

# A&M Tax Talks

## Tax Policy Updates

### Episode 1: G7 Side-by-Side Arrangement

#### Transcript

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**0.06 – 0.57**

Hello and welcome to our podcast series, where we bring you insights into the latest developments in the global tax policy and controversy space. My name is Bruno Aniceto da Silva, and I am a senior advisor at the A&M Global Tax Policy and Controversy Group. In this episode, I would like to briefly discuss with you five points.

First, what is the background for the side-by-side system?

Second, how does the interaction between the former GILTI rules, now Net CFC Tested Income or NCTI, and the GloBE currently work?

Third, how the side-by-side system may work.

Fourth, how the side-by-side system may be implemented.

And finally, some conclusions with our A&M takeaways.

**0.57 – 2.48**

So, let's look at the first topic. What is the background for the side-by-side system?

You may recall that on the 28th of June, the G7 published a statement agreeing on a side-by-side system to fully exclude US parent groups from the UTPR and the IIR in respect of both their domestic and foreign profits<sup>1</sup>.

This statement allowed the removal of Section 899 from the One Big Beautiful Bill Act, also known as the OB3<sup>2</sup>, which would otherwise allow retaliation against unfair foreign taxes. The OB3 made some key changes to the GILTI rules, one of them precisely, and as I mentioned, it's now called Net CFC Tested Income, the NCTI, and these changes give rise now to a 14%

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<sup>1</sup> U.S. Department of the Treasury. "G7 Statement on Global Minimum Tax." Press release, June 28, 2025. <https://home.treasury.gov/news/press-releases/sb0181>.

<sup>2</sup> Tax Foundation. "The Big, Beautiful Bill: International Tax Changes." Accessed August 29, 2025. <https://taxfoundation.org/blog/big-beautiful-bill-international-tax-changes/>.

effective tax rate on foreign profits<sup>3</sup>.

The G7 statement also included the commitment to ensure a level playing field and address any potential BEPS risks deriving from the side-by-side system. The statement also agreed on achieving material simplification of the overall Pillar 2 administration and compliance, something that had already been requested for a while, both by M&A advisors and tax administrations, and to extend the favorable treatment which is given to the QRTCs, the Qualified Refundable Tax Credits, to other substance-based tax incentives.

These principles of the G7 statement were subsequently reaffirmed in the G20 July declaration, acknowledging that any agreement on the side-by-side system will require broad support by the BEPS IF members.

## 2.48 – 4.40

So, let's look quickly. How does the interaction between the former GILTI rules, the current NCTI, and the GloBE rules currently work?

So, it works by treating the NCTI as blended CFC taxes. This means that inclusions made under the NCTI are then subject to a cross-border tax allocation mechanism, which allows for the so-called push-down of CFC taxes, meaning that any CFC taxes imposed on the foreign subsidiaries are pushed down or attributed to these foreign subsidiaries for the purposes of calculating their effective tax rate in the context of the application of the GloBE rules.

Therefore, any difference between the effective tax rate calculated after the push-down and the 15% minimum rate under the GloBE rules may trigger the application of the income inclusion rules in certain scenarios, even in the case of US parent groups.

As regards the NTPR, as we know, there is a transitional safe harbor applicable for UPEs (Ultimate Parent Entities) located in high-tax jurisdictions, the ones which are subject to a nominal corporate income tax rate of at least 20%. Both the cross-border tax allocation methodology and UTPR safe harbor will expire by the end of 2025.

It's worth recalling that in case the jurisdiction has implemented Qualified Domestic Minimum Top-up Tax, the QDMTT, this could entity will always apply primarily and before any other charging provisions, IIR or UTPR, and prior to any cross-border allocation mechanism that I just described.

## 4.40 – 5.58

Let's then move to the third topic. How does the side-by-side system may work? Fundamentally, and as reflected in the G7 statement, is that neither the IIR nor UTPR will apply. In case of US parent groups, there may be cases where the IIR may still apply. So, if we have a US intermediate parent company, which is held by a foreign ultimate parent entity located in implementing IIR jurisdictions, the US intermediate parent company can apply the NCTI rules. There will be the cross-border allocation mechanism for the purpose of determining the ETR of the foreign subsidiary, and then potentially the IIR may apply at the level of the ultimate parent entity if there is any difference between the effective tax rate and the 15%. However, this will not be the case where the UPE is a US UPE, where only the NCTI rules will apply in any case. And similar to the current framework, the QDMTT has primacy. Jurisdictions are fully to apply the 15% minimum tax to their local low-tax profits, and this applies prior to any other rules.

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<sup>3</sup> Bloomberg Tax. "How to Calculate GILTI Tax on Foreign Earnings." Accessed August 29, 2025. <https://pro.bloombergtax.com/insights/international-tax/how-to-calculate-gilti-tax-on-foreign-earnings/#tax-planning-implications>.

## 5.58 – 6.21

Let's look at the fourth topic. How may the side-by-side system be implemented? Well, here I would say that considering the prior experience with the UTPR transitional safe harbor, it is probably more likely that we can expect a permanent safe harbor that may allow effectively implementing the side-by-side system.

## 6.21 – 7.26

So, time for some conclusions of this podcast with some key takeaways. First, we should take into account existing global rules still are still in place, and M&A advisors should comply with the current framework. Second, the QDMTT remains and will remain applicable without any limitations in the context of the side-by-side system, so we may see more countries implementing this rule. Third, considering that the existing framework on interaction between the NCTI and the GloBE rules will expire by the end of 2025, it may be expected that new guidance will be released until the end of the year on the application of the side-by-side system, subject, of course, to an agreement by all BEPS IF members. Fourth, M&A advisors should start assessing how the side-by-side system may affect the existing structures, taking into account the impact on tax modelling in light of the expected simplified compliance framework, and also in the context of M&A transactions.

## 7.26 – 7.35

And that is all from me today. Thank you very much for joining us and stay with us as we continue this journey in our upcoming podcasts.

## 7.35 – End

On this Pillar 2 topic. My colleagues Jay Thompson and Matt Andrew will soon bring you some thoughts on the QRTCs and the safe harbors, and please do not forget also to check our monthly newsletter, which will bring you the latest key updates around selected editorial pieces from our global tax network.

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