



European
Region Conference
Madrid-Spain
11-13 March, 2026

Emerging trends in
international taxation:
Europe and its global
connections



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Pillar II Side-by-Side Package and its Implementation in Europe

Chair



Chair: Ascensión Maldonado

Panelists



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Agenda

Pillar II: Side-by-Side Package and its Implementation in Europe

- Side-by-Side Package
- Legal aspects
- Practical implementation
- Dispute prevention and resolution



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Side-by-Side Package

Applicable Framework



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- **GloBE Model Rules (20 December 2021)**
- **Commentary to the Model Rules (14 March 2022)**
- **Safe harbours Regimes (20 December 2022)**
- **Multilateral Instrument to Implement Subject to Tax Rule (STTR) Open for Signature (3 October 2023)**
- **Implementation Handbook (11 October 2023)**
- **Multilateral Competent Authority Agreement on the Exchange of GloBE Information (15 January 2025)**
- **GloBE Information Return (15 January 2025)**
- **United States denounces OECD Global Tax Deal (21 January 2025)**
- **Illustrative examples (9 May 2025)**
- **Side-by-Side Package (5 January 2026)**



- **Minimum Taxation Directive (2022/2523) (December 2022)**
- **DAC9 adopted on 6 May 2025 and must be implemented by all Member States by 31 December 2025. Applicable from 1 January 2026.**
- **The Finance Ministers of Estonia, Latvia, Lithuania, Malta, and Slovakia submitted a joint statement to Commission, urging a six-year extension of the 2030 deadline for implementing the Minimum Taxation Directive on 12 December 2025.**
- **Commission welcomes OECD Side-by-Side Package (8 January 2026).**
- **Commission publishes information notice confirming application of OECD Side-by-Side Package (12 January 2026).**
- **Commission opens infringement procedures against Belgium, Bulgaria, Czech Republic, Cyprus, Greece, Malta, the Netherlands, Portugal, Romania and Sweden for failure to fully implement DAC9 (30 January 2026).**
- **Commission confirms OECD Side-by-Side Package provides for full application of Pillar Two Top-Up Taxes (11 February 2026).**



Pillar Two — Key Highlights

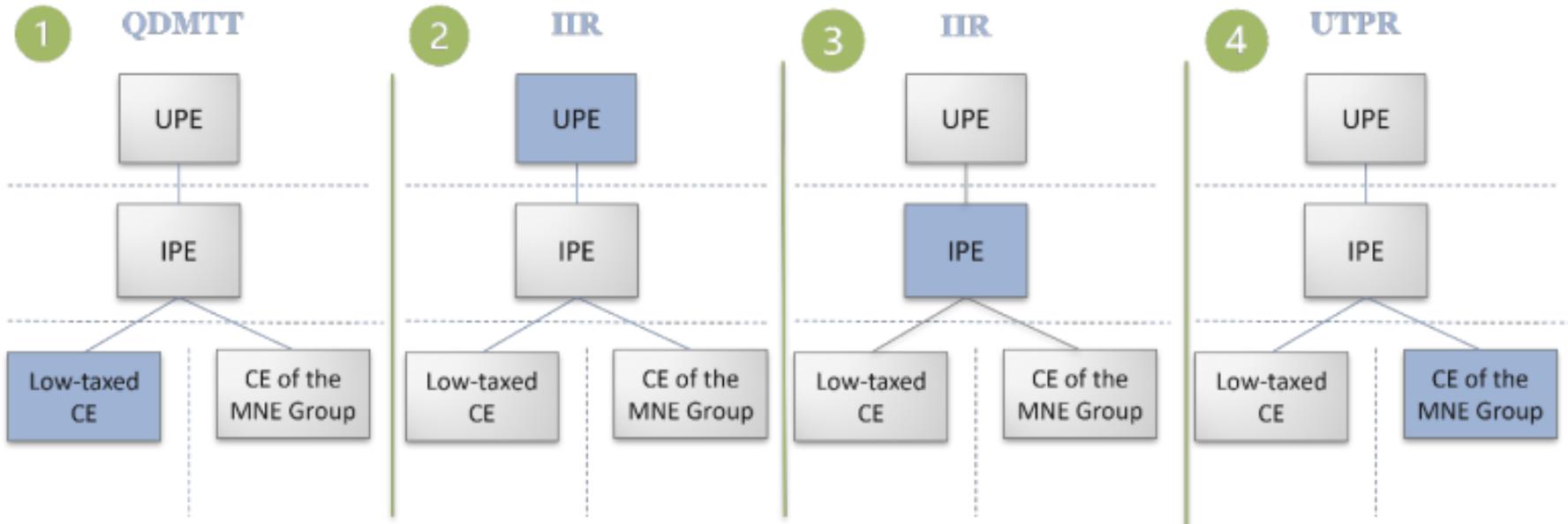
Application	<ul style="list-style-type: none">• Introduces a minimum effective tax rate (ETR) of 15% for each jurisdiction in which profits are made• Applies to MNEs and large-scale domestic groups in EU with consolidated annual revenues of at least EUR 750 mln in at least 2 of the 4 fiscal years immediately preceding the tested fiscal year.• Provides for certain exclusions and carve-outs
Implementation	<ul style="list-style-type: none">• Top-up tax• Determined by a complex system based on interlocking and coordinated rules (GloBE rules)<ul style="list-style-type: none">○ Income Inclusion Rule (IIR)○ Undertaxed Profit Rule (UTPR)○ Qualified Domestic Minimum Top Up Tax (QDMTT)
Open Issues	<ul style="list-style-type: none">• Top-up taxes will be paid - but in which jurisdiction?• Additional costs - expected and unexpected• Problems from an administration perspective• Increased risk for tax disputes• Pending ECJ case referred by Belgium about UTPR• Is Side-by-Side Package bringing simplification?• Is Side-by-Side Package enforceable under EU law?



