1 Pillar Two

Schedule 1 makes amendments to F(No.2)A 2023 relating to multinational top-up tax and domestic top-up tax.

SCHEDULE 1

Section 1

PILLAR TWO

PART 1

SIDE-BY-SIDE PACKAGE

Introduction

1 F(No.2)A 2023 is amended as follows.

Simplified ETR safe harbour

2 In Schedule 16A (safe harbours), at the end insert—

“PART 4

SIMPLIFIED ETR SAFE HARBOUR

Election for simplified ETR safe harbour: standard members

16 (1) The filing member of a multinational group may for an accounting period make an election under this paragraph in respect of a territory.

(2) The effect of an election under this paragraph is that all of the standard members of the group located in the territory are to be treated as not having top-up amounts or additional top-up amounts relating to that period for the purpose of determining the liability of any member of the group to multinational top-up tax.

(3) An election under this paragraph may only be made for an accounting period if—

(a) the period commences on or after 31 December 2026 (but see paragraph 18),

(b) the look-back condition is met for the period (see paragraph 19),

(c) the simplified effective tax rate of the standard members of the group located in the territory for the period is 15% or more (see paragraphs 20 to 49), and

(d) if an election is made for the period under section 189 (deemed distribution tax amount), the standard members of the group located in the territory do not have a recapture amount (see sections 190 and 191) that is more than nil at the beginning of the period.

(4) An election under this paragraph may be made in respect of the nominal territory of a stateless member of a multinational group only if—

(a) the member is a flow-through entity, and

(b) all of the underlying profits of the member are allocated to another member of the group under section 168.

(5) An election under this paragraph may be made in respect of—

(a) minority subgroups, as if references in this Part of this Schedule to standard members of a multinational group were instead to members of that subgroup, or

(b) a minority owned member that is not a member of a minority subgroup, as if references in this Part of this Schedule to standard members of a multinational group were instead to that member,

and, for that purpose, section 228 (meaning of "minority owned member" etc) is to be read as if subsection (1)(b) of that section were omitted.

(6) Paragraph 2 of Schedule 15 (annual elections) applies to an election under this paragraph.

(7) Paragraph 17 allows for an election for relevant investment entities to be treated as standard members of the group for the purposes of this Part of this Schedule (including this paragraph).

(8) Paragraph 45 (adjustments for negative taxes) makes provision that may have effect in relation to an accounting period, after a period for which an election under this paragraph is made, for which an election under this paragraph is not made.

Election for simplified ETR safe harbour: relevant investment entities

17 (1) The filing member of a multinational group may for an accounting period make an election under this paragraph in respect of the members of the group that are relevant investment entities.

(2) The effect of an election under this paragraph is that each relevant investment entity is to be treated as being a standard member of the group for the purposes of this Part of this Schedule, except as provided for in paragraph 19 (look-back condition).

(3) An investment entity is a relevant investment entity if—

(a) all of the members of the group with ownership interests in the entity are located in the same territory as the entity, and

(b) the filing member of the group has not made an investment entity tax transparency election (see section 213) or a taxable distribution method election (see section 214) in relation to any of those interests.

(4) Paragraph 2 of Schedule 15 (annual elections) applies to an election under this paragraph.

Transitional provision for accounting periods commencing between 31 December 2025 and 31 December 2026

18 (1) An election under paragraph 16 may be made for an accounting period commencing on or after 31 December 2025 and before 31 December 2026, despite paragraph 16(3)(a), if any of conditions 1 to 3 are met in relation to the territory in respect of which the election is made ("the relevant territory").

(2) Condition 1 is met if a qualifying domestic top-up tax safe harbour election has been made for the period in respect of the standard members of the group located in the relevant territory.

(3) Condition 2 is met if only one territory has Pillar Two taxing rights over the standard members of the group located in the relevant territory for the period.

(4) Condition 3 is met if an election equivalent to an election under paragraph 16 has been made for the period in every territory that has Pillar Two taxing rights over the standard members of the group located in the relevant territory for the period.

(5) A territory has Pillar Two taxing rights over the standard members of the group located in the relevant territory if any of the members are subject to Pillar Two IIR tax in that territory.

Look-back condition

19 (1) The "look-back condition" is met for an accounting period ("the relevant accounting period") if—

(a) an election under paragraph 16 was made for every reference accounting period, or

(b) the standard members of the group located in the territory did not have a top-up amount for any reference accounting period.

(2) The standard members located in the territory have a top-up amount for a reference accounting period if—

(a) the total top-up amount for that accounting period determined under section 194 for the purpose of determining the liability of any member of the group to multinational top-up tax or domestic top-up tax is more than nil, or

(b) the equivalent amount for that accounting period determined under the law of another jurisdiction for the purpose of determining the liability of any member of the group to an equivalent tax is more than nil.

(3) A "reference accounting period" is an accounting period ending during the period of 24 months ending with the beginning of the relevant accounting period.

(4) If an election is made under paragraph 17 and sub-paragraph (1)(a) does not apply—
(a) the references in sub-paragraphs (1)(b) and (2) to standard members do not include relevant investment entities, but
(b) the look-back condition is met only if the relevant investment entities located in the territory did not have a top-up amount for a reference accounting period.

(5) The relevant investment entities located in the territory have a top-up amount for a reference accounting period if—
(a) the total top-up amount for that accounting period determined under section 194 for the purpose of determining the liability of any member of the group to multinational top-up tax or domestic top-up tax would be more than nil if references in that section to the standard members of the group were to the relevant investment entities, or
(b) the equivalent amount for that accounting period determined under the law of another jurisdiction for the purpose of determining the liability of any member of the group to an equivalent tax would be more than nil.

Simplified effective tax rate

20 (1) The simplified effective tax rate of the standard members of a multinational group in a territory is to be determined in the same way as the effective tax rate of the standard members of the group would be determined under section 132 (that is, by reference to Chapters 3, 4 and 8 of Part 3), but—
(a) with the modifications to those Chapters set out in paragraphs 21 to 42, and
(b) with the further adjustments (to the extent applicable) set out in paragraphs 43 to 49.

