using the financial accounts used to prepare the MNE Group's CFS, except when an MNE Group is required to apply the local financial accounting standard for QDMTT computations for such jurisdiction
  - Include integrity rules: matching principle; full allocation principle; single expense and loss principle; single tax principle and suggest future guidance on other integrity concerns.
  - Materially more complex than the Transitional CbCR Safe Harbor
  - Permanent Routine Profits and De Minimis Safe Harbors intended to follow in 2026, as well as possible integration of elements of the Safe Harbor into the full GloBE Calculation

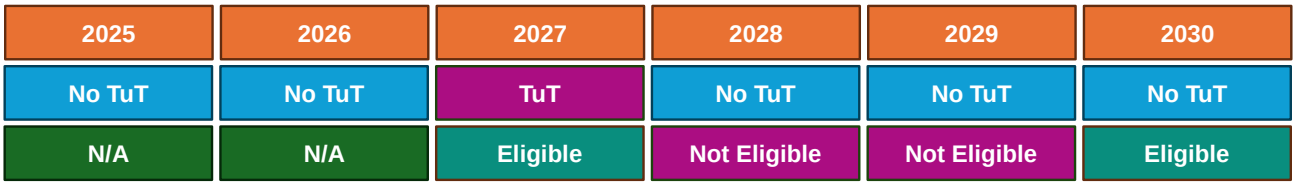
Transitional CbCR Safe Harbor extended to Fiscal Years beginning on or before December 31, 2027, but not including a year ending after June 30, 2029 with the Transition Rate remaining at 17% for Fiscal Years beginning in 2027 for purposes of the Simplified ETR Test.

SESH: Applicability

The Simplified ETR Safe Harbour does not follow the "once out, always out" approach of the Transitional CbCR Safe Harbour, but has requirements for initial election and re-entry:

- **Initial election:** the MNE Group must not have had a Top-up Tax liability for the Tested Jurisdiction in each Fiscal Year beginning within 24 months before the first day of the Fiscal Year for which the Simplified ETR Safe Harbour is elected.
- **Re-entry:** if an MNE Group does not elect the Simplified ETR Safe Harbour in a Fiscal Year after electing it in a prior Fiscal Year for such Tested Jurisdiction, the MNE Group may re-elect if it did not have a Top-up Tax liability in any of the Fiscal Years beginning within 24 months of the first day of the Fiscal Year for which the Safe Harbour was not elected.

Example



Eligible, but not applicable (i.e., Simplified ETR < 15%)

Eligible and applicable

SESH: Simplified Income

Simplified Income starts with Jurisdiction Profit (or Loss) before Income Tax (JPBT) which is aggregated Financial Accounting Net Income or Loss (FANIL) plus Jurisdiction Income Tax Expense (JITE).

The following adjustments are then made:

1. **Basic Adjustments** include certain frequently untaxed items (e.g., removal of Excluded Dividends and Excluded Equity Gains or Losses) and policy-driven items (bribes and kickbacks)
2. **Conditional adjustments** apply with respect to equity-reported items and a M&A Simplification. **M&A Simplification** does not require removal of purchase accounting adjustments related to entity acquisitions when the tax basis of the underlying assets and liabilities is unchanged as a result of such acquisition and the associated deferred tax expense is accrued at 15% or greater.
3. **Optional Adjustments**, which will require detailed modelling:
   - Groups can make GloBE elections provided under the full calculation, including the Equity Investment Inclusion Election
   - Groups can elect not to make certain required adjustments under the full calculation (foreign currency adjustment and pension expense), but such elections would also apply under the full GloBE calculation
4. **Industry-specific adjustments** related to insurance, financial services, and international shipping income

SESH: Simplified Taxes

Simplified Taxes starts with Jurisdiction Income Tax Expense (JITE).

The following adjustments are then made:

1. **Basic Adjustments**, comprising:

   a. **Policy-based adjustments**, for example, exclude non-Covered Taxes.
   b. **Adjustment to ensure correlation between Simplified Taxes and Simplified Income**, exclude tax expense (but not benefits) associated with items of income not included in Simplified Income.
   c. **Adjustments for uncertain taxes and taxes that are not payable promptly**, broadly aligned with the full GloBE Rules.
   d. **Deferred Tax Adjustments**, including the recast of deferred tax expense to 15% and various other adjustments provided in the full GloBE Rules.