Global Base Erosion Rules (GloBE Rules)

Qualified Domestic Minimum Top Up Tax (QDMTT)	Income Inclusion Rule (IIR)	Undertaxed Profit Rule (UTPR)
<ul style="list-style-type: none">• It is determined with priority, before the application of the IIR and UTPR rules.• Can reduce to zero the top-up tax due in other jurisdictions.• Effective from 1 January 2024.	<ul style="list-style-type: none">• Top-up tax payable in the jurisdiction of group's ultimate parent entity (UPE).• If no IIR in UPE's jurisdiction, payable in intermediate parent entity's jurisdiction.• Top-up Tax with respect to low taxed entities (i.e., less than 15% effective tax rate).• Calculated on a per jurisdiction basis.• Priority over the UTPR rules.• Effective from 1 January 2024.	<ul style="list-style-type: none">• Backstop if income is not taxed by IIR.• Payable by entities in UTPR jurisdictions.• Increases tax on entities in a UTPR jurisdiction if they have low tax affiliates (below 15%) in other countries.• Allocated to the UTPR jurisdictions based on the share of total employees and tangible assets.• Effective from 1 January 2025.

How the GloBE rules work?



Source: OECD

Top-up Tax - Mechanics



<p>Effective tax rate (ETR)</p>	<p>Calculated on a jurisdictional basis</p> <p>ETR = Adjusted Covered Taxes / Net Qualifying GloBE Income</p>
<p>Net Qualifying GloBE Income</p>	<p>Start with the financial accounting net income included in the Ultimate Parent Entity's (UPE) consolidated accounts (e.g., IFRS).</p> <p>However, for QDMTT, local accounting rules are applicable if certain conditions are met.</p> <p>Certain adjustments are made.</p>
<p>Covered Taxes</p>	<p>Basic rule: include taxes from the financial statements with respect to profits: current + deferred (where applicable).</p> <p>Deferred taxes are recalculated using the 15% rate.</p>
<p>Substance-based income exclusion</p>	<p>These are excluded from the Net Qualifying Income.</p> <p>For 2025, 9.6% of salary expenses + 7.6% of tangible assets' value are excluded; both percentages decrease every year, reaching 5% starting 2033.</p>



Side-by Side Package – Material Simplifications

Simplified ETR Safe Harbour

- An MNE Group's ETR is determined pursuant to a simple calculation based on the income and taxes drawn from the MNE Group's reporting packages with minimal adjustments.
- **Effective from 1 January 2027, exceptionally from 2026.**

Extension of the Transitional CbCR Safe Harbour

- Extension of the Transitional CbCR Safe Harbour for one year.
- The existing rules will not change, the same transitional rate of 17% applies.
- **Effective for fiscal years beginning on or before 31 December 2027 but not including a fiscal year that ends after 30 June 2029.**

