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The Impact of the G7's Pillar 2 Statement on U.S.-Parented Multinational Groups

by Daan Jongebloed and Michiel Schul

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In this report, Jongebloed and Schul examine a recent G7 statement that may curtail the application of pillar 2 to U.S.-parented multinationals if enacted, and assess its potential impact.

Introduction

On June 28, the G7 released a political agreement on the application of the OECD's pillar 2 framework to U.S.-parented multinational enterprises (G7 statement).[1] This agreement is a welcome development for U.S.-parented MNEs that fall within the scope of pillar 2. However, there are still many uncertainties about how the G7 statement will be applied in practice.

This report analyzes the implications of the G7 statement for U.S.-parented MNEs based on available information. It begins by outlining the background and objectives of the pillar 2 framework, including its interaction with existing U.S. tax rules such as global intangible low-taxed income. It then examines the content and scope of the G7 statement, and assesses its intended practical impact, and the legal and technical uncertainties surrounding its implementation. This report will conclude by evaluating the future of pillar 2 in light of the changes introduced by the G7 statement.

This report was finalized on December 29, 2025, and does not incorporate any developments occurring after this date.

Background of Pillar 2

The pillar 2 project was developed by the OECD/G20 Inclusive Framework (OECD/IF) to address concerns about profit shifting and tax base erosion by large MNEs. To combat these issues, pillar 2 attempts to enforce a minimum level of taxation in each jurisdiction for MNEs with consolidated revenues exceeding €750 million in two out of the four preceding years.[2]

The pillar 2 rules are designed to ensure that income earned in low-tax jurisdictions is subject to a minimum effective tax rate of 15 percent, regardless of the location of the ultimate parent entity (UPE).[3] In addition, this minimum level of taxation in each jurisdiction aims to put a floor on competition over corporate income tax rates between various jurisdictions.

[1] Canada Department of Finance, "G7 Statement on Global Minimum Taxes" (June 28, 2025).

[2] OECD, "Tax Challenges Arising From the Digitalisation of the Economy — Global Anti-Base Erosion Model Rules (Pillar Two)" (Dec. 20, 2021).

[3] *Id.* at 7.

The ETR for pillar 2 purposes for all entities in a jurisdiction is calculated by dividing the total pillar 2 taxes (the "Adjusted Covered Taxes") by the total pillar 2 income (the "GLOBE Income or Loss") in that jurisdiction. If the ETR is lower than the 15 percent minimum rate in a jurisdiction, top-up tax is due. Pillar 2 introduced a set of rules to determine the "GLOBE Income or Loss" and "Adjusted Covered Taxes."[4] The GLOBE income is based on the financial accounting net income, with several pillar 2-specific adjustments to account for common differences between tax and accounting profits (such as the exclusion of qualifying dividend income). The adjusted covered taxes are based on the tax expense in the financial accounts, with a number of pillar 2-specific adjustments.

If the ETR in a jurisdiction is below the 15 percent minimum rate, a top-up tax equal to the difference between the ETR and 15 percent is due. To determine which jurisdiction can levy the top-up tax, pillar 2 introduced three core mechanisms:[5]

- **Qualified Domestic Minimum Top-up Tax (QDMTT):** Allows jurisdictions to impose top-up tax on low-taxed income earned within their own borders, thereby preserving domestic taxing rights.
- **Income Inclusion Rule:** Imposes top-up tax at the level of the parent entity on low-taxed income earned by foreign subsidiaries, provided that the parent company is resident in a country that adopted pillar 2 rules.
- **Undertaxed Profits Rule:** Acts as a backstop to the IIR by reallocating taxing rights to any jurisdictions with pillar 2 rules where the group has operations, if the IIR is not applied. The top-up tax is allocated with a formula based on the book value of tangible assets and the number of employees.

The GLOBE Model Rules (referred to as "pillar 2 rules" in this report) were released in December 2021.[6] The pillar 2 rules are further explained in the commentary on the GLOBE model rules (commentary), which was released in March 2022.[7] After the release of these first documents, the OECD released various sets of so-called administrative guidance between February 2023 and January 2025 (the administrative guidance was eventually incorporated in a consolidated version of the commentary).[8] The administrative guidance clarifies and amends the pillar 2 rules to address uncertainties and unintended situations that became clear after the initial release of the rules. In addition, the administrative guidance has also introduced a number of (temporary) safe harbors that aim to simplify the application of the pillar 2 rules to low-risk jurisdictions.

Importantly, the pillar 2 rules and related guidance do not have direct legal effect. Instead, they serve as a blueprint for domestic implementation. As of 2025, 57 jurisdictions have implemented the pillar 2 rules in their domestic laws, including all EU member states, Canada, Japan, South Korea, and the United Kingdom.[9]

The United States, however, has not adopted the pillar 2 rules domestically. Instead, since 2017, it has relied on its existing GILTI rules (amended and renamed to net controlled foreign corporation tested income (NCTI) as of 2026) to target the income of subsidiaries that is insufficiently taxed.[10] While GILTI shares conceptual similarities with the IIR, it differs in key aspects, primarily the blending of income across jurisdictions. Whereas GILTI allows for global blending of income, the IIR and UTPR operate on a jurisdictional basis.

