

# Quarterly tax developments

Things to know about this quarter's tax developments and related US GAAP accounting implications

March 2026

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# Tax developments

Welcome to our March 2026 Quarterly tax developments publication, which focuses on income tax developments that could affect US GAAP accounting.

Here we describe certain tax developments previously summarized in Tax Alerts or other EY publications or identified by EY tax professionals or EY foreign member firms. These developments may affect your tax provision or estimated annual effective tax rate.

We compile this information because we recognize that, for many companies, the most challenging aspect of accounting for income taxes is identifying changes in tax law and other events when they occur so the accounting can be reflected in the appropriate period. However, this publication is not a comprehensive list of all changes in tax law and other events that may affect income tax accounting.

This edition covers certain enacted and effective tax legislation, as well as regulatory developments, legislative proposals and other items identified through 20 March 2026, except as noted.

We list EY publications that you can access through our [Tax News Update website](#), if you are registered. Anyone interested in registering should contact Amy Herlihy at [amy.herlihy@ey.com](mailto:amy.herlihy@ey.com).

See our [previous editions](#) for additional tax developments.

## Legislation enacted in the first quarter for US GAAP purposes

### Federal, state and territories

**Idaho** – On 10 February 2026, Idaho enacted legislation updating its date of conformity to the Internal Revenue Code (IRC) to 1 January 2026 from 1 January 2025. The new law conforms Idaho to the tax changes contained in the tax legislation signed into law by President Trump on 4 July 2025, commonly known as the One Big Beautiful Bill Act (OBBBA), except for decoupling from changes made by the OBBBA to following federal tax provisions:

- ▶ IRC Section 168(k) special depreciation allowance for qualified property and qualified improvement property (QIP) (from which Idaho has historically decoupled)
- ▶ IRC Section 168(n) special depreciation allowance for qualified production property (QPP)
- ▶ IRC Section 174A research and experimentation (R&E) expenditures incurred in tax years beginning on or after 1 January 2022 and before 1 January 2025 (expenditures already being amortized will continue being amortized until the end of their five-year amortization schedule)

The new law also precludes businesses from using the same R&E expenses for both a deduction and Idaho's tax credit for research activities. These changes are retroactively effective to 1 January 2025. See [Tax Alert 2026-0578](#), dated 5 March 2026.

**Indiana** – On 29 January 2026, Indiana enacted legislation conforming to the elimination of the special five-year cost recovery period for investments in certain solar and wind property, which was made by the OBBBA. The change, among others, is effective upon enactment. See [Tax Alert 2026-0392](#), dated 9 February 2026.

**Virginia** – On 20 February 2026, Virginia enacted legislation adopting a fixed-conformity-date method (previously, Virginia adopted a rolling-conformity method but temporarily suspended conformity to the OBBBA). Under the new law, Virginia adopts the IRC as of 31 December 2025 but decouples from changes made by the OBBBA to the following federal tax provisions:

- ▶ IRC Section 168(n) special depreciation allowance for QPP
- ▶ IRC Section 174A R&E expenditures incurred (including retroactive and transition rules under the OBBBA)

The new law also reduces to 20% from 50% the state deduction for business interest expense that is disallowed under IRC Section 163(j) on the federal return and updates the state deduction for IRC Section 951A inclusions by changing the reference to global intangible low-taxed income to net controlled foreign corporation (CFC) tested income. These changes are effective upon enactment, unless otherwise noted. See [Tax Alert 2026-0614](#), dated 11 March 2026.

**West Virginia**<sup>1</sup> – On 2 March 2026, West Virginia enacted legislation updating its IRC conformity statute to include federal changes made after 31 December 2024 but before 1 January 2026 from federal changes made after 31 December 2023 but before 1 January 2025. No amendment to the IRC made on or after 1 January 2026 will be given any effect. The change is retroactively effective to the extent allowable under federal income tax law.

### International

**Canada** – On 26 March 2026, Canada enacted legislation reinstating the accelerated investment incentive, providing accelerated rates of depreciation for most capital assets that are acquired on or after 1 January 2025 and become available for use before 2034. The legislation also allows for an immediate write-off of the full cost of certain manufacturing or processing machinery and equipment, clean energy equipment, and zero-emission vehicles acquired after 2024 and available for use before 2030. The rates of accelerated depreciation under both the accelerated investment incentive and the immediate expensing rules will

<sup>1</sup> A Tax Alert has not been published on this development.



gradually be phased out for property that becomes available for use after 2029 and before 2034. For companies in the resource sector, a similar enhanced deduction allows for a faster write-off of certain Canadian development expenses and Canadian oil-and-gas-property expenses.

Other changes include:

- ▶ Replacing Canada's transfer pricing adjustment and recharacterization rules with a single adjustment application rule that applies if the actual conditions of the relevant transaction or series differ from arm's-length conditions (applies to tax years beginning after 4 November 2025)
- ▶ Increasing tax incentives for scientific research and experimental development (SR&ED) by reinstating the income deduction for capital expenses related to SR&ED and incurred after 15 December 2024
- ▶ Strengthening the foreign affiliate rules by preventing Canadian companies from avoiding current taxation of their foreign affiliates' undistributed profits from passive businesses (generally applies to tax years beginning after 6 April 2022)
- ▶ Strengthening anti-avoidance rules that deny deductions for inter-corporate dividends received under a synthetic equity arrangement by removing certain exceptions (applies to dividends received on or after 1 January 2025)
- ▶ Strengthening the conditions that must be met for a corporation to qualify as a mutual fund corporation (generally applies to tax years beginning after 2024)
- ▶ Exempting from tax certain gains from disposing of an international shipping vessel, as well as personal or moveable property related to the vessel's operation (applies as of 31 December 2023)
- ▶ Making sure an appropriate amount of tax depreciation is calculated for a vessel used to earn exempt international shipping income in some tax years and non-exempt income in other tax years (applies as of 31 December 2023)
- ▶ Temporarily increasing to 10% from 4% the depreciation rate (i.e., capital cost allowances) for certain rental housing construction projects beginning after 15 April 2024 and before 2031
- ▶ Allowing 100% expensing for certain property (e.g., patents, data network infrastructure equipment, computer equipment and systems software) acquired on or after 16 April 2024 and available for use before 2027
- ▶ Applying withholding tax to payments made or credited to a nonresident as consideration for certain debt restructurings (effective 12 August 2024)