Work programme for additional simplification

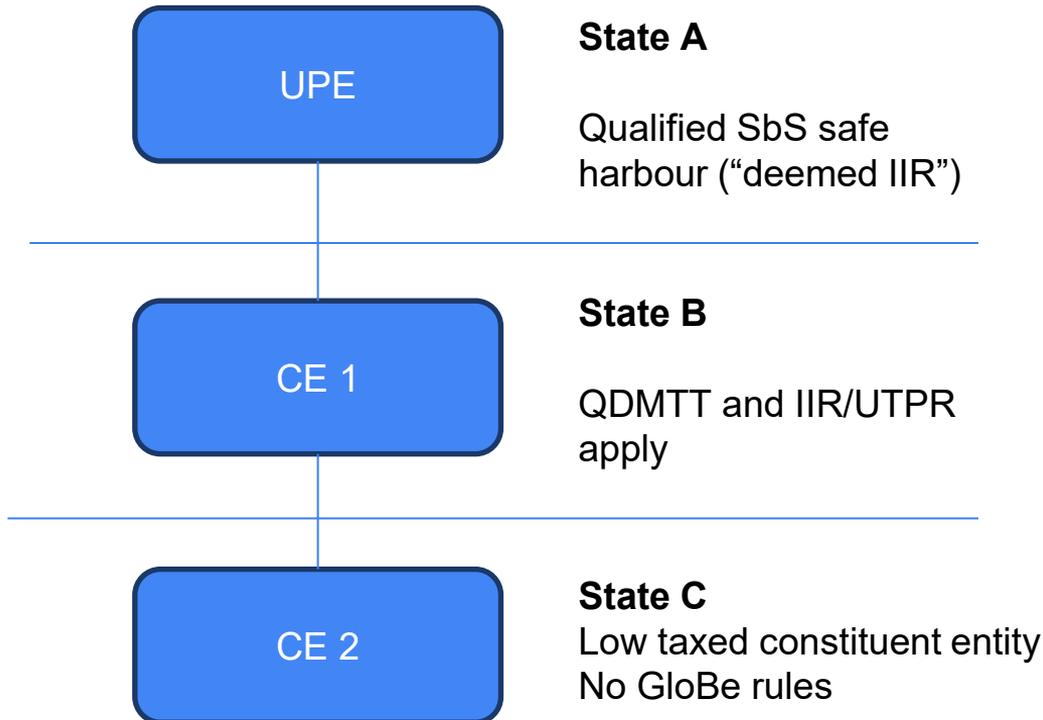
- Finishing the ongoing work on a routine profits test and a de minimis test (scheduled to conclude within the first half of 2026);
- Work on further administrative guidance on technical issues relating to the GloBE Rules.



Substance-based Tax Incentives Safe Harbour

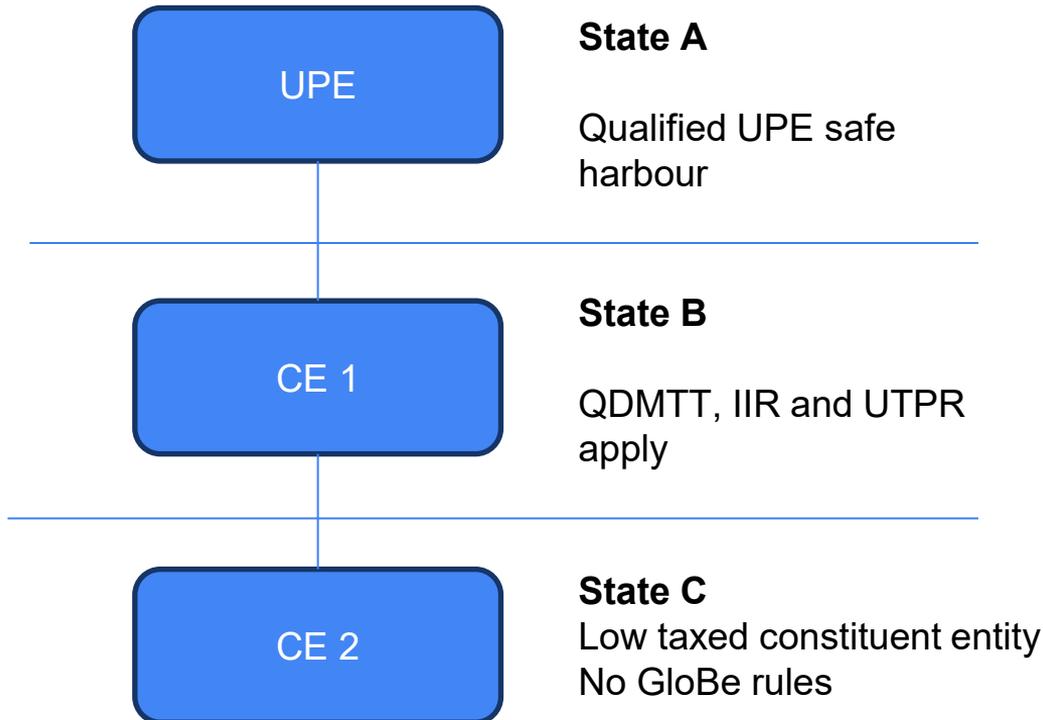
- Allows an MNE Group to treat certain Qualified Tax Incentives (QTIs) as an addition to the Covered Taxes of the Constituent Entities located in the jurisdiction.
- QTIs include super-deductions, enhanced allowances and credits.
- **Income-based incentives, such as tax holidays or income tax rate reductions would not benefit from this new treatment.**
- A Substance Cap limits the allowance for QTIs.
- The cap is equal to the greater of 5.5% of the payroll costs or depreciation of tangible assets in the jurisdiction, with an alternative cap of 1% of the carrying value of depreciable tangible assets (excluding land), available under a 5-year election.
- **This measure will take effect from 1 January 2026.**