(2) If an election has been made under paragraph 17, then, despite paragraph 17(2), section 223 (adjustments applicable to investment entities) applies to the entity in relation to which the election is made for the purposes of determining the simplified effective tax rate of the standard members of the group (but Chapter 9 of Part 3 does not otherwise apply).

Revaluation method gain or loss

21 (1) Section 143 (included revaluation method gain or loss) does not apply for the purposes of determining the simplified effective tax rate (except to give effect to the definitions of “other comprehensive income” and “property, plant and equipment” given in subsection (3) of that section).

(2) But see paragraph 43 (which makes equivalent provision at the level of the territory).

Illegal payments, fines and penalties

22 Section 145 (exclusion of expenses for illegal payments, fines and penalties) applies for the purposes of determining the simplified effective tax rate as if, in subsection (1)(b), for "50,000 euros", there were substituted "250,000 euros".

Changes in accounting policies or prior period errors

23 (1) Section 146 (adjustment for changes in accounting policies and prior period errors) does not apply for the purposes of determining the simplified effective tax rate.

(2) But see paragraph 44 (which makes equivalent provision at the level of the territory).

Tax credits

24 (1) Section 147A(1) (treatment of tax credits) applies for the purposes of determining the simplified effective tax rate only if the filing member of the group elects that it is to apply for those purposes.

(2) Paragraph 2 of Schedule 15 (annual elections) applies to an election under this paragraph.

Transactions between members of the group in same territory

25 (1) Section 149 (transactions between members of a multinational group in same territory) does not apply for the purposes of determining the simplified effective tax rate (except to give effect to the definition of "arm's length basis" given in subsection (7) of that section).

(2) But sub-paragraphs (3) and (4) apply for those purposes instead if—

(a) a debit is recorded in the underlying profits accounts of a member of the group that arises from a transaction comprising a transfer of an asset from that member to another member of that group, and

(b) both members are located in the same territory.

(3) If, as a result of the debit, the law of the territory requires adjustment to the taxable income of both members in connection with transfer pricing, the underlying profits of both members are to be adjusted to reflect that adjustment.

(4) If the law of the territory does not allow the debit to be taken into account for tax purposes, the underlying profits of the

transferor of the asset are to be adjusted to exclude the amount of the debit.

Transactions between members of a multinational group in different territories

26 (1) Section 150 (transactions between members of a multinational group in different territories) applies for the purposes of determining the simplified effective tax rate with the following modifications.

(2) For the purposes of determining the simplified effective tax rate, sub-paragraph (5) applies instead of subsection (3) of section 150 in relation to a transaction if—

(a) that subsection would otherwise apply in relation to the transaction,

(b) the transaction is, or includes, the transfer of an asset, and

(c) the transaction is not recorded on an arm's length basis.

(3) For the purposes of determining the simplified effective tax rate, subsection (5) of section 150 applies in relation to a transaction if the conditions in paragraphs (b) and (c) of subsection (4) of that section are met, whether or not one of the members who are party to the transaction is a high tax member (and, accordingly, subsections (6) and (6A) of that section, which define that term, do not apply).

(4) But sub-paragraph (5) applies for those purposes instead of subsection (5) of section 150 in relation to a transaction if—

(a) that subsection would otherwise apply in relation to the transaction (whether by virtue of sub-paragraph (3) or otherwise),

(b) the transaction is, or includes, the transfer of an asset, and

(c) the transaction is not recorded on an arm's length basis.

(5) Where this sub-paragraph applies, then, for the purposes of determining the simplified effective tax rate—

(a) the underlying profits of the transferor of the asset are to be adjusted so that the amount of the transaction reflects—

(i) the amount reflected in the transferor's taxable income, or

(ii) if the amount is not reflected in the transferor's taxable income, the amount that would have been the amount of the transaction if it were carried out on an arm's length basis;

(b) if (and only if) the asset is an intangible asset, an adjustment is to be made to the underlying profits of the transferee of the asset which corresponds with the amount of the adjustment made to the underlying profits of the transferor of the asset;

(c) the covered tax balance of the transferee of the asset is to be adjusted to reflect a deferred tax asset corresponding with the asset transferred.

(6) An adjustment referred to in subsections (3) and (5) of section 150 and sub-paragraph (5) applies for the purposes of determining the simplified effective tax rate—

(a) in relation to a transaction that is not recorded at all in the underlying profits accounts of both members, for the accounting period in which the transaction occurred;

(b) in relation to a transaction that is recorded, for the accounting period in which the transaction is recorded.

(7) But the filing member of the group may make an election that any such adjustment is in all cases to apply for the purposes of determining the simplified effective tax rate for the accounting period in which the transaction to which the adjustment relates occurred.

(8) An adjustment by virtue of an election under sub-paragraph (7) is nevertheless—

(a) not to be made for the first accounting period for which the election has effect or any earlier accounting period;

(b) not to be made for the first accounting period for which the election is revoked;

(c) to be made for an accounting period only if—

(i) the adjustment is recorded in the underlying profits accounts of both members and approved by the board of directors of both members before the end of the period of 12 months beginning with the end of that accounting period, or

(ii) a transfer pricing agreement is entered into by both members before the end of that period of 12 months.

(9) An adjustment by virtue of an election under sub-paragraph (7) has effect in respect of every territory in which the group has members.

(10) Paragraph 1 of Schedule 15 (long term elections) applies to an election under sub-paragraph (7).

Life assurance business

27 (1) The filing member of the group may make an election that section 152 (adjustments where life assurance business carried on) is not to apply for the purposes of determining the simplified effective tax rate.

(2) Paragraph 2 of Schedule 15 (annual elections) applies to an election under this paragraph.

Qualifying intra-group financing arrangement expenses

28 Section 154 (exclusion of qualifying intra-group financing arrangement expenses) does not apply for the purposes of determining the simplified effective tax rate.

International shipping profits

29 (1) The filing member of the group may make an election that section 156(1) (exclusion of international shipping profits) is not to apply for the purposes of determining the simplified effective tax rate in relation to international shipping profits of any of the members of the group in the territory that are more than nil.

(2) Paragraph 1 of Schedule 15 (long term elections) applies to an election under this paragraph.