The legislation also includes technical amendments that affect, among other things:

- ▶ Foreign affiliate share-for-share exchanges
- ▶ Foreign mergers
- ▶ The limitation on excessive interest and financing expenses
- ▶ The definition of foreign accrual property income
- ▶ Concessional loans

Additionally, the legislation repeals Canada's digital services tax (DST), effective 20 June 2024. Although not an income tax under Accounting Standards Codification 740, *Income Taxes*, the DST had financial reporting implications for companies that provided digital services subject to the tax. See [Tax Alert 2025-0752](#), dated 30 March 2026.

**France** – On 20 February 2026, France enacted the Finance Bill for 2026, which extends the temporary corporate income tax surcharge for an additional year (i.e., through fiscal year 2026 for companies with a calendar year-end). The extended surcharge would apply to companies with revenue realized in France of EUR1.5 billion or more, as opposed to EUR1 billion or more the previous fiscal year, with the rates remaining the same.

Other changes include:

- ▶ Allowing French corporate borrowers to use an arm's-length interest rate for fiscal years ending on or after 31 December 2025, rather than the safe harbor rate if lower, to determine their deduction for interest due to minority shareholders
- ▶ Allowing companies that purchase goodwill from third parties through 31 December 2029 an amortization deduction for the purchased goodwill (thereafter, unless extended, purchased goodwill will no longer be amortizable)
- ▶ Incorporating guidelines from the Organisation for Economic Co-operation and Development (OECD) on the treatment of deferred tax liabilities in the computation of Pillar Two taxes into French law
- ▶ Adjusting the French qualifying domestic minimum top-up tax rules, particularly for undertaxed investment companies or insurance investment companies
- ▶ Aligning terms and definition under the French Global anti-Base Erosion rules with the specificities of certain industries

The changes are generally effective 21 February 2026. See [Tax Alert 2026-0349](#), dated 4 February 2026.

**Japan**<sup>2</sup> – On 31 March 2026, Japan enacted legislation allowing eligible corporate investors to claim income tax credits or 100% depreciation on certain acquired assets. The amount of the tax credit depends on the type of asset acquired and is limited to 20% of a corporation's annual tax liability. Unused credits may be carried forward for three years in specific cases. The new incentive may not be claimed at the same time as the carbon neutrality-related tax incentive and/or the regional future investment-promotion-related tax incentives.

The legislation also includes a new research and development (R&D) tax credit for investments in strategic industrial technologies (e.g., artificial intelligence, advanced semiconductors, quantum computing). The amount of the credit depends on the type of R&D and is limited to 10% of a corporation's annual tax liability. Unused credits may be carried forward for three years in specific cases.

Other changes include:

- ▶ Expanding the scope of expenses eligible for open innovation-related R&D credits
- ▶ Limiting eligibility under the general R&D credit for R&D conducted abroad to 50% of outsourcing costs
- ▶ Aligning Japan's Income Inclusion Rule (IIR) with recent changes made by the OECD
- ▶ Clarifying the treatment of foreign related companies that are entering into liquidation

The changes are effective 1 April 2026.

**United Kingdom**<sup>3</sup> – On 18 March 2026, the United Kingdom enacted legislation decreasing the main rate of capital allowance (allowable tax depreciation) under the writing down allowance to 14% from 18%, beginning 1 April 2026. The law also introduces a new 40% first-year allowance (another form of depreciation) for expenditures incurred on or after 1 January 2026. Other changes include:

- ▶ Simplifying the UK transfer pricing rules
- ▶ Aligning the UK's PE definition and rules on allocating PE profits with OECD principles
- ▶ Amending the UK's Pillar Two rules to incorporate recent updates
- ▶ Broadening eligibility criteria under the enterprise management incentive rules beginning 6 April 2026
- ▶ Amending the anti-avoidance provisions that apply to share exchanges and company reorganizations with effect from 26 November 2025

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<sup>2</sup> A Tax Alert has not been published on the legislation's enactment. For discussion of proposals in the 2026 Tax Reform Outline, see [Tax Alert 2026-0468](#), dated 19 February 2026.

<sup>3</sup> A Tax Alert has not been published on the legislation's enactment. For discussion of tax proposals in the 2025 budget, see [Tax Alert 2025-2397](#), dated 2 December 2025.



## Legislation effective in the first quarter

### *Federal, state and territories*

**California** – For tax years beginning on or after 1 January 2026 and before 1 January 2031, California will not tax federal refunds based on certain environmental credits and payments received in exchange for transferring those credits. The changes were enacted 1 October 2025. See Tax Alerts [2025-2021](#), dated 6 October 2025, and [2025-2032](#), dated 7 October 2025.

Effective 1 January 2026, taxpayers may elect to sell low-income housing tax credits, as outlined by the California Tax Credit Allocation Committee (CTCAC), rather than selling their credits to the CTCAC. The change was enacted on 10 October 2025. See the [State and Local Tax Weekly for 10 October 2025 and 17 October 2025](#).

### *International*

**Brazil**<sup>4</sup> – Effective 1 January 2026, a 10% withholding tax applies to dividends distributed to nonresident companies. The change was enacted on 26 November 2025.