2. **Optional Adjustments** where these are elected by the MNE Group

In addition, specific rules apply for Simplified Loss years, the Transition Year (incl. Article 9.1.1, Article 9.1.2, and Article 9.1.3), tax adjustments after year end, transfer pricing adjustments, and cross-border taxes (generally excluded from all jurisdictions, subject to an election).

When do these rules apply?

- The table below summarizes the impact of the SbS Package for U.S. MNE Groups.

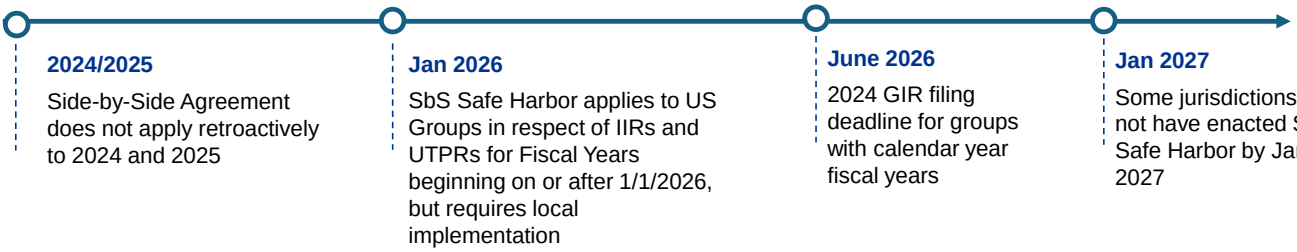
US MNE Groups							
Fiscal Year*	**SbS Safe Harbor**	**UTPR Safe Harbor**	**Transitional CbCR Safe Harbor**	**Simplified ETR Safe Harbor**	**SBTI Safe Harbor**	**Modified GIR**	**No Change**
2024			✓				✓
2025		✓	✓				✓
2026	✓ (Monitor)		✓	✓ (Country Option)	✓	✓	
2027	✓		✓ (new)	✓	✓	✓	
2028	✓			✓	✓	✓	

* Assumes calendar year fiscal year and implementation by jurisdictions on agreed timelines

Non-U.S. MNE Groups are not currently eligible for the SbS or UPE Safe Harbors but could become eligible if another jurisdiction is determined to be eligible. In the United States, SBTI Safe Harbor may be relevant for U.S. subsidiaries of non-U.S. MNE Groups.

Provision and compliance considerations for U.S. Groups

	Impact of Side-by-Side Agreement
Provision	• Accrual for IIR and UTPR continues to be required until the Side-by-Side Agreement is enacted in all relevant jurisdictions in which a Group operates
Compliance	• Data/calculations remain unchanged in QDMTT jurisdictions for all years • 2024-2025: Side-by-Side Agreement does not apply retroactively and detailed GIR requirements apply to US Groups, with 2024 GIR due in June 2026 for groups with calendar fiscal years • 2026+: GIR to be streamlined for US Groups, including minimizing the data points in Part 1 of the form and only requiring Parts 2 and 3 be completed in respect of QDMTT jurisdictions



Side-by-Side Agreement: Future Implications

- **Stocktake in 2029**
  - Stocktake will take into account the level of implementation of QDMTTs and any resulting competitive imbalances or negative trends (e.g., inversions or material increase in profits in low-tax, non-QDMTT jurisdictions).
  - Inclusive Framework commits to address any substantial risks to the level playing field or BEPS
- **Reinforcing effectiveness of QDMTTs**
  - Conditional or discriminatory taxes will not be recognized as Covered Taxes or QDMTTs
  - Further work on integrity measures and related benefits
  - Further work on reducing administrative and compliance burdens for MNE Groups with operations in QDMTT jurisdictions
- **Further simplification of the GloBE Rules and guidance** on remaining technical issues
- **Streamlining of reporting obligations** related to the GIR and the GIR XML Schema
- **Additional technical work to coordinate SbS Safe Harbor with other Pillar 2 rules** e.g., Article 3.2.7 and the transition rules

2. Side-by-Side in the EU

Side-by-side Package (SbS) implementation developments

- As of October 15, 12 countries have implemented the SbS package.
- Another 7 have draft legislation, in varying stages of the legislative process, that would implement the SbS package.
- Country-specific developments:
  - On September 18, Brazil incorporated two measures from the SbS package into Brazil's Additional Social Contribution on Net Profit rule. Brazil has also requested to be evaluated for qualification for SbS safe harbor status.
  - Curaçao is nearing implementation (the last step, publication, hasn't occurred yet).
- Relatedly, in a September 24 decision, Belgium's Constitutional Court determined the American Free Enterprise Chamber of Commerce (AmFree) still has standing to pursue its case challenging the undertaxed profits rule (UTPR) regardless of the SbS package (because Belgian subsidiaries of US companies may still be liable for UTPR top-up tax).

