



OECD releases Pillar Two «Side-by-Side Package»: key updates on safe harbours and simplifications

What was released and why it matters

On 5 Jan 2026, the OECD/G20 Inclusive Framework released the Pillar Two [“Side-by-Side Package”](#) as Administrative Guidance to the Global Anti-Base Erosion (GloBE) Model Rules, intended to be incorporated into the [GloBE Commentary](#).

The Inclusive Framework presents the Global Minimum Tax (GMT) as a substantial policy initiative that supports stability in the international tax system through a common approach. To preserve these benefits while providing greater stability, simplicity and certainty, the Inclusive Framework has agreed a package of measures relating to the GMT, covering material simplifications, closer alignment in the treatment of substance-based tax incentives with the approach for qualified refundable tax credits, and a Side-by-Side (SbS) system. The Package was agreed against an explicit commitment to address substantial level playing field risks, alongside base erosion and profit shifting (BEPS) risks. In practical terms, it delivers a set of coordinated measures across three areas:

- **Material simplifications**, including a permanent Simplified ETR Safe Harbour (SESH), a one-year extension of the Transitional CbCR Safe Harbour (TCSH) to support an orderly transition, and a work programme (including streamlining reporting such as the GIR framework).
- **A Substance-based Tax Incentive (SBTI) Safe Harbour**, aimed at allowing continued benefit from certain incentives viewed as strongly linked to economic substance, within a capped mechanism.
- **A Side-by-Side (SbS) system**, introducing the SbS Safe Harbour and UPE Safe Harbour for groups headquartered in jurisdictions with qualifying regimes, supported by governance features such as the Central Record process and a longer-term stocktake, while preserving the continued application of QDMTTs.

This matters because the Package introduces multiple elective relief mechanisms and clarifies how and when they may apply, which can materially affect both compliance workload and Pillar Two outcomes across FYs starting from 2026–2027, depending on implementation. The next section briefly outlines the Package’s three areas before summarising the key safe harbours in a consolidated table.

Key measures

Material simplifications

The Simplified ETR Safe Harbour (SESH)

The UAE A foundational element of the Package is the introduction of a permanent Simplified ETR Safe Harbour, intended to substantially reduce the compliance burden associated with the GMT in a meaningful share of jurisdictions where in-scope groups operate. Under this safe harbour, Top-up Tax is deemed to be zero for a Tested Jurisdiction where its Simplified ETR is at least the 15% Minimum Rate (or where the jurisdiction has a Simplified Loss). The Simplified ETR is calculated as Simplified Taxes divided by Simplified Income, using financial reporting data drawn from the MNE Group's consolidated financial statements, with specified adjustments.

The Package devotes significant technical detail to the SESH mechanics, including an overview of the calculation and detailed rules on the composition of Simplified Income and Simplified Taxes. It also addresses how the simplified computation operates in jurisdictions that require the use of local financial accounting standards for QDMTT calculations. In addition, it includes mechanisms intended to support stability and continuity and to ensure consistent outcomes, including rules aimed at preventing mismatches and double counting. The Package also sets out entry and re-entry criteria for applying the safe harbour. The SESH is intended to be available for election for FYs beginning on or after 31 Dec 2026, with the possibility of earlier availability for FYs beginning on or after 31 Dec 2025 in specified circumstances.

Extension of the Transitional CbCR Safe Harbour

To support an orderly transition to the SESH, the Inclusive Framework agreed a one-year extension of the existing Transitional CbCR Safe Harbour. This extension provides additional time for implementation of the permanent simplification framework and maintains the option to rely on existing CbCR-based transitional relief during the transition period. The Package confirms that the Transition Rate relevant for the Simplified ETR test under the TCSH remains 17% for Fiscal Years beginning in 2027 (aligned with 2026).

Work programme for additional simplification

The Inclusive Framework intends to take forward a further work programme to deliver additional clarifications and simplifications while maintaining the integrity of the GloBE Rules. This includes completing work on a routine profits test and a de minimis test in the first half of 2026, further simplification of aspects of the GloBE Rules with a focus on continuity issues, and additional Administrative Guidance on technical matters. The Package also notes ongoing work to explore how the simplified calculations under the SESH could be integrated into the broader design of the GMT, taking into account implementation challenges for lower capacity jurisdictions.