Although the United States did not implement pillar 2 rules, the various pillar 2 rules can still apply to U.S.-parented groups. This can be illustrated as follows.

[4] *Id.*

[5] *Id.*

[6] *Id.*

[7] OECD, "Tax Challenges Arising From the Digitalisation of the Economy — Commentary to the Global Anti-Base Erosion Model Rules (Pillar Two)" (Mar. 14, 2022).

[8] OECD, "Tax Challenges Arising From the Digitalisation of the Economy — Consolidated Commentary to the Global Anti-Base Erosion Model Rules (Pillar Two)" (May 9, 2025).

[9] PwC, "Pillar Two Country Tracker" (last accessed Nov. 4, 2025).

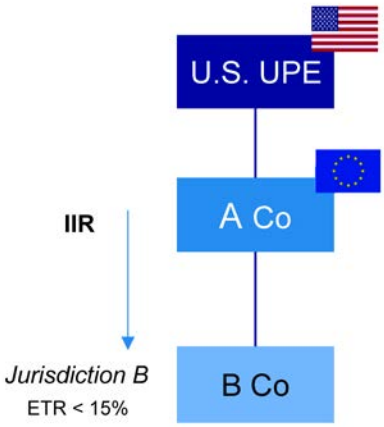
[10] 26 U.S.C. sections 951A, 250.

Scenario 1: IIR — Top-Down

The IIR acts similarly to many CFCs worldwide — it taxes a shareholder of a low-taxed entity on the profits of that low-taxed entity. However, the IIR is broader in scope than most CFCs as it not only targets passive income but also low-taxed income from operational activities. The IIR is, in principle, applied in the jurisdiction where the UPE of an MNE is located. If the jurisdiction of the UPE did not introduce pillar 2 rules, the right to levy top-up tax under the IIR shifts to an intermediate parent entity (IPE) in a jurisdiction that has implemented the pillar 2 rules.

Example: A U.S.-parented MNE holds an intermediate subsidiary in the EU, which in turn holds an interest in a subsidiary in a low-tax jurisdiction. The U.S. has not implemented the IIR, so the UPE cannot be subject to the IIR. As the EU has implemented the IIR, the IPE in the EU would be subject to the IIR to pick up the top-up tax on the low-taxed income of that subsidiary.

Figure 1. IIR — Top-Down

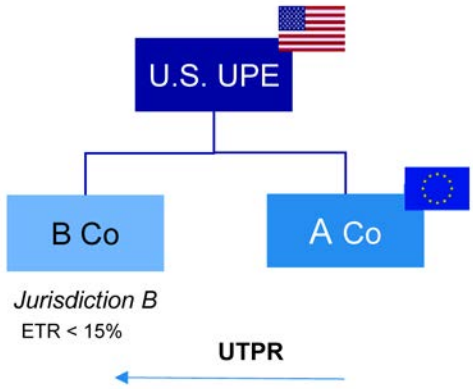


Scenario 2: UTPR — Sideways

The sideways application of the UTPR allows jurisdictions to impose a top-up tax on the income of subsidiaries of U.S.-parented companies, even though the entities in those jurisdictions do not hold an interest in the low-taxed subsidiaries. This applies in cases where the UPE jurisdiction has not implemented the IIR.

Example: A U.S.-parented MNE holds two subsidiaries: one in the EU and one in a low-tax jurisdiction. The United States has not implemented the IIR, and the low-tax jurisdiction has not implemented a QDMTT. As the EU has implemented the UTPR, the EU subsidiary would be subject to top-up tax on the low-taxed income of its sister company in the low-taxed jurisdiction. If there are multiple subsidiaries in a jurisdiction with a UTPR, the top-up tax would be divided based on a formulary allocation.

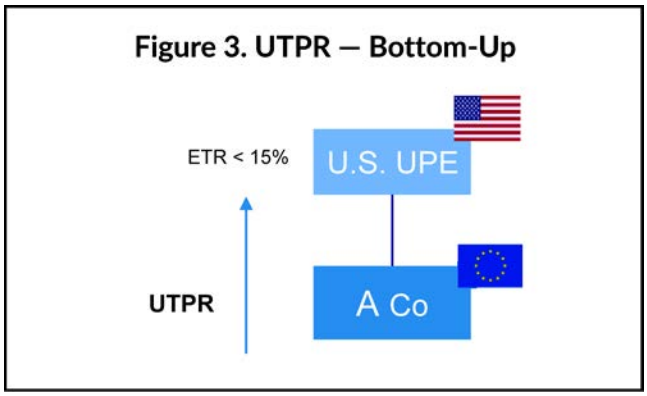
Figure 2. UTPR — Sideways



Scenario 3: UTPR — Bottom-Up

The bottom-up application of the UTPR refers to situations where subsidiaries impose top-up tax on the profits of their UPE entities. This applies in cases when the UPE jurisdiction has not implemented the QDMTT.

