

# 21st Annual EY International Tax Quantitative and Reporting Conference

Beyond the horizon – quantitative  
considerations for a changing tax world

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# Welcome

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## Washington update



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# Presenters

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# Topics

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1. Resilience of US tax regime?
2. One Big Beautiful Bill Act (OBBBA)
3. US administrative update
4. US legislative update
5. OECD Administrative Guidance update

# Objectives

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- Identify overall tax landscape changes.
- Review the OBBBA.
- Assess regulatory and administrative updates.
- Discuss latest developments coming out of Washington.
- Recognize developments in OECD Administrative Guidance.

# 01

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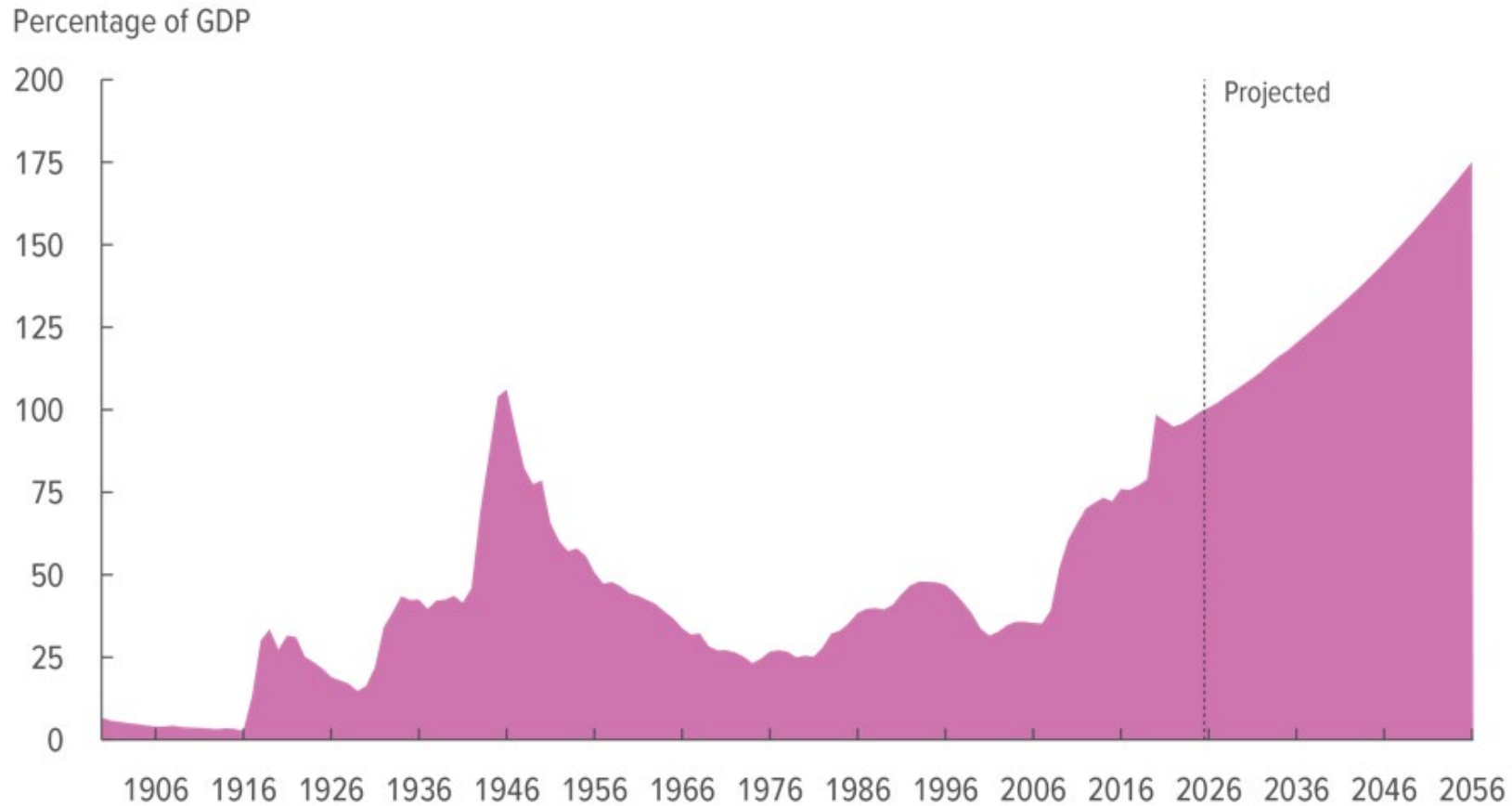
## US Tax System Resilience?