Permanent establishments

30 (1) The filing member of the group may make an election that, for the purposes of determining the simplified effective tax rate—

(a) the underlying profits of each of the main entities that are standard members of the group in the territory are to be adjusted to include the adjusted profits of each of their permanent establishments, and

(b) covered taxes on the adjusted profits of each of those permanent establishments are to be allocated to each such main entity.

(2) An election under sub-paragraph (1) may be made in respect of a territory only if—

(a) the law of the territory has provision that is equivalent to Part 6A of TIOPA 2010 (as defined in section 259BA of that Act), and

(b) a main entity in the territory is subject to tax on the income of its permanent establishments located in other territories.

(3) If an election is made under sub-paragraph (1), then, for the purposes of determining the simplified effective tax rate, the qualifying current tax expense of the main entity is to be adjusted to include the amount of any foreign tax credits, to the extent that they do not exceed the foreign tax credit limit.

(4) For the purposes of sub-paragraph (3)—

(a) "foreign tax credits" means taxes paid by the main entity in a foreign territory in respect of the income of its permanent establishments that are located in a foreign territory, whether or not those taxes can be set off against taxes in respect of income in the main entity's territory or in a foreign territory;

(b) "foreign territory" means a territory outside the main entity's territory;

(c) the "foreign tax credit limit" for an accounting period is the amount of the adjusted profits of permanent establishments included in the underlying profits of the main entity multiplied by the highest corporate tax rate on ordinary income in the territory where the main entity is located.

(5) An election under sub-paragraph (1) has effect only if—

(a) any deferred taxes on the main entity are taken into account for the purposes of determining the simplified effective tax rate of the members of the group in the territory in which the main entity is located, and

(b) the rate of those taxes is equal to or more than 15%.

(6) If an election under sub-paragraph (1) has effect—

(a) sections 160 (profits adjusted to attribute losses between permanent establishment and main entity) and 177 (allocation of taxes to permanent establishments) do not apply for the purposes of determining the simplified effective tax rate, and

(b) sections 178 (reallocation of tax expense), 179 (controlled foreign company tax regimes) and 181 (distributions from other members of a group) do not apply in relation to permanent establishments for the purposes of determining the simplified effective tax rate.

(7) If an election under sub-paragraph (1) is not made or does not have effect—

(a) section 160 applies for the purposes of determining the simplified effective tax rate in all cases, but

(b) section 177 applies for those purposes, and sections 178, 179 and 181 apply in relation to permanent establishments for those purposes, only if the filing member of the group has made an election that they are to apply.

(8) If the filing member makes an election under sub-paragraph (7)(b)—

(a) sections 160, 177, 178, 179 and 181 apply in full for the purposes of determining the simplified effective tax rate, but

(b) if a territory has a qualifying domestic top-up tax, any amount of qualifying current tax expense allocated to a member of the group in that territory is not to be taken into account for the purposes of determining the simplified effective tax rate of the members of the group in that territory or any other territory.

(9) Paragraph 2 of Schedule 15 (annual elections) applies to an election under sub-paragraph (1).

(10) Paragraph 1 of Schedule 15 (long term elections) applies to an election under sub-paragraph (7)(b).

Underlying profits of hybrids

31 Section 167 (underlying profits of hybrids) does not apply for the purposes of determining the simplified effective tax rate.

Amounts to be reflected in qualifying current tax expense

32 (1) In subsection (2) of section 176 (amounts to be reflected in qualifying current tax expense)—

(a) paragraph (a) (which requires the inclusion in the qualifying current tax expense of covered taxes that would otherwise not be included) applies for the purposes of determining the simplified effective tax rate only if the filing member of the group elects that it is to apply;

(b) the reference in paragraph (h) to section 146 is to be read for those purposes as a reference to paragraph 44 of this Schedule.

(2) Paragraph 2 of Schedule 15 (annual elections) applies to an election under sub-paragraph (1)(a).

Blended CFC regimes

33 Sections 180 and 180A (blended CFC regimes) do not apply for the purposes of determining the simplified effective tax rate.

Cross-crediting regimes

34 Section 181A (cross-crediting regimes) does not apply for the purposes of determining the simplified effective tax rate.

Cross-border allocation of deferred tax assets and liabilities

35 Section 181B (cross-border allocation of deferred tax assets and liabilities) does not apply for the purposes of determining the simplified effective tax rate.

Deferred tax assets and liabilities

36 (1) For the purposes of determining the simplified effective tax rate—

(a) section 182 (total deferred tax adjustment amount) applies with the modifications in sub-paragraphs (2) and (3);

(b) sections 184 to 186 (deferred tax assets and liabilities) do not apply.

(2) Subsections (5) and (6) of section 182 do not apply for the purposes of determining the simplified effective tax rate.

(3) For the purposes of determining the simplified effective tax rate, the following adjustments are to be made in addition to the adjustments to the deferred tax expense relating to covered taxes reflected in the underlying profits of a member of the group provided for by section 182 (other than those required under subsections (5) and (6) of that section)—

(a) if the value of a deferred tax asset or deferred tax liability of the member is calculated on the basis of a tax rate of more than 15% (the "accounted tax rate"), any amount of that deferred tax expense reflecting that asset or liability is also to be adjusted by multiplying it by the amount determined by dividing 15% by the accounted tax rate;

(b) the deferred tax expense is also to be adjusted so that it only includes tax expenses that—

(i) would be excluded liabilities under section 184 if that section applied;

(ii) arise from the reversal of a deferred tax liability attributable to a transaction taken into account under section 208(4) or 211(1A) or paragraph 39(3) of this Schedule;

(iii) arise from the reversal of a deferred tax liability that was taken into account in a previous accounting period for the purposes of determining the effective tax rate of the members of the group in the territory.

Recalculation where member leaves the group

37 Section 192 (recalculation where member leaves the group) does not apply for the purposes of determining the simplified effective tax rate.

Covered taxes less than nil

38 (1) Sections 202 to 205 (covered taxes less than nil) do not apply for the purposes of determining the simplified effective tax rate.

(2) But see paragraph 45 instead (simplified adjustments for negative taxes).

Restructuring of groups

39 (1) The filing member of the group may make an election that, for the purposes of determining the simplified effective tax rate—

(a) subsection (4) of section 208 is not to apply to any transfer of assets constituting ownership interests resulting in an entity becoming a member of the group, and

(b) subsection (1A) of section 211 is not to apply to any transfer of assets or liabilities to a member of the group (in a case where it would otherwise apply).