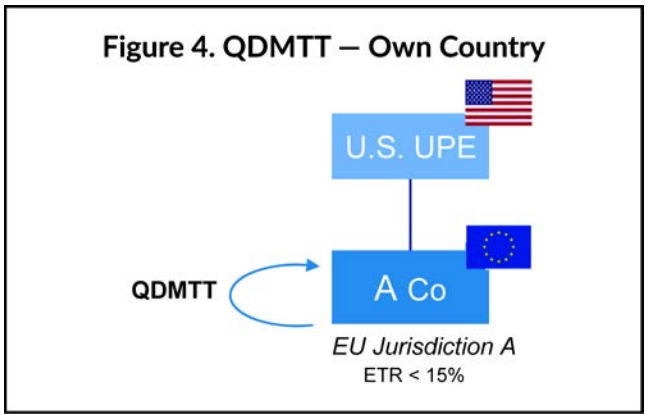
Example: A U.S.-parented MNE owns a subsidiary in the EU. The U.S. parent earns low-taxed income (for example, due to the use of U.S. R&D tax credits), but the United States has not implemented the QDMTT. As the EU has implemented the UTPR, the EU subsidiary may be subject to top-up tax on the low-taxed income of its U.S. parent, under the bottom-up application of the UTPR.



Scenario 4: QDMTT — Own Country

The QDMTT allows a jurisdiction to impose a top-up tax on its own low-taxed entities. It is designed to prevent other jurisdictions from levying a top-up tax on those entities.

Example: A U.S.-parented MNE holds a subsidiary in the EU. The EU subsidiary earns low-taxed income. As the EU country has implemented a QDMTT, it levies a top-up tax on the low-taxed income of the EU subsidiary.



Although the United States did not implement the pillar 2 rules, these examples show that the introduction of these rules in other countries had a significant impact on U.S.-parented groups. To address concerns raised by U.S. MNEs, the OECD/IF came out with administrative guidance to provide (temporary) relief for U.S.-parented MNEs.

This includes guidance on the following topics:

- **GILTI pushdown:** Specific rules for the pushdown of GILTI taxes to subsidiaries (increasing their ETR and reducing the risk of top-up tax under pillar 2).[11]
- **UTPR Safe Harbor:** A specific safe harbor that prevents the UTPR applying to profits from the UPE jurisdiction in case the UPE is located in a jurisdiction with a nominal tax rate of at least 20 percent (avoiding the UTPR on U.S.-based profits for two years, such as in scenario 3 described above).[12]
- **Guidance on tax credits:** Specific guidance has been included for transferable tax credits that encompass many of the tax credits introduced in the United States through the Inflation Reduction Act.[13] Under this guidance, these (renewable energy) tax credits are now treated favorably under the pillar 2 rules; but this is not the case (yet) for U.S. R&D tax credits.

What Is Covered by the G7 Statement?

On June 28, the G7 released its statement.[14] The agreement introduced a so-called "side-by-side" system, which would fully exclude U.S.-parented MNEs from the IIR and the UTPR — the two central enforcement mechanisms of pillar 2. According to the G7 statement, this exclusion applies to both domestic and foreign profits of U.S.-parented groups.

The G7 statement was influenced in part by the proposed section 899 in the draft of the One Big Beautiful Bill Act (OBBBA).[15] Section 899, dubbed the "revenge tax," would have imposed retaliatory measures on the U.S. profits of foreign companies from jurisdictions applying the UTPR to U.S. MNEs. The pressure of this measure appears to have led the rest of the G7 members to agree to exclude the United States from the IIR and UTPR.

[11] OECD, "Tax Challenges Arising From the Digitalisation of the Economy — Administrative Guidance on the Global Anti-Base Erosion Model Rules (Pillar Two)" (Feb. 2, 2023).

[12] OECD, "Tax Challenges Arising From the Digitalisation of the Economy — Administrative Guidance on the Global Anti-Base Erosion Model Rules (Pillar Two)" (July 17, 2023).

[13] *Id.*

[14] Canada Department of Finance, "G7 Statement on Global Minimum Taxes," *supra* note 1.

[15] One Big Beautiful Bill Act, at prop. section 899, "Enforcement of Remedies Against Unfair Foreign Taxes" (2025).

The G7 statement is grounded in four key principles:[16]

- U.S.-parented MNEs would be fully excluded from both the IIR and UTPR, for income earned domestically and abroad.
- The system would include safeguards to address any significant risks of the level playing field being distorted or base erosion that might arise from this exclusion.
- The development of the side-by-side system would go together with broader efforts to simplify the administration and compliance requirements of pillar 2.
- Work on the side-by-side system would also involve reconsidering how nonrefundable, substance-based tax credits are treated under pillar 2, aiming for more consistent treatment with refundable credits.

