

Quarterly tax developments

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

September 2026

In this issue:

Tax developments	2
Other considerations	6
Things we have our eyes on	10
Appendix A: Overview of Pillar Two implementation across the world	15
Appendix B: FASB issues guidance requiring additional income tax disclosures	16

■ ■ ■
The better the question.
The better the answer.
The better the world works.

The EY logo is displayed in a large, bold, white font. A yellow diagonal line is positioned behind the letters, extending from the bottom left towards the top right.

Shape the future
with confidence

Welcome to our September 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 18 September 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.

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

Tax developments

Legislation enacted in the third quarter for US GAAP purposes

Companies must record the total effect of tax rate and law changes on deferred tax balances, including related valuation allowances, as a component of tax expense related to continuing operations in the period of enactment, even if the assets and liabilities relate to discontinued operations, a prior business combination or items of accumulated other comprehensive income. These deferred tax effects should be recognized as a discrete event and should not be allocated to subsequent interim periods by adjusting the estimated annual effective tax rate (EAETR). The tax effect of changes in tax laws or rates on estimated taxes payable or refundable for the current year should be reflected in the computation of the EAETR beginning in the first interim period that includes the enactment date. Refer to section 8.1, *Changes in tax laws and rates*, and section 20.3, *Effect of new tax legislation*, of our [Financial reporting developments publication, Income Taxes](#).

Federal, state and territories

California – On 13 July 2026, California enacted legislation extending the expiration date of the CalCompets tax credit five years, through tax years beginning before 1 January 2035. Corporations may claim the credit against their corporate income taxes. See the [State and Local Tax Weekly for 10 July 2026 and 17 July 2026](#).

On 19 September 2026, California enacted legislation allowing companies to carry their unused film tax credits forward 15 years, instead of nine years, provided certain requirements are met. Alternatively, companies could elect to receive a refund of 95% (rather than 90%) of the difference between their tax liability and the unused credits. The refund would be paid over two years rather than five. Other changes include:

- ▶ Exempting certain credits sold between unrelated taxpayers from the state limit on how many business tax credits a company may claim annually
- ▶ Introducing a new tax credit for post-production expenses incurred in California on qualified motion pictures

The changes are generally effective for tax years beginning on or after 1 January 2027.

Delaware – On 1 July 2026, Delaware enacted a nonrefundable entertainment production tax credit, which may be claimed against corporate income tax or other taxes. The credit, which equals 30% of qualified expenditures on qualified activities, may be carried forward up to five years but may not be carried back. Eligible companies may apply for credits, which are capped at \$10 million annually. The change is effective upon enactment. See the [State and Local Tax Weekly for 8 August 2026 and 14 August 2026](#).

On 26 August 2027, **Delaware** enacted legislation rendering a “large energy use facility” ineligible for corporate income tax credits. The new law also requires a “large energy use facility” to produce or procure sufficient renewable energy within Delaware to power its operations. The changes are effective upon enactment. See the [State and Local Tax Weekly for 21 August 2026 and 28 August 2026](#).

District of Columbia – On 13 August 2026, the District of Columbia (DC) enacted emergency legislation decoupling from changes made by the One Big Beautiful Bill Act (OBBBA) to the following federal income tax provisions:

- ▶ Section 163(j) of the Internal Revenue Code (IRC) on the limitation on deductions of business interest expense (for tax years beginning after 31 December 2024, but before 1 January 2030)
- ▶ IRC Section 168(n) on a special depreciation allowance for qualified production property (for years beginning after 31 December 2024, but before 1 January 2030)
- ▶ IRC Section 174A on domestic research and/or experimental (R&E) expenditures (for tax years beginning after 31 December 2021 and before 1 January 2028)

For DC income tax purposes, the emergency legislation also limits tax benefits from Qualified Opportunity Funds to investors meeting certain criteria. The emergency legislation is effective for 90 days and is scheduled to expire on 11 November 2026.

These changes were also introduced through a separate budget bill undergoing the full legislative process, including a mandatory 30-in-session-day review period by Congress. That bill has a projected enactment date of 20 November 2026, if approved by Congress. See [Tax Alert 2026-1962](#), dated 15 September 2026.

Hawaii – On 6 July 2026, Hawaii increased its income tax credit for motion pictures, digital media and film production to 27% (rather than 22%) of qualified production costs, provided the costs are incurred by a qualified property in any county of the state with a population of 700,000 or less (previously, more than 700,000). The credit is capped at \$20 million (previously \$17 million) per qualified production and \$60 million (from \$50 million) per year. The credit's expiration date was also extended five years to 1 January 2038. See the [State and Local Weekly for 24 July 2026 and 31 July 2026](#). For information on related guidance, see the "Other considerations" section of this publication.

On 8 July 2026, Hawaii modified its low-income housing credit to allow certain partnerships and members of a limited liability company to reallocate, sell or transfer their credit allocation to any taxpayer, regardless of whether that taxpayer owns a direct or indirect interest in the qualified low-income building. Additionally, Hawaii extended the credit's expiration date by five years to 31 December 2032. See the [State and Local Tax Weekly for 8 August 2026 and 14 August 2026](#).