(2) An election under sub-paragraph (1) may be made only if—

(a) the assets or liabilities (other than goodwill) are treated in the same way for the purposes of covered taxes before the transfer as they are treated after the transfer,

(b) the assets or liabilities are not adjusted to fair value,

(c) the assets or liabilities are included in the financial accounts used to determine the simplified effective tax rate, and

(d) any deferred tax assets or deferred tax liabilities arising from the transfer are valued on the basis of a rate of tax equal to or exceeding 15%.

(3) The effect of an election under sub-paragraph (1) is that, for the purposes of determining the simplified effective tax rate—

(a) the combined covered tax balance of the standard members of the group is to exclude any deferred tax assets or deferred tax liabilities arising from the transfer;

(b) the combined covered tax balance of the standard members of the group is to include any such deferred tax assets or deferred tax liabilities when they are reversed, except for—

(i) deferred tax liabilities that are excluded liabilities within the meaning of section 184(4), and

(ii) deferred tax liabilities in respect of any relevant amortisation or impairment of goodwill arising from the transfer;

(c) the adjusted profits of the standard members of the group are to include the value of any relevant amortisation or impairment of goodwill arising from the transfer.

(4) Amortisation or impairment of goodwill arising from the transfer is "relevant" if—

(a) it does not give rise to a deferred tax liability, or

(b) it gives rise to a deferred tax liability valued on the basis of a rate of tax below 15%.

Election to reflect fair value

40 (1) An election under section 216 (election to reflect fair value) may, for the purposes of determining the simplified effective tax rate, also be made in relation to a relevant tax adjustment made in a previous accounting period as a result of—

(a) an event referred to in section 208(1) (in a case where section 209 does not apply to that event), or

(b) an event that occurs in the course of a qualifying reorganisation (within the meaning of section 212).

(2) In such a case—

(a) “relevant tax adjustment” includes the adjustments referred to in section 216(3);

(b) a reference in section 216 to “the adjustment period” is, in relation to the relevant tax adjustment, to be read as a reference to the first accounting period for which the election has effect.

Post filing adjustments of covered taxes

41 Sections 217 and 218 (post filing adjustments of covered taxes) do not apply for the purposes of determining the simplified effective tax rate.

Covered taxes not paid

42 Section 219 (adjustment where covered taxes not paid) does not apply for the purposes of determining the simplified effective tax rate.

Adjustments for group relevant revaluation method gain

43 (1) The amount of any relevant revaluation method gain of the group in the territory is to be added to the amount determined at Step 2 in section 132(1) for the purposes of determining the simplified effective tax rate, unless the conditions in sub-paragraph (4) are met.

(2) To determine whether the group has a relevant revaluation method gain in the territory, subtract the sum of any relevant revaluation method losses of the members of the group in the territory from the sum of any relevant revaluation method gains of the members of the group in the territory (and if, the result is more than nil, the group has a relevant revaluation method gain in the territory).

(3) “Relevant revaluation method gain” means a gain, and “relevant revaluation method loss” means a loss, before making any adjustment to reflect tax expense amounts, arising as a result of the use of an accounting method or practice that—

(a) periodically adjusts the carrying value of the member’s property, plant and equipment to its fair value,

(b) records the changes in value in other comprehensive income, and

(c) does not subsequently report the gains or losses through the profit and loss account.

(4) The conditions in this sub-paragraph are met if—

(a) every relevant revaluation method gain of a member of the group in the territory is subject to tax at a rate equal to or exceeding 15%,

(b) all tax on such a gain is recorded in other comprehensive income, and

(c) where the tax on any such gain is a deferred tax liability, that liability is an excluded liability within the meaning given by section 184(4).

(5) The filing member of the group may make an election for the combined covered tax balance for the standard members of the group for the purposes of determining the simplified effective tax rate to include covered taxes relating to relevant revaluation method gains or losses of those members.

(6) Paragraph 2 of Schedule 15 (annual elections) applies to an election under sub-paragraph (5).

Adjustments for group accounting policies or prior period error gains

44 (1) The amount of any accounting policies or prior period error gain of the group in the territory is to be added to the amount determined at Step 2 in section 132(1) for the purposes of determining the simplified effective tax rate, unless the conditions in sub-paragraph (4) are met.

(2) To determine whether the group has an accounting policies or prior period error gain in the territory, subtract the sum of any accounting policies or prior period error losses of the members of the group in the territory from the sum of any accounting policies or prior period error gains of the members of the group in the territory (and, if the result is more than nil, the group has a accounting policies or prior period error gain in the territory).

(3) "Accounting policies or prior period error gain" means an increase, and "accounting policies or prior period error loss" means a decrease, in the net assets and liabilities of the member at the start of an accounting period that is attributable to—

(a) a change in accounting policy that affects income or expenses included in determining the member's adjusted profits, or

(b) a correction of an error reflected in the determination of the adjusted profits of the member for a previous accounting period (whether the determination occurred for the purposes of determining the simplified effective tax rate or the effective tax rate of the members of the group).

(4) The conditions in this sub-paragraph are met if—

(a) every accounting policies or prior period error gain of a member of the group in the territory is subject to tax at a rate equal to or exceeding 15%,

(b) all tax on such a gain is recorded in other comprehensive income, and

(c) where the tax on any such gain is a deferred tax liability, that liability is an excluded liability within the meaning given by section 184(4).

(5) The filing member of the group may make an election for the combined covered tax balance for the standard members of the group for the purposes of determining the simplified effective tax rate to include covered taxes relating to accounting policies or prior period error gains or losses of those members.

(6) Paragraph 2 of Schedule 15 (annual elections) applies to an election under sub-paragraph (5).

Adjustments for negative taxes

45 (1) Sub-paragraph (2) applies if—

(a) section 205 applied in relation to an accounting period before the accounting period for which the simplified effective tax rate is to be determined, and

(b) the accounting period for which the simplified effective tax rate is to be determined is the period referred to in section 205(2)(a) (that is, the next period in which there is no collective loss).