The core of the agreement is the full exclusion of U.S.-parented MNEs from both the IIR and UTPR, regardless of whether the income is earned in the United States or abroad. The G7 acknowledged that such an exclusion could raise concerns about fairness and the protection of tax bases. To address this, the agreement includes a commitment to monitor and respond to any material risks to the level playing field or to the potential for base erosion and profit shifting. This suggests that the exclusion is not unconditional; rather, it is contingent on the continued effectiveness of the U.S. GILTI and may be revisited if the side-by-side system is perceived to create significant imbalances.

The G7 also linked the development of the side-by-side system to broader efforts to simplify the pillar 2 compliance and administrative framework. While the exclusion of U.S.-parented MNEs may reduce complexity for those groups, simplification remains particularly relevant for non-U.S.-parented MNEs, which will continue to face the full scope of pillar 2 rules, including the IIR, UTPR, and QDMTTs across multiple jurisdictions.

In addition, the G7 signaled openness to revisiting the treatment of nonrefundable, substance-based tax credits under pillar 2. While no details were included in the G7 statement, this may be relevant for the treatment of U.S. R&D tax credits.

Ultimately, however, the most consequential element of the G7 statement is the first principle: the full exclusion of U.S.-parented MNEs from the IIR and UTPR. The remainder of this report focuses on unpacking the implications of this exclusion, primarily the legal and technical uncertainties that arise from the change in the pillar 2 system.

How Could the Pillar 2 Changes Impact U.S.-Parented MNEs?

While the technical details of the G7 statement are yet to be developed, the reference to a "full exclusion" provides a clear indication of its intended scope. If implemented, the side-by-side system would significantly narrow the scope of the pillar 2 rules as they apply to U.S.-parented MNEs.

In practical terms, this statement strongly suggests that U.S.-parented groups would no longer be subject to:

- the IIR imposed by intermediate holding jurisdictions on low-taxed foreign subsidiaries (i.e., scenario 1 — the IIR top-down);
- the UTPR applied to foreign profits of U.S.-parented MNEs (i.e., scenario 2 — the UTPR sideways); and
- the UTPR applied to profits earned in the U.S. of U.S.-parented MNEs (i.e., scenario 3 — the UTPR bottom-up).

This would represent a substantial narrowing of pillar 2's reach for U.S. MNEs. However, as discussed in more detail later in this report, the G7 statement does not include guidance on QDMTTs. Those, therefore, appear to remain applicable to subsidiaries of U.S. groups in jurisdictions with a QDMTT (i.e., scenario 4).

What Has Not Been Agreed Upon Yet?

Despite the political momentum behind the G7 statement and the clear intention to exclude U.S.-parented MNEs, critical aspects remain unresolved. The agreement outlines a shared understanding among G7 members, but it does not yet constitute binding law or formal guidance

[16] Canada Department of Finance, "G7 Statement on Global Minimum Taxes," *supra* note 1.

within the OECD/IF, let alone enacted law in the jurisdictions with pillar 2 rules in place.

In addition to the implementation challenges, several technical challenges and uncertainties remain. Until now, the G7 statement or any subsequent (public) information has not given any further guidance on the technical mechanisms that will be used to effectuate the G7 statement.

This section will address both the challenges with implementing the G7 statement and the key technical issues that must be resolved before the full exclusion from the IIR and UTPR can be applied.

Implementation

Pillar 2 was developed within the OECD/IF and implemented through domestic legislation in participating jurisdictions. By contrast, the G7 statement is a political understanding among the G7 members[17] and not a legislative instrument. It does not override existing laws or alter the legal status of pillar 2 rules in jurisdictions that have already implemented them. The G7 countries have merely committed to advancing this understanding within the IF, with the aim of reaching a consensus on a legally implementable solution.

The first hurdle is that the G7 statement was negotiated outside the IF, but its principles must still be endorsed by the broader IF membership. This is far from guaranteed. Early reactions suggest that several IF jurisdictions, including some G7 members, have expressed concerns about the fairness and coherence of a carveout for U.S.-parented groups.[18] These concerns include fears over the potential erosion of the level playing field and the precedent it may set for other jurisdictions seeking similar treatment.