New Hampshire – On 10 July 2026, New Hampshire modified its business enterprise tax (BET), which is a tax that applies to enterprise value and can be deducted as a credit against the state's corporate income tax. The new law automatically reduces the BET rate by .05 percentage points for each \$100 million by which combined business tax revenue exceeds the combined business tax plan for the same fiscal year. The rate may not, however, drop below .25%, and reductions may not apply in certain cases. These changes take effect on 1 January 2027. See the [State and Local Weekly for 24 July 2026 and 31 July 2026](#).

On 19 August 2026, New Hampshire increased the cap on research and development tax credits that a company can claim against the state's corporate income tax (known as the business profits tax). Effective 1 January 2027, the cap increases to \$100,000 (from \$50,000). See the [State and Local Tax Weekly for 21 August 2026 and 28 August 2026](#).

New Jersey – On 27 August 2026, New Jersey enacted legislation reducing the annual amount of tax credits that may be allocated to data centers under the Next New Jersey program to \$250 million from \$500 million. The change is effective upon enactment. See the [State and Local Tax Weekly for 21 August 2026 and 28 August 2026](#).

North Carolina – On 2 July 2026, North Carolina updated its date of conformity to the IRC to 5 July 2025 from 1 January 2023, thereby incorporating federal tax changes enacted under the OBBBA. The state decoupled, however, from the new IRC Section 174A(a) deduction for domestic R&E expenditures, which was created by the OBBBA. The changes are effective upon enactment. See [Tax Alert 2026-1647](#), dated 30 July 2026.

International

Egypt – On 28 July 2026, Egypt enacted a capital gains tax exemption for gains realized by resident shareholders from the disposal of securities on Egypt's stock exchange. The exemption does not apply to gains from delisted shares, and resident shareholders may not deduct losses from the securities' disposal.

Other changes include:

- ▶ Introducing a mechanism for determining the acquisition cost of unlisted securities and quotas for capital gains tax purposes
- ▶ Fully exempting from tax dividends received by a parent or holding company from qualifying resident or nonresident subsidiaries



- ▶ Replacing the system of credits for withholding taxes paid on dividends distributed within a domestic group with a participation exemption regime under which those dividends are not taxed if certain requirements are satisfied
- ▶ Increasing the limit on interest expense deductions under the thin capitalization rules for companies undertaking qualifying national infrastructure projects
- ▶ Exempting interest on loans for financing national infrastructure projects from offshore withholding tax, provided certain requirements are satisfied
- ▶ Allowing companies to deduct comprehensive health contributions for corporate income tax purposes
- ▶ Allowing qualifying companies that list their shares on the Egyptian Stock Exchange to reduce their corporate income tax due by 15% for three years following the listing, with a possible extension for an additional three years

The changes are effective 29 July 2026. See [Tax Alert 2026-1750](#), dated 14 August 2026.

Ghana – On 15 July 2026, Ghana enacted legislation denying corporate income tax deductions for fees paid under a technology transfer agreement (TTA) that is not registered with the Ghana Investment Promotion Authority. The legislation also broadens the definition of a TTA to include agreements that last a minimum of 12 months (rather than 18 months) and involve certain industrial property rights, foreign technology knowledge, technical services or management services. Additionally, TTAs are initially valid for five years (rather than 10 years) and must be renewed every five years. The changes are effective upon enactment. See [Tax Alert 2026-1681](#), dated 5 August 2026.

Switzerland – On 18 September 2026, Switzerland enacted legislation extending the carryforward period for net operating losses (NOLs) to 10 years from seven years. The 10-year period applies to loss carryforwards from tax year 2020 onward; losses incurred before 2020 remain subject to the current seven-year rule. The change is effective 1 January 2028, and it applies for both federal and cantonal purposes.

Legislation effective in the third quarter

Federal, state and territories

Louisiana – For tax periods beginning on 1 July 2026, the inventory tax credit for corporations is no longer available. The change was enacted on 4 December 2024. See [Tax Alert 2024-2266](#), dated 11 December 2024.

New Jersey – Effective for tax years ending on or after 31 July 2026 and before 31 July 2030, New Jersey's deduction for NOLs is capped at \$1 million. The change was enacted on 30 June 2026. See [Tax Alert 2026-1456](#), dated 9 July 2026.

International

Kenya – Effective 1 July 2026, withholding tax applies to interchange fees and merchant service fees on credit card transactions, as well as payments to providers of payment platforms and related services. Similarly, a 1.5% withholding tax applies to sales of scrap metal, while a 30% withholding tax applies to rental income earned by a nonresident landlord on immoveable property (15% for property other than immoveable property).