(2) Where this sub-paragraph applies, the qualifying amount of the collective additional amount under section 203 is to be subtracted from the combined covered tax balance for the standard members of the group for the purposes of determining the simplified effective tax rate, as if section 205 applied in relation to that determination.

(3) Sub-paragraph (5) applies in relation to an accounting period for which an election under paragraph 16 has been made if—

(a) the standard members of the group in the territory have a collective loss for that period (that is, the result of Step 2 in section 132(1) for the purposes of determining the simplified effective tax rate of those members is nil or less for those members for that period),

(b) the combined covered tax balance for those members determined for those purposes for that period (including as adjusted under this paragraph) is less than nil, and

(c) the negative tax adjustment amount for that period is less than nil.

(4) The "negative tax adjustment amount" is the amount determined by—

(a) multiplying the extent to which the collective loss is lower than nil (expressed as a positive number) by 15%, and

(b) subtracting the result from the combined covered tax balance.

(5) Where this sub-paragraph applies, the negative tax adjustment amount is to be subtracted from the combined covered tax balance for the standard members of the group in the territory in the next accounting period in which the members of the group in the territory do not have a collective loss (whether that combined covered tax balance is calculated for the purposes of determining the effective tax rate or the simplified effective tax rate of those members).

(6) But the filing member of the group may make an election that sub-paragraph (5) is not to apply in respect of a territory for an accounting period that begins during the period of five years beginning with the first day of the first accounting period for which Pillar Two rules apply to a member of the group.

(7) An election under sub-paragraph (6) has effect only if, in each accounting period in which Pillar Two rules apply to a member of the group—

(a) the standard members of the group in the territory have a collective loss for that period;

(b) the combined covered tax balance for those members for that period (including as adjusted under this paragraph) is nil or less, and

(c) the combined taxable income for those members for that period is less than nil.

(8) The references in sub-paragraph (7) to a collective loss and combined covered tax balance are—

(a) for accounting periods for which an election under paragraph 16 has been made, to those amounts determined for the purposes of determining the simplified effective tax rate;

(b) for other accounting periods, to those amounts determined for the purposes of determining the effective tax rate.

(9) The effect of an election under sub-paragraph (6) is that the loss deferred tax asset adjustment amount for the accounting period in relation to which the election is made is to be subtracted from the combined covered tax balance for the standard members of the group in the territory in the next accounting period in which the members of the group in the territory do not have a collective loss (whether that combined covered tax balance is calculated for

the purposes of determining the effective tax rate or the simplified effective tax rate of those members).

(10) The "loss deferred tax asset adjustment amount" for an accounting period is the amount determined by—

(a) adding together the value of any loss deferred tax assets that arise for those members in that period (disregarding valuation allowances or accounting recognition adjustments) and the value of any deferred tax liabilities accrued by those members in that period in relation to goodwill and other intangible assets with an indefinite life, and

(b) multiplying that combined amount by the amount determined by dividing 15% by the tax rate on the basis of which the value of the deferred tax assets and deferred tax liabilities have been calculated.

(11) Paragraph 1 of Schedule 15 (long term elections) applies to an election under sub-paragraph (6).

Adjustment to match intra-group income and expenses

46 (1) Sub-paragraph (2) applies where, for the purposes of determining the simplified effective tax rate—

(a) an expense arising from a transaction between members of the group is accounted for in determining the adjusted profits of a member of the group in the territory (the "expense member"),

(b) any income arising from that transaction is not accounted for in the same amount as the expense in determining the adjusted profits of another member of the group (whether in the territory or in another territory, and whether for the purposes of calculating a simplified effective tax rate or an effective tax rate), and

(c) the difference does not arise by virtue of the application of a local financial accounting standard to determine the amount of a qualifying domestic top-up tax.

(2) Where this sub-paragraph applies, the adjusted profits of the expense member are, for the purposes of determining the simplified effective tax rate, to be further adjusted to include the amount of the difference between the amount of income accounted for and the amount of expense accounted for.

Adjustment to ensure full allocation of income to territories

47 (1) Sub-paragraph (2) applies where, if the simplified effective tax rate were determined in respect of every territory in which members of the group are located, any income of a member of

the group would not be taken into account for the purposes of any such determination.

(2) Where this sub-paragraph applies—

(a) that income must be taken into account for the purposes of determining the simplified effective tax rate of the standard members of the group in the territory in which the member is located, and

(b) the modifications to Part 3 of this Act made by this Part of this Schedule do not apply for those purposes in relation to that income.

Adjustment to ensure single deduction of expenses and losses

48 (1) Sub-paragraph (2) applies if, for the purposes of determining simplified effective tax rates or effective tax rates of the standard members of the group in more than one territory, an expense or a loss is taken into account more than once to reduce the adjusted profits or increase the covered taxes of any of those members.

(2) Where this sub-paragraph applies, that expense or loss is to be disregarded for the purposes of determining a simplified effective tax rate, except to the extent it is taken into account more than once because of paragraph 30(3) (permanent establishments).

Adjustment to ensure single counting of taxes

49 (1) Sub-paragraph (2) applies if, for the purposes for determining simplified effective tax rates or effective tax rates of the standard members of the group in more than one territory, an amount of covered taxes on any of those members is taken into account more than once.

(2) Where this sub-paragraph applies, that amount of covered taxes is to be disregarded for the purposes of determining a simplified effective tax rate, except to the extent it is taken into account more than once because of paragraph 30(3) (permanent establishments)."

3 In section 144 (adjustments of profit for asymmetric foreign currency income and losses), after subsection (4) insert—

"(4A) The filing member of the group may make an election that this section is not to apply in relation to the members of the group in a territory.

(4B) An election under subsection (4A) may be made only if the filing member has also made an election under paragraph 16 of Schedule 16A (simplified ETR safe harbour) in respect of that territory for the first accounting period for which the election is to have effect.

(4C) Paragraph 1 of Schedule 15 (long term elections) applies to an election under subsection (4A)."

4 In section 147 (adjustments of profit for accrued pension expense), after subsection (3) insert—

"(4) The filing member of the group may make an election that this section is not to apply in relation to the members of the group in a territory.