# Post-OBBBA, how does the US compare?

	United States post-OBBBA <sup>1</sup>	Potential responses
<b>Market income</b>	<ul style="list-style-type: none"> <li>21% corporate tax rate (plus SALT<sup>2</sup>)</li> <li>Earnings stripping and R&amp;E<sup>3</sup> expenditures</li> <li>Bonus depreciation</li> </ul>	<ul style="list-style-type: none"> <li>2026 Senate races?</li> <li>CAMT<sup>6</sup></li> <li>Tariffs</li> </ul>
<b>Global (and mobile) income</b>	<ul style="list-style-type: none"> <li>FDDEI<sup>4</sup> at 14% (plus SALT)</li> <li>R&amp;E super deduction</li> <li>Global foreign tax credit (FTC)<sup>5</sup> blending</li> </ul>	<ul style="list-style-type: none"> <li>US politics</li> <li>Market jurisdictions – protect base and raise new sources of revenue (aging and rearmament)</li> <li>Investment hubs – new incentives (Pillar Two compliance?)</li> </ul>
<b>Holding company regime</b>	<ul style="list-style-type: none"> <li>NCTI<sup>6</sup> and expense apportionment</li> <li>SbS<sup>7</sup> system</li> </ul>	<ul style="list-style-type: none"> <li>Pillar Two?</li> </ul>

<sup>1</sup> One Big Beautiful Bill Act (OBBBA) | <sup>2</sup> State and Local Tax (SALT) | <sup>3</sup> Research and experimentation (SALT) | <sup>4</sup> Foreign-derived deduction-eligible income (FDDEI) | <sup>5</sup> Foreign tax credit (FTC) | <sup>6</sup> Net controlled foreign corporation tested income (NCTI) | <sup>7</sup> Side-by-Side (SbS) | <sup>8</sup> Corporate alternate minimum tax (CAMT)