Other changes include:

- ▶ A revised definition of “immoveable property” that makes it easier to tax income from land-based interests separately from income from extractive and petroleum rights
- ▶ An interest expense deduction for non-deposit-taking institutions that are engaged in either lending or leasing (but not both)
- ▶ Alignment between Kenya's definition of an ultimate parent entity and the definition in the transfer pricing guidelines of the Organisation for Economic Co-operation and Development (OECD)
- ▶ A minimum limit on how much dividends tax authorities may deem distributed for income tax purposes

- ▶ Repeal of the withholding tax exemption for payments made to nonresidents by a national carrier for certain support services not available in Kenya
- ▶ An income tax exemption for capital gains arising from the transfer of property to a real estate investment trust
- ▶ Clarification that companies must claim investment allowances on industrial buildings (i.e., depreciation) at a rate of 10% annually
- ▶ Repeal of the 15% corporate rate for certain companies constructing residential units, which increases their tax rate to the standard 30%
- ▶ Taxation of capital gains from a nonresident's alienation of shares, if certain conditions apply
- ▶ A 15% repatriation tax on income earned in Kenya by a nonresident operating under a mining license or holding a mining license

The changes were enacted 23 June 2026. See [**Tax Alert I2026-1445**](#), dated 8 July 2026.

Tanzania – Effective 1 July 2026, the Commissioner General may calculate, for purposes of capital gains tax, the basis in assets that are acquired by one party and subsequently transferred to a third party for no consideration as the original acquisition cost, plus any subsequent costs incurred. Other changes include:

- ▶ Increasing the applicable tax rate on payments made to nonresident digital service providers to 3% from 2%
- ▶ Revising the transfer pricing penalty to the higher of 30% of the transfer pricing adjustment or 100% of the tax shortfall arising from the adjustment

The changes were enacted 30 June 2026. See [**Tax Alert 2026-1546**](#), dated 17 July 2026.

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 – The Internal Revenue Service (IRS) proposed regulations on the OBBBA’s repeal of the “one-month deferral election” in IRC Section 898(c)(2). The proposed regulations would allocate certain foreign income taxes that accrue during the mandatory, one-month “short year” caused by the election’s repeal, as outlined in Notice 2025-72, with some modifications. The proposed regulations also provide effective-date guidance on the disallowance under IRC Section 960(d)(4) of foreign tax credits claimed on certain previously taxed earnings and profits, as described in Notice 2025-77. See [Tax Alert 2026-1687](#), dated 6 August 2026.

Separately, the IRS proposed regulations under IRC Section 987 that would permit controlled foreign corporations (CFCs) to elect out of rules requiring them to compute or recognize IRC Section 987 gain or loss from remittances or the termination of their IRC Section 987 qualified business units. Taxpayers generally may rely on the proposed regulations for tax years beginning after 31 December 2024, provided applicable consistency requirements are satisfied. See [Tax Alert 2026-1801](#), dated 21 August 2026.

The U.S. Treasury Department (Treasury) and the IRS proposed regulations under IRC Section 250 on “excluded property sales income,” a new category of income excluded from foreign-derived deduction eligible income (FDDEI) under the OBBBA and, therefore, ineligible for the FDDEI deduction. The proposed regulations define “excluded property sales income” as any income and gain derived from the sale or other disposition of two categories of property: intangible property and “other excluded property.” See [Tax Alert 2026-1826](#), dated 25 August 2026.

Treasury and the IRS also proposed regulations that would implement the OBBBA’s revisions to the pro-rata share rules, which determine US shareholder-level inclusions of a CFC’s subpart F and tested income for tax years of foreign corporations beginning after 31 December 2025. The proposed regulations would allocate a CFC’s subpart F income and tested income (or tested loss) to shareholders under a daily proration approach, similar to the method under IRC Section 1248. They would also:

- ▶ Close a foreign corporation’s tax year upon a “status change”
- ▶ Permit an elective closing upon a “significant ownership variance”
- ▶ Provide rules for allocating foreign income taxes to resulting short tax years
- ▶ Terminate the extraordinary reduction rules in Treas. Reg. Section 1.245A-5(e) and (f), along with Treas. Reg. Section 1.1502-80(j)

See [Tax Alert 2026-1865](#), dated 28 August 2026.

Additionally, Treasury and the IRS proposed regulations that would implement expense apportionment changes made to net CFC tested income (NCTI) and FDDEI by the OBBBA. Under the proposed regulations, only a few deductions, such as certain foreign exchange and NOLs, could be allocated and apportioned to foreign-source NCTI. Other deductions previously allocated and apportioned to foreign-source NCTI, such as interest or stewardship expenses, would instead be reallocated to US-source income, which would increase the limitation on foreign tax credits. The regulations would also exclude interest expense and R&E expenditures when determining deduction-eligible income and FDDEI, effectively allowing US taxpayers a larger deduction for that income. See [Tax Alert 2026-2038](#), dated 24 September 2026.

In a revenue procedure, the IRS revised the automatic consent procedures for making accounting method changes for R&E expenditures under IRC Sections 174 and 174A and certain contracts under IRC Section 460(e). It also revised the treatment of certain IRC Section 481(a) adjustments related to those changes and included transition rules for making the automatic accounting method changes. See [Tax Alert 2026-1977](#), dated 17 September 2026.