Effective 1 January 2026,<sup>5</sup> the withholding tax rate on interest on net equity paid or credited to nonresidents increases to 17.5% from 15%. The corporate tax rate for financial technology company (FinTech) income increases to 40% or 45% (depending on the FinTech's regulatory characterization) from 34%. Other changes include increasing the presumed profit margins for purposes of defining taxable income under the presumed profit method by 10%. The changes were enacted on 26 December 2025.

**Cyprus** – Effective 1 January 2026, the corporate income tax rate increases to 15% from 12.5%. A withholding tax on dividend payments made to related companies in low-tax jurisdictions decreases to 5% from 17%.

Other changes include:

- ▶ Applying an 8% tax to cryptocurrency profits (including capital gains) while limiting the offset of cryptocurrency losses to a taxpayer's own cryptocurrency profits
- ▶ Expanding the definition of corporate tax residency to include incorporation in Cyprus, unless an income tax treaty provides otherwise
- ▶ Extending the carryforward period for tax losses to seven years
- ▶ Extending enhanced capital allowances for green expenditure (e.g., energy-efficient buildings, renewable energy systems, electric storage systems, electric vehicles) until 2030
- ▶ Introducing a 20-year capital allowance (e.g., depreciation) for intangible assets with an indefinite useful life
- ▶ Allowing companies to deduct up to EUR300,000 for expenditures related to listing shares on a recognized stock exchange
- ▶ Extending the "super" 20% R&D deduction to 2030
- ▶ Allowing employers to deduct twice the expense of cost-of-living allowances paid in the prior year under the relevant union agreement
- ▶ Eliminating the interest expense deduction if the loan proceeds are used to acquire 100% subsidiaries in EU-listed noncooperative jurisdictions
- ▶ Eliminating the defence tax on passive interest income
- ▶ Reducing the defence tax on foreign dividends to 5% from 17%

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<sup>4</sup> A Tax Alert has not been published on the legislation's enactment. For discussion of the proposed legislation, see [Tax Alert 2025-2232](#), dated 6 November 2025.

<sup>5</sup> A Tax Alert has not been published on the legislation's enactment. For discussion of the proposed legislation, see Tax Alerts [2025-2572](#), dated 19 December 2025, and [2026-0138](#), dated 7 January 2026.

- ▶ Lowering the threshold for imposing capital gains tax on transfers of shares in companies indirectly deriving their value from immovable property in Cyprus to 20% from 50%
- ▶ Prohibiting companies from crediting certain global minimum taxes under Pillar Two against corporate income tax

The changes were enacted on 31 December 2025. See [Tax Alert 2026-0140](#), dated 7 January 2026.

**Italy**<sup>6</sup> – Effective 1 January 2026, eligibility for the 95% exemption for capital gains from stock dispositions and the 95% exemption on dividend income is limited to Italian companies that own either a minimum 5% of stock in the relevant subsidiary or stock with a tax value of no less than EUR500,000.

The same thresholds apply as a requirement for claiming the 1.2% reduced withholding tax for dividends paid by an Italian company to companies in the European Union (EU) and certain countries in the European Economic Area. Other changes include eliminating the ability to defer, over five years, recognition of capital gains from asset sales (unless qualifying as a going concern), resulting in immediate taxation of gains from asset disposals occurring on or after 1 January 2026 (for calendar-year companies).

Other changes include:

- ▶ Increasing the rate of the regional tax on productive activities by two percentage points for fiscal years 2026 through 2028 to 6.65% from 4.65% for banks (up to 7.57% regionally) and to 7.9% from 5.9% for insurance companies (up to 8.82% regionally) and allowing an offset of up to EUR90,000 against the incremental tax for fiscal years 2027 and 2028
- ▶ Limiting deductions for interest expense (currently fully deductible) for banks and financial intermediaries other than fund management companies and investment companies at differentiated rates from 96% to 99% for fiscal years 2026 through 2029 (as of 2030 full deduction should be reinstated)
- ▶ Requiring certain deductions for fiscal year 2027 related to deferred tax assets to be claimed over multiple years

The changes were enacted on 30 December 2025.

**Korea** – Effective for fiscal years beginning on or after 1 January 2026, corporate income tax rates increase as follows:

- ▶ 11% from 9.9% for taxable income of KRW200 million or less
- ▶ 22% from 20.9% for taxable income over KRW200 million to KRW20 billion
- ▶ 24.2% from 23.1% for taxable income over KRW20 billion to KRW300 billion
- ▶ 27.5% from 26.4% for taxable income over KRW300 billion

Other changes include:

- ▶ Imposing a 22% withholding tax on the difference between the consideration received and the fair market value for sales of assets located in Korea if the difference is 30% or more of the fair market value
- ▶ Taxing foreign corporations' dividend equivalents from over-the-counter derivatives

The changes were enacted on 23 December 2025. See [Tax Alert 2026-0126](#), dated 6 January 2026.

**Mexico**<sup>7</sup> – Effective 1 January 2026, a 15% income tax rate will apply to the repatriation of certain foreign capital, subject to reinvestment requirements in Mexico. Other changes for 2026 include applying withholding tax on payments made through digital and crowdfunding platforms and modifying certain rules applicable to Mexican financial institutions (e.g., the rules on bad debt deductions). The changes were enacted 7 November 2025.

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<sup>6</sup> A Tax Alert has not been published on the legislation's enactment.

<sup>7</sup> A Tax Alert has not been published on this development.

# Other considerations

*Court decisions, regulations issued by tax authorities and other events may constitute new information that could trigger a change in judgment in recognition, derecognition or measurement of a tax position. These events also may affect your current or deferred tax accounting.*

## **Federal, state and territories**

**Federal** – In a notice, the Internal Revenue Service (IRS) indicated that forthcoming proposed regulations on bonus depreciation under IRS Section 168(k), as amended by the OBBBA, would mirror existing guidance under Treas. Reg. Section 1.168(k)-2 and include familiar safe harbors and elections. For taxpayers that prefer to extend their cost recovery period, the IRS outlined how to affirmatively elect to deduct 40% (60% in certain cases) instead of 100% bonus depreciation for the first tax year ending after 19 January 2025. See [Tax Alert 2026-0250](#), dated 21 January 2026.

