ODI Global

Briefing Paper

Taxing large multinationals

How will changes to the global minimum tax affect revenues

Mona Baraké

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Key messages

The OECD's Pillar Two rules, agreed in 2021, establish a global minimum tax on multinationals. The rules introduce three main mechanisms: the Income Inclusion Rule (IIR), the Qualified Domestic Minimum Top-up Tax (QDMTT) and the Undertaxed Payments Rule (UTPR). In 2025, G7 finance ministers announced a 'side-by-side' understanding, under which US-headquartered multinationals are excluded from the IIR and UTPR. The arrangement was formalised in 2026, alongside a new Substance-Based Tax Incentive (SBTI) Safe Harbour.

Leaving US-headquartered multinationals out of the IIR and UTPR has only a modest direct effect on revenues. In static terms, estimated annual Pillar Two revenues fall by about $12 billion (8%), from $152.4 billion to $140.3 billion. The total effect could be larger if the change weakens incentives to adopt QDMTTs or changes how multinationals behave.

The SBTI Safe Harbour matters more. It lowers the share of multinational profits taxed below 15% from 35% to 21%. That pushes estimated revenues down by almost $40 billion (29%), to $99.9 billion.

Losses are concentrated in high-income countries, where revenues fall from $121.7 billion to $88.1 billion. Every income group collects less once the SBTI is taken into account.

Governments should judge tax incentives by how they interact with Pillar Two, not only by their direct cost and investment effects. They should also track which incentives qualify for the Safe Harbour and how the revenue effects are shared across countries.

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Abbreviations and acronyms

CbCR	Country-by-Country Reporting
CIT	Corporate income tax
ETR	Effective tax rate
GloBE	Global Anti-Base Erosion
IIR	Income Inclusion Rule
MNE	Multinational enterprise
OECD	Organisation for Economic Co-operation and Development
QDMTT	Qualified Domestic Minimum Top-up Tax
QTI	Qualifying tax incentive
SBIE	Substance-Based Income Exclusion
SBTI	Substance-Based Tax Incentive
UTPR	Undertaxed Profits Rule

Introduction

In 2021, more than 135 jurisdictions agreed to introduce Pillar Two, an OECD/G20-led reform establishing a global minimum effective tax rate of 15% for large multinational enterprises. The reform aims to reduce profit shifting and ensure that multinational groups pay a minimum level of tax regardless of where they operate. Early estimates suggested that Pillar Two could generate more than $200 billion in additional annual tax revenues worldwide (OECD, 2023).

In June 2025, G7 finance ministers announced a ‘side-by-side’ approach allowing US-headquartered multinational groups to remain outside the OECD’s Income Inclusion Rule (IIR) and Undertaxed Profits Rule (UTPR), while continuing to be subject to the US minimum-tax regime. The agreement was subsequently incorporated into the OECD’s January 2026 Administrative Guidance, which also introduced a new Substance-Based Tax Incentive (SBTI) Safe Harbour. Currently, around 60 countries have announced that they are applying to at least one of the rules of Pillar Two.

This briefing paper attached to the wide working paper assesses how these recent changes affect the revenue gains that the OECD initially estimated would result from Pillar Two. It finds that the exclusion of US-headquartered multinational groups has a relatively limited effect on global revenues. The impact of the SBTI Safe Harbour could be substantially larger.

How does Pillar Two work?

Pillar Two applies a 15% minimum effective tax rate to large multinational enterprises (MNEs). Where profits are taxed below this threshold, a top-up tax is charged to bring taxation up to the minimum rate. The rules determine which country has the right to collect that top-up tax, following a clear order of priority:

Qualified domestic minimum top-up tax (QDMTT)

The first right to collect belongs to the country where the low-taxed profits are earned (and therefore where the multinational enterprise operates). If that country has introduced a QDMTT, it collects the top-up tax itself.

Income inclusion rule (IIR)

If the source country does not apply a QDMTT, the right to collect passes to the jurisdiction of the multinational group's parent company, provided it has implemented an IIR.

Undertaxed profits rule (UTPR)

If neither a QDMTT nor an IIR applies, the remaining top-up tax can be collected by jurisdictions that have adopted the UTPR. The amount allocated to each jurisdiction depends on its share of the multinational group's employees and tangible assets.

