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How the global minimum tax amendments could reshape Europe's tax incentives

This analysis offers estimates for EU countries of the possible impact of the 'safe harbour' update to the global minimum tax on corporate profits

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An agreement brokered within the Organisation for Economic Co-operation and Development (OECD) in early January 2026 on the global minimum tax on corporate profits (the so-called Pillar 2 of a 2021 global tax deal) is widely seen as a political rescue of the 15 percent minimum tax[1]. Building on a June 2025 G7 agreement[2], the new deal – involving 147 jurisdictions[3] and taking the form of a new package of administrative guidance – carves out space for the United States and allows the US minimum tax system to coexist alongside Pillar 2.

One element of the deal has received less attention, however. The new agreement also introduces what is known as a substance-based tax incentive safe harbour (SBTI-SH). Under Pillar 2, corporate profits subject to an effective tax rate below 15 percent would normally be subject to top-up taxes. The SBTI-SH would sidestep this to some extent by allowing certain tax breaks to reduce effective tax rates without triggering top-up taxation. This should be understood as a political compromise designed to shield any undertaxed profits of US subsidiaries of non-US multinationals (Saint-Amans, 2026). It changes how tax incentives function under Pillar 2, with implications for industrial policy.

It is unclear how jurisdictions implementing the minimum tax will be affected by these changes – despite its significance, the reform was not informed by a publicly available impact assessment. This matters for the European Union, where differences in economic structures imply that EU countries will not benefit equally from the SBTI-SH, with potential consequences for tax competition, revenues and the functioning of the single market. To understand the implications, this analysis provides a data-based assessment of how the SBTI-SH could reshape tax incentives across the EU.

What has been decided?

The 15 percent minimum tax was intended to put a floor under international tax competition, including by limiting the attractiveness of tax breaks – such as tax credits or investment deductions used by governments to influence the location decisions and activities of firms, including investment, hiring, innovation or emissions reductions. The SBTI-SH changes significantly not only the volume of tax incentives that can be granted but also their design.

The SBTI-SH builds on rather than overturns the original Pillar 2 architecture. The global minimum tax included a substance-based income exclusion (SBIE) component, which exempted a routine return to payroll and tangible assets. This reflected the principle that the minimum tax targets profit shifting through intangibles – including intellectual property and goodwill – rather than real economic activity. The SBTI-SH extends this logic by allowing certain substance-linked tax incentives to operate without triggering top-up taxation.

Under Pillar 2 as originally agreed, the effectiveness of tax incentives depended heavily on their design. Refundable tax incentives largely retained their value, while non-refundable incentives triggered top-up taxation[4]. This constrained the use of non-refundable tax incentives and limited tax competition. Under SBTI-SH, qualified tax incentives (QTIs) – non-refundable incentives strongly connected to economic substance – no longer result in top-up taxation. This expands the menu of potential tax breaks, albeit within a substance-based framework.

SBTI-SH applies broadly to expenditure- and production-based incentives, provided they relate to real economic substance within a jurisdiction. A 'substance cap' limits the total benefit to the greater of 5.5 percent of payroll costs or depreciation of tangible assets, or 1 percent of the carrying value of eligible tangible assets[5]. These parameters seem largely arbitrary (as noted, no impact assessment has been published), but nonetheless define the leeway now available to governments.

Who benefits?

The aim of this analysis is to capture how much new leeway the SBTI-SH and substance cap give to each EU country to grant tax incentives to multinationals without triggering top-up taxation.

An important caveat is that the analysis abstracts from current effective tax rates. In practice, many EU countries have effective tax rates above the 15 percent minimum, meaning that tax incentives could be granted without

impacting the SBTI-SH caps. Where the minimum tax does apply, the relevance for governments of this leeway will depend on the amount of low-taxed profit at stake. The results should thus be read as a mapping of potential leeway, not as a prediction of immediate firm-level or revenue effects.

Method

I assess two indicators of potential SBTI-SH leeway: (i) the substance cap based on 1 percent of tangible assets, and (ii) the substance cap based on 5.5 percent of payroll costs. For the alternative cap based on depreciation of tangible assets, consistent jurisdiction-level data for in-scope multinationals is not available, though this channel is likely relevant for capital-intensive economies.

The analysis uses aggregate OECD country-by-country reporting (CbCR) data, ensuring consistency with the scope and logic of the minimum tax.