# Federal debt held by the public, 1900 to 2056



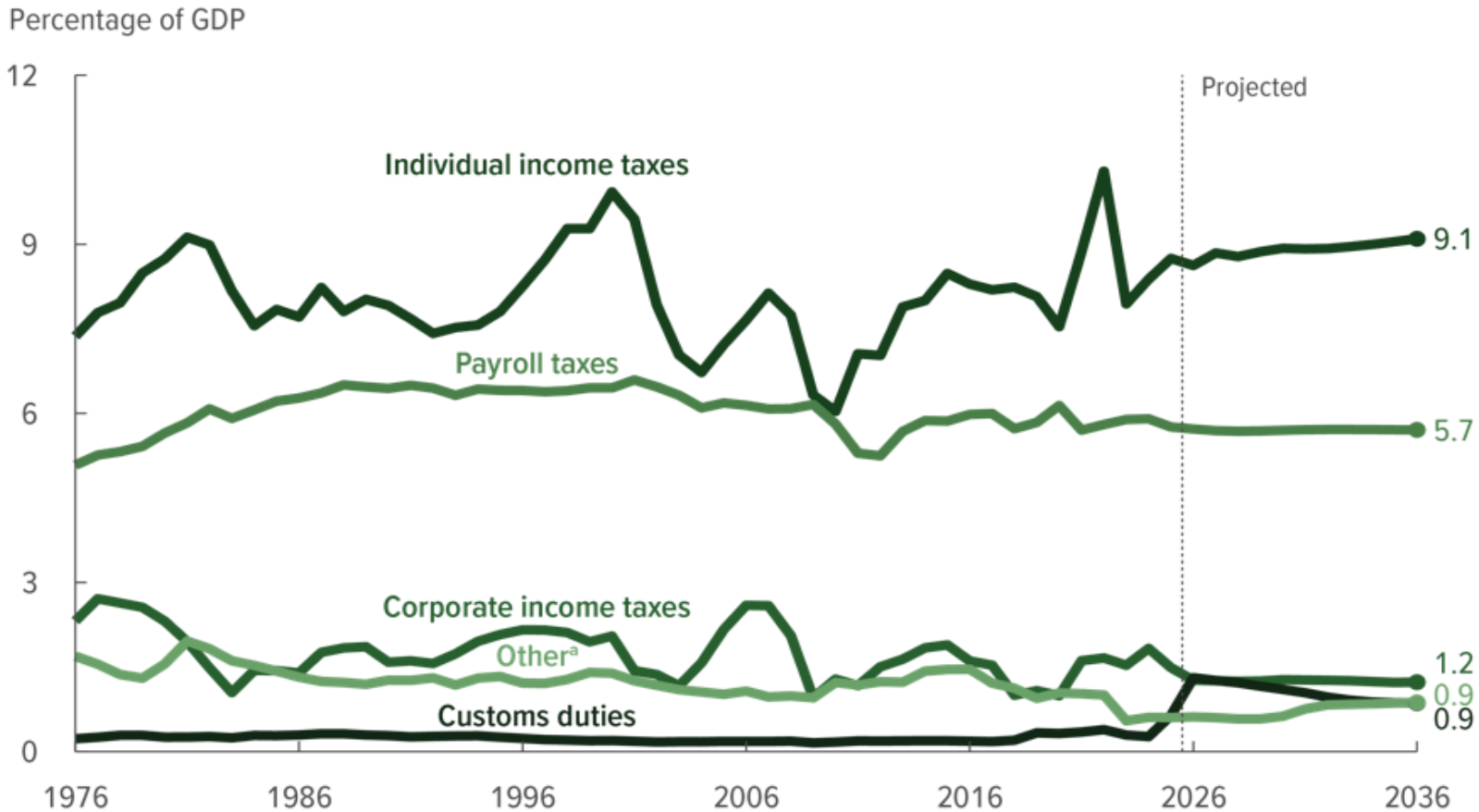
Debt held by the public rises in each year of CBO<sup>1</sup>'s projections, from 101% of GDP<sup>2</sup> this year to 120% of GDP in 2036 – higher than at any point in the nation's history

Over the next two decades, growing deficits push federal debt to 175% of GDP.

Source: Congressional Budget Office (CBO), Historical Data on Federal Debt Held by the Public and Long-Term Budget Outlook Data.

<sup>1</sup> Congressional Budget Office (CBO) | <sup>2</sup> Gross domestic product GDP

# CBO baseline projections of revenues from all sources



Projected revenues over the 2026-2036 period reflect stable receipts from payroll taxes and corporate income taxes and variation in receipts from other sources

As a share of GDP, receipts from individual income taxes rise, whereas receipts from customs duties decline

Source: Congressional Budget Office (CBO), Historical Data on Federal Debt Held by the Public and Long-Term Budget Outlook Data.

# Administration response

## Section 122 tariffs

- Effective February 24, 2026 President Trump imposed 10% tariffs on all trading partners pursuant to Section 122 of the Trade Act of 1974.
- These tariffs cannot exceed 15% and expire after 150 days, on July 24, 2026, unless Congress extends them.
- Carveouts largely mirror previous carveouts from IEEPA<sup>1</sup> tariffs.
- Section 122 tariffs stack on top of other duties except for Section 232 tariffs.
- Imports from trading partners who reached trade deals with the US, with IEEPA tariffs as a basis, are tariffed at the Section 122 rate + MFN tariff.<sup>2</sup>

## Section 301 tariffs

- USTR<sup>3</sup> will launch new investigations into unfair trading practices by trading partners under Section 301 of the Trade Act of 1974.
- These may include investigations into industrial excess capacity, forced labor, pharmaceutical pricing practices, discrimination against US technology companies and digital goods and services, DSTs,<sup>4</sup> ocean pollution and practices related to the trade in seafood, rice and other products.
- Investigations expected to be expedited.
- There will be a public process.
- Negotiated outcomes, instead of tariffs, are possible.