Implemented	**Draft legislation**
Cyprus	Canada
Finland	Germany
Gibraltar	Luxembourg
Hungary	Netherlands
Japan	South Korea
Jersey	Sweden
Liechtenstein	United Kingdom
New Zealand	
Portugal	
Slovenia	
Switzerland	
United Arab Emirates	

EU Side-by-Side Safe Harbor: Legal and Accounting Considerations

- **Article 32 is the EU safe-harbor gateway:** agreed qualifying international safe harbors reduce the top-up tax to zero
- **Good arguments for immediate effect:** "Article 32" and the Commission Notice arguably incorporate SbS into the existing EU framework
- **Different views in literature:** national implementation may still be required for direct taxpayer reliance and local mechanics
- **Accounting may lag the legal position:** auditors may continue to require a UTPR provision until relief is enacted or substantively enacted locally
- **Managing uncertainty:** preserve available positions and remedies while EU and domestic implementation continues to evolve

3. Side-by-Side Trends and Traps

Trends: U.S. domestications

- U.S. domestications may appear more attractive due to the combination of side-by-side (SbS) relief and FDDEI interest expense allocation changes.
  - For tax years beginning after 2025, interest no longer reduces income used to compute FDDEI. Interest may remain deductible against income taxed at the full 21% rate, subject to applicable limits.
  - SbS can preserve a lower U.S. tax burden by eliminating foreign IIR/UTPR top-up taxes.
  - The model must still include QDMTTs, subpart F, NCTI, potential CAMT, section 250's taxable-income limitation and usable interest deductions.
- Public examples include Penguin Solutions' June 2025 Cayman-to-Delaware domestication and Aegon's proposal approved in October 2026.
- Commercial considerations include access to U.S. capital, inclusion in U.S. indices, governance and the ability to use stock in acquisitions.

U.S. domestication: risks and constraints

- Tax-law risk: Congress could reduce or repeal FDDEI benefits, change interest expense treatment, or increase corporate tax rates generally. Current benefits should not be assumed to continue indefinitely.
- Loss of flexibility: section 7874 may constrain a later move out of the United States or a combination under a foreign parent. A subsequent change in the economics may not be easy to reverse.
- SbS durability: the OECD stocktake, to conclude by 2029, could lead to changes narrowing or eliminating relief.
- Transaction costs: shareholder inclusions, E&P consequences, foreign exit taxes and possible dual residence require analysis of the particular domestication steps.
- Continuing exposure: QDMTTs and U.S. taxation remain after domestication. The group may stay within the U.S. tax system even if the benefits that motivated the move diminish.

Trap: U.S. tax status may not suffice

- SbS eligibility turns on the UPE's location under GloBE Article 10.3. Treatment as a domestic corporation under U.S. tax law does not, by itself, establish eligibility.
  - A Cayman-incorporated UPE treated as domestic for U.S. tax purposes may therefore remain outside the U.S. SbS Safe Harbour. If its GloBE location remains Cayman, U.S. domestic tax treatment does not confer relief.
  - The OECD Commentary states that an election to claim tax residence in another jurisdiction, on its own, does not establish GloBE location there. A Cayman insurance company with a section 953(d) election illustrates this concern.
  - Other grounds for domestic treatment, including section 7874(b), require their own Article 10.3 analysis. U.S. tax classification should not be assumed to resolve the GloBE-location question.
- A U.S. holding company beneath a nonqualifying UPE does not confer group eligibility, even if it owns CFCs and pays U.S. tax on their income.

SbS relief: the role of QDMTTs

$100 of GloBE income and $5 of ordinary foreign tax. Assume no substance-based exclusion, other safe harbor or additional adjustment.