Side-by-Side (SbS) safe harbour



- If UPE is in a state with a qualified SbS safe harbour (e.g. State A), no top-up tax applies through IIR and UTPR as they are switched off.
- No top-up tax through IIR in State B for profits of CE 2, no matter that IIR is applicable in State B
- If IIR is not applicable in State B, but UTPR applies, still no top-up tax applies through UTPR in state B for profits of CE 2
- QDMTT still applies (e.g. in State B) and State A will provide credit for elimination of double taxation
- United States are in the central record of OECD and qualify for SbS safe harbour.
- SbS safe harbour applies from 1 January 2026.

UPE safe harbour



- No top-up tax applies under UTPR if UPE is in a state with a qualified UPE safe harbour (e.g. State A)
- No consequences on the IIR/UTPR rules applicable in the other jurisdictions outside of State A where UPE is located
- QDMTT still applies (e.g. in State B).
- Top-up tax applies through IIR in State B for profits of CE 2
- No top-up tax applies through UTPR (e.g. in state B).
- UPE safe harbour applies from 1 January 2026 and replaces transitional UTPR safe harbour that expired in 2025.



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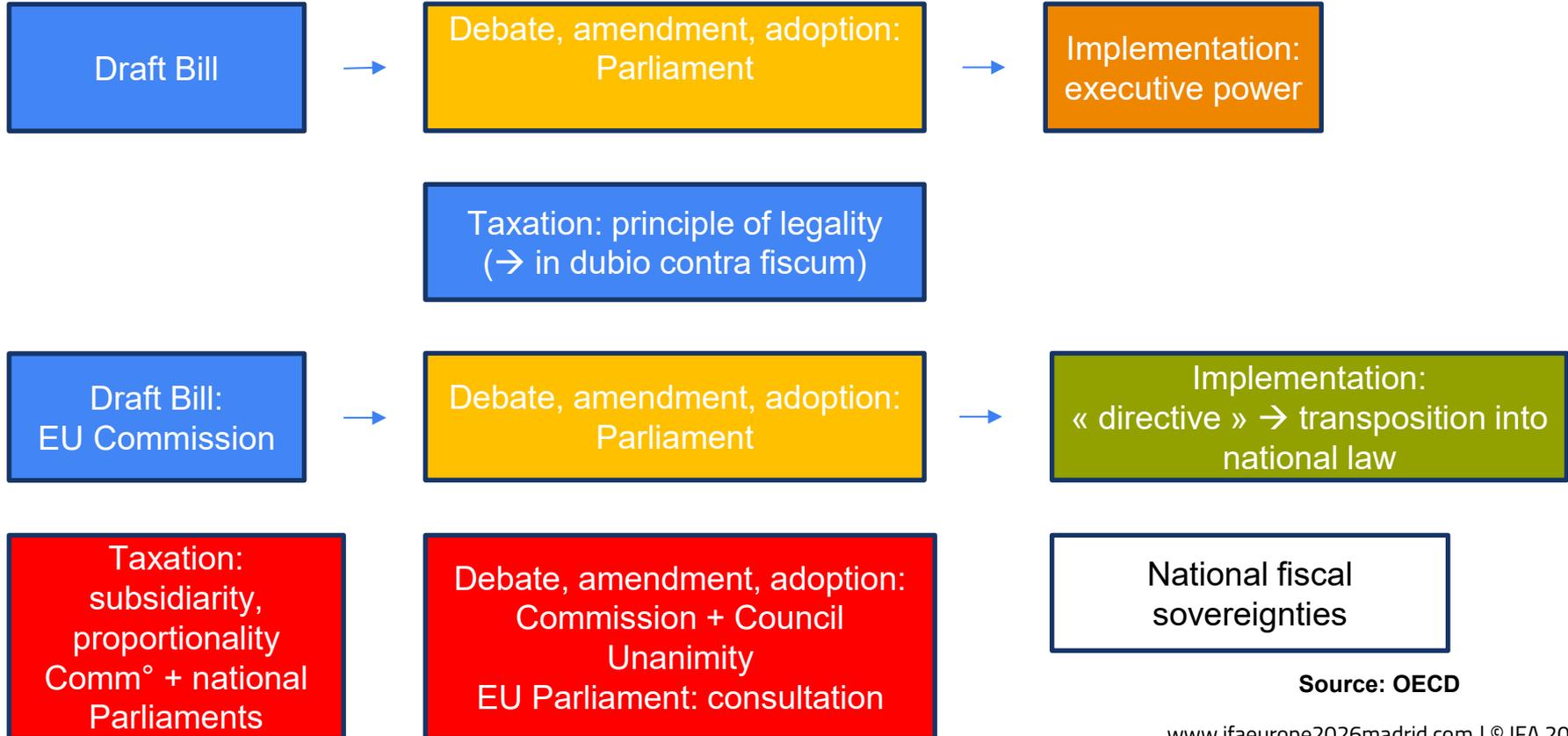
Legal Aspects