## Section 232 tariffs

- Commerce will continue investigating threats of certain imports to the national security of the US under Section 232 of the Trade Expansion Act of 1962.
- New investigations may include large-scale batteries, cast iron and iron fittings, plastic piping, industrial chemicals and power grid and telecom equipment.
- Investigations expected to be expedited.
- There will be a public process.
- Negotiated outcomes, instead of tariffs, are possible.

<sup>1</sup> International Emergency Economic Powers Act (IEEPA) | <sup>2</sup> Most Favored Nation (MFN) tariff | <sup>3</sup> United States Trade Representative (USTR) | <sup>4</sup> Digital services taxes (DSTs)

# 02

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## OBBBA

# Summary of international provisions

GILTI/FTCs	<ul style="list-style-type: none"> <li>▪ GILTI<sup>1</sup> deduction reduced to 40% (12.6% ETR<sup>2</sup>)</li> <li>▪ QBAI<sup>3</sup> eliminated; FTC<sup>4</sup> haircut reduced to 10%</li> <li>▪ Do <b>not</b> allocate interest and R&amp;E expenses to GILTI FTC basket</li> <li>▪ Only allocate “directly allocable” deductions to GILTI FTC basket</li> <li>▪ Expenses that would otherwise be A&amp;A<sup>5</sup> to GILTI basket are redirected to US source</li> <li>▪ Tech corrections             <ul style="list-style-type: none"> <li>▪ Base differences treated as general basket (not branch basket) [Section 904(d)(2)(H)(i)]</li> <li>▪ Section 960(b) deemed paid taxes (1) not treated as Section 78 deemed dividends; and (2) are subject to 10% disallowance under Section 960(d)(4)</li> </ul> </li> </ul>
FDDEI	<ul style="list-style-type: none"> <li>▪ FDDEI deduction reduced to 33.34% (14% ETR)</li> <li>▪ QBAI eliminated</li> <li>▪ Do <b>not</b> allocate interest and R&amp;E expenses</li> <li>▪ Continue to allocate all other “properly allocable” expenses</li> <li>▪ Carveout from FDII of sales or other dispositions (other than by license) of (1) intangible property (as defined in Section 367(d)(4)); and (2) any other property “of a type” that is subject to depreciation, depletion or amortization</li> </ul>
BEAT <sup>6</sup>	<ul style="list-style-type: none"> <li>▪ Rate permanently changed to 10.5% (11.5% for banks and dealers); base erosion threshold remains 3%</li> </ul>

<sup>1</sup> Global intangible low-taxed income (GILTI) | <sup>2</sup> Effective tax rate (ETR) | <sup>3</sup> Qualified business asset investment (QBAI) | <sup>4</sup> Foreign tax credit | <sup>5</sup> Allocated and apportioned (A&A) | <sup>6</sup> Base erosion and anti-abuse tax (BEAT) anti-abuse tax