In a second notice, the Treasury Department (Treasury) and the IRS outlined how to calculate the amount of prohibited materials used in a renewable energy project for purposes of determining whether the project qualifies for tax credits under IRC Sections 45X, 45Y or 48E. See [Tax Alert 2026-0457](#), dated 17 February 2026.

In a third notice, the IRS outlined additional interim guidance on the corporate alternative minimum tax (CAMT) allowing several new adjustments to adjusted financial statement income (AFSI) and modifying the scope of certain AFSI adjustments in prior interim guidance. Forthcoming CAMT proposed regulations are expected to be consistent with the interim guidance. Subject to certain special rules, taxpayers may generally rely on the interim guidance for tax years beginning before the forthcoming CAMT proposed regulations are published in the Federal Register. See [Tax Alert 2026-0522](#), dated 26 February 2026 which includes additional tax accounting considerations related to this notice

In a fourth notice, Treasury and the IRS provided interim guidance for determining whether certain nonresidential real property used in qualified production activities (and typically recovered over 39 years) is eligible for the 100% special depreciation allowance under IRC Section 168(n), which was enacted under the OBBBA. The interim guidance defines terms relevant to the IRC Section 168(n) eligibility requirements, such as qualified production activity, manufacturing, production, refining and substantial transformation. It also introduces certain safe harbors, special rules and de minimis rules for determining whether certain QPP eligibility requirements are satisfied, such as the beginning-of-construction requirement and the integral-part requirement. See [Tax Alert 2026-0577](#), dated 5 March 2026.

In a fifth notice, Treasury and the IRS announced that forthcoming proposed regulations would simplify the operation of the IRC Section 987 regulations and refine the scope of certain rules to limit their effect on ordinary-course-of-business transactions. Taxpayers may also elect to determine IRC Section 987 taxable income or loss and IRC Section 987 gain or loss for IRC Section 987 qualified business units using a method substantially similar to the proposed regulations published in 1991. Other changes include:

- ▶ Narrowing the scope of the loss suspension rules
- ▶ Simplifying the loss-to-the-extent-of-gain rule
- ▶ Clarifying the definition of a successor deferral qualified business unit
- ▶ Expanding the definition of an IRC Section 987 hedging transaction
- ▶ Previewing an election to be introduced in future guidance under which CFCs would not compute or recognize IRC Section 987 gain or loss upon remittances or terminations, except in connection with certain inbound transactions

See [Tax Alert 2026-0573](#), dated 5 March 2026.

In a revenue procedure, the IRS provided procedures for certain taxpayers to withdraw prior elections under IRC Section 163(j) to be treated as an “electing real property trade or business,” an “electing farming business,” or a “regulated utility trade or business.” Under these elections, interest expense attributable to the electing business is not subject to the limitation under IRC Section 163(j), and certain accelerated depreciation methods are not available. Taxpayers that withdraw a prior IRC Section 163(j) election



under the revenue procedure are eligible to make late elections under IRC Section 168(k) to opt out of bonus depreciation. CFCs may also revoke or make CFC group elections under Treas. Reg. Section 1.163(j)-7 without regard to the 60-month limitation. See [Tax Release 2026-0669](#), dated 18 March 2026.

The US Supreme Court held that certain importers were entitled to refunds of tariffs imposed under the International Emergency Economic Powers Act (IEEPA) on goods from Canada, Mexico and China. The decision also affects global 10% tariffs and country-specific tariffs imposed under IEEPA. The Court reasoned that IEEPA does not authorize the President to impose tariffs. See Tax Alerts [2026-0481](#), dated 20 February 2026, and [2026-0486](#), dated 20 February 2026.

**Iowa** – The Department of Revenue amended its regulations to implement a 2024 law change allowing financial institutions subject to the franchise tax to elect to file combined Iowa franchise tax returns with related investment subsidiaries. See the [State and Local Tax Weekly for 23 January 2026 and 30 January 2026](#).

**Minnesota** – In a revenue notice, the Department of Revenue outlined when a foreign corporation has taxable income in Minnesota. The Department noted that Minnesota’s rules for determining when a foreign corporation’s income is taxable differ from federal rules, which may result in differing calculations of taxable income. The notice included two examples of when this difference occurs. See [Tax Alert 2026-0436](#), dated 13 February 2026.

**Multistate** – Tax administrators in the following states have released guidance addressing state corporate income tax conformity to the OBBBA:

- ▶ Idaho
- ▶ Maryland
- ▶ Michigan
- ▶ North Carolina
- ▶ Pennsylvania
- ▶ Vermont
- ▶ Virginia
- ▶ Wisconsin

See the [State and Local Tax Weekly for 9 January 2026 and 16 January 2026](#), as well as the [State and Local Tax Weekly for 23 January 2026 and 30 January 2026](#).<sup>8</sup>

**Texas** – The Comptroller of Public Accounts amended the state’s nexus regulations to require foreign taxable entities that use an apportionment method other than gross receipts to continue using Texas-sourced gross receipts to determine economic nexus. See the [State and Local Tax Weekly for 19 December 2025 and 2 January 2026](#).

## Tax amnesties

This table shows tax amnesties that were announced or went into effect in the first quarter of 2026.

Jurisdiction	Amnesty period	Taxes covered	Reference
Indiana	15 July 2026 to 15 September 2026	Corporate income taxes, among others	<a href="#">9 February 2026</a>

<sup>8</sup> The listed publications cover guidance only from Maryland, Pennsylvania and Wisconsin. Tax Alerts have not been published on guidance from the other states.