(5) An election under subsection (4) may be made only if the filing member has also made an election under paragraph 16 of Schedule 16A (simplified ETR safe harbour) in respect of that territory for the first accounting period for which the election is to have effect.

(6) Paragraph 1 of Schedule 15 (long term elections) applies to an election under subsection (4)."

5 In section 202 (adjustment for negative taxes where members have a profit), in subsection (1)(b), after "section 205" insert ", or paragraph 45 of Schedule 16A,".

6 (1) Section 276A (domestic top-up tax: simplified calculations for non-material members of group) (inserted by paragraph 26) is amended as follows.

(2) For the heading substitute "Application of safe harbours".

(3) In the words before paragraph (a)—

(a) for the words from the beginning to "group) applies" substitute "Parts 3 and 4 (safe harbours) apply";

(b) for "it applies" substitute "they apply".

(4) In paragraph (a), for "that Part" substitute "those Parts".

(5) In paragraph (b), for "that Part" substitute "those Parts".

(6) In paragraph (c), for "that Part" substitute "those Parts".

Extension of transitional safe harbour

7 In Part 2 of Schedule 16 (transitional safe harbour), in paragraph 3(2)(a)—

(a) for "31 December 2026" substitute "31 December 2027";

(b) for "30 June 2028" substitute "30 June 2029".

Qualifying tax incentives

8 After section 176 insert—

"Qualifying tax incentives

176ZA Election to make adjustments for qualifying tax incentives

(1) The filing member of a multinational group may, for the standard members of a group in a particular territory for an accounting

period, make an election under this section in relation to a qualifying tax incentive specified in the election.

(2) An election under this section may only be made for an accounting period if the period commences on or after 1 January 2026.

(3) An election under this section has the effect set out in section 176ZB.

(4) A "tax incentive" is any mechanism by which the covered taxes of the member are reduced (including, for example, by means of a tax credit, an allowance, a deduction, an exemption or a lower rate of tax) by an amount directly proportional to an amount of—
   (a) expenditure incurred by the member in the territory, or
   (b) production of goods by the member in the territory (either generally or by a particular method).

(5) A tax incentive (whether it relates to expenditure or production of goods) is qualifying only if—
   (a) the incentive does not consist of a grant or a subsidy,
   (b) the incentive is available to persons generally or persons meeting objective conditions (other than the condition of being or potentially being a person to which the Pillar Two rules apply),
   (c) the availability of the incentive does not depend on the exercise of a discretion by a national, regional or local government or by a governmental entity, and
   (d) the incentive does not relate to expenditure or production resulting in income that is required to be excluded from the adjusted profits of the member (other than by virtue of section 176ZB(3)).

(6) A tax incentive that relates to expenditure is qualifying only if—
   (a) the expenditure to which the incentive relates occurs after the laws providing for the incentive came fully into force,
   (b) the incentive would not be available at all if the expenditure did not occur, and
   (c) the value of the incentive, together with the value of any other tax incentive that relates to the expenditure, is lower than or equal to the value of the expenditure.

   For the purposes of this subsection, expenditure "occurs" at the later of the time it is paid and the time it is recognised in the financial accounts of the member.

(7) A tax incentive that relates to production of goods is qualifying only if—
   (a) the production to which the incentive relates occurs after the laws providing for the incentive came fully into force, and

(b) the value of the incentive is directly proportional to the volume of goods produced (rather than their value).

For the purposes of this subsection, "goods" means only tangible goods and electricity, "production" includes, among other things, processing, extraction, refining, creation, transformation and assembly, and production "occurs" when the goods are produced.

(8) For the purposes of determining the value of a specified qualifying tax incentive other than a tax credit, it is to be assumed that, in the absence of the qualifying tax incentive, the rate of tax applying to the member would be the highest corporate tax rate on ordinary income in the territory.

(9) The value of a specified qualifying tax incentive that is a tax credit is the value of that tax credit.

(10) Paragraph 2 of Schedule 15 (annual elections) applies to an election under this section.

176ZB Effect of election under section 176ZA

(1) This section sets out the effect of an election under section 176ZA in relation to a qualifying tax incentive specified in the election (a "specified qualifying tax incentive").

(2) If the qualifying current tax expense of any of the members would (but for this subsection) exclude some or all of the value of a specified qualifying tax incentive applying to that member, the qualifying current tax expense of that member is to be increased by the QTI value.

(3) If the adjusted profits of any of the members would (but for this subsection) include any amount in respect of or arising from a specified qualifying tax incentive applying to that member, the adjusted profits of that member are to be decreased so as to exclude that amount; but, for the purposes of determining that amount, the value of the specified qualifying tax incentive is to be treated as the QTI value.

(4) The "QTI value" of a specified qualifying tax incentive applying to the member is the full value of the incentive, unless—

(a) the election amount is lower than that value, in which case the QTI value is the election amount instead, or

(b) the substance cap applies, in which case the QTI value is instead the lower of that value and the election amount, multiplied by the substance cap adjustment.

(5) The "election amount" is an amount specified in the election in relation to a specified qualifying tax incentive.

(6) The "substance cap" applies where the total QTI amount exceeds the substance cap amount for the accounting period.

(7) The "total QTI amount" is the sum of the amounts that, assuming the substance cap did not apply, would be the QTI values of all of the specified qualifying tax incentives of all of the standard members of the group in the territory for which the election is made.

(8) The "substance cap amount" is the amount determined in accordance with section 176ZC.

(9) The "substance cap adjustment" is the amount obtained by dividing the substance cap amount by the total QTI amount.

(10) If a specified qualifying tax incentive is a qualifying refundable tax credit or a marketable transferable tax credit, then, before the application of subsection (2) or (3)—
   (a) if the underlying profits of any of the members have been adjusted in accordance with section 147A so that the incentive is accounted for as income rather than as tax expense, that adjustment is to be reversed;
   (b) if an amount of credit or refund in respect of the incentive has been excluded from the qualifying current tax expense in accordance with section 175(2)(c), that exclusion is to be reversed.

176ZC Qualifying tax incentives: substance cap amount

(1) The "substance cap amount" is the greater of—
   (a) 5.5% of the sum of the eligible payroll costs (see section 196) of the members of the group in the territory for the period, and
   (b) 5.5% of the sum of the values of the recorded depreciation, amortisation or depletion for the period used to determine the eligible tangible asset amounts (see section 197) of the members of the group in the territory for the period.