# Summary of international provisions (cont.)

Section 163(j)	<ul style="list-style-type: none"> <li>Permanent reinstatement of depreciation/amortization add-back for tax years beginning after 2024</li> <li>Application of disallowance to capitalized interest</li> <li>GILTI, subpart F income and Section 78 gross-up excluded from adjusted taxable income</li> </ul>
Section 174	<ul style="list-style-type: none"> <li>Domestic R&amp;E expenditures immediately deductible for tax years beginning after 2024; foreign R&amp;E expenditures remain capitalized over 15 years</li> <li>Consider transition rules, interaction with DEI<sup>1</sup> rules on “properly allocable” expenses</li> </ul>
Section 904(b)(6)	<ul style="list-style-type: none"> <li>Change to FTC rules under Section 904 to allow US-produced inventory sold abroad to be partially foreign source</li> </ul>
Other outbound provisions	<ul style="list-style-type: none"> <li>Changes to pro rata share rules in Section 951(a)(2) with regulatory authority <b>to allow or require</b> taxpayers to close the taxable year of a CFC upon acquisition of its stock; <b>rule has potentially retroactive effect</b></li> <li>Section 954(c)(6) “look through” made permanent</li> <li>Section 898(c) one-month deferral for CFCs<sup>2</sup> eliminated (i.e., a regulation grant to spread short-period taxes to subsequent year)</li> </ul>
Section 958(b)(4)	<ul style="list-style-type: none"> <li>Reinstatement of downward attribution under Section 958(b)(4) and introduction of new Section 951B inclusion rule</li> </ul>

<sup>1</sup> Deduction eligible income (DEI) | <sup>2</sup> Controlled foreign corporations (CFCs)

# Polling 1

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Which changes from OBBBA do you anticipate will have the most significant impact on your company?

- A. NCTI
- B. FDDEI
- C. Section 163(j)
- D. N/A (EY associate, faculty, etc.)

# 03

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## US administrative update

# Treasury deregulatory agenda – direction of travel

## Clear shift in philosophy

- Avoid “over-engineering” – fewer hyper-prescriptive rules
- Greater reliance on **standards, safe harbors and reasonable methods**
- Focus on **administrability, flexibility and real-world alignment**
- Increased discipline around **statutory authority (post-Loper Bright)**
- **Application in current guidance**

## References

- **Section 987** – simplification, elective methods, reduced compliance burden
- **CAMT** – alignment with regular tax; flexible interim approaches
- **DCL<sup>1</sup>/DPL<sup>2</sup>** – withdrawal/deferral signals willingness to revisit design
- **FIRPTA<sup>3</sup>/Section 897** – more targeted rules (e.g., REIT<sup>4</sup>/inbound structures)

## Contrast with prior regulatory approach

- Earlier regimes more **prescriptive and anti-abuse driven**
- Examples include **Section 901(m), Section 385 and Treas. Reg. Section 1.861-20**
- Current direction suggests **greater openness to taxpayer judgment**

<sup>1</sup> Dual Consolidated Loss (DCL) | <sup>2</sup> Disregarded Payment Loss (DPL) | <sup>3</sup> Foreign Investment in Real Property Tax Act (FIRPTA) | <sup>4</sup> Real Estate Investment Trust (REIT)

# Recent regulatory activity (post-OBBBA)

## OBBBA implementation underway

- Initial guidance across Sections 951, 960(d)(4), 250(b), 898(c)
- Focus on operability and coordination with existing regimes

## International and corporate guidance

- Section 987 (Notice 2026-17) – simplification, elective methods, prospective relief
- DCL/DPL (Notice 2025-44; DPL withdrawal) – transition relief; reconsideration of approach
- FIRPTA/Section 897 – inbound reorg guidance; domestically controlled REIT/blocker focus
- Section 892 – updated framework for foreign government investors

## Minimum tax and cost recovery

- CAMT – multiple notices (simplified method, partnerships, transactions)
- Section 174/174A; Section 168(k) – expensing and capitalization coordination

## Other notable area

- Digital assets – broker reporting relief; rollback of prior proposals

# What to watch in 2026

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- Key projects expected
  - CAMT proposed regulations – further alignment with regular tax base
  - Section 987 additional guidance – including CFC-related issues
  - Section 904(b)(6) – implementation and interaction with FTC limitation
  - Continued OBBBA technical guidance
- Other priority international areas
  - FTC regime – direction of 2022 “final” regulations
  - DCL rules – potential changes to “all-or-nothing” approach
  - Section 892 – scope and application to modern investment structures
  - Cloud/digital sourcing – unresolved framework