Substance-based income exclusion rule (SBIE)

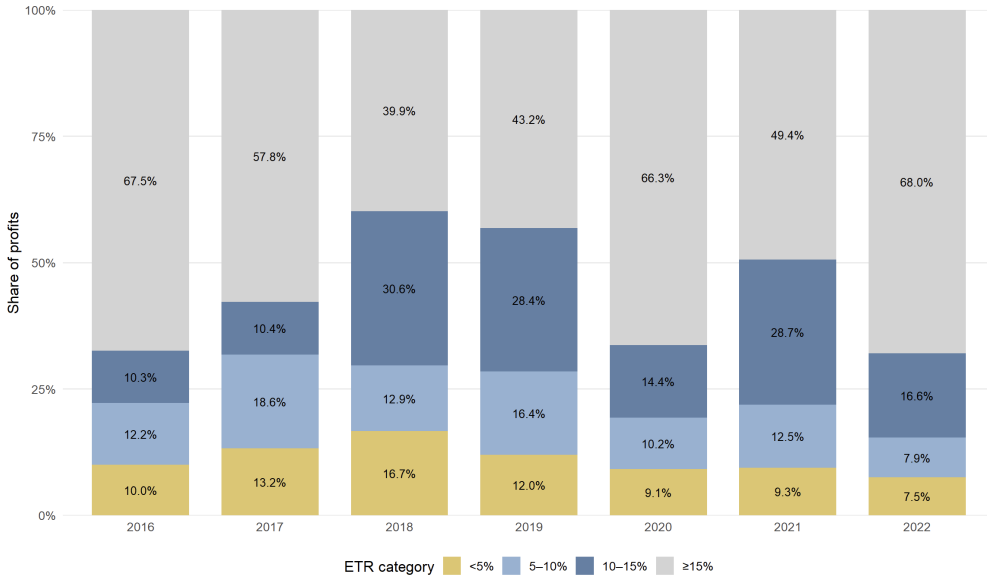
An observed Effective Tax Rate (ETR) below 15% does not necessarily imply that the difference up to 15% will be collected as top-up tax. Pillar Two calculates the ETR at the jurisdictional level based on adjusted GloBE income and covered taxes, and the resulting top-up tax is reduced by the Substance-Based Income Exclusion (SBIE), which excludes a share of profits linked to payroll and tangible assets from the top-up tax base (carve-outs).

What the data shows: ETR below 15%

The distribution of profits across ETR bands provides an indication of the amount of multinational profit potentially affected by the minimum tax. Figure 1 presents the distribution of multinational profits across ETR bands between 2016 and 2022. The share of profits taxed at an ETR of at least 15% varied considerably over the period, from 67.5% in 2016 to 39.9% in 2018, before recovering to 68% in 2022. By 2022,

around one-third of profits were taxed below 15% (7.5% below 5%, 7.9% between 5% and 10%, and 16.6% between 10% and 15%).

Figure 1 Distribution of MNE profits by ETR



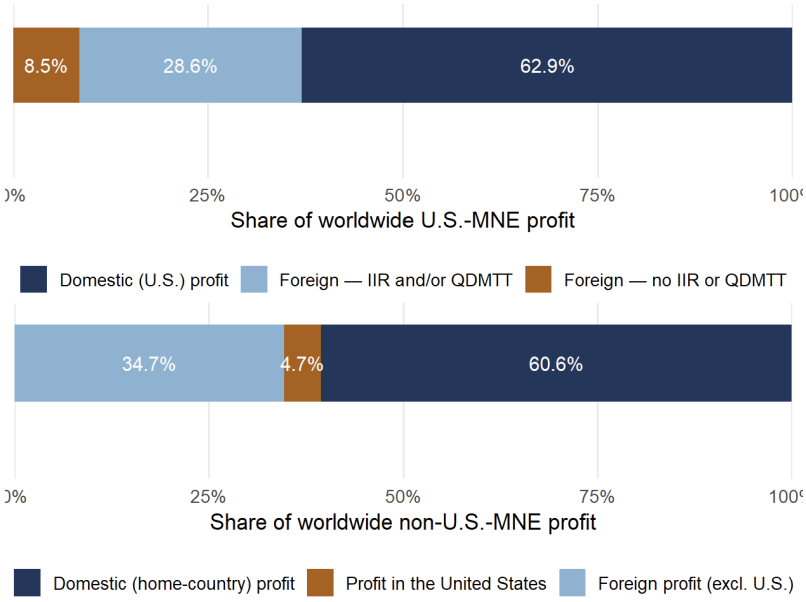
Note: This graph presents the share of profits of all MNEs in the OECD CbCR data taxed at a rate lower than 15% over the years, detailing three ETR bands: lower than 5%, 5%-10% and 10%-15%. The ETR is the accrued ETR of the year.