### ***International***

**Chile** – In three rulings, the tax authority confirmed that Chile's tax neutrality regime applied to cross-border restructurings, such as international contributions involving foreign groups, distributions of shares in a Chilean company (in some limited and specific situations) through a capital reduction or in-kind contribution, and spin-offs. See [Tax Alert 2026-0352](#), dated 4 February 2026.

**Colombia** – The Constitutional Court provisionally suspended a decree declaring a nationwide State of Economic and Social Emergency, thereby suspending the temporary tax measures enacted under that authority. The suspended measures, among others, include:

- ▶ An increase in the corporate surtax for financial institutions, insurance companies and reinsurance companies, stockbrokers and similar entities to 15 percentage points from 5 percentage points, increasing their total corporate income tax rate to 50% from 40%
- ▶ The inability to deduct royalty payments in 2026 for the use of nonrenewable resources except in limited circumstances

See Tax Alerts [2026-0127](#), dated 7 January 2026, and [2026-0320](#), dated 30 January 2026.

In a decree, the government required certain public utilities to contribute 12% of the energy they sell on the wholesale energy market. The companies may claim an income tax credit equal to half the value of the energy contributed. Credits that exceed taxable income may be used in the following tax period. See [Tax Alert 2026-0293](#), dated 27 January 2026.

**European Union** – The EU Council added Vietnam and the Turks and Caicos Islands to Annex I of its list of noncooperative jurisdictions for tax purposes and removed Fiji, Samoa, and Trinidad and Tobago. Annex I identifies jurisdictions whose tax policies fail to meet EU standards by the required deadline. There are 10 countries on the Annex I list.

The Council removed Antigua and Barbuda as well as Seychelles from Annex II of its list of noncooperative jurisdictions for tax purposes. Annex II identifies jurisdictions that are making progress on reforming their tax policies to meet EU standards but remain subject to close monitoring. There are nine countries on the Annex II list. See [Tax Alert 2026-0472](#), dated 19 February 2026.

**India** – The Supreme Court held that a Mauritius-based investment fund could not claim treaty benefits under the India-Mauritius tax treaty on gains from the fund's indirect transfer of shares in an Indian company. The Court reasoned that the transfer was designed prima facie for tax avoidance, as it violated India's general anti-abuse rule. The Court also noted that (1) the fund's tax residency certificate did not guarantee treaty benefits and (2) taxpayers must demonstrate commercial substance and decision-making to qualify for treaty exemptions. See [Tax Alert 2026-0305](#), dated 28 January 2026.

**Netherlands** – The Dutch Supreme Court held that the tax-neutral demerger rules in the Dutch Corporate Income Tax Act violated the EU Merger Directive by including a statutory presumption that required a Dutch company to prove the transfer of its business to a newly formed entity through a demerger, followed by a sale of shares in that new entity less than three years later to an unrelated buyer, was primarily based on business motives. The Court reasoned that (1) the directive only presumes tax avoidance if the transaction lacks valid commercial reasons and (2) disposing of shares in a demerged company within three years does not necessarily mean that the demerger lacked valid business reasons or was designed to avoid or defer tax, even if the company intended to dispose of the shares before it decided to proceed with the demerger. See [Tax Alert 2026-0538](#), dated 27 February 2026.

# Things we have our eyes on

National, state and local governments continue to seek to increase their revenues. Companies should continue to monitor developments in this area. Some of these potential tax law changes are summarized here.

## **Federal, state and territories**

**Federal** – The Senate approved a bill that would prevent businesses from claiming a foreign tax credit or deduction against taxes paid to the Russian Federation. See [Tax Alert 2026-0611](#), dated 11 March 2026.

**District of Columbia** – Congress passed a joint resolution disapproving of temporary legislation enacted by the District of Columbia to decouple from certain provisions in the OBBBA. From Congress's perspective, the joint resolution reinstates certain DC provisions that were in effect before the legislation's enactment. From the perspective of the District of Columbia, Congress missed the deadline by which it needed to act, so the temporary legislation (in addition to previous emergency legislation<sup>9</sup>) is still law for the 2025 tax year. See [Tax Alert 2026-0424](#), dated 13 February 2026.-

In proposed regulations under IRC Section 45Z, Treasury and the IRS establish the operative framework for claiming the clean fuel production credit enacted by the Inflation Reduction Act and modified by the OBBBA. The proposed regulations would define the rules for determining eligibility, computing credit amounts, verifying lifecycle greenhouse gas emissions and documenting qualified sales. They would also modify existing regulations on electing or transferring credits.

The proposed regulations would generally be effective for qualified sales occurring in tax years ending on or after the date the final regulations are published in the Federal Register, with some exceptions. Taxpayers may rely on these proposed regulations immediately, however, if they follow them in their entirety and in a consistent manner. See [Tax Alert 2026-0411](#), dated 11 February 2026.

**California** – The legislature is considering a bill that would repeal California's water's-edge combined-reporting election starting in 2028. The change would effectively mandate worldwide combined reporting for unitary business groups. See [Tax Alert 2026-0429](#), dated 13 February 2026.

**Illinois** – The Department of Revenue proposed amending the state's apportionment rules to align with recent legislation requiring combined filers to include Illinois receipts from nexus and non-nexus group members when apportioning income to Illinois (i.e., the *Finnigan* method). The proposed amendments would include several examples. See the [State and Local Tax Weekly for 9 January 2026 and 16 January 2026](#).