# Unfolding 2026

## Corporate Alternative Minimum Tax (CAMT)

### Guidance update

- Status of reproposed and original proposed regulations
- Recent CAMT notices
  - More closely aligns CAMT base with regular tax base
  - Flexible reliance options

### Observations

- Certain issues remain
- Modeling is critical
- Use flexibility provided in interim guidance
  - Balance immediate benefits with future impacts
- Regular tax planning for CAMT

## Foreign currency regulations

### Notice 2026-17

- On February 25, 2026, the IRS<sup>1</sup> and Treasury announced their intent to issue proposed regulations under Section 987
- In general, these are intended to simplify the operation of the regulations under Section 987, reduce compliance obligations, and refine the scope of certain rules under Section 987 to limit their effect on ordinary course transactions
- Important proposed changes to the 2024 final regulations include:
  - An election to use a method similar to the method provided in the 1991 proposed regulations
  - An election under which CFCs would not compute or recognize foreign currency gain or loss under Section 987(3), except in connection with certain inbound transactions
- Generally the guidance would be prospective, but there is an ability to rely on certain of the provisions for a prior tax year (or years)

<sup>1</sup> Internal Revenue Service

# Polling 2

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Has your company assessed how the recent regulatory and administrative guidance will affect your organization?

- A. Yes
- B. No
- C. Currently in progress
- D. N/A (EY associate, faculty, etc.)

# 04

## US legislative update

# Two paths for future legislation

## Republican priorities – reconciliation bill

- Items omitted from OBBBA:
  - Barring states from using their own funds to provide Medicaid to illegal immigrants
  - Third-party litigation reform
  - Business development company extension to Section 199A deduction
  - HSA<sup>1</sup> provisions
  - Increasing the Section 199A passthrough deduction to 23%
  - Revival of Section 899 reciprocal tax?
- No capital gains tax on home sales
  - Current exclusion: \$250,000 (\$500,000 joint)

## Bipartisan priorities – could be attached to spending bill

- Extension of ACA<sup>2</sup> enhanced premium tax credits expiring at end of 2025
- Cryptocurrency tax provisions
- Tax extenders:
  - WOTC<sup>3</sup>
  - Section 181 special expensing rules for film, television and live theatrical productions
  - Empowerment Zone incentives
- US-Taiwan tax relief
- Pharmacy benefit manager reforms
- Retirement provisions
- Trade program extensions

<sup>1</sup> Health Savings Account (HSA) | <sup>2</sup> Affordable Care Act (ACA) | <sup>3</sup> Work Opportunity Tax Credit (WOTC)

# Polling 3

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How relevant are the recent Washington updates to your company?

- A. Very relevant
- B. Not too relevant
- C. Not sure
- D. N/A (EY associate, faculty, etc.)

# 05

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## OECD Administrative Guidance update

# Overview of the Pillar Two Side-by-Side package

- On January 5, 2026, the OECD released a Pillar Two Administrative Guidance package detailing the SbS<sup>1</sup> arrangement. The package includes the following components:

SbS system:  
SbS Safe Harbor and  
UPE<sup>2</sup> Safe Harbor

Simplified ETR  
Safe Harbor

Substance-Based Tax Incentive  
Safe Harbor

A one-year extension of the  
Transitional CbCR<sup>3</sup> Safe Harbor  
(TCSH)

- On the same date, the OECD Central Record website listed the United States as a UPE jurisdiction meeting the SbS Safe Harbor (but did not list any other jurisdictions).\*

\* Link: [Central Record for purposes of the Global Minimum Tax | OECD](#)