Legal Aspects - Plan

- The legislative process in democratic societies
 - National level
 - EU level and tax peculiarities
- Legislative process in BEPS' World
 - Pillar 2
 - Side-by-Side
- Pillar 2, Side-by-Side and the EU Treaties
- The « Belgian case »

1. Legislative process in democratic systems

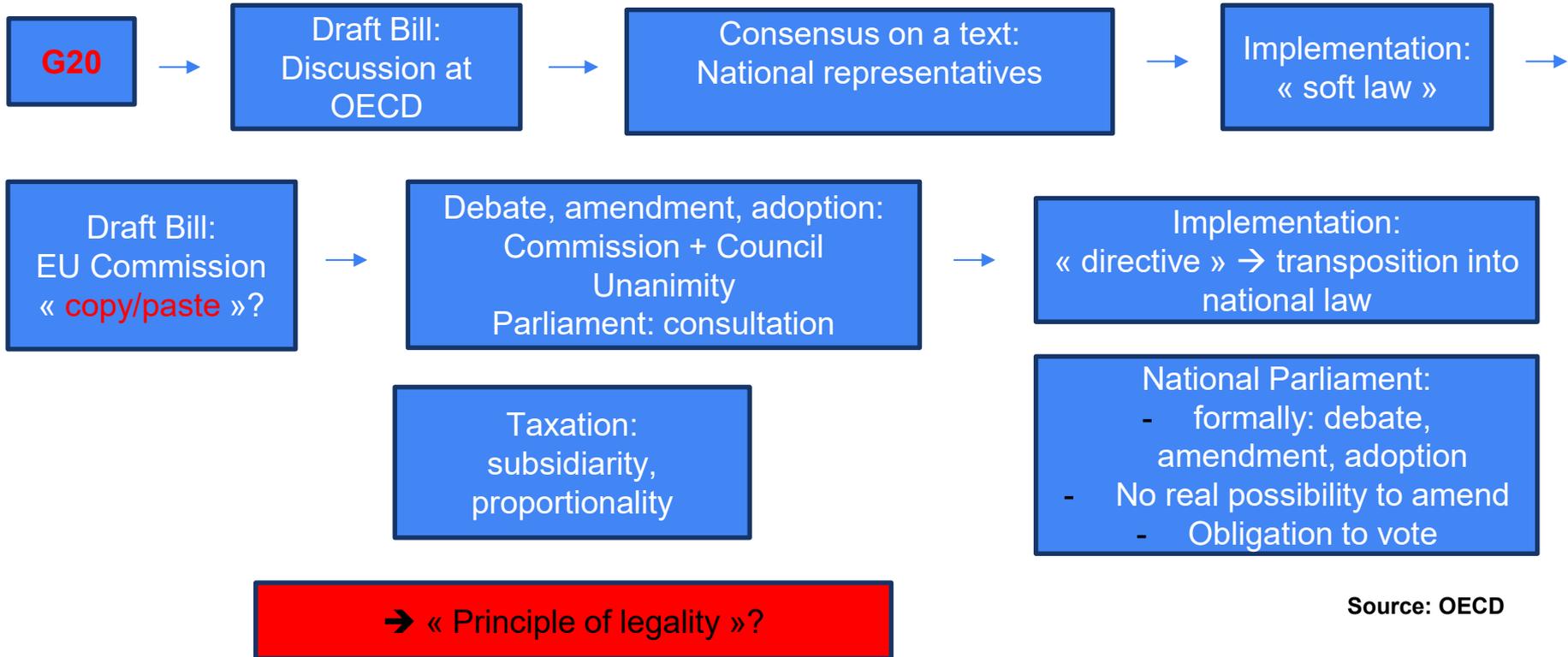


Source: OECD

Legal Aspects



2. Legislative process in the BEPS'world



Source: OECD

Legal Aspects

2. Legislative process in the BEPS' World

- Pillar 2
 - G20
 - « Inclusive Framework »
 - Reactions: UN
 - Consolidation:
 - IFRS: decided by a private non-EU body
 - From accountancy to taxation
 - principle of legality?
 - EU Legal Basis?
 - Art. 115 TFEU: completion of the Internal Market
 - Very brief explanation; formal
 - Subsidiarity: to be appreciated by national parliaments
 - Belgium, Germany: no opinion on subsidiarity anymore
 - Practical implementation: OECD P2 commentaries, guidelines
 - Administrative guidances v. substantive rules
 - Static or evolutive approach?
 - OECD Commentary/Convention: still debated
 - Changes:
 - First comment: March 2022
 - Administrative instructions: February 2023, July 2023, December 2023
 - Consolidated administrative comments: April 2024
 - Administrative instructions: June 2024, January 2025
 - Update of consolidated comments: May 2025
 - Update of supplementary administrative instructions: January 2026.
 - Principle of legality? Legal certainty? Interpretation?

Legal Aspects

2. Legislative process in the BEPS' World

- **Side-by-Side?**
 - Diplomatic consensus
 - Presented as a « simplification »
 - OECD: « it will preserve the gains achieved so far in the global minimum tax framework and protects the ability for all jurisdictions to have first taxing rights over income generated in their jurisdictions”
 - EU Commission (notice - Jan. 2026 - OJEU):
 - Relies on art. 32 Dir.: « safe harbour »
 - Art. 8.2.1 Globe – « Administration »: « ...eligible for a GloBE Safe Harbour, pursuant to the conditions provided under the GloBE Implementation Framework...”
 - No need to amend the directive
 - Side-by-side: “implementation”?
 - Or rather « political » (impact on competition)?
 - →No involvement of national parliaments

2. Legislative process in the BEPS' World

- Side-by-Side?
 - « Side-by-Side »:
 - Not only administrative simplifications but « substantive » rules