In a notice, the IRS expanded the scope and duration of the existing safe harbor for the IRC Section 45Q credit for carbon oxide sequestration. The safe harbor now extends to projects involving qualified carbon oxide used as a tertiary injectant in qualified enhanced oil or natural gas recovery projects. Taxpayers may use the expanded safe harbor to determine how much qualified carbon oxide is subject to the IRC Section 45Q recapture rules. Relief under the safe harbor applies to secure geological storage occurring on or after 1 January 2025 and through the end of the calendar year in which Treasury and the IRS issue future interim guidance or proposed regulations addressing IRC Section 45Q measurement, reporting and verification requirements. See [Tax Alert 2026-1834](#), dated 26 August 2026.

In another notice, the IRS established the calendar-year 2026 emissions-rate table for purposes of the IRC Section 45Z clean fuel production credit and implemented key amendments enacted by the OBBBA, including special rules for fuels derived from animal manure. See [Tax Alert 2026-1992](#), see 18 September 2026.

The U.S. Court of Federal Claims found that Treasury lacked statutory authority to promulgate a regulation under IRC Section 951A that effectively disallowed certain deductions for purposes of determining a multinational company's global intangible low-taxed income (GILTI). The court rejected the government's arguments that IRC Section 7805(a), in conjunction with former IRC Section 951A(c)(2)(A)(ii), gave Treasury the authority to issue the regulation. See [Tax Alert 2026-1663](#), dated 31 July 2026.

The U.S. Tax Court held that a partnership was not entitled to qualified dividend income treatment or foreign tax credits arising from a constructed basket swap transaction because the transaction violated the anti-abuse rule in Treas. Reg. Section 1.246-5(c)(1)(vi). In support of its conclusion, the court noted that some of the positions inside the swap virtually tracked the partnership's stock holdings and produced tax benefits that significantly exceeded pretax economic profits. See [Tax Alert 2026-1774](#), dated 18 August 2026.

Hawaii – In a tax information release, the Department of Taxation clarified that the \$40 million aggregate cap on the renewable energy technologies income tax credit generally applies to credits claimed in 2027 for renewable energy technologies systems installed and placed in service in 2026. The cap will not apply, however, to systems installed and placed in service before 21 May 2026, or to systems installed and placed in service by the end of calendar year 2026, provided certain requirements are met. See the [State and Local Tax Weekly for 8 August 2026 and 14 August 2026](#).

Separately, the Department of Taxation issued guidance on recent changes to the state's motion picture, digital media and film production income tax credit. The department defines the terms "workforce" and "local hire" for purposes of claiming the additional 5% credit for qualified productions whose workforce is at least 80% local hires. It also limits how often an individual can be counted when determining the number of individuals in the workforce and the number of local hires. See the [State and Local Tax Weekly for 24 July 2026 and 31 July 2026](#). For additional information, see the enacted legislation section of this publication.

Massachusetts – The Appellate Tax Board upheld the validity of regulations allowing the Department of Revenue to aggregate the activities of separate combined-group members when determining the group's Massachusetts tax liability. The board rejected, however, the department's inclusion of the sales of a group member whose income was protected from taxation by P.L. 86-272 when apportioning the group's income to Massachusetts. The board reasoned that including those sales in the apportionment calculation indirectly subjected the protected member's income to Massachusetts tax, thereby violating P.L. 86-272 and the Supremacy Clause of the U.S. Constitution. See [Tax Alert 2026-1775](#), dated 18 August 2026.

Nebraska – The District Court of Lancaster County declined to use the state's statutory apportionment formula, as well as alternative formulas proposed by the Department of Revenue and the taxpayer, to determine how much of the taxpayer's accumulated post-1986 deferred foreign income under IRC Section 965(a) to apportion to Nebraska for purposes of determining the taxpayer's Nebraska-sourced income for 2017. The court reasoned that the formulas were deficient because they (1) compared a single year of domestic activity against 13 years of foreign activity and (2) used income in one part of the formula instead of using gross receipts in both parts. Accordingly, the court remanded the case to the department's Tax Commissioner with instructions for developing an appropriate apportionment formula. See [Tax Alert 2026-1748](#), dated 14 August 2026.



States – The following states issued guidance for state corporate income tax purposes on conformity to certain provisions in the OBBBA:

- ▶ **Connecticut**
- ▶ **North Carolina**
- ▶ **Minnesota**
- ▶ **Pennsylvania**
- ▶ **Rhode Island**
- ▶ **Wisconsin**

See the State and Local Tax Weeklies for 10 July 2026 and 17 July 2026, 24 July 2026 and 31 July 2026, 8 August 2026 and 14 August 2026, and Tax Alert 2026-2014, dated 22 September 2026.