Foreign jurisdiction	**Foreign-parented group No SbS**	**U.S.-parented group SbS elected**
QDMTT applies	Ordinary foreign tax: $5 QDMTT: $10 **Total foreign tax: $15**	Ordinary foreign tax: $5 QDMTT: $10 **Total foreign tax: $15**
No QDMTT	Ordinary foreign tax: $5 IIR: $10 **Total foreign tax: $15**	Ordinary foreign tax: $5 IIR / UTPR: $0 **Total foreign tax: $5**

All amounts exclude U.S. tax, which may reduce or eliminate the overall saving.

59 jurisdictions have domestic minimum top-up tax legislation in force for 2026.

Source: PwC, Pillar Two Country Tracker Summary, 28 Sept. 2026.

Trap: the U.S. and GloBE systems differ

- **Different tax bases**: NCTI uses U.S. tax rules. GloBE generally begins with financial accounting income and applies its own adjustments. A tax or accounting difference can create residual exposure.
- **Different blending**: NCTI permits cross-country blending, while GloBE generally calculates the effective tax rate and top-up tax on a jurisdictional basis.
- **Credit haircut**: the NCTI deemed-paid foreign tax credit generally reflects only 90% of the relevant foreign taxes. The haircut does not necessarily create residual tax in every case.
- **Timing**: excess NCTI foreign tax credits have no carryback or carryforward. A QDMTT payment and the related U.S. income inclusion may not produce usable credits in the same year.
- QDMTTs exclude owner-level CFC taxes even where the United States taxes the same income. Conversely, QDMTT creditability does not guarantee full U.S. utilization because attribution, baskets and limitations still matter.
- A 15% foreign GloBE ETR does not establish zero residual U.S. tax. Modeling must consider each system's income base, timing, credits and other relevant tax attributes.

Traps: timing and group changes

- SbS applies to fiscal years beginning on or after January 1, 2026. A year beginning in 2025 generally remains outside SbS even if most income arises in 2026.
- The filing constituent entity must elect. Confirm the Central Record, local implementation and effective dates, and registration, notification, payment and filing requirements.
- A continuing UPE that changes location midyear generally remains located in the departure jurisdiction for that fiscal year under Article 10.3.6. UPE replacement and transfers between groups require separate analysis.
- Sales, spin-offs and parent changes can alter the group's eligibility. Relief should not be assumed to follow a business or survive a transaction without retesting the UPE and group perimeter.
- JV relief protects the eligible group's interest, not another group's interest in the same JV. A separately in-scope JV-headed group cannot borrow eligibility merely because an eligible U.S. group owns 50%.

4. Recent Administrative Guidance

Recent OECD Pillar Two guidance

On September 11, the OECD released guidance relating to the implementation of Pillar Two and SbS. This guidance followed very limited guidance the OECD had released in May addressing the availability of the UTPR Safe Harbor for 52-53 week taxpayers.

- **Revised GloBE Information Return (GIR):** Incorporates the elections provided for in the January 2026 SbS package. The GIR is the standardized information return that multinational groups must file under the GloBE Model Rules.
  - The document indicates that a revised XML Schema will be released shortly and is to be used beginning with the 2026 fiscal year.
  - New explanatory guidance notes in the revised GIR that clarify existing data points are to be followed for the future filing of any GIR**,** including those filed for fiscal years before 2026.
- **Full legislative review process:** The OECD also released a peer review document describing the full legislative review process with respect to jurisdictions' Pillar Two legislation and the ongoing monitoring process that will follow that review.