 - Lack of clarity of some concepts
 - Renonciation by the EU to its competencies?

3. Pillar 2, Side-by-Side and EU Treaties

- Freedoms
 - The Belgian Constitutional Court case: see below
 - Freedom to conduct business; freedom of establishment
 - Right to property
 - Principles of equality and non-discrimination
- Side-by-Side:
 - State aid?

4. The “Belgian Case”: Constitutional Court refers for preliminary ruling from the CJUE

- Procedure of annulment of the Belgian law implementing Pillar 2
- Who: US Chambers of Commerce
- Arguments: violation of:
 - * Principle of equality (Belgian Constitution) read in relation with
 - Art. 17, 20 et 21 of the EU Charter (property right, principles of equality and non-discrimination); Art. 1 - 1st Protocole to ECHR (property)
 - Freedom to conduct business (art. 15 – 16 Charter)
 - EU principle of fiscal territoriality

4. The “Belgian Case”: Constitutional Court refers for preliminary ruling from the CJUE

Arguments:

- 1) Obligation for Belgian entities to support the UTPR “on insufficiently taxed profits of other constituent entities established outside Belgium, which are unrelated to the profits of the Belgian entity”, thus imposing “a disproportionate burden that infringes on the right to property and the freedom to conduct business”. This is all the more true given that no adjustment mechanism is provided for to prevent a deterioration in the financial situation of Belgian constituent entities subject to the UTPR rule. Furthermore, [...] the contested provisions would introduce unjustified unequal treatment between, on the one hand, Belgian entities that have sufficient contributory capacity to pay” the UTPR and, on the other hand, Belgian entities whose contributory capacity is insufficient to pay this tax”.
- 2) “contested provisions do not make it possible to determine to which jurisdiction and to which constituent entity the additional tax will be allocated under the UTPR, nor what the amount of that tax will be, with the result that third parties would be unable to assess in advance the solvency of the Belgian constituent entities with which they are dealing”.
- 3) “the contested provisions would undermine the principle of fiscal territoriality, in that the additional tax under the RBII has no connection with the activities of the Belgian constituent entity subject to it”.