For the asset-based indicator, I proxy the elective SBTI-SH cap as 1 percent of the net book value of tangible assets held by constituent entities resident in each jurisdiction, adjusted for GDP. Data limitations imply this measure likely overstates eligible assets and should be interpreted as an upper bound[6]. For the payroll-based indicator, I proxy eligible payroll costs using employment and compensation data, applying the 5.5 percent rate and adjusting for GDP to ensure comparability across countries.

Results

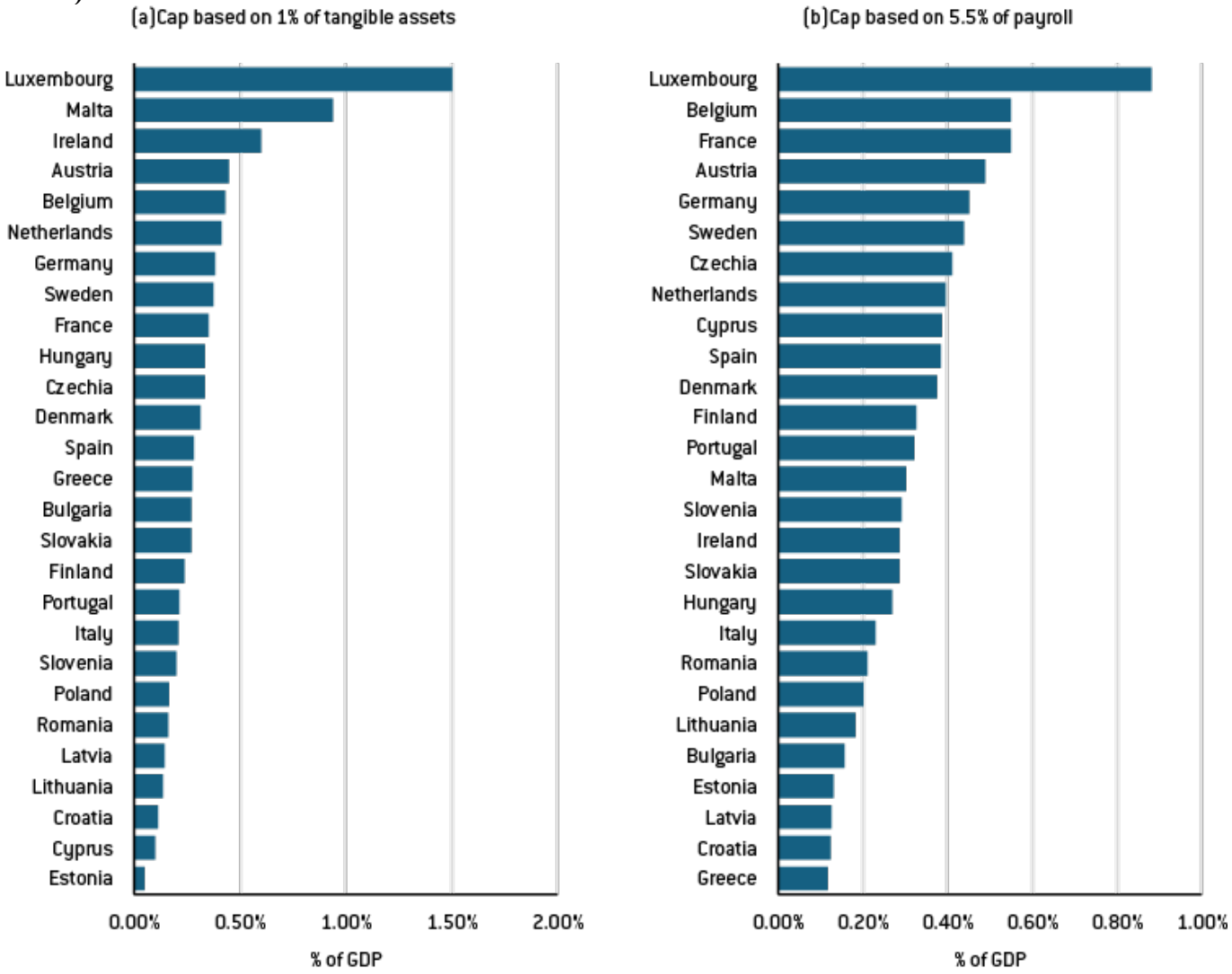
Figure 1 highlights three patterns. First, for a large group of countries, outcomes will be similar, whichever indicator is applied. Luxembourg, Austria, Belgium, the Netherlands and Germany consistently rank near the top on both indicators (panels A and B), showing that these economies combine substantial stocks of resident tangible assets with sizeable payroll bases relative to GDP. Meanwhile, Estonia, Croatia and Latvia remain close to the bottom in both panels, reflecting limited SBTI-SH leeway, whether through assets or employment. For these countries, the choice of substance metric matters little, as neither channel materially alters their relative position.