Recent OECD Pillar Two guidance (cont.) – GIR Update Details

Effective	Items	Changes
FY26 GIR	**Incorporation of SbS**	The revised GIR incorporates the SbS, including the new safe harbors and associated elections, reporting options and simplified reporting requirements.
	• **Elections for the Safe Harbours**	New annual and five-year elections introduced for new safe harbors, including relevant simplifications for permanent establishments, M&A transactions, losses, shipping, foreign exchange, pensions and transfer pricing.
	• **Simplified ETR Safe Harbour**	New tables and reporting rules added for the Simplified ETR Safe Harbor, including dedicated rules for income and tax adjustments, prior-year adjustments, deferred taxes, carry-forwards and the Transition Year.
	• **Substance-based Tax Incentives Safe Harbour**	New reporting introduced to test whether qualifying tax incentives remain within the applicable substance-based cap, including the reporting of relevant incentives and adjustments to GloBE Income and Adjusted Covered Taxes.
	• **Side-by-Side Safe Harbour**	A new Side-by-Side Safe Harbor election and related regime options introduced. Where applicable, certain corporate-structure, Excluded Entity and high-level summary reporting requirements are simplified.
	• **UPE Safe Harbour**	A new UPE Safe Harbour election introduced for the UPE jurisdiction where that jurisdiction is listed as having a qualifying UPE regime.
	• **Clarifications in the GIR introduction**	GIR introduction updated to clarify how the revised GIR, its new safe-harbor provisions and the related reporting requirements should be applied.
	Reporting of benefits	New data points require specified government benefits to be reported in ranges, including whether benefits affecting a QDMTT have been fully neutralized. Benefits treated as a tax refund or credit are also reflected in Covered Taxes and GloBE Income.
FY25 GIR	**Government Verification Service**	A Government Verification Service IDs are accepted to be reported where no TIN exists.
	TIN of the Subgroup	Additional guidance clarifies whose TIN must be reported for subgroups, including joint venture and Minority-Owned subgroups.
	Five-Year Elections	The fiscal year in which a five-year election was made must be reported in each GIR while the election remains in force.
	Investment Entity Tax Transparency Election and Taxable Distribution Method Elections	For Investment Entity Tax Transparency Elections and Taxable Distribution Method Elections, the required election information and relevant owner TIN must be reported.
	Aggregate Reporting for Tax Consolidated Groups	Tax Consolidated Groups may be reported on an aggregate basis even where they are not wholly owned. Where no group TIN exists, the TIN of the consolidating entity is reported.
	Post-filing deferred tax expense adjustments, Article 4.6.1	Current tax expense and deferred tax expense adjustments relating to the same prior fiscal year are considered together for post-filing adjustment purposes.

Recent OECD Pillar Two guidance (cont.)

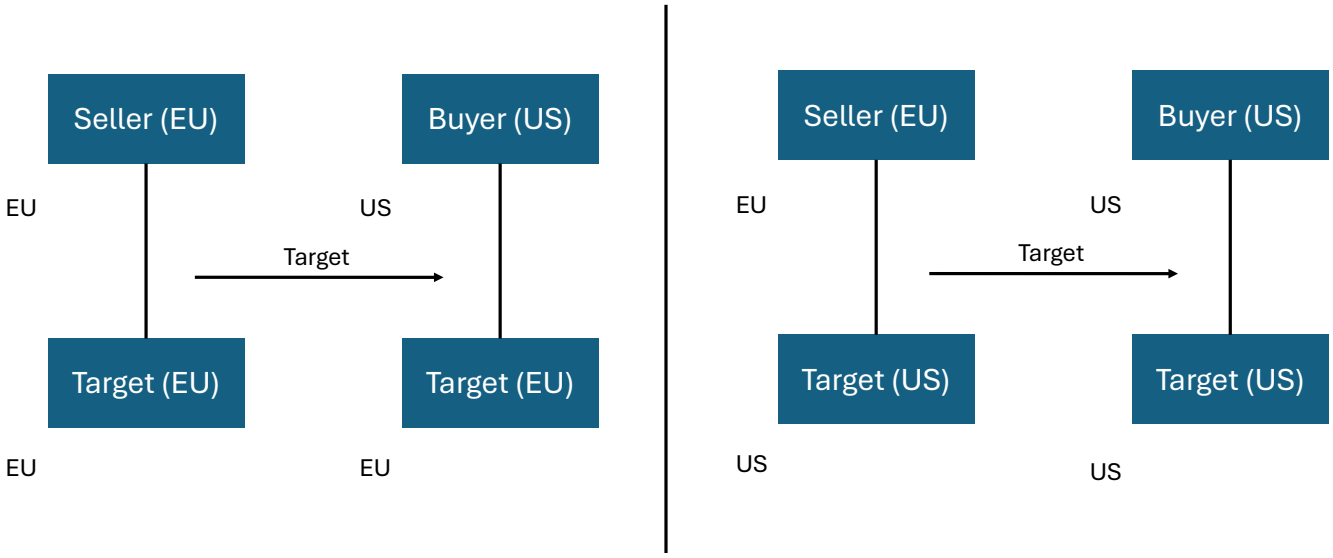
The September 11 package also included several key pieces of administrative guidance.