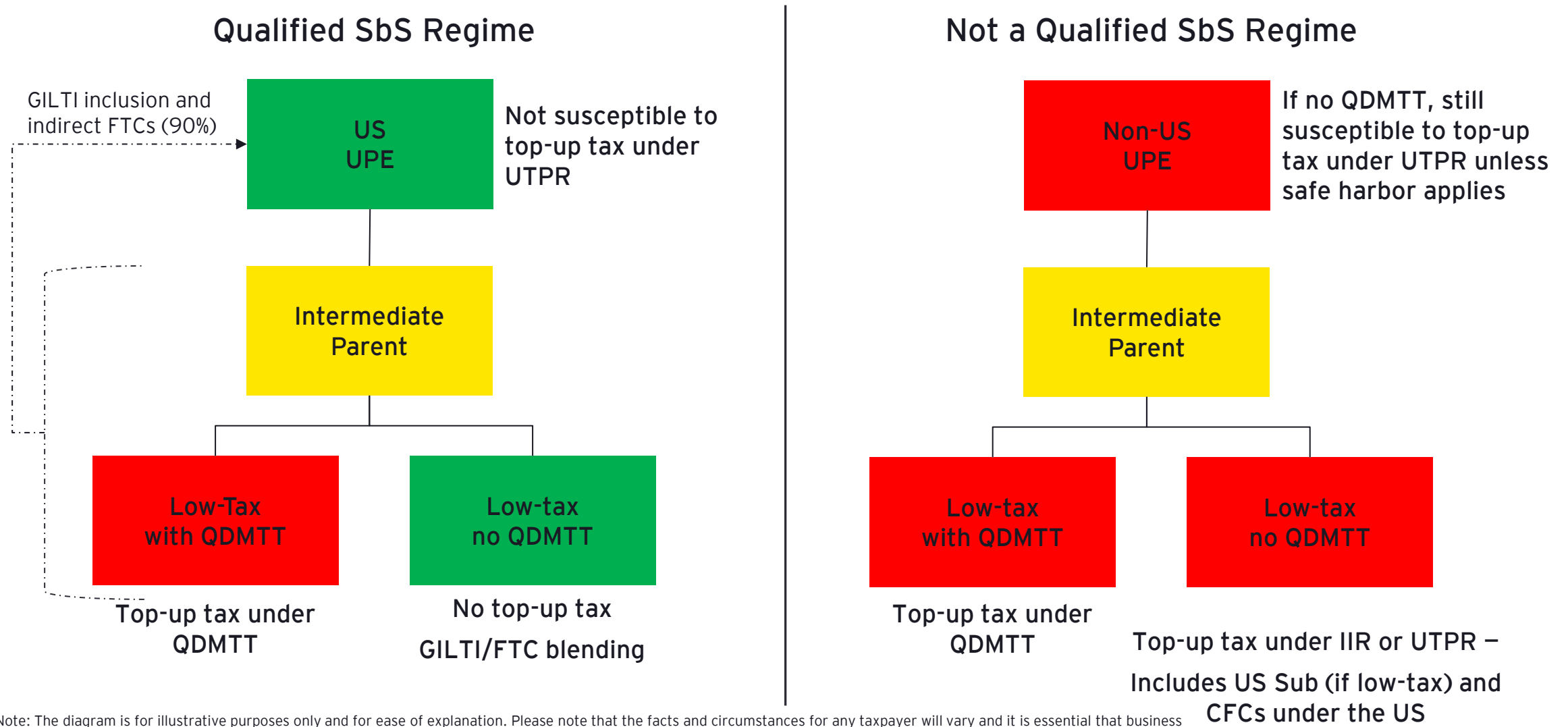
<sup>1</sup> Side-by-Side (SbS) | <sup>2</sup> Ultimate Parent Entity (UPE) | <sup>3</sup> Country-by-country reporting (CbCR)

# SbS Safe Harbor

- Key criteria for determining “Qualified Side-by-Side Regime”:
  - Has an eligible domestic tax system
  - Has an eligible worldwide tax system
  - Provides FTC credit for QDMTT<sup>1</sup>
  - For now, this is just the United States
- Upon request, the OECD/G20 Inclusive Framework on BEPS will assess a jurisdiction’s pre-existing tax regimes for eligibility by mid-2026 and will assess other jurisdictions initiating requests in 2027 or 2028
- Effects of elective safe harbor if UPE is located in such a jurisdiction:
  - IIR<sup>1</sup> and UTPR<sup>2</sup> UPE deemed to be zero for all jurisdictions
  - QDMTT<sup>3</sup> remains applicable
  - Electing multinational enterprise (MNE)<sup>4</sup> groups remain subject to GloBE Information Return filing obligations
- Implementation:
  - May apply for fiscal years commencing on or after January 1, 2026 or a later year as listed in the Central Record
  - Future “stocktake” including assessing effects of any “emerging material competitive imbalances.”