In determining the eligible payroll costs of a member of the group for the purposes of this subsection, costs taken into account in a carrying value used to calculate the eligible tangible asset amount of the member are, despite section 196(4)(b), not to be treated as excluded costs (and may accordingly be taken into account for those purposes).

(2) But the filing member of the group may elect for the substance cap amount instead to be 1% of the sum of the adjusted eligible tangible asset amounts of the members of the group in the territory for the period.

(3) The "adjusted eligible tangible asset amounts" are the eligible tangible asset amounts for the period adjusted to exclude—

(a) the value of any land, and
(b) the value of any assets in respect of which no accumulated depreciation, amortisation or depletion is recorded.

(4) If an election under subsection (2) is revoked, the reference in subsection (1)(b) to eligible tangible asset amounts does not include any amount in respect of an asset if any amount in respect of that asset was taken into account for the purposes of determining the substance cap while the election was in effect.

(5) Paragraph 1 of Schedule 15 (long term elections) applies to an election under subsection (2).

(6) The power in section 198A to make provision about the treatment of payroll costs and tangible assets includes power to make provision about their treatment in relation to this section."

9 (1) Section 147A (treatment of tax credits) is amended as follows.

(2) After subsection (4) insert—

"(4A) Sections 176ZA to 176ZC (in Chapter 5) make provision for an election to change how qualifying tax incentives (which may include tax credits) are to be accounted for, including provision which reverses the effect of paragraphs (a) and (b) of subsection (1) where that election is made."

(3) In subsection (5), omit "(in Chapter 5)".

10 In section 176 (amounts to be reflected in qualifying current tax expense), in subsection (2), after paragraph (c) insert—

"(ca) any amount required to be included by virtue of an election under section 176ZA (election to include qualifying tax incentives);".

Side-by-side safe harbour

11 (1) In Schedule 16A (safe harbours), after Part 4 (inserted by paragraph 2) insert—

"PART 5

SIDE-BY-SIDE SAFE HARBOUR

Election for side-by-side safe harbour

50 (1) The filing member of a multinational group may for an accounting period make an election under this paragraph in respect of its members.

(2) The effect of an election under this paragraph is that all of the members of the group are to be treated as not having top-up amounts or additional top-up amounts for the purpose of

determining the liability of any member of the group to multinational top-up tax.

(3) An election under this paragraph may only be made for an accounting period if—

(a) the period commences on or after 1 January 2026, and

(b) the ultimate parent of the multinational group is located in a territory which is a qualified side-by-side territory for the period (see paragraph 51).

(4) Paragraph 2 of Schedule 15 (annual elections) applies to an election under this paragraph.

Qualified side-by-side territories

51 (1) A territory is a qualified side-by-side territory for an accounting period if—

(a) it is specified as such in—

(i) regulations made by the Treasury, or

(ii) where regulations made by the Treasury so provide, a notice published by His Majesty's Revenue and Customs in accordance with the regulations, and

(b) it is specified in a list published by the OECD as a territory with a qualified side-by-side regime for that period.

(2) Regulations under sub-paragraph (1)(a)—

(a) may provide for the specification of a territory to have effect from a time before the territory was specified;

(b) may not provide for the specification of a territory to cease to have effect in relation to accounting periods commencing before the regulations are made."

(2) The United States of America is to be treated as specified under paragraph 51(1)(a) of Schedule 16A to F(No.2)A 2023 (inserted by sub-paragraph (1)) as a qualified side-by-side territory for an accounting period commencing on or after 1 January 2026 until—

(a) the United States of America is in fact specified under that paragraph, or

(b) if the United States of America is not in fact specified under that paragraph, regulations made by the Treasury provide for the deemed specification under this sub-paragraph to cease to have effect.

(3) Regulations under sub-paragraph (2)(b) are to be treated as regulations under paragraph 51(1)(a) of Schedule 16A to F(No.2)A 2023 (inserted by sub-paragraph (1)).

Ultimate parent entity safe harbour

12 In Schedule 16A (safe harbours), after Part 5 (inserted by paragraph 11(1)) insert—

"PART 6

ULTIMATE PARENT ENTITY SAFE HARBOUR

Election for ultimate parent entity safe harbour

52 (1) The filing member of a multinational group may for an accounting period make an election under this paragraph in respect of a territory.

(2) The effect of an election under this paragraph is that all of the members of the group located in the territory are to be treated as not having untaxed amounts for the purpose of determining the liability of any member of the group to multinational top-up tax (see section 123 and Chapter 9A of Part 3).

(3) An election under this paragraph may only be made for an accounting period if—

(a) the period commences on or after 1 January 2026,

(b) the ultimate parent of the multinational group is located in the territory, and

(c) the territory is a qualified ultimate parent entity territory for the period (see paragraph 53).

(4) Paragraph 2 of Schedule 15 (annual elections) applies to an election under this paragraph.

Qualified ultimate parent entity territories

53 (1) A territory is a qualified ultimate parent entity territory for an accounting period if—

(a) it is specified as such in—

(i) regulations made by the Treasury, or

(ii) where regulations made by the Treasury so provide, a notice published by His Majesty's Revenue and Customs in accordance with the regulations, and

(b) it is specified in a list published by the OECD as a territory with a qualified ultimate parent entity regime for that period.

(2) Regulations under sub-paragraph (1)(a)—

(a) may provide for the specification of a territory to have effect from a time before the territory was specified;

(b) may not provide for the specification of a territory to cease to have effect in relation to accounting periods commencing before the regulations are made."

Consequential amendments relating to elections

13 (1) Schedule 15 (elections) is amended as follows.

(2) In paragraph 1 (long term elections), in sub-paragraph (1)—

(a) after paragraph (aa) insert—

"(ab) section 144(4A);

(ac) section 147(4);";

(b) after paragraph (f) insert—

"(fa) section 176ZC(2);";

(c) at the end insert—

"(j) paragraph 26(7) of Schedule 16A;

(k) paragraph 29 of Schedule 16A;

(l) paragraph 30(7)(b) of Schedule 16A;

(m) paragraph 45(6) of Schedule 16A."