- **Explicitly conditional taxes**: Explicitly conditional taxes are taxes that apply to a Constituent Entity only if a qualified IIR or UTPR applies to the entity in another jurisdiction, and the entity is not eligible for the SbS safe harbor. Explicitly conditional taxes are not treated as Covered Taxes.
  - Consistent with the Central Record, an exception treats taxes as Covered Taxes for Fiscal Years before 2025 if the condition was enacted before November 30, 2024, and the tax is not conditional for any fiscal year beginning in or after 2025.
  - A tax is not considered an explicitly conditional tax if it only applies to MNE Groups that meet the Pillar Two revenue threshold.
  - Inclusive Framework will issue further guidance by the end of this year on other features of a tax or benefits provided with respect to a tax that will cause the tax to be considered discriminatory and therefore not a Covered Tax. This further guidance is intended to apply prospectively.
- **Mismatching fiscal periods**: Addresses use of local financial accounting standards under a QDMTT in the case of mismatching fiscal periods. The guidance addresses how to apply the QDMTT safe harbor and compute the QDMTT accrual.

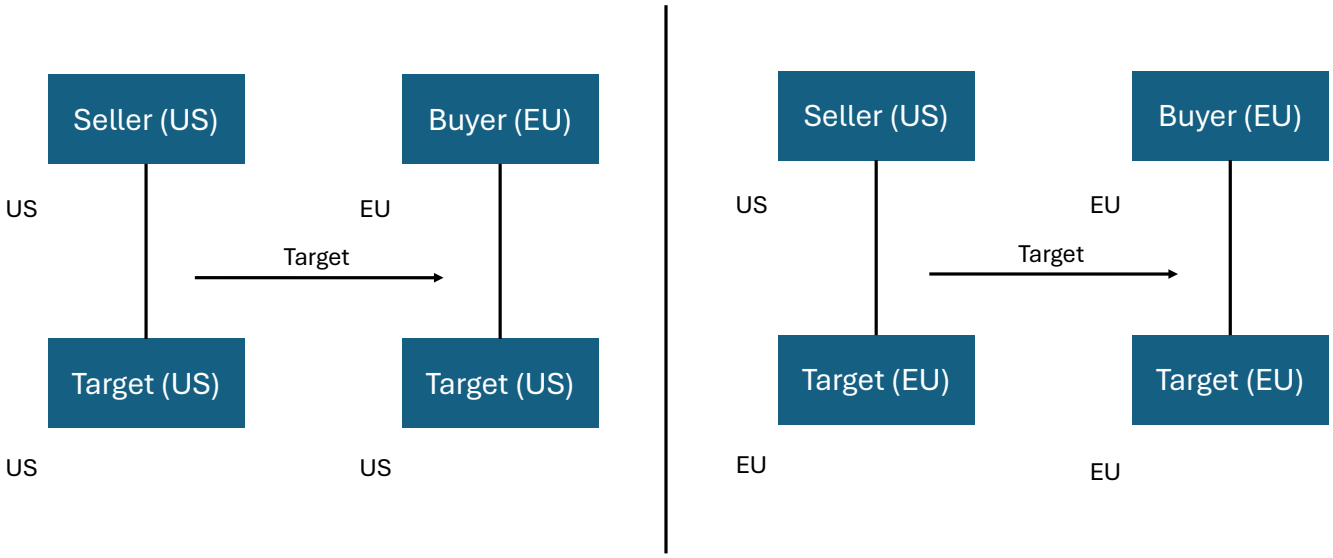
5. Practical Considerations

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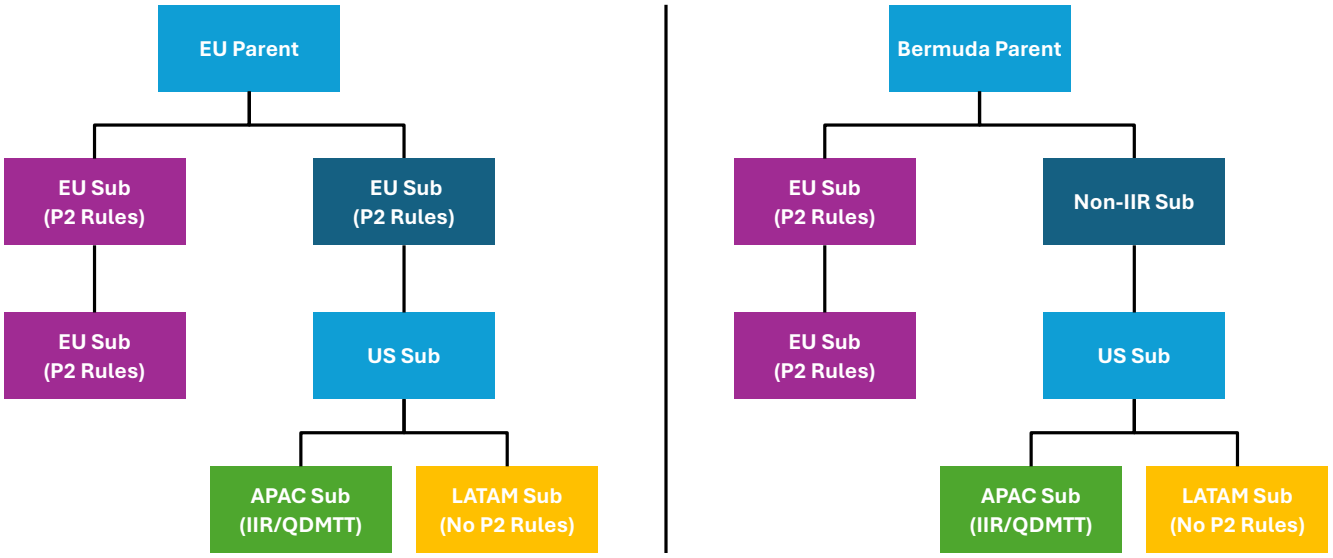
M&A After SbS - US Buyer