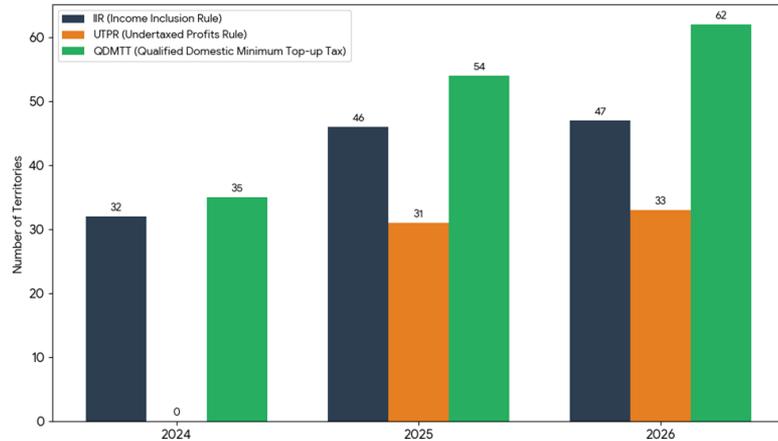


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Practical Implementation

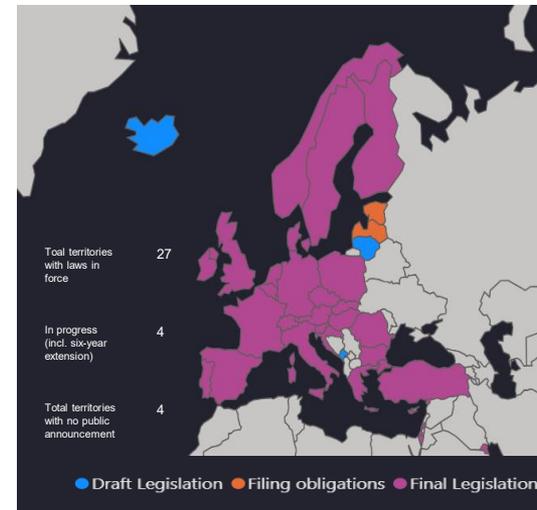
Pillar II Implementation Status

Global Pillar II Implementation Progress (2024-2026)



source: PwC Pillar Two Country Tracker

European Pillar II Implementation



source: EY BEPS 2.0 Pillar Two Developments Tracker



Side-by-side roadmap

January 2026	30 June 2026	2027	2029
OECD Side-by-side Package Side-by-Side, UPE, Simplified ETR, Substance-Based Tax Incentive Extension CbCR Safe Harbour	GloBe Information Return First GIR deadline (calendar year MNEs) for FY ending Dec 31, 2024 Non-calendar year GIR deadline: 18 months after eligible FY	Simplified ETR Safe Harbour becomes permanent standard FY 2026 under specific conditions Transitional CbCR Safe Harbour one-year extension	OECD Stocktake Effectiveness of the GMT & SbS system Identification of competitive imbalances and risk mitigation

Note: SbS Package is NOT retroactive, liability remains for FY 24/25



Simplified ETR Safe Harbour

	Simplified Income	Simplified Taxes
Basic adjustments	<ul style="list-style-type: none">• Jurisdictional aggregates• Excludes dividends, equity gains / losses	<ul style="list-style-type: none">• Excludes taxes related to excluded income• Applies deferred tax accounting but subset of DTLs (recast at 15%)
Optional adjustments	<ul style="list-style-type: none">• Allows further optional adjustments	<ul style="list-style-type: none">• Allows further optional adjustments
Uncommon adjustments	<ul style="list-style-type: none">• Illegal payments, penalties	<ul style="list-style-type: none">• Simplified approach for post-year end tax adjustments
	<ul style="list-style-type: none">• No need to make adjustments for equity reported items or to reverse PPAs when deferred taxes recorded at 15%	<ul style="list-style-type: none">• Simplifications for loss making companies (valuation allowance for DTAs, simplified 4.1.5 amount and transitional approach)
Transition, re-entry and integrity rules		
Minimum rate = 15%		

Simplified ETR Safe Harbour

Business concerns

vs

outcome

Material simplifications of the compliance process



Jurisdictional focus, but still a “lighter version” of GloBE rules

Post-year-end adjustments



Simplified approach with a Five-Year Election

TP adjustments: any change in tax liability due to a TP adjustment is treated in the accrual year, with a “bring back” election

UPE GAAP must always be allowed



QDMTT jurisdictions are encouraged to allow CFS, however LFAS are not obliged to allow other financial accounting standards

Equity & OCI Items



Income or loss items reported in Equity or OCI can be excluded from the Simplified Income calculation

Extensive reporting obligations: avoid excessive data demands, reduce data points and compliance burden