International

Colombia – In Tax Opinion No. 015313 (internal 1605), the Colombian Tax Authority (DIAN) concluded that the dividend provisions in the Colombia-Spain tax treaty only require Spanish investors to reinvest 35% (rather than 65%) of previously untaxed dividends from a Colombian company. The DIAN also concluded that a 35% withholding tax no longer applies to these dividends. The changes, which are effective 1 September 2026, supersede the DIAN's position in Tax Opinion No. 48261 of 2012. See Tax Alert 2026-1948, dated 14 September 2026.

Australia – In a final taxation ruling, the Taxation Office concluded that payments under software intermediation arrangements may qualify as royalties if the arrangement involves the grant or use of copyright or other intellectual property (IP) rights. In determining a causal connection between the payment and the relevant IP rights, the Taxation Office will consider a broad range of evidence, including contracts, conduct, pricing and valuations. See Tax Alert 2026-1937, dated 11 September 2026.

India – The Mumbai Income Tax Appellate Tribunal held that a US-based provider of financial information, news and market data services did not have a permanent establishment (PE) in India under the India-US tax treaty, despite distributing its products in India through a wholly owned subsidiary. The tribunal reasoned that the Indian subsidiary purchased and distributed the products on a principal-to-principal basis, contracted with Indian customers in its own name, invoiced them directly, and did not habitually conclude contracts, maintain stock or secure orders on behalf of the US entity. Although employees of the US entity spent time in India, the tribunal noted, their activities primarily involved oversight of the subsidiary, training, administrative support, information gathering and assistance with product-related functions. See Tax Alert 2026-1935, dated 11 September 2026.

Netherlands – The State Secretary of Finance published a new decree on hybrid mismatches, replacing a decree from October 2022. The new decree introduces new positions on hybrid mismatches under the Dutch hybrid mismatch rules, such as the treatment of NCTI (formerly GILTI), and includes new examples on the treatment of the so-called dual inclusion income rule under the Dutch hybrid mismatch rules. It also clarifies (1) the definition of a disregarded PE and (2) why a PE's termination loss generally does not give rise to a double deduction. See Tax Alert 2026-1763, dated 17 August 2026.

The Hague Court of Appeal in the Netherlands held that a Dutch company could not fully deduct what it paid to related group lenders, which consisted of interest on the money it borrowed plus standing charges based on how much it could borrow rather than how much it actually borrowed. The court reasoned that those costs, taken together, were higher than what unrelated parties could reasonably have expected when each credit line was set up. The court also declined to accept the company's proposed adjustments for differences between its credit lines and those of unrelated borrowers, finding that the company had not shown those differences could be measured reliably. See Tax Alert 2026-1957, dated 15 September 2026.

Saudi Arabia – In regulations, the Zakat, Tax and Customs Authority outlined the economic substance requirements that businesses operating in a special economic zone (SEZ) must satisfy to claim income tax benefits and other tax incentives. Additional substance requirements apply to SEZ businesses with activities that involve IP. See Tax Alert 2026-1770, dated 17 August 2026.

In a procedural guide, the Zakat, Tax and Customs Authority outlined the requirements that businesses operating in an SEZ must meet to claim various tax incentives, such as a 5% (normally 20%) corporate income tax rate for 20 years and exemptions from withholding tax for qualifying payments made to nonresidents, among others. See [Tax Alert 2026-1893](#), dated 3 September 2026.

Vietnam – In a circular, the Ministry of Finance updated its guidance on how to apply and interpret tax treaties. Changes include:

- ▶ Interpreting “permanent establishment” to include an e-commerce platform or digital platform through which a foreign business wholly or partially supplies its goods or services in Vietnam
- ▶ Clarifying how to determine whether gains from direct or indirect transfers of shares or comparable interests may qualify for an exemption from Vietnam tax under a tax treaty containing an immovable-property ratio clause
- ▶ Linking the tolling of the three-year statute of limitations for claiming tax treaty relief with the date the government receives a complete relief application, rather than the date an application is received

See [Tax Alert 2026-1590](#), dated 23 July 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 House Ways and Means Committee approved a bill on the tax treatment of digital assets, which would:

- ▶ Require digital asset brokers and dealers to apply mark-to-market accounting rules
- ▶ Apply wash sale rules and constructive sale rules to digital assets
- ▶ Allow digital assets to qualify for safe harbors that allow foreign persons to more easily invest in US markets
- ▶ Establish a de minimis rule for smaller transactions
- ▶ Streamline rules on charitable contributions of digital assets

See [Tax Alert 2026-1972](#), dated 16 September 2026.

In a whitepaper, Senator Ron Wyden proposed precluding data centers from claiming various tax incentives, such as 100% bonus depreciation and investment in opportunity zones. See [Tax Alert 2026-1690](#), dated 7 August 2026.

In a press release, Senators Mike Crapo and Ron Wyden reaffirmed their bipartisan commitment to extending the Advanced Manufacturing Investment Credit for domestic semiconductor manufacturing, which expires 31 December 2026. See [Tax Alert 2026-1690](#), dated 7 August 2026.