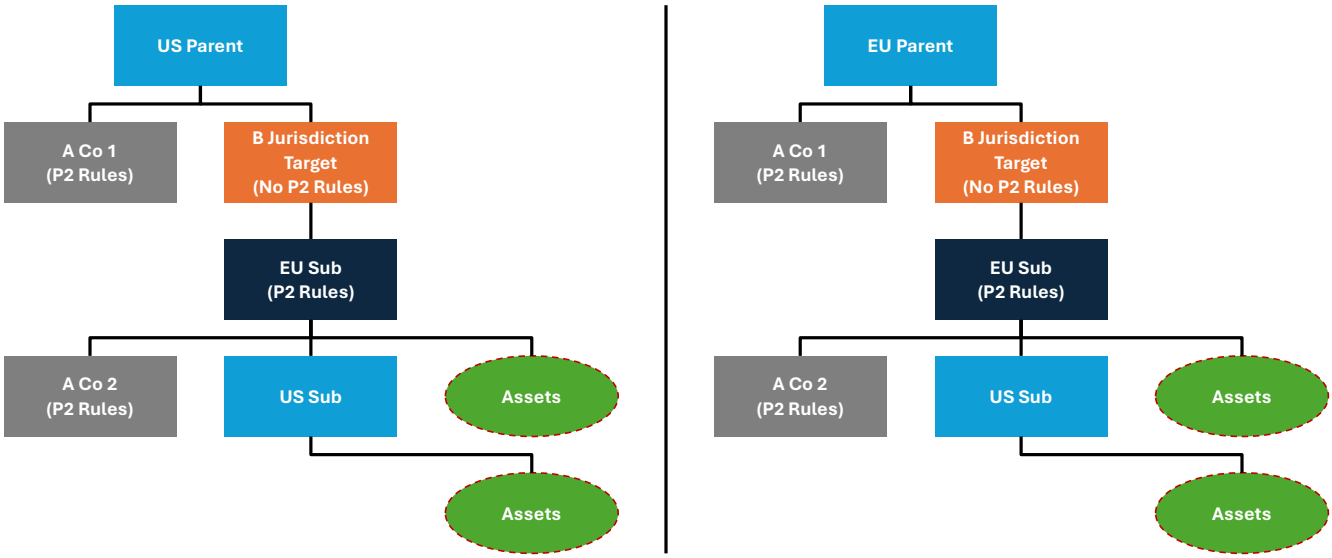
M&A After SbS - EU Buyer



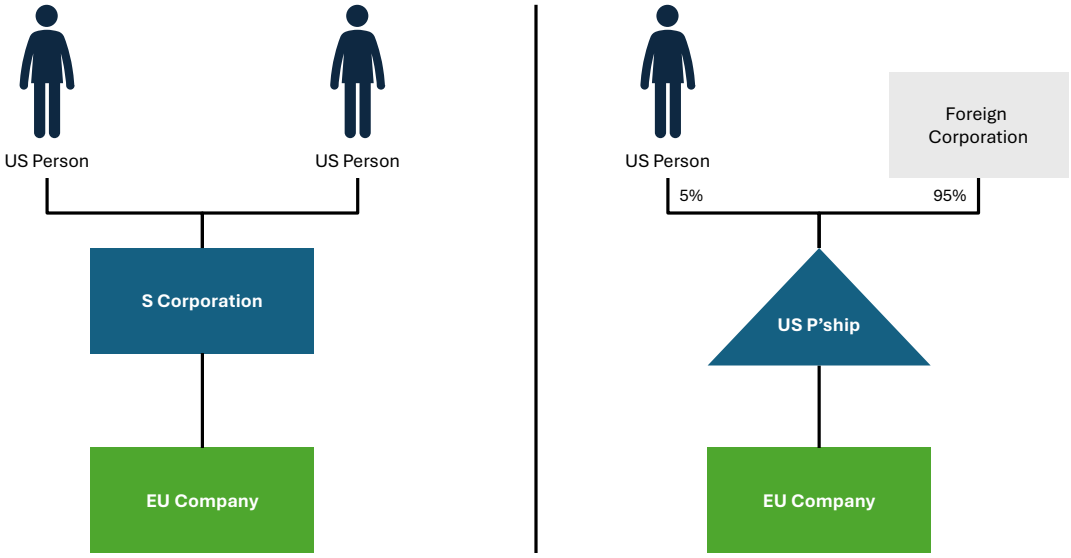
Sandwich Structures After SbS



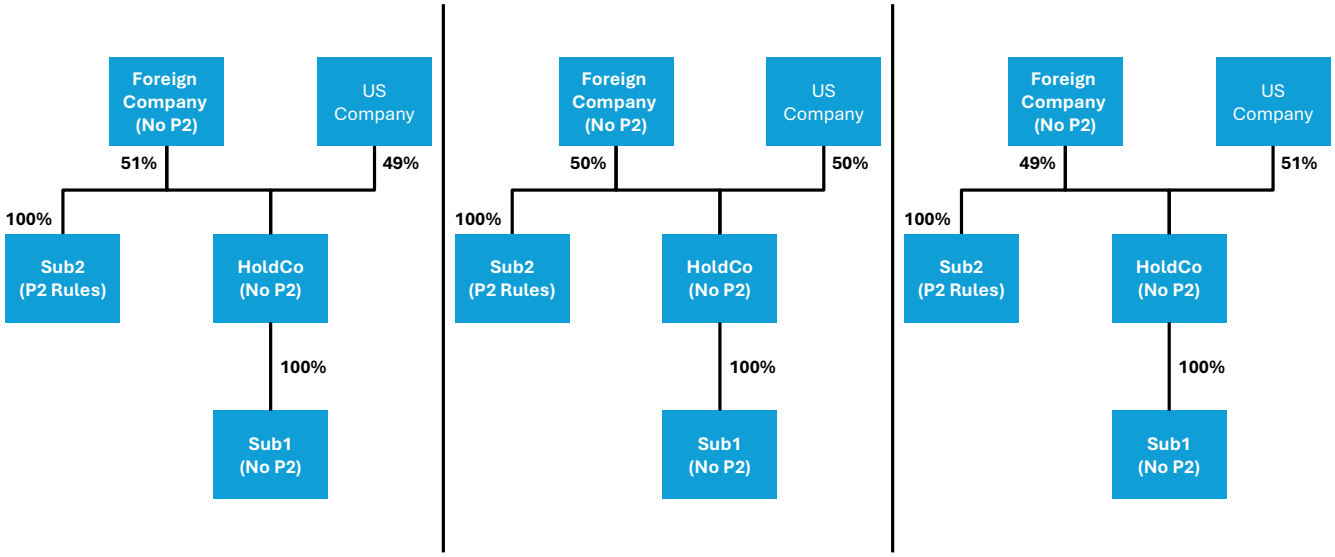
Post-Acquisition Integration After SbS



Flow-throughs After SbS



Co-investment Structures After SbS (1 of 2)



Co-investment Structures After SbS (2 of 2)