At the EU level, only three of the 27 EU member states (Germany, France, and Italy) are part of the G7. One of the issues that must be resolved at the EU level is whether the implementation of the G7 agreement requires an amendment to the EU pillar 2 directive. Such an amendment of the directive would require the unanimous consent of all 27 EU member states. If the directive requires amendment, it could significantly delay the process of implementation of the G7 agreement, as certain EU countries may deny their approval as a bargaining chip to get other (nontax) matters resolved within the EU. For instance, we have seen this behavior with the adoption of the EU pillar 2 directive.[19]

Assuming a political consensus can be reached, the next challenge is to identify a viable implementation mechanism. Three main options could be considered to implement the side-by-side system:

- Amending the pillar 2 rules to formally incorporate the side-by-side system. While this would be the most robust and transparent approach, it would require reopening the pillar 2 rules and coordinated legislative changes across jurisdictions — an outcome that appears unlikely given the OECD's preference for implementing changes through administrative guidance rather than formal amendments.
- Recognizing GILTI as a qualified IIR, thereby treating the U.S. system as functionally equivalent to the GLOBE IIR. This approach may be more practical, but it faces technical hurdles. The U.S. system differs significantly from the GLOBE IIR in terms of blending, tax base, rate structure, and treatment of tax credits. Moreover, GILTI/NCTI does not apply to U.S. domestic profits, meaning that even if it were accepted as a qualified IIR, the UTPR could still apply to low-taxed U.S. income unless further measures are taken.
- Developing one or more specific safe harbors, which would deem the top-up tax under the IIR and UTPR to be zero for U.S.-parented MNEs. This option appears to be the most feasible in the short term. Safe harbors have been used effectively in the pillar 2 framework to implement transitional relief and simplifications. Article 8.2 of the GLOBE Model Rules

[17] The G7 consists of Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

[18] Lauren Vella and Saim Saeed, "OECD's 'Side-by-Side' Tax Deal for US Critiqued by 28 Countries," Bloomberg Tax (Aug. 25, 2025).

[19] Stephanie Soong, "Hungarian Lawmakers Nix EU Pillar 2 Minimum Tax Directive," *Tax Notes Int'l*, June 27, 2022, p. 1678.

already provides a legal basis for such an approach.[20]

A common challenge for all three options is how to justify excluding the U.S. tax system without opening the door to similar claims from other jurisdictions. While the U.S. system is arguably unique in its global reach and the combination of GILTI/NCTI, subpart F,[21] and the corporate alternative minimum tax,[22] other countries may assert that their own CFC regimes or minimum tax rules are comparably robust. Without clear, objective eligibility criteria, the risk is that the side-by-side system could become a precedent for broader exemptions, undermining the whole "common approach" proposed by the pillar 2 system.

Another important consideration is the potential risk of discrimination that may arise from implementing a side-by-side system solely for U.S.-parented groups. MNEs headquartered in non-pillar 2 countries outside the EU (and outside the United States) could perceive such an arrangement — where the EU does not apply pillar 2 to U.S.-parented groups — as offering preferential treatment to U.S.-parented groups, effectively placing non-U.S. groups at a competitive disadvantage. This could lead to claims that the rules are not being applied in a consistent or neutral manner, potentially inviting legal challenges or calls for similar carveouts from other jurisdictions.

Given the challenges, a solution with one or more safe harbors appears to be the most likely option at this stage.

In the EU, the pillar 2 directive includes a provision allowing for the implementation of safe harbors. This could provide a legal pathway to accommodate the G7 statement without requiring the formal amendment of the directive. However, this approach raises serious legal questions about the EU's constitutional basis, as implementing the G7 statement through this provision would effectively transfer power over a key design element of the pillar 2 directive to the OECD/IF. As this would occur without input from the European Parliament or the EU Council, it raises serious questions about constitutionality.[23]

A further challenge lies in timing. The G7 statement does not specify when implementation is intended or whether it will apply retroactively. Given the goal of fully excluding U.S. MNEs from the IIR and UTPR, retroactive application may be necessary to avoid inconsistent treatment for fiscal years already subject to pillar 2, such as 2024 and 2025 for most groups. Unless the safe harbor includes a mechanism to ensure retroactivity in all jurisdictions, U.S.-parented groups would hence be subject to pillar 2 for at least two years.

It appears that the OECD aims to reach an agreement on the technical framework before the end of 2025.[24] Even if that occurs, however, implementation will likely require legislative or administrative action in certain jurisdictions with an IIR or UTPR before it becomes effective. This process of implementing the agreement into domestic laws could delay its effective application until fiscal years beginning in 2027, raising additional concerns about the need for retroactivity for 2026 or later.

In summary, while the G7 statement represents a major political development, its implementation faces both procedural and substantive challenges. Achieving a full-fledged agreement within the IF by year-end is ambitious. Even if successful, translating that agreement into binding law across all relevant jurisdictions will take time.

Technical Challenges

The pillar 2 rules were designed on the assumption that all in-scope MNEs would be subject to a globally coordinated set of rules, with the IIR and UTPR applying in a consistent manner. The UTPR was intended as a backstop to ensure that low-taxed profits are taxed somewhere, especially where the UPE jurisdiction does not apply the IIR. However, the introduction

[20] "Tax Challenges Arising From the Digitalisation of the Economy — Global Anti-Base Erosion Model Rules (Pillar Two)," *supra* note 2, at art. 8.2.