Pennsylvania – In proposed regulations, the Department of Revenue outlined a methodology for sourcing income from services to Pennsylvania for corporate income tax purposes. Under that methodology, Pennsylvania corporate tax would apply to income from services if receipts for those services are delivered to locations within the commonwealth. The methodology includes rules for determining when a service has been delivered within Pennsylvania, as well as rules for approximating how many service receipts have been delivered. See the [State and Local Tax Weekly for 24 July 2026 and 31 July 2026](#).

Utah – The State Tax Commission proposed amending its sales factor sourcing rules (regulations) for financial institutions to reflect 2025 legislation. The legislation directs the commission to make rules that preclude the sourcing of investment and trading sales to the state, while requiring those sales to be included in the factor's calculation. The proposed amendments would also replace the rule's current definition of "financial institution" with a reference to the statutory definition. See the [State and Local Tax Weekly for 8 August 2026 and 14 August 2026](#).

Wisconsin – The U.S. Supreme Court has been asked to consider whether Wisconsin's corporate income and franchise tax applies to an out-of-state company that had consultant agreements with Wisconsin travel agents. The Wisconsin Court of Appeals held the tax applied because the company's activities in the state fell outside the protection of P.L. 86-272, which limits a state's ability to impose corporate income taxes on certain out-of-state businesses. See the [State and Local Tax Weekly for 8 August 2026 and 14 August 2026](#).

International

Australia – The House of Representatives is considering a bill that would clarify and broaden Australia's capital gains tax regime for foreign residents (the regime). Proposed changes include:

- ▶ Broadening the definition of taxable Australian real property to include assets closely connected to land and natural resources, which would subject gains from these assets to capital gains tax

- ▶ Basing the determination of whether capital gains tax applies to a foreign investor's sale of an indirect Australian real property interest on whether the entity in which the investor owns a 10% or greater interest was land-rich at any time in the 12 months preceding the sale, rather than at the time of the sale
- ▶ Taxing only 50% of gains from the disposal of eligible Australian renewable assets, until 30 June 2030
- ▶ Modifying the rules for claiming tax credits under the regime so that vendors may claim tax credits withheld by the purchaser in the same income year in which the vendor's tax liability arose

See [Tax Alert 2026-1462](#), dated 10 July 2026.

Canada – In draft legislation, the Department of Finance proposed updating 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/noninclusion 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). Other proposals would:

- ▶ Reinstate accelerated depreciation rates for eligible liquefied natural gas equipment and related buildings acquired after 3 November 2025 and before 2035
- ▶ Make technical amendments that would affect the determination of foreign accrual property income (in relation to insurance or reinsurance of specified Canadian risks, as well as to service fees)
- ▶ Modify the conditions for a publicly listed partnership interest to be considered taxable Canadian property (to align with the conditions that apply to publicly listed shares and mutual fund interests) and broaden certain other tests for determining if a property is taxable Canadian property
- ▶ Make various other technical amendments that would affect, among others, the calculation of net capital cost additions for depreciation purposes, the limitation on excessive interest and financing expenses, the exceptions to the imputed interest benefit rules and the exceptions to the shareholder debt income inclusion rules

See Tax Alerts [2026-1639](#), dated 29 July 2026, and [2026-1737](#), dated 13 August 2026.

Additionally, the Canadian government proposed a new productivity mega deduction that would extend immediate expensing to a broader range of capital assets on a permanent basis, effective for property acquired after 14 September 2026. Immediate expensing would also be available on a permanent basis for certain Canadian development resource expenses incurred after 14 September 2026. A prior legislative proposal to reinstate accelerated depreciation rates for eligible liquefied natural gas equipment acquired after 3 November 2025 (noted in the preceding summary) would be replaced with immediate expensing on a permanent basis. See [Tax Alert 2026-1971](#), dated 16 September 2026.

Chile – Congress passed a tax reform bill that would gradually reduce the corporate income tax rate to 23% from 27% by 2029. The bill would also remove the current limits on a shareholder's ability to credit income taxes paid by the Chilean company against taxes owed on dividends paid to the shareholder. This change would particularly benefit foreign investors that are resident in jurisdictions without an income tax treaty with Chile and currently subject to a higher effective tax rate. This change would be implemented gradually and would effectively return Chile to a fully integrated corporate tax system by tax year 2030.

Other proposals include:

- ▶ Allowing companies to apply an optional 10% substitute tax to historical accumulated profits (including legacy retained earnings and balances from prior regimes) for a limited period, without triggering additional dividend withholding tax upon distribution of those profits to shareholders
- ▶ Repealing the 10% capital gains tax on disposals of publicly traded securities



- ▶ Creating a new tax stability regime for large-scale investments that would link the constancy of an eligible investor's tax liability to the size of the investment and impose a 1.5% corporate income tax surcharge on certain projects
- ▶ Introducing a new corporate income tax credit equal to 15% of eligible remuneration (20% in some cases) paid by companies exporting qualifying knowledge-based services

See [Tax Alert 2026-1656](#), dated 31 July 2026.