Further work will be done on revision to the GIR and the XML Schema



Simplified ETR Safe Harbour

Work programme for additional simplification

- ❑ **De Minimis** and **Routine Profits** tests - permanent safe harbours scheduled to be concluded within the first half of 2026
- ❑ **Amsterdam Dialogue** - close cooperation with business and other stakeholders on further simplification of the GloBe Rules
- ❑ **Administrative guidance** - further administrative guidance on technical issues relating to GloBe Rules (Investment Entities, MOCEs simplifications)
- ❑ Integration of **simplified calculations** in the simplified ETR Safe Harbour into the design of the GMT (implementation challenges in lower capacity jurisdictions)
- ❑ **Reporting obligations** - adaptation to the GloBe Information Return



Pillar II & EU Competitiveness

Federation of German Industries (BDI)

- Disproportionate Effort:** administrative burden is not in line with fiscal benefits. Complex GloBE rules hinder investment/innovation
- Asymmetric Competition:** EU MNEs face structural disadvantages due to stricter, "first-mover" regulatory burdens compared to global rivals
- Immediate Action:** Temporary suspension of the EU Directive or expansion of permanent Safe Harbour rules

State Ministers (Bayern, Hessen, NRW)

- Motion to suspend:** argued that US/BRIC non-participation makes Pillar II an unfair disadvantage
- Immediate Action:** demanded the suspension of the global minimum tax until outstanding issues at the international level are resolved

Expert Panel

- Fragile Coexistence:** On November 3, 2025, an expert hearing on the global minimum tax was held in the German Bundestag. Experts warned that the "coexistence" of Pillar II with the US tax system undermines the competitiveness of the European and German economy. Risk that major economies like India and China will follow the US lead and bypass local implementation.



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Dispute prevention and resolution



Dispute prevention and resolution

The nature of potential disputes

- Conflicts of interpretation of the OECD GLOBE rules
- Conflicts deriving from divergences in how those rules are implemented into domestic law
- Examples: conflict between jurisdictions on the calculation of the GLOBE income and jurisdictional effective tax rate

Possible instruments

- Introduction of interpretative clauses in domestic law to ensure common interpretation of GLOBE rules
- reliance on the MAP under bilateral tax treaties
- domestic-law mechanism based on reciprocity to ensure access to MAP in non-treaty situations
- creation of a single-issue multilateral convention on GLOBE MAP



Dispute prevention and resolution

The Italian provision

- Art. 59 Legislative Decree 209/2023 para 1. (existence of a DTT with Art. 25 (3))
- *“The Italian competent authorities, (...) shall, **upon request by an undertaking or entity** to which the provisions of this Title apply, and once the technical grounds of such request have been verified, initiate the **mutual agreement procedure pursuant to the applicable conventions against double taxation**” .*



Art. 25(3) OECD Model Tax Convention *“the competent authorities of the contracting states . . . may also consult together for the elimination of double taxation in cases not provided for in the convention”*



Dispute prevention and resolution

The Italian provision

- Art. 59 Legislative Decree 209/2023 para 1. (existence of a DTT with Art. 25 (3))
- “*The aim is to make **their best efforts** to resolve—on a **reciprocal basis** and by common agreement with the corresponding authorities of other States—issues concerning the **interpretation or application** of the provisions set out in this Title, in accordance with the Directive and OECD rules, and to eliminate, where permitted also by the corresponding authorities of other States, **any resulting cases of double taxation, including those not expressly provided for by the Convention**”.*



Dispute prevention and resolution

The Italian provision

- Art. 59 Legislative Decree 209/2023 para 2. (absence of a DTT with Art. 25 (3))
- *“In the absence of an applicable Convention against double taxation, or where an applicable Convention against double taxation does not provide for such a clause, the procedure shall nonetheless take place **on the basis of reciprocity** upon request by an undertaking or entity to which this Title applies”.*



Dispute prevention and resolution

The Italian provision

- Art. 59 Legislative Decree 209/2023 para 2. (absence of a DTT with Art. 25 (3))
- “ *In accordance with the principles governing administrative action, the Italian competent authorities are required to consult with the corresponding authorities of other States, after having preliminarily verified the technical soundness of the request, with a view to making **their best efforts** to resolve any difficulties or doubts arising in connection with the **interpretation or application of the measures set out in this Title, the Directive, or OECD rules**, and to eliminate, where also permitted by the corresponding authorities of other States, any resulting cases of double taxation”*

Dispute prevention and resolution

Key points

- Relationship of the domestic provision with the Directive
- Active role of the taxpayer  right to initiate the MAP
- The reciprocity principle



A new trend of competent authorities' procedures is to be expected?

Thank you



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