[21] 26 U.S.C. sections 951-965.

[22] 26 U.S.C. sections 55, 56A, 59.

[23] Dennis Weber, "A Full Carve-Out for U.S. Groups for Pillar 2: An EU Constitutional Trojan Horse?" Kluwer International Tax Blog (Oct. 6, 2025).

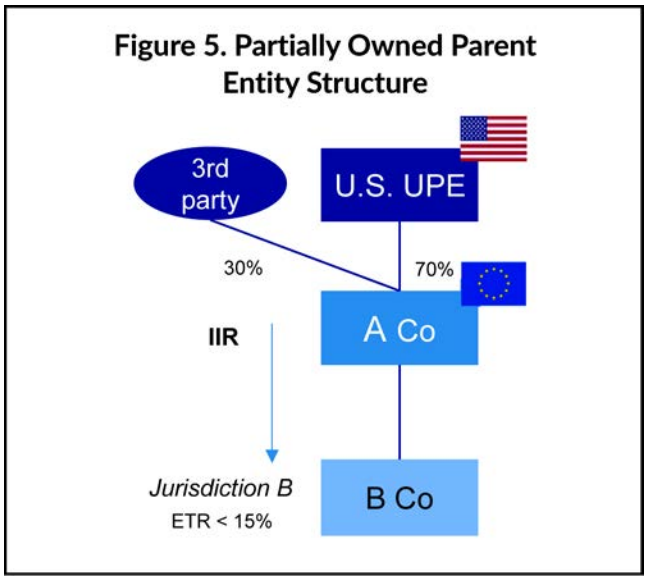
[24] Saeed and Vella, "Countries Score Concession From US in Latest Global Tax Talks," Bloomberg Law News (Oct. 27, 2025).

of the side-by-side system fundamentally alters this architecture. U.S.-parented groups would now fall (partially) outside the scope of pillar 2. In this section, we highlight several technical challenges that may arise as a result of that issue.

Partially Owned Parent Entities

Under the pillar 2 rules, the UPE jurisdiction has the first right to levy top-up tax. An exception exists in the case of a partially owned parent entity (POPE). A POPE is an entity whose interests are more than 20 percent held by non-group members. In that case, the jurisdiction of the POPE has the primary right to levy the top-up tax instead of the UPE jurisdiction (even in cases where the UPE jurisdiction has implemented the pillar 2 rules). This can be illustrated with the following example.

Example: A U.S.-parented MNE holds an intermediate subsidiary in the EU, which in turn holds an interest in a subsidiary in a low-tax jurisdiction. As more than 20 percent of the ownership interest in the EU subsidiary is held by a third party, the EU jurisdiction has the first right to levy the IIR on the low-taxed profits, irrespective of whether the U.S. has implemented the IIR or not. As the EU has implemented the IIR, the intermediate holding company would be subject to the IIR to pick up the top-up tax on the low-taxed income of that subsidiary.



The question is how this will be applied to U.S.-parented MNEs after the implementation of the G7 statement. Will the side-by-side system still uphold this exception that the POPE jurisdiction has the first right to levy top-up tax?

If so, that would mean that for the U.S.-parented MNE in this example, the profits of all entities held through the POPE would still be subject to the IIR if the POPE was in an IIR jurisdiction. This appears to conflict with the *full* exclusion from the IIR and UTPR agreed upon in the G7 statement. It may be possible that the impact would be limited in practice if GILTI could be pushed down to the low-taxed entities, but this would require further administrative guidance from the OECD (as the current rules that allow GILTI pushdown under the IIR expire at the end of 2025), and would not stop the IIR from applying in all cases.

Alternatively, if the POPE was no longer subject to the IIR, a portion of the profits targeted by the IIR (i.e., the part not held by the UPE) would fall out of scope of the pillar 2 rules and the U.S. tax system. The question is whether this would be acceptable in other jurisdictions within the OECD/IF.

Transactions Between QDMTT and Non-Pillar 2 Jurisdictions

The side-by-side system also complicates the application of several provisions in the pillar 2 rules that rely on the tax treatment of both parties to a transaction. For example, article 3.2.7 of the pillar 2 rules targets intragroup financing arrangements that artificially reduce the GLOBE income of a low-taxed entity without corresponding taxable income in the counterparty jurisdiction.[25]

The goal of this rule is to address intragroup financing structures that are designed to artificially increase the ETR of a low-taxed subsidiary for pillar 2 purposes. Typically, this involves a high-taxed group entity providing a loan to a low-taxed entity, where the loan is recognized as debt in the subsidiary's financial accounts but treated as equity for tax purposes. In

[25] "Tax Challenges Arising From the Digitalisation of the Economy — Global Anti-Base Erosion Model Rules (Pillar Two)," *supra* note 2, at art. 3.2.7.