The Inclusive Framework will also streamline reporting obligations through potential updates to the GloBE Information Return, the GIR XML Schema and related validation rules to reflect the agreed safe harbours. This work is intended to be concluded in the first half of 2026 to support coordinated implementation and avoid issues in the exchange of GIR information for the Fiscal Years to which the safe harbours apply.

Substance-based Tax Incentives

The Package recognises that tax incentives are widely used to promote substantial investment and economic development. It therefore adopts an elective Substance-based Tax Incentive (SBTI) Safe Harbour intended to allow in-scope groups to continue benefiting from certain incentives that are strongly connected to economic substance in a jurisdiction. This treatment is subject to clear and transparent limits, designed to ensure that the GMT continues to provide an effective floor on income tax competition between jurisdictions.

Where elected, the SBTI Safe Harbour allows an MNE Group to treat certain Qualified Tax Incentives (QTIs) as an addition to Covered Taxes for Constituent Entities in the relevant jurisdiction. QTIs are incentives that are generally available and are computed by reference either to qualifying expenditure or to tangible property produced in the jurisdiction. The amount recognised is limited by a Substance Cap linked to local substance, calculated by reference to payroll costs and tangible assets, with an elective alternative cap based on the carrying value of tangible assets.

Side-by-Side System

SbS Safe Harbour

The Package introduces an elective relieving mechanism for MNE Groups headquartered in jurisdictions whose domestic and worldwide tax regimes meet the eligibility criteria for a Qualified SbS Regime. Where elected, the SbS Safe Harbour treats Top-up Tax as zero for IIR and UTPR purposes, while QDMTTs continue to apply in jurisdictions that have implemented them.

To support coordinated implementation, jurisdictions determined by the Inclusive Framework to have a Qualified SbS Regime are recorded on a [Central Record](#), including the relevant effective date for access to the safe harbour. As of 5 January 2026, the OECD Central Record of Qualified SbS Regimes lists the United States as the only jurisdiction identified as having a Qualified SbS Regime.

UPE Safe Harbour

The UPE Safe Harbour is a more targeted measure that provides relief for UTPR purposes only in respect of profits located in the UPE jurisdiction, where the UPE is located in a jurisdiction with a Qualified UPE Regime.

Where elected, Top-up Tax for the UPE jurisdiction is deemed to be zero for UTPR purposes for Constituent Entities located in that jurisdiction, the measure does not switch off IIR or UTPR outcomes for Constituent Entities located outside the UPE jurisdiction, and it has no impact on QDMTTs.

Jurisdictions determined by the Inclusive Framework to meet the Qualified UPE Regime criteria are similarly intended to be reflected on the Central Record. As of 5 January 2026, the OECD Central Record listing jurisdictions eligible for the UPE Safe Harbour has not yet been published.

Stocktake

The Inclusive Framework will undertake an evidence-based stocktake on the effects of the GMT and the SbS system, to be concluded by 2029. The stocktake will consider implementation data, including the level of QDMTT adoption, and will assess unintended effects such as emerging material competitive imbalances between MNE Groups and changes in taxpayer behavior, including restructurings aimed at achieving low-tax outcomes. The Inclusive Framework commits to take action to address any substantial level playing field or BEPS risks identified and will also use the exercise to identify opportunities for further alignment and simplification.

Reinforcing effectiveness of QDMTTs

The Package emphasises that the SbS and UPE safe harbours do not affect the operation of QDMTTs, which must continue to apply to all MNE Groups in QDMTT jurisdictions. It also notes that conditional or discriminatory taxes will not be recognised as Covered Taxes, and that QDMTT qualification depends on consistent and non-discriminatory application, supported by peer review and ongoing monitoring.

The following table summarises the key safe harbours introduced in the SbS Package.

Measure	Purpose	Core conditions
Extension of the Transitional CbCR Safe Harbour (TCSH)	Provides an additional year of transitional relief, allowing in-scope groups to continue relying on CbCR-based simplifications while transitioning to the Simplified ETR Safe Harbour.	Applies jurisdiction-by-jurisdiction where the group meets one of the existing TCSH tests (incl. Simplified ETR / routine profits / de minimis tests) based on qualifying CbCR and financial accounting data. The Transition Rate for the Simplified ETR test remains 17% for fiscal years beginning in 2027 (same as 2026).
Timing: Transition Period extended to FYs beginning on/before 31 Dec 2027, excluding FYs ending after 30 Jun 2029.		