Source: Author calculations based on OECD Country-by-Country Reporting (CbCR) data

What has changed under the side-by-side package?

The January 2026 OECD Administrative Guidance introduced two major changes to the operation of Pillar Two. First, the side-by-side arrangement changes the application of the IIR and UTPR to US-related profits. US-headquartered multinational groups are no longer subject to the UTPR by other jurisdictions. This limits the ability of countries implementing the UTPR to collect top-up taxes on low-taxed profits of US multinational groups that are not already subject to a QDMTT. However, jurisdictions may continue to collect top-up taxes through a QDMTT on low-taxed profits of US MNEs arising within their own borders. Figure 2 provides context on the profits potentially exposed to the UTPR change by showing where the profits of US-headquartered MNEs are located. Around 63% of these profits are earned domestically in the United States, while a further 8.5% arise in partner jurisdictions that do not apply Pillar Two. To the extent that these profits are undertaxed, they can no longer be reached through the UTPR under the side-by-side arrangement. By contrast, around 28.6% of US MNE profits arise in jurisdictions applying a QDMTT and therefore continue to be subject to a domestic top-up tax where they are undertaxed.

Figure 2 Composition of US parent and non-US parent MNE global profits



Note: Figure 2 presents the composition of worldwide MNE profits by parent jurisdiction and location of profits. Figure 2 decomposes the worldwide profits of US-parented MNEs into profits earned domestically in the United States, foreign profits earned in jurisdictions applying an IIR and/or QDMTT, and foreign profits earned in jurisdictions applying neither rule. Figure 3 decomposes the worldwide profits of non-US-parented MNEs into profits earned in their home jurisdiction, profits earned in the United States and other foreign profits. The shares refer to total positive profits and should not be interpreted as the share of profits subject to Pillar Two top-up taxation.

Source: Author calculations based on OECD CbCR data (2022)

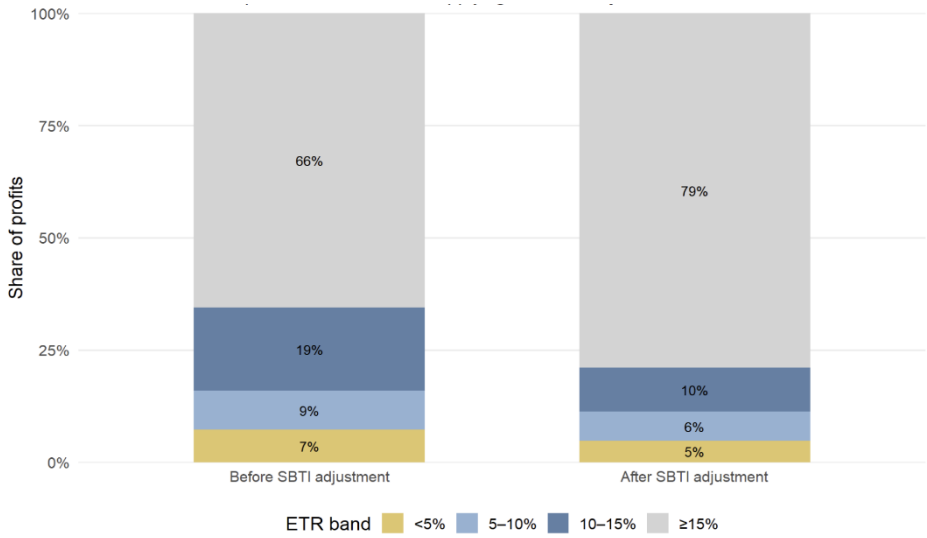
The side-by-side arrangement also switches off the IIR with respect to profits arising in the United States. Consequently, foreign-parented MNEs with low-taxed profits in the United States no longer have those profits subject to an IIR in the jurisdiction of their parent company. As Figure 3 shows, profits arising in the United States account for around 4.7% of the profits of foreign-parented MNEs in our data.

Second, the package introduced a new SBTI Safe Harbour. The SBTI allows certain qualifying tax incentives (QTIs), such as eligible tax credits, deductions and allowances, to receive more favourable treatment under Pillar Two. As a result, these incentives increase the ETR, reducing the amount of profits that remain below the 15% minimum rate.

To illustrate the potential effect of the SBTI, Figure 4 compares the distribution of multinational profits across ETR bands under two specifications: (i) the observed accrued ETR (before accounting for Pillar Two); and (ii) the ETR after incorporating the SBTI adjustment, but before applying any Pillar Two top-up tax. This comparison isolates the effect of the SBTI on the distribution of profits across ETR bands.