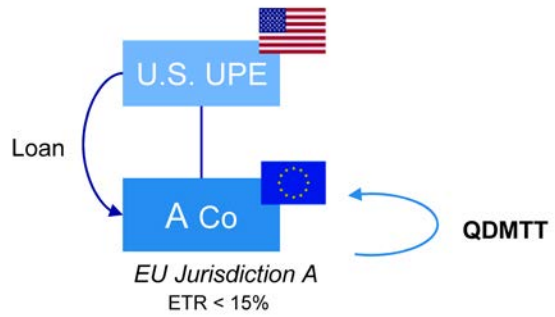
this structure, the low-taxed entity records an interest expense in its financial statements, reducing its income for pillar 2 purposes. However, because the loan is treated as equity for tax purposes, there is generally no reduction to the taxes paid by the subsidiary. This results in a decrease in pillar 2 income of the low-taxed subsidiary while the taxes paid stay the same. As a result, its ETR increases. At the same time, the corresponding interest income is not subject to local tax at the high-taxed entity (because the financing instrument is treated as equity) and not subject to pillar 2 top-up tax either (assuming the ETR of the high-taxed entity remains above 15 percent).

To prevent this, article 3.2.7 of the pillar 2 rules disallows deductions of the interest expense from the pillar 2 income on such an instrument in cases where there is no corresponding increase in taxable income at the high-taxed entity.

Let's assume that QDMTTs remain applicable for a U.S.-parented MNE under the G7 statement. Consider the following example.

Example: A U.S.-parented MNE holds a subsidiary in the EU. The EU subsidiary earns low-taxed income. The United States provides a loan to the EU subsidiary, which is treated as debt for accounting purposes and equity for tax purposes in both jurisdictions. This, in principle, results in an interest expense at the EU subsidiary and interest income at the U.S. UPE for pillar 2 purposes. As the EU country has implemented a QDMTT, it levies a top-up tax on the low-taxed income of the EU subsidiary.

Figure 6. Transaction Between QDMTT Jurisdictions and Non-Pillar 2 Jurisdictions



In this transaction, the EU subsidiary should be able to test whether article 3.2.7. applies to the loan. This requires testing whether the U.S. UPE is a high-taxed entity or a low-taxed entity. If the United States is outside of the pillar 2 framework, this determination becomes technically impossible, as the necessary ETR data may not be available or relevant under the GLOBE methodology.[26]

What Will Remain of Pillar 2 for U.S.-Parented MNEs?

Introduction

As discussed above, the G7 statement, if implemented, would significantly reduce the application of the pillar 2 rules to U.S.-parented MNEs. However, this does not mean that U.S. MNEs will be entirely insulated from the effects of pillar 2. Several elements of the framework are expected to remain relevant, either directly or indirectly. This section outlines the key areas where U.S.-parented groups are likely to continue facing pillar 2-related obligations and challenges.

QDMTTs

The G7 statement does not propose any changes to the operation of QDMTTs. These taxes are imposed by jurisdictions on low-taxed entities within their own borders and are designed to ensure that income earned locally is taxed at a minimum effective rate of 15 percent. Since QDMTTs are domestic in nature, they are not expected to be amended because of the G7 statement. The latest news on the negotiations following the G7 statement also confirms that QDMTTs appear to be unaffected.[27]

As a result, U.S.-parented MNEs with subsidiaries in QDMTT jurisdictions will likely remain subject to QDMTTs, even if they are excluded from the IIR and UTPR. This means that U.S. MNEs will still need to compute the pillar 2 ETR and top-up tax for each jurisdiction where they operate with a QDMTT.

[26] Similar effects may also arise under other parts of the pillar 2 rules that depend on the tax treatment at two sides of a transaction, such as the rules for arm's-length corrections.

[27] Saeed and Vella, "Countries Score Concession From US in Latest Global Tax Talks," *supra* note 24.

While QDMTTs are expected to remain in place following the G7 statement, their continued application will likely receive greater attention. Since individual countries retain discretion over whether and how to implement QDMTTs, domestic policy considerations following the G7 statement could influence the way jurisdictions apply QDMTTs. Consequently, we may see a variety of approaches to QDMTTs. Some countries that want to attract foreign direct investments may consider amending their QDMTT rules so they no longer apply to U.S.-parented groups, while at the same time keeping them applicable to groups parented in other jurisdictions (to avoid losing the tax base to an IIR or UTPR jurisdiction).

A key open question is whether QDMTTs will be creditable for U.S. federal income tax purposes. In Notice 2023-80, the U.S. Treasury and IRS indicated that QDMTTs are generally expected to be creditable, distinguishing them from top-up taxes under the IIR and UTPR, which may not qualify for a foreign tax credit under current U.S. rules.[28] However, the notice also emphasizes that final regulations are still forthcoming, and that creditability may depend on how the QDMTT is designed and whether it meets the requirements under reg. section 901 and reg. section 903.[29]

Until final regulations are issued, the creditability of QDMTTs remains a live issue, and U.S. MNEs should monitor developments closely, particularly considering the expectations that QDMTTs are the only part of pillar 2 remaining for them.