Measure	Purpose	Core conditions
Simplified ETR Safe Harbour (SESH)	<p>Permanent simplification that deems Top-up Tax to be zero for a Tested Jurisdiction where simplified metrics indicate no Top-up Tax exposure, reducing the need for full GloBE computations in many jurisdictions.</p>	<p>The SESH applies on a Tested Jurisdiction basis. Top-up Tax is deemed to be zero for the Fiscal Year if the jurisdiction's Simplified ETR (Simplified Taxes divided by Simplified Income) is at least the 15% Minimum Rate, or the jurisdiction has a Simplified Loss. Simplified Income and Simplified Taxes are derived from the group's reporting packages, with limited adjustments.</p>
		<p>Timing: Must be available for FYs commencing on or after 31 Dec 2026. Jurisdictions may allow earlier availability for FYs commencing on or after 31 Dec 2025 in specified circumstances.</p>
Substance-based Tax incentive (SBTI) Safe Harbour	<p>Preserves the benefit of certain substance-linked incentives, subject to clear and transparent limits, by reducing Top-up Tax attributable to such incentives.</p>	<p>Applies to Qualified Tax Incentives (QTIs) that meet the SBTI criteria. When elected, QTIs increase Adjusted Covered Taxes in the jurisdiction by the lower of the amount of QTIs used in the Fiscal Year (as determined under the SBTI rules) and the Substance Cap. The Substance Cap is based on the greater of payroll costs or depreciation and depletion on tangible assets in the jurisdiction. Alternatively, the group may make a five-year election to apply a cap equal to 1% of the carrying value of eligible tangible assets (excluding land and other non-depreciable assets).</p>
		<p>Timing: Election available for FYs beginning on or after 1 Jan 2026.</p>



Measure	Purpose	Core conditions
Side-by-Side Safe Harbour	<p>Provides a relieving mechanism for groups headquartered in jurisdictions with a Qualified SbS Regime by deeming Top-up Tax to be zero for IIR and UTPR purposes, thereby reducing compliance and administration costs, while preserving the continued application of QDMTTs.</p>	<p>Available where the UPE is located in a jurisdiction with a Qualified SbS Regime (with such jurisdictions recorded on the Central Record). When elected, Top-up Tax is deemed to be zero for IIR and UTPR purposes for the MNE Group's Constituent Entities. The election does not apply for QDMTT purposes. A Qualified SbS Regime requires an eligible domestic tax system, an eligible worldwide tax system, foreign tax crediting for QDMTTs on the same terms as other creditable Covered Taxes, and enactment before 1 January 2026 (or a later date under the agreed procedures).</p>
		<p>Timing: Applies for FYs commencing on or after 1 Jan 2026, or a later year as listed in the Central Record. Where implemented after that date, it is expected to be adopted with retrospective effect, as it is wholly relieving, and it does not affect FYs commencing before 1 Jan 2026.</p>
UPE Safe Harbour	<p>Provides targeted relief from UTPR by deeming Top-up Tax for the UPE jurisdiction to be zero for UTPR purposes, while preserving QDMTTs and leaving IIR/UTPR outside the UPE jurisdiction unaffected, and replaces the Transitional UTPR Safe Harbour.</p>	<p>Available where the UPE is located in a jurisdiction with a Qualified UPE Regime. When elected, Top-up Tax for the UPE jurisdiction is deemed to be zero for UTPR purposes in respect of Constituent Entities located in the UPE jurisdiction. The safe harbour does not affect the application of the IIR or the UTPR in respect of Constituent Entities located outside the UPE jurisdiction, and it does not apply for QDMTT purposes. A jurisdiction has a Qualified UPE Regime if it meets the eligible domestic tax system criteria, which are aligned with the domestic eligibility criteria used for the SbS Safe Harbour.</p>
		<p>Timing: Applies for FYs commencing on or after 1 Jan 2026 (same effective date as the SbS Safe Harbour). The effective date commentary for the SbS Safe Harbour applies equally to the UPE Safe Harbour</p>