**Massachusetts** – In a bill submitted to the state legislature, the governor proposed temporarily decoupling from changes made by the OBBBA to following federal tax provisions:

- ▶ IRC Section 174A R&E expenditures (decouple for 2025)
- ▶ IRC Section 163(j) limitation on business interest expense deductions (decouple for 2025 and 2026)
- ▶ IRC Section 168(n) special depreciation allowance for QPP (decouple for 2025 and 2026)
- ▶ IRC Section 179 expensing certain business property or computer software (decouple for 2025 and 2026)
- ▶ IRC Section 1400Z opportunity zones (apply the pre-OBBBA version of the statute for tax years beginning in 2025 and 2026)

Conformity to IRC Section 174A would occur in 2026 and would generally occur for the other listed provisions in 2027.

The governor also proposed eliminating automatic conformity to federal tax law changes that are effective in the same year they are enacted or are retroactively effective, unless their estimated revenue impact falls below \$20 million. The change is proposed to be retroactively effective to tax years beginning on or after 1 January 2026. See [Tax Alert 2026-0326](#), dated 30 January 2026.

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<sup>9</sup> A Tax Alert has not been published on the temporary legislation. For discussion of the emergency legislation on which the temporary legislation is based, see [Tax Alert 2025-2409](#), dated 3 December 2025.

**New York** – In a budget bill, the governor proposed decoupling New York state from changes made by the OBBBA to the following federal tax provisions:

- ▶ IRC Section 174A R&E expenditures
- ▶ IRC Section 168(n) special depreciation allowance for QPP

For businesses with income over \$5 million, the bill would extend the expiration date of the 7.25% top state corporate franchise tax rate three years to tax years beginning before 1 January 2030. See [Tax Alert 2026-0294](#), dated 27 January 2026.

### *International*

**Canada** – In draft legislation, the Department of Finance proposed additional rules on anti-hybrid mismatch arrangements that would generally implement additional recommendations in the Action 2 report under the Base Erosion and Profit Shifting (BEPS) project of the OECD. The proposed rules address deduction/non-inclusion mismatches and double deduction mismatches by extending Canada's existing hybrid mismatch arrangement rules to additional categories of hybrid mismatch arrangements, such as reverse hybrid arrangements and disregarded payment arrangements (proposed to generally apply after 30 June 2026). See [Tax Alert 2026-0517](#), dated 25 February 2026.

**Hong Kong** – In the 2026-2027 budget, the Financial Secretary proposed to attract certain businesses to Hong Kong by offering reduced corporate tax rates of 5% and 8.25% under a preferential policy package. The availability of the rate would depend on the merits of the prospective business' case.

Other proposals include:

- ▶ Introducing additional tax incentives and flexibility to the existing tax incentive regime for qualified corporate treasury centers
- ▶ Relaxing the requirements for deducting the cost of purchasing or licensing certain intellectual property (IP) from related parties (including lump-sum licensing fees)
- ▶ Introducing a reduced tax rate of 8.25% on income of eligible commodity traders in international maritime businesses
- ▶ Allowing ship lessors under an operating lease to deduct ship acquisition costs and related finance costs

See [Tax Alert 2026-0558](#), dated 4 March 2026.

**India** – In the Union Budget for 2026, the Finance Minister proposed reducing the minimum alternate tax (MAT) to 14% from 15% for domestic and foreign companies while leaving the 9% rate for international financial service centers (IFSC) intact. The MAT would be the lowest rate available for companies that do not participate in a concessional tax regime (i.e., an incentives regime), so MAT credits would not be available. Companies participating in a concessional regime could claim a MAT credit equal to 25% of their regular tax liability and carry them forward for up to 15 years.

Other proposals include:

- ▶ Taxing share buyback as capital gains instead of dividend income and increasing the capital gains tax rate for promoters
- ▶ Eliminating deductions for interest expense that offset taxable dividends or mutual fund distributions from shares or mutual fund units that are purchased with borrowed funds
- ▶ Changing the transfer pricing safe harbor for information technology companies by increasing the eligibility threshold to INR2 billion from INR300 million and proposing a safe harbor margin of 15.5%, among other things
- ▶ Extending the tax holiday for income from various entities in an IFSC (e.g., banks, insurers, investment firms) to 20 consecutive years out of 25 from 10 consecutive years out of 15
- ▶ Extending the tax holiday for income from offshore banks within an IFSC to 20 consecutive years from 10 consecutive years

- ▶ Exempting from corporate tax until tax year 2030-31 foreign company income from providing capital goods and equipment, among other items, to an Indian contract manufacturer producing electronics
- ▶ Exempting from corporate tax until 31 March 2047, foreign company income from procuring data center services from an Indian resident, provided certain conditions are met

See [Tax Alert 2026-0351](#), dated 4 February 2026.

**OECD** – The OECD released new administrative guidance detailing a side-by-side arrangement following agreement on key elements by the OECD/G20 Inclusive Framework on BEPS (Pillar Two). The administrative guidance includes a side-by-side safe harbor, simplified effective-tax-rate safe harbor, an extension of the transitional country-by-country reporting safe harbor, and a substance-based tax incentive safe harbor. The side-by-side safe harbor would effectively exempt US parented groups from the IIR and the Undertaxed Profits Rule for fiscal years beginning on or after 1 January 2026, subject to jurisdiction specific enactment. See [Tax Alert 2025-0123](#), dated 6 January 2025.

After the OECD's announcement, the following countries indicated they will enact legislation implementing the side-by-side agreement, retroactive to 1 January 2026, but have not yet taken action to enact:<sup>10</sup>

- ▶ Finland
- ▶ Ireland
- ▶ Japan
- ▶ Korea
- ▶ Netherlands
- ▶ Singapore
- ▶ United Kingdom

The following countries have legislation in place that automatically implements the side-by-side agreement:<sup>11</sup>

- ▶ Cyprus
- ▶ Gibraltar
- ▶ Hungary
- ▶ Jersey
- ▶ Liechtenstein
- ▶ New Zealand
- ▶ Portugal
- ▶ Slovenia
- ▶ Switzerland

In frequently asked questions (FAQs), the OECD addressed common questions about applying its standardized mechanism for pricing certain in-country marketing and distribution activities (i.e., Amount B). Issues addressed in the FAQs include the definition of net revenue, pricing for startups, industry groupings, and the relevance of intercompany debtors and creditors to the calculation of working capital.