Under the observed accrued ETR, 35% of multinational profits are taxed below 15%. After incorporating the SBTI adjustment, this share falls to 21%. The SBTI therefore substantially reduces the share of multinational profits potentially exposed to Pillar Two top-up taxation. As the following section shows, this translates into a considerably larger reduction in estimated Pillar Two revenues than the side-by-side treatment of US-related profits alone.

Figure 3 Profits by ETR before and after SBTI



Note: This graph presents the share of profits taxed at different rate ranges, detailing two ETR specifications: ETR accrued and ETR SBTI capped at 4%.

Source: Author calculations based on OECD CbCR data

Potential revenues

Before the side-by-side changes, Pillar Two was estimated to generate approximately $152.4 billion in annual revenues in implementing jurisdictions, equivalent to 9.4% of global corporate income tax (CIT) revenues (Table 1). Under the side-by-side arrangement, other implementing jurisdictions can no longer collect top-up taxes through the IIR and UTPR on the relevant US-related profits. Accounting for these restrictions reduces estimated revenues to $140.3 billion (8.7% of CIT), a decline of around $12 billion, or 8% relative to the pre-side-by-side scenario. The relatively modest impact reflects the continued application of QDMTTs, which allow implementing jurisdictions to continue collecting top-up taxes on low-taxed profits earned within their borders.

The introduction of the SBTI has a much larger effect. After accounting for the SBTI, estimated global Pillar Two revenues fall to $99.9 billion, equivalent to 6.2% of CIT revenues. In other words, the SBTI reduces estimated revenues by almost $40 billion, or around 29%, relative to the side-by-side scenario without the SBTI. The recent OECD 2026 Pillar Two impact assessment finds a similar range of potential revenues between $91–$155 billion per year. This is lower than the OECD's previous central estimate of around $220 billion published in 2023, reflecting non-participation of the US, the side-by-side package, the SBTI Safe Harbour, updated implementation assumptions and newer data.

The reduction is concentrated in high-income economies, where revenues fall from $121.7 billion to $88.1 billion, although all income groups experience lower revenues once the SBTI is taken into account. For detailed methodology and results see Barake (2026).

Table 1 Revenues by income country group (2022)

Classification	No. of countries	Incl. US	% CIT	Excl. US	% CIT	Excl. US Incl. SBTI	% CIT
High income	50	133.3	9.7%	121.7	8.9%	88.1	6.4%
Upper middle income	8	10.3	5.5%	10.0	5.3%	6.2	10.9%
Lower middle income	4	8.8	15.9%	8.6	15.5%	5.5	3.0%
Total	**62**	**152.4**	**9.4%**	**140.3**	**8.7%**	**99.9**	**6.2%**

Note: This table presents three scenarios by country income classification: Pillar two revenues including the US, Pillar Two revenues excluding the US and Pillar Two revenues excluding the US while accounting for the SBTI effect on ETRs. All values in USD billion.

Source: Author's estimations; for detailed working see Barake (2026)

Conclusion

These results suggest that the future revenue impact of Pillar Two may depend less on the special treatment of US multinationals than on how broadly the SBTI Safe Harbour is used and on the design of qualifying tax incentives.

The side-by-side arrangement may nevertheless affect countries' incentives to adopt QDMTTs. While QDMTTs remain fully applicable to US-headquartered MNEs, the removal of IIR and UTPR exposure may reduce the incentive for some jurisdictions to introduce a QDMTT solely to prevent top-up tax from being collected elsewhere. This potential effect may be particularly relevant for countries with substantial US investment and should be monitored as implementation develops.

The use of QTIs under the SBTI and their fiscal effects should also be closely watched. While the Safe Harbour provides governments with greater policy space to use substance-based incentives, it can substantially reduce potential top-up taxation. Governments should therefore assess incentives not only according to their direct fiscal cost and effectiveness in attracting real investment, but also according to their interaction with Pillar Two. Monitoring should also assess which incentives benefit from the Safe Harbour and how the resulting revenue effects are distributed across countries.

More broadly, the findings illustrate that the effectiveness of Pillar Two cannot be assessed solely by reference to the headline 15% minimum rate. Its ultimate impact depends on the interaction between the minimum tax, domestic implementation choices and the treatment of tax incentives. The side-by-side package therefore does not eliminate Pillar Two, but it does reduce the tax base to which the minimum tax effectively applies. Continued assessment of these design choices will be essential to determine whether Pillar Two continues to meet its original objective of limiting profit shifting and establishing an effective floor on corporate taxation.

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