Second, another group of countries would have greater leeway in relation to tangible assets (Figure 1, panel A) than payroll (panel B). This group includes Malta, Ireland, Hungary and Greece. This is consistent with the concentration of, for instance, capital-intensive structures in these jurisdictions. In these cases, SBTI-SH leeway is driven primarily by resident tangible assets rather than by employment. The divergence between the two panels suggests that, for these countries, the asset-based option dominates the payroll-based cap, creating substantial potential space for tax breaks even if employment levels are limited.

Third, the opposite pattern is visible for a smaller group of countries. These rank modestly in panel A but move up markedly in panel B. France, Finland and Portugal fall into this category, and Cyprus stands out particularly strongly. In these economies, substance is primarily reflected in employment

rather than asset location, and the payroll channel aligns more closely with traditional industrial-policy objectives centred on jobs.

Figure 1: Potential space for tax incentives under the SBTI-SH, by country (% of GDP)



Source: Bruegel based on Eurostat, AMECO, ECB, OECD country-by-country reporting data sourced from the EU Tax Observatory Country-by-Country Report statistics explorer (https://www.taxobservatory.eu/repository/the-cbcr-explorer/). Note: based on 2022 data.

The annex reports the same indicators in absolute terms. As expected, these figures are dominated by the largest countries, with Germany and France accounting for the bulk of potential SBTI-SH leeway under both caps. Smaller economies, notably Luxembourg, rank lower than in the GDP-scaled figures. Absolute measures show how much money a country could put behind tax incentives in total, which matters for the scale of industrial policy. Such measures are less helpful, however, for understanding how powerful those incentives are relative to the size of a country's economy, and therefore for assessing the leverage the SBTI-SH could create for domestic tax policy and tax competition within the EU.

Two conclusions follow. First, the SBTI-SH does not, in principle, create a single group of winners. Different countries benefit differently depending whether substance is concentrated in assets or in labour. Second, the asset-

based option can generate substantial SBTI-SH leeway, even in jurisdictions not typically seen as industrial hubs but more commonly associated with the location of intangible assets, such as Luxembourg. While the mechanics are not entirely clear, this pattern may reflect the scale of multinational balance sheets relative to GDP in MNE-intensive economies, rather than the tangible-asset intensity of production.

Some implications for EU policy

The SBTI-SH changes how Pillar 2 interacts with tax competition and industrial policy within the EU. While the global minimum tax was expected to largely neutralise tax incentives, the SBTI-SH broadens opportunities for industrial policy and tax competition through substance-linked incentives. As the analysis shows, this leeway is unevenly distributed across EU countries, depending on whether substance is measured primarily through assets or payroll. Without coordination, this risks even more differentiation in national tax strategies and added pressure on the single market.

At the same time, the SBTI-SH could reduce the tension between Pillar 2 and EU industrial and climate objectives, which may need to rely on tax incentives to support decarbonisation and strategic investment (as recognised, for example, by Council of the EU[7]). By protecting incentives that are strongly connected to real economic activity, the SBTI-SH makes it easier to accommodate these objectives within Pillar 2. However, this analysis also suggests that the asset-based option may favour jurisdictions not typically associated with large manufacturing activity. A more granular impact assessment could help clarify whether this pattern reflects data constraints or aspects of policy design.

SBTI-SH also has revenue implications. By limiting the extent to which tax incentives give rise to top-up taxation, it reduces the amount of minimum-tax revenue that might otherwise accrue. The variation across EU countries in potential SBTI-SH leeway suggests that the exposure to Pillar 2 revenues will also vary significantly across countries, highlighting a trade-off between industrial-policy flexibility and minimum-tax revenues.

Finally, from a European perspective, the SBTI-SH must be seen in its international context: it may successfully reduce the relative tax exposure of US subsidiaries of non-US multinationals. While this analysis highlights intra-EU effects, it also points to a clear agenda for further work on the competitiveness implications of the SBTI-SH, particularly relative to the US.

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