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<sup>10</sup> A Tax Alert has not been published on this development.

<sup>11</sup> A Tax Alert has not been published on this development

Additionally, the OECD released an updated version of its Amount B Pricing Automation Tool, which automatically calculates the Amount B return. The updated tool includes new data on sovereign credit ratings. See [Tax Alert 2026-0536](#), dated 27 February 2026.

**Singapore** – In Budget 2026, the government proposed extending the Finance and Treasury Center tax incentive and Global Trader Program five years through 31 December 2031 and expanding the withholding tax exemption for interest payments under the Finance and Treasury Center incentive to include interest-like payments. Other proposals include a 40% rebate on corporate income taxes, capped at S\$30,000. See [Tax Alert 2026-0494](#), dated 23 February 2026.



## Appendix A

# Treaty changes

Tax treaties are agreements between countries that typically address withholding tax rates or exemptions on dividends, interest and royalties paid in multiple jurisdictions. Exceptions may apply based on tax treaty (e.g., reduced rates may apply to certain categories of investors, capital gains from immovable property or property-rich companies may be taxable). The following tax treaty changes were effective in the first calendar quarter, except where indicated.

Countries involved		Summary of changes
Albania	Luxembourg	Provides general withholding tax rates of 10% on dividends and 5% on interest and royalties; exempts capital gains from tax.
Andorra	Korea	Provides general withholding tax rates of 10% on dividends and interest, and 5% on royalties; exempts capital gains from tax.
Andorra	Latvia	Provides general withholding tax rates of 10% on dividends and interest, and 5% on royalties; exempts capital gains from tax.
Andorra	Montenegro	Provides general withholding tax rates of 10% on dividends and 5% on interest and royalties; exempts capital gains from tax.
Andorra	Romania	Provides general withholding tax rates of 5% on dividends and royalties, and 3% on interest; exempts capital gains from tax.
Andorra	United Kingdom	Exempts dividends, interest, royalties and capital gains from tax (effective 1 April 2026 for capital gains in the United Kingdom).
Armenia	Hong Kong	Provides general withholding tax rates of 5% on dividends, interest and royalties; exempts capital gains from tax (effective 1 April 2026 in Hong Kong).
Armenia	Japan	Provides general withholding tax rates of 5% on dividends, interest and royalties; exempts capital gains from tax.
Azerbaijan	Kyrgyzstan	Provides general withholding tax rates of 10% on dividends and 8% on interest and royalties; exempts capital gains from tax.
Bahrain	Guernsey	Exempts dividends, interest, royalties and capital gains from tax.
Bahrain	Hong Kong	Exempts dividends, interest, royalties and capital gains from tax (effective 1 April 2026 in Hong Kong).
Bahrain	Oman	Provides a general withholding tax rate of 8% on royalties; exempts dividends, interest, and capital gains from tax.
Bahrain	United Arab Emirates	Exempts dividends, interest, royalties and capital gains from tax.
Belarus	Zimbabwe	Provides general withholding tax rates of 10% on dividends, 5% on interest and royalties, and 2.5% on technical services; exempts capital gains from tax.
Brazil	Norway	Provides general withholding tax rates of 15% on dividends and interest, and 10% on royalties and technical services; exempts capital gains from tax (effective 1 January 2025 in Norway).
Brazil	Poland	Provides general withholding tax rates of 15% on dividends and interest, and 10% on royalties and fees for technical services; exempts capital gains from tax.
Cameroon	China	Provides general withholding tax rates of 10% on dividends, interest, royalties and technical services; exempts capital gains from tax.
Cameroon	Czech Republic	Provides general withholding tax rates of 10% on dividends, interest, royalties and technical services; exempts capital gains from tax.
China	Italy	Provides general withholding tax rates of 10% on dividends, interest and royalties; exempts capital gains from tax.

Countries involved		Summary of changes
Croatia	Liechtenstein	Provides general withholding tax rates of 5% on dividends, interest, and royalties; exempts capital gains from tax.
Croatia	Saudi Arabia	Provides general withholding tax rates of 5% on dividends and interest, and 10% on royalties; exempts capital gains from tax.
Curaçao	San Marino	Provides general withholding tax rates of 5% on dividends and 10% on interest and royalties; exempts capital gains from tax.
Cyprus	Oman	Provides a general withholding tax rate of 8% on royalties; exempts dividends, interest, and capital gains from tax.
Czech Republic	Montenegro	Provides general withholding tax rates of 10% on dividends and interest, and 5% or 10% on royalties; exempts capital gains from tax.
Estonia	Liechtenstein	Exempts dividends, interest, royalties and capital gains.
Estonia	Oman	Provides general withholding tax rates of 10% on dividends, 5% on interest and 8% on royalties; exempts capital gains from tax.
Gabon	Italy	Provides general withholding tax rates of 15% on dividends and 10% on interest and royalties; exempts capital gains from tax.
Iceland	Saudi Arabia	Provides general withholding tax rates of 10% on dividends and royalties, and 5% on interest; exempts capital gains from tax.
India	Qatar	Provides general withholding tax rates of 10% on dividends, interest, royalties and technical services; exempts capital gains from tax (effective 1 April 2026 in India).
Italy	Kosovo	Provides general withholding tax rates of 5% on dividends and royalties and 10% on interest; exempts capital gains from tax.
Italy	Libya	Provides general withholding tax rates of 10% on dividends and 5% on interest; exempts royalties and capital gains from tax.
Japan	Turkmenistan	Provides general withholding tax rates of 10% on dividends, interest and royalties; exempts capital gains from tax.
Japan	Ukraine	Provides general withholding tax rates of 15% on dividends, 10% on interest and 5% on royalties; exempts capital gains from tax.
Jordan	Switzerland	Provides general withholding tax rates of 15% on dividends and 5% on interest and royalties; exempts capital gains from tax.
Kuwait	San Marino	Provides a general withholding tax rate of 10% on royalties; exempts dividends, interest, and capital gains from tax.
Kuwait	Saudi Arabia	Provides general withholding tax rates of 5% on dividends and 10% on royalties; exempts interest and capital gains from tax.
Kyrgyzstan	Netherlands	Provides general withholding tax rates of 15% on dividends and 5% on interest and royalties; exempts capital gains from tax.
Kyrgyzstan	Slovak Republic	Provides general withholding tax rates of 10% on dividends, interest and royalties; exempts capital gains from tax.
Luxembourg	Montenegro	Provides general withholding tax rates of 10% on dividends and interest, and 5% or 10% on royalties; exempts capital gains from tax.
Macedonia	Vietnam	Provides general withholding tax rates of 15% on dividends and 10% on interest and royalties; exempts capital gains from tax.
Malaysia	Russia	Provides general withholding tax rates of 15% on dividends and 10% on interest, royalties and technical service fees; exempts capital gains from tax.
Mauritania	Saudi Arabia	Provides general withholding tax rates of 5% on dividends and 7% on royalties; exempts interest and capital gains from tax.

