

# Pillar Two & EU Green Incentives

Interaction Guide — Updated for the January 2026 Side-by-Side Package

The core question for every green incentive under Pillar Two: does it increase GloBE Income (generally safe — does not reduce ETR) or reduce Covered Taxes (risky — may reduce ETR below 15% and trigger top-up tax)?

## GLOBE BASICS

Minimum Rate	Scope	IIR	UTPR
15% ETR per jurisdiction	MNE Groups $\geq$ €750m revenue	From 1 Jan 2024 (EU)	From 1 Jan 2025 (EU)

**GloBE ETR = Adjusted Covered Taxes / GloBE Income.** If ETR falls below 15%, a top-up tax applies. All EU member states have enacted QDMTTs which apply first in the rule order before IIR or UTPR.

## JANUARY 2026: SIDE-BY-SIDE PACKAGE

The **Side-by-Side (SbS) Package** agreed in January 2026 created two new safe harbours. The **SbS Safe Harbour** exempts MNE Groups headquartered in a jurisdiction with a qualifying minimum tax regime from IIR/UTPR in other jurisdictions. The **UPE Safe Harbour** exempts only the UPE jurisdiction from UTPR. **QDMTTs are unaffected** — still apply in each jurisdiction regardless of SbS. Groups potentially exempt under SbS must still model green incentive interactions, particularly QDMTT ETR.

## QRTC vs NON-QRTC — THE CRITICAL DISTINCTION

Credit Type	GloBE Treatment	ETR Effect	Top-Up Risk
<b>Qualified Refundable Tax Credit (QRTC)</b>	Increases GloBE Income — treated as income	ETR maintained or improved	Low
<b>Non-QRTC (non-refundable or refund &gt;4 years)</b>	Reduces Covered Taxes	ETR falls — may drop below 15%	High
<b>Partial QRTC</b>	Mixed — refundable portion = income; rest reduces Covered Taxes	Mixed effect	Medium
<b>Government grant</b>	Increases GloBE Income	ETR-neutral or positive	Low

**QRTC test:** A credit is a QRTC if (1) it is refundable — payable in cash even with no tax liability, AND (2) paid or payable within 4 years of the tax return filing date. Both conditions required.

## EU GREEN INCENTIVE TREATMENT

Incentive	Type	QRTC Status	Advisory Notes
<b>EU ETS Free Allocations</b>	Non-cash allocation	N/A	Reduces compliance costs; no GloBE interaction
<b>EU Innovation Fund (grants)</b>	Grant	Treated as income	GloBE-neutral; no top-up risk
<b>REPowerEU / Horizon Europe</b>	Grant / loan	Treated as income	GloBE-neutral; check grant conditions
<b>National green ITCs (EU member states)</b>	Varies	Depends on refundability	Model each jurisdiction — check 4-year refund window
<b>CBAM certificate costs</b>	Compliance cost / deductible expense	Not a credit	Normal Covered Taxes treatment
<b>Green bond / SLL preferential rates</b>	Financing benefit	Not a credit	No GloBE interaction

### IRA CREDITS (US) FOR EU-PARENTED MNE GROUPS

IRA Credit	Refundability	QRTC Status	Effect on EU Group ETR
<b>§45X Advanced Manufacturing</b>	Fully refundable	Likely QRTC	Treated as US GloBE Income — ETR-neutral
<b>§45V Clean Hydrogen</b>	Refundable	Likely QRTC	Treated as US GloBE Income — ETR-neutral
<b>§48/48E ITC (direct pay)</b>	Refundable via direct pay	Partially QRTC — OECD guidance ongoing	Monitor; model conservatively
<b>§45/45Y PTC (transferable)</b>	Transferable — seller reduces Covered Taxes	Not QRTC for seller	Seller: reduces US ETR — model top-up risk
<b>§179D Energy Efficiency</b>	Deduction — not refundable	Not QRTC	Reduces US taxable income — Covered Taxes

**OBBB (One Big Beautiful Bill, July 2025):** Significant changes to IRA credits including termination of certain EV credits (Sept 2025), extension of §45Z clean fuel credit to 2030, and domestic content modifications. Review all IRA credit positions for US operations — QRTC analysis may have changed.

### PRACTICAL ADVISORY STEPS

1. Inventory all EU/national/US green incentives the client claims or plans to claim.
2. Classify each as QRTC or non-QRTC. Apply the two-part test. Seek local tax authority confirmation where uncertain.
3. Run a jurisdiction-by-jurisdiction GloBE ETR model with and without each incentive.
4. Assess SbS Package applicability — does the group qualify? Which jurisdictions are exempt from IIR/UTPR?

- **5.** Where non-QRTC credits reduce ETR below 15%, assess direct pay elections, grant alternatives, or entity structure.
- **6.** Monitor OECD Administrative Guidance — IRA credit treatment remains subject to evolving guidance.

References: OECD GloBE Model Rules; OECD Administrative Guidance; EU Pillar Two Directive 2022/2523; OECD SbS Package Jan 2026.