Practical implications and recommended actions

Safe harbour assessment and elections

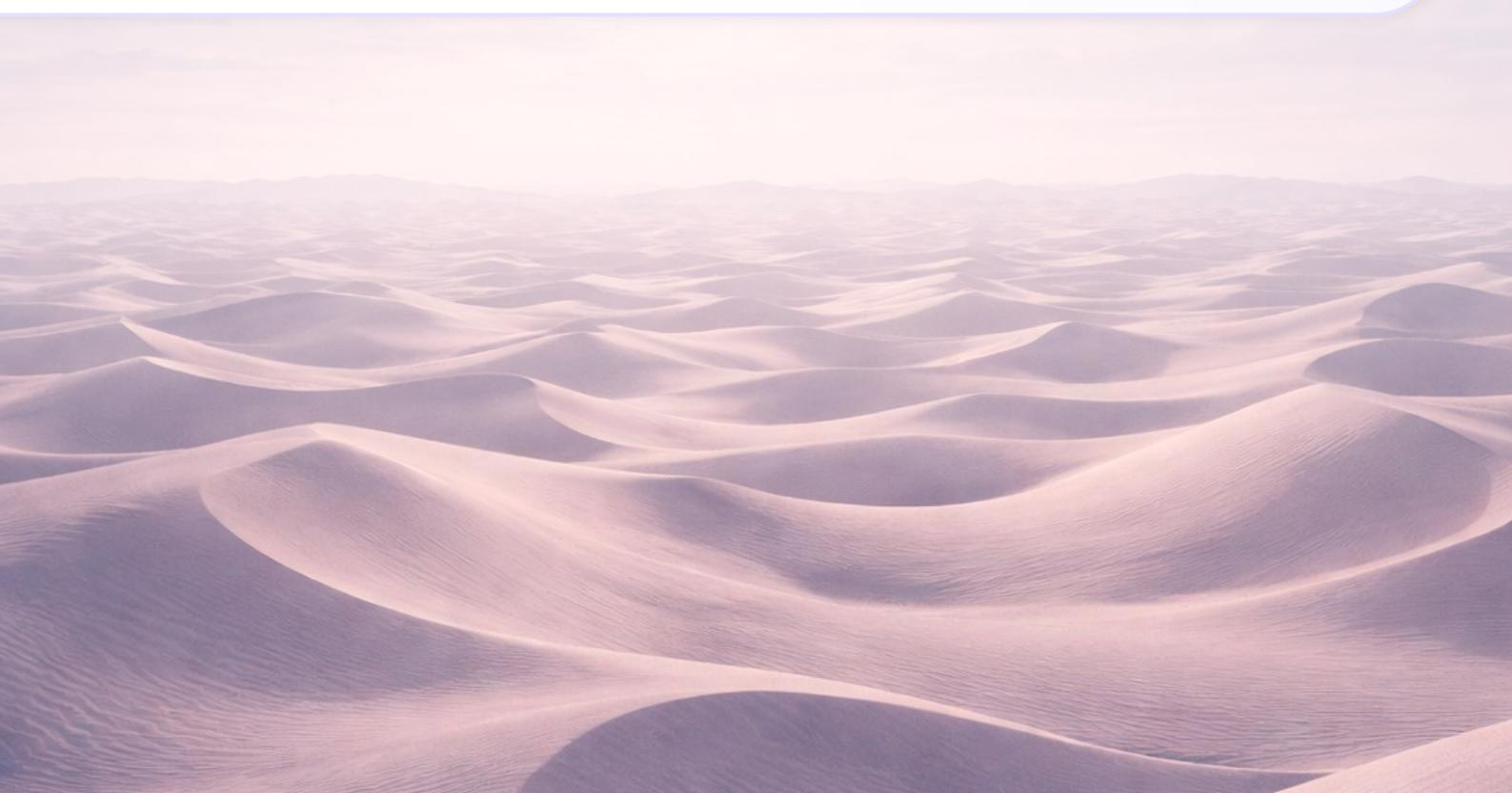
Assess which safe harbours may be relevant by jurisdiction and Fiscal Year and determine whether an election strategy is needed, particularly during the transition period where both the TCSH and the SESH may be available depending on implementation

Incentives assessment and modelling

Identify incentives that may fall within the QTI framework and model the expected impact of the SBTI Safe Harbour, including the extent to which relief may be constrained by the Substance Cap and how this interacts with projected Pillar Two outcomes

Monitor implementation and governance developments

Monitor Central Record updates for Qualified SbS and Qualified UPE regimes, as well as expected reporting changes to the GIR, the GIR XML Schema and validation rules, and further Administrative Guidance delivered under the work programme



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