Countries involved		Summary of changes
Portugal	United Kingdom	Provides general withholding tax rates of 10% on dividends and interest, and 5% on royalties; exempts capital gains from tax (effective 1 April 2026 for capital gains taxes in the United Kingdom).
Qatar	Saudi Arabia	Provides general withholding tax rates of 5% on dividends and 8% on royalties and technical service fees; exempts interest and capital gains from tax.
Romania	United Kingdom	Provides general withholding tax rates of 5% on dividends and 3% on interest and royalties; exempts capital gains from tax (effective 1 April 2026 for capital gains taxes in UK).
Russia	United Arab Emirates	Provides general withholding tax rates of 10% on dividends, interest and royalties; exempts capital gains from tax.



## Appendix B

# Overview of Pillar Two implementation across the world

Final legislation	
Jurisdiction	Rules covered
European Union	QDMTT, IIR, UTPR
Australia	QDMTT, IIR, UTPR
Austria	QDMTT, IIR, UTPR
Bahamas	QDMTT
Bahrain	QDMTT
Barbados	QDMTT
Belgium	QDMTT, IIR, UTPR
Brazil	QDMTT
Bulgaria	QDMTT, IIR, UTPR
Canada	QDMTT, IIR
Croatia	QDMTT, IIR, UTPR
Cyprus*	DMTT, IIR, UTPR
Czech Republic	QDMTT, IIR, UTPR
Denmark	QDMTT, IIR, UTPR
Finland	QDMTT, IIR, UTPR
France	QDMTT, IIR, UTPR
Germany	QDMTT, IIR, UTPR
Gibraltar	QDMTT, IIR
Greece	QDMTT, IIR, UTPR
Guernsey	QDMTT, IIR
Hong Kong	QDMTT, IIR, UTPR
Hungary	QDMTT, IIR, UTPR
Indonesia	QDMTT, IIR, UTPR
Ireland	QDMTT, IIR, UTPR
Isle of Man	QDMTT, IIR
Israel	QDMTT
Italy	QDMTT, IIR, UTPR
Japan	QDMTT, IIR, UTPR
Jersey	DMTT, IIR
Kenya	QDMTT

Final legislation	
Jurisdiction	Rules covered
Kuwait	QDMTT
Liechtenstein	QDMTT, IIR, UTPR
Luxembourg	QDMTT, IIR, UTPR
Malaysia	QDMTT, IIR
Mauritius	QDMTT
Montenegro	QDMTT
Netherlands	QDMTT, IIR, UTPR
New Zealand	IIR, UTPR
North Macedonia	QDMTT, IIR, UTPR
Norway	QDMTT, IIR, UTPR
Oman	QDMTT, IIR
Poland	QDMTT, IIR, UTPR
Portugal	QDMTT, IIR, UTPR
Qatar	QDMTT, IIR
Romania	QDMTT, IIR, UTPR
Singapore	QDMTT, IIR
Slovakia	QDMTT
Slovenia	QDMTT, IIR, UTPR
South Africa	QDMTT, IIR
South Korea	IIR, UTPR, QDMTT
Spain	QDMTT, IIR, UTPR
Sweden	QDMTT, IIR, UTPR
Switzerland	QDMTT, IIR
Thailand	QDMTT, IIR, UTPR
Turkey	QDMTT, IIR, UTPR
United Arab Emirates	QDMTT
United Kingdom	QDMTT, IIR, UTPR
Uruguay	QDMTT
Vietnam	QDMTT, IRR
Zimbabwe	DMTT

Draft legislation	
Jurisdiction	Rules covered
Cabo Verde	QDMTT
Curaçao	QDMTT, IIR
Iceland	QDMTT, IIR
Lithuania	QDMTT, IIR, UTPR

 Indicates new in Q1

**Acronyms:** IIR (Income Inclusion Rule), UTPR (Undertaxed Profits Rule), DMTT (Domestic Minimum Top-up Tax), QDMTT (Qualified Domestic Minimum Top-up Tax).

\* Cyprus has introduced QDMTTs that are not anticipated to meet QDMTT status as part of the peer review.

Source: EY BEPS Developments Tracker **Base Erosion and Profit Shifting (BEPS) 2.0 | EY - global**

Note: *Developments Tracker cut-off date – As of 23 March 2026.*

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