(3) In paragraph 2 (annual elections), in sub-paragraph (1)—

(a) after paragraph (b) insert—

"(ba) section 176ZA;";

(b) at the end insert—

"(m) paragraph 8 of Schedule 16A;

(n) paragraph 16 of Schedule 16A;

(o) paragraph 17 of Schedule 16A;

(p) paragraph 24 of Schedule 16A;

(q) paragraph 27 of Schedule 16A;

(r) paragraph 30(1) of Schedule 16A;

(s) paragraph 32(1)(a) of Schedule 16A;

(t) paragraph 43(5) of Schedule 16A;

(u) paragraph 44(5) of Schedule 16A;

(v) paragraph 50 of Schedule 16A;

(w) paragraph 52 of Schedule 16A."

Commencement

14 (1) The amendments made by paragraph 7 have effect in relation to accounting periods commencing on or after 31 December 2023.

(2) The amendments made by paragraphs 2 to 6 and 13 have effect in relation to accounting periods commencing on or after 31 December 2025.

(3) The amendments made by paragraphs 8 to 12 have effect in relation to accounting periods commencing on or after 1 January 2026.

PART 2

OTHER AMENDMENTS

Introduction

15 F(No.2)A 2023 is amended as follows.

Meaning of "multinational group": entities that are discontinued operations

16 In section 126 (meaning of "multinational group" and "ultimate parent"), in subsection (2)(b)(ii), after "the entity in question" insert "is a discontinued operation or".

17 In section 259 (definitions), in subsection (1), at the appropriate place insert—

""discontinued operation" has the meaning given by international accounting standards;".

Adjustments for companies in distress

18 (1) Section 151 (adjustments for companies in distress) is amended as follows.

(2) In subsection (1)(b), for "(a)" substitute "(za)".

(3) In subsection (2), before paragraph (a) insert—

"(za) that the release of the debt obligation is part of a compromise or arrangement that has taken effect under Part 26A of the Companies Act 2006 (companies in financial difficulty) or a compromise or arrangement corresponding to such a compromise or arrangement that has taken effect under, or as a result of, the law of a country of territory outside the United Kingdom;".

(4) In subsection (3), after "subsection" insert "(2)(za) or".

(5) In subsection (4), for paragraph (b) substitute—

"(b) neither the circumstance in subsection (2)(za) nor (2)(a) applies to the member, and".

(6) In subsection (5), for paragraph (b) substitute—

"(b) none of the circumstances in subsection (2)(za), (2)(a) and (2)(b) apply to the member, and".

Reallocation of tax expense

19 In section 178 (reallocation of tax expense), in subsection (2)—

(a) after "But" insert ", in relation to profits allocated to O under section 167,";

(b) omit "or to M (under subsection (1D))".

Election to treat certain top-up amounts as nil

20 In section 199 (election to treat certain top-up amounts as nil), in subsection (6), at the end insert “,

or the period ended before the end of the first accounting period for which Pillar Two rules applied to the relevant members of the group in the territory.”

Joint venture groups

21 In section 226 (joint venture groups), in subsection (4), omit “multinational group”, in the second place it occurs.

Disqualified and qualified refundable imputation taxes

22 In section 253 (disqualified and qualified refundable imputation taxes), in subsection (3), for “sub-paragraphs (v) and (vi)” substitute “sub-paragraphs (v) to (vi)”.

International expansion safe harbour for untaxed amounts

23 (1) In Schedule 16A (safe harbours), paragraph 7 (no untaxed amounts for groups in initial phase of international expansion) is amended as follows.

(2) In sub-paragraph (3)(b), for “members located in the reference territory” substitute “excluded assets”.

(3) After sub-paragraph (3) insert—

“(3A) The following tangible fixed assets are “excluded assets”—

(a) tangible fixed assets of qualifying members of the group located in the reference territory;

(b) tangible fixed assets located in the reference territory that are tangible fixed assets of a qualifying member of the group that is a stateless member of the group.”

(4) In sub-paragraph (4)(b), after “territory for which” insert “, in the first accounting period in which the group comes within the scope of Chapter 9A,”.

Domestic top-up tax: qualifying entities

24 In section 266 (domestic top-up tax: qualifying entities), in subsection (8)(d), for “section 131(2)” substitute “section 131(3)(a)”.

Domestic top-up tax: determining top-up amounts of entity that is a member of a group

25 (1) Section 272 (domestic top-up tax: determining top-up amounts of entity that is a member of a group) is amended as follows.

(2) In subsection (8)—

(a) in paragraph (ab)(ii), in the subsection (3)(a)(ii) of section 173 deemed to be inserted, for "sections 132" substitute "sections 131";

(b) for paragraph (d) substitute—

"(d) section 179 (controlled foreign companies) has effect as if subsection (2) (restriction on allocation to CFC) were omitted;".

(3) After subsection (8) insert—

"(8A) The filing member of the group may elect—

(a) that subsection (8)(c)(ii) does not apply (and that, accordingly, section 178(2) applies for domestic purposes);

(b) that subsection (8)(d) does not apply (and that, accordingly, section 179(2) applies for domestic purposes).

(8B) Paragraph 2 of Schedule 15 (annual elections) applies to such an election, and has effect for that purpose as if references to an information return or overseas return notification were to a self-assessment return or below-threshold notification."

Domestic top-up tax: simplified calculations for non-material members of group

26 After section 276 insert—

"276A Simplified calculations for non-material members of group

Part 3 of Schedule 16A (simplified calculations for non-material members of group) applies in relation to domestic top-up tax as it applies in relation to multinational top-up tax as if—

(a) references in that Part of that Schedule to a multinational group were to a group;

(b) where a qualifying entity is not a member of a group, references in that Part of that Schedule to a member of a group (however framed and including references to multiple members) were to a qualifying entity;

(c) references in that Part of that Schedule to provisions of Part 3 are to those provisions as they apply for domestic purposes."

Commencement

27 (1) The amendment made by paragraph 26 has effect in relation to accounting periods commencing on or after 31 December 2023.

(2) The other amendments made by this Part of this Schedule have effect in relation to accounting periods commencing on or after 31 December 2026.