Compliance

Even if U.S.-parented MNEs are ultimately excluded from the IIR and UTPR, compliance obligations under pillar 2 are unlikely to disappear entirely. For example, jurisdictions may still require U.S. MNEs to file a GLOBE Information Return to demonstrate that they qualify for the side-by-side exclusion. This could involve providing detailed information on the group's structure, UPE jurisdiction, and ETRs, even if no top-up tax is ultimately due.

Moreover, given the uncertainty surrounding the implementation of the G7 statement, until formal legislative changes are enacted in all relevant jurisdictions, U.S.-parented MNEs must continue preparing for potential IIR and UTPR exposure. This includes maintaining systems to calculate pillar 2 ETRs, track covered taxes, and assess top-up tax liabilities. QDMTTs will remain applicable, and compliance with local pillar 2-based rules will require ongoing data collection and reporting.

In practice, this means that pillar 2 compliance readiness remains relevant for U.S.-parented MNEs, at least in the short term. While the scope of application may narrow significantly, the need to monitor developments and maintain a baseline level of preparedness remains important — especially as jurisdictions may differ in how and when they implement any agreed changes.

Financial Statement Position

From a financial reporting perspective, the pillar 2 rules have already been enacted in many jurisdictions and are effective as of 2024.[30] As a result, pillar 2-related disclosures and assessments should be included in financial statements for financial years beginning in 2024, including for U.S.-parented groups.

If the side-by-side system is implemented with retroactive effect, this could affect the treatment of pillar 2 exposures in 2025 financial statements. However, until such retroactivity is confirmed and reflected in local law, auditors will likely still expect U.S. MNEs to assess potential liabilities under the IIR and UTPR, particularly in jurisdictions where these rules are already in force.[31]

Additionally, QDMTTs will continue to be a key area of audit focus. U.S.-parented MNEs with material operations in QDMTT jurisdictions will need to demonstrate compliance with local rules and assess whether any top-up taxes are due. This may require coordination between tax and accounting teams to ensure that pillar 2

[28] Notice 2023-80, 2023-52 IRB 1583.

[29] 26 U.S.C. sections 901 and 903.

[30] PwC, "Pillar Two Country Tracker," *supra* note 9.

[31] *See also* Association of International Certified Professional Accountants and Chartered Institute of Management Accountants, "Association Comment Letter on Pillar 2 Co-Existing With U.S. Tax Rules" (Sept. 4, 2025).

calculations are accurately reflected in financial statements and tax provisions.

Final Thoughts

The G7 statement represents a major political shift in the global implementation of pillar 2, particularly for U.S.-parented MNEs. If implemented, it would significantly reduce the exposure of these groups to the IIR and UTPR, which were originally designed to ensure that low-taxed profits are subject to a minimum level of taxation globally.

However, the technical and legal challenges associated with implementing the side-by-side system are substantial. Key questions remain regarding how the exclusion will be carried out, how it will interact with existing rules such as those on POPEs and QDMTTs, and how jurisdictions will coordinate to ensure consistent application. Perhaps more importantly, the timeline for resolution is unclear. While the OECD aims to reach agreement on the technical framework by the end of 2025, legislative implementation across jurisdictions will take time.

In the meantime, pillar 2 remains enacted law in many jurisdictions, and U.S.-parented MNEs cannot afford to disregard it. Until formal changes are adopted and take effect, the existing rules continue to apply. Compliance obligations, audit considerations, and financial reporting impacts must still be managed.

Looking ahead, if the G7 statement is implemented as intended, a large portion of the in-scope MNEs worldwide could be excluded from the IIR and UTPR. This raises broader questions about the future of pillar 2 as a global framework, particularly given that the background of the two-pillar solution was originally conceived to address the taxation of large, often U.S.-based, digital companies — who are now fully out of scope. The EU may face increasing pressure from domestic stakeholders to reconsider its approach, especially if the perceived burden of pillar 2 shifts disproportionately to EU-based groups.[32]

In short, while the G7 statement signals a potential turning point, significant uncertainty remains. The coming months will be critical in determining whether a workable and coherent implementation path can be found — and whether the OECD/IF can maintain the political and technical consensus needed to sustain the global minimum tax project. ■

[32] *See* CFE Tax Advisers Europe, "Opinion Statement FC 2/2025 on the Temporary Pause of the Application of the IIR and UTPR Under Article 32 of the EU Minimum Tax Directive" (June 6, 2025); "German Support for Pillar Two Faltering," VitalLaw News (July 21, 2025); Hessisches Ministerium der Finanzen, "Globale Mindeststeuer muss vorerst ausgesetzt werden" (Oct. 1, 2025) (in German).