<sup>1</sup> Qualified Domestic Minimum Top-up Tax (QDMTT) | <sup>2</sup> Income Inclusion Rule (IIR) | <sup>3</sup> Undertaxed Profits Rule (UTPR) | <sup>4</sup> Multinational enterprise (MNE)

# Location of UPE: US UPE vs. non-US UPE under SbS Regime example



Note: The diagram is for illustrative purposes only and for ease of explanation. Please note that the facts and circumstances for any taxpayer will vary and it is essential that business purposes and client specific facts and circumstances are independently assessed.

# What's new?

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- Introduction of new **Substance-Based Tax Incentive Safe Harbor (SBTI SH)**:
  - Effective for a fiscal year (FY) that commences on or after January 1, 2026.
  - Applies by election.
  - Can be utilized together with the new Simplified ETR Safe Harbor (SESH).
  - Treats tax benefits from qualifying tax incentives (QTIs) as **addition to covered taxes**.
  - Amount of top-up tax that corresponds to the QTIs is **deemed to be zero**.
- Qualified refundable tax credits (QRTCs) and marketable transferable tax credits (MTTCs) that meet **the definition of QTI** may be partially or fully treated as a QTI.
- QTI adjustments are subject to **annual substance capping**.

# Key differences between full GloBE computation, TCSH and SESH

Key features	Full GloBE computation	TCSH – simplified ETR test	SESH
Applicability	Depends on country implementation	“Once out, always out”	“In and out” allowed
Covered period	FYs beginning on or after December 31, 2023 (depends on country implementation)	FYs beginning on or before December 31, 2027 but not including a FY that ends after June 30, 2029	FYs beginning on or after December 31, 2026 (or possibly a year earlier if no coordination issue arises)
Minimum tax rate	15%	Stepped rates (15% to 17%)	15%, without any buffer rate
Datasets	<ul style="list-style-type: none"> <li>▪ CFS<sup>1</sup></li> <li>▪ LFAS<sup>2</sup> for QDMTT jurisdictions adopting LFAS</li> </ul>	Depends on CbCR	<ul style="list-style-type: none"> <li>▪ CFS</li> <li>▪ LFAS for QDMTT jurisdictions adopting LFAS, unless CFS is allowed and election is made on global basis</li> </ul>
Computation	<ul style="list-style-type: none"> <li>▪ Potential for extensive adjustments and tracking requirements</li> <li>▪ Multiple elections possible</li> <li>▪ Specific industry carveouts</li> </ul>	<ul style="list-style-type: none"> <li>▪ Minimal adjustments</li> <li>▪ No optional adjustments</li> <li>▪ No elections</li> </ul>	<ul style="list-style-type: none"> <li>▪ Reduced GloBE adjustments</li> <li>▪ Optional adjustments</li> <li>▪ Elections under GloBE Model Rules</li> <li>▪ Sector specific (insurance and shipping) adjustments</li> </ul>

<sup>1</sup> Consolidated financial statement (CFS) | <sup>2</sup> Local financial accounting standard (LFAS)

# Polling 4

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Do you expect that the updates to the safe harbors will have a significant impact on your company?

- A. Yes
- B. No
- C. Currently in progress
- D. N/A (EY associate, faculty, etc.)

# Key takeaways

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- Evaluate the impact of changes introduced by OBBBA.
- Analyze the significance of key regulatory and administrative guidance.
- Review the recent OECD Pillar Two Administrative Guidance in the SbS package.
- Gain insight into the recent trends in the tax landscape to effectively prepare future updates.

# Thank you and questions

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