In a separate bill, the Chilean Executive Branch proposed changes to the tax treatment of certain debt instruments, including:

- ▶ Eliminating the current 4% withholding tax on interest on qualifying debt instruments
- ▶ Ceasing to treat interest earned by nonresident investors as Chilean-source income
- ▶ Expanding the capital gains tax exemption for certain listed securities

See [Tax Alert 2026-2012](#), dated 22 September 2026.

Korea – In a press release, the Ministry of Finance and Economy announced that Korea would implement the side-by-side agreement introduced by the OECD/G20 Inclusive Framework on BEPS in January 2026, including:

- ▶ A side-by-side safe harbor that would effectively exempt US-parented groups from the Income Inclusion Rule (IIR) and Undertaxed Profits Rule (UTPR) for fiscal years beginning on or after 1 January 2026
- ▶ An ultimate-parent-entity safe harbor, which would apply to fiscal years beginning on or after 1 January 2026
- ▶ A substance-based tax incentive safe harbor, which would apply to fiscal years beginning on or after 1 January 2026
- ▶ A simplified effective-tax-rate safe harbor, which would apply to fiscal years beginning on or after 31 December 2026

Other tax reform proposals include:

- ▶ Extending the transitional UTPR safe harbor period from fiscal years ending on or before 30 December 2026, to fiscal years ending on or before 3 January 2027
- ▶ Allowing Korean corporations to claim foreign tax credits for qualified domestic minimum top-up taxes paid overseas
- ▶ Treating gain on share buybacks as deemed dividends, instead of capital gains, following the legal requirement
- ▶ Deferring tax on deemed dividends received by a Korean parent company from a qualified spin-off or split-off of its foreign subsidiary, provided certain conditions are satisfied
- ▶ Deferring tax on stock dividends received by a Korean parent company from its foreign subsidiary, provided certain conditions are satisfied
- ▶ Aligning the Korean CFC regime with the OECD's Global anti-Base Erosion rules by lowering the threshold for a CFC's effective tax rate to 15% from 17.5%

See Tax Alerts [2026-1726](#), dated 12 August 2026, and [2026-1727](#), dated 12 August 2026.

Luxembourg – Parliament published draft legislation that would implement the side-by-side agreement introduced by the OECD/G20 Inclusive Framework on BEPS (Pillar Two) in January 2026. The draft law aims to implement:

- ▶ A side-by-side safe harbor that would effectively exempt US-parented groups from the IIR and UTPR (as IIR and UTPR top-up taxes would be deemed to be zero) for fiscal years beginning on or after 1 January 2026
- ▶ An ultimate-parent-entity safe harbor
- ▶ A simplified effective-tax-rate safe harbor
- ▶ A substance-based tax incentive safe harbor

Additionally, the draft legislation would implement OECD administrative guidance from May 2026 clarifying that the transitional UTPR safe harbor applies to multinational groups with a 52-week or 53-week fiscal year beginning before 1 January 2026 and ending on or before 3 January 2027. See [Tax Alert 2026-1722](#), dated 12 August 2026.

The draft law will now proceed through the legislative process, including review by the relevant parliamentary commission, the issuance of opinions by different advisory bodies, parliamentary debate and voting, and publication in the Official Gazette.

Mexico – In the 2027 economic package sent to Congress, the president proposed new limits on corporate income tax deductions and tax-loss utilization for most Mexican companies with annual taxable revenue exceeding 50 million Mexican pesos. The proposals would also reduce the threshold for net-interest deductions from 30% to 20% of adjusted taxable income and change the timing of deductions and withholding for certain payments to foreign residents. See [Tax Alert 2026-2009](#), dated 21 September 2026.

Netherlands – In a draft version of its 2027 fiscal budget, the government proposed implementing the Minimum Tax (Pillar Two) side-by-side package introduced by the OECD/G20 Inclusive Framework on BEPS. The package would apply retroactively to reporting years commencing on or after 1 January 2026, and would incorporate the Ultimate Parent Entity Safe Harbor, the Simplified Effective Tax Rate Safe Harbor and the Substance-Based Tax Incentives Safe Harbor. Additionally, the Transitional Country-by-Country Safe Harbor would be extended by one year.

Under the side-by-side package, the Dutch IIR and UTPR would not apply to a US-parented group with a first-tier Dutch holding company.

Other proposals include:

- ▶ Broadening the accessibility of applying the Dutch innovation box regime under the simplified method by increasing the benefit threshold to €100,000 from €25,000
- ▶ Removing the statutory presumption that a tax-neutral merger or demerger is abusive when ownership of the transferor or transferee changes, directly or indirectly, within three years of the restructuring
- ▶ Subjecting gains and losses on instruments hedging foreign currency risk to Dutch corporate income tax (versus possible exemption under current law) if those gains and losses were reflected in the pricing of the instrument and were foreseeable at the time of the transaction

The draft legislation is currently being discussed in Dutch Parliament and is expected to be enacted in December 2026 if approved. See [Tax Alert 2026-1963](#), dated 15 September 2026.

Poland – In draft legislation, the government proposed increasing the corporate income tax rate to 22% from 19% for tax capital groups and corporations whose revenue exceeded the equivalent of €50 million in the prior tax year. The 22% rate would also apply to income of corporations that qualify as constituent entities of domestic or multinational enterprise groups under Poland's Pillar Two legislation. The proposal is still at an early, governmental stage. It must go through public consultations, adoption by the Council of Ministers and both chambers of Parliament, signature by the President and publication in the journal of laws before it is enacted, so the provisions may still change. See [Tax Alert 2026-1813](#), dated 24 August 2026.

South Africa – In draft legislation, National Treasury and the South African Revenue Service proposed requiring related South African companies to conduct transactions at arm's length if one company qualifies for the 15% corporate income tax rate in an SEZ and the other does not. If the transaction's terms were not arm's length and produced a tax benefit, the company outside the SEZ would be required to recalculate its taxable income or tax payable based on arm's-length terms. The proposal is expected to apply from 1 January 2027, for assessment years commencing on or after that date. As the measure remains part of draft legislation, its final wording and commencement date may change during the legislative process. See [Tax Alert 2026-1745](#), dated 14 August 2026.

United Kingdom – In draft legislation for the UK's next Finance bill, the government proposed removing the election to exempt the profits and losses of foreign PEs from UK corporation tax and instead making the exemption treatment mandatory. For exemption purposes, a PE would be defined in accordance with the applicable treaty or the OECD's Model Tax Convention, rather than UK domestic corporate tax law. Other proposals include:

- ▶ Restricting the ability to offset UK profits arising after the reform takes effect with a foreign PE's losses and other tax attributes that arose before the effective date
- ▶ Introducing anti-avoidance rules to counter arrangements designed either to accelerate the use of losses or reliefs before the new rules apply, or to delay entry into the regime through short accounting periods
- ▶ Implementing the side-by-side agreement introduced by the OECD/G20 Inclusive Framework on BEPS in January 2026
- ▶ Aligning the UK's domestic definition of profits from rights to explore and exploit oil and gas with the definition used in its income tax treaties

See Tax Alerts [2026-1561](#), dated 21 July 2026, and [2026-1763](#), dated 17 August 2026.

United Nations – The United Nations (UN) Intergovernmental Negotiating Committee met in August 2026 to continue discussion of the UN Framework Convention on International Tax Cooperation and two early protocols based on draft texts. The draft protocol on taxation of income from cross-border services outlines a framework for allocating taxing rights over this income, which covers fees for services, automated digital services and insurance premiums. The draft generally provides for a shared taxing right that would allow source or market jurisdictions to tax such income from cross-border services, subject to certain limitations.

During the August meeting, delegates debated whether the protocol should base taxing rights over cross-border services income on factors like the location of the payer or consumer and whether physical presence should continue to play a role in determining taxing jurisdiction. The discussion of the methodology for taxing this income revealed differences in views among delegates regarding the relative roles of gross-basis and net-basis taxation. See Tax Alerts [2026-1618](#), dated 27 July 2026, and [2026-1864](#), dated 28 August 2026.

Appendix A

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
Curaçao	IIR
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, IIR
Zimbabwe	DMTT

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

Indicates new in Q3

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

Source: EY BEPS Developments Tracker [Base Erosion and Profit Shifting \(BEPS\) 2.0 | EY - global](#)

Note: Developments Tracker cut-off date, as of 16 September 2026.

The chart does not reflect the introduction or enactment of legislation implementing the side-by-side agreement introduced by the OECD/G20 Inclusive Framework on BEPS.



Appendix B

FASB issues guidance requiring additional income tax disclosures

Overview

The Financial Accounting Standards Board (FASB or the Board) amended Accounting Standards Codification (ASC) 740, *Income Taxes*, to enhance the transparency and decision-usefulness of income tax disclosures, particularly in the rate reconciliation table and disclosures about income taxes paid.

The amendments are intended to address investors' requests for income tax disclosures that provide more information to help them better understand an entity's exposure to potential changes in tax laws, as well as the ensuing risks and opportunities, and to assess income tax information that affects cash flow forecasts and capital allocation decisions.

The guidance also eliminates certain existing requirements related to uncertain tax positions and unrecognized deferred tax liabilities and replaces the term "public entity" with "public business entity" (PBE) in ASC 740. Because the Master Glossary definition of PBE is more expansive than that of public entity, more entities may be subject to certain disclosure requirements under Accounting Standards Update 2023-09 than under legacy guidance.

Our Technical Line publication, *FASB requires entities to provide additional income tax disclosures*, has been updated to provide enhanced guidance related to the disclosure of rate reconciliation, income taxes paid and other items. To see the complete publication, [click here](#).

EY | Building a better working world

© 2026 Ernst & Young LLP.
All Rights Reserved.

SCORE No. 32428-261US

ey.com/en_us/technical/accountinglink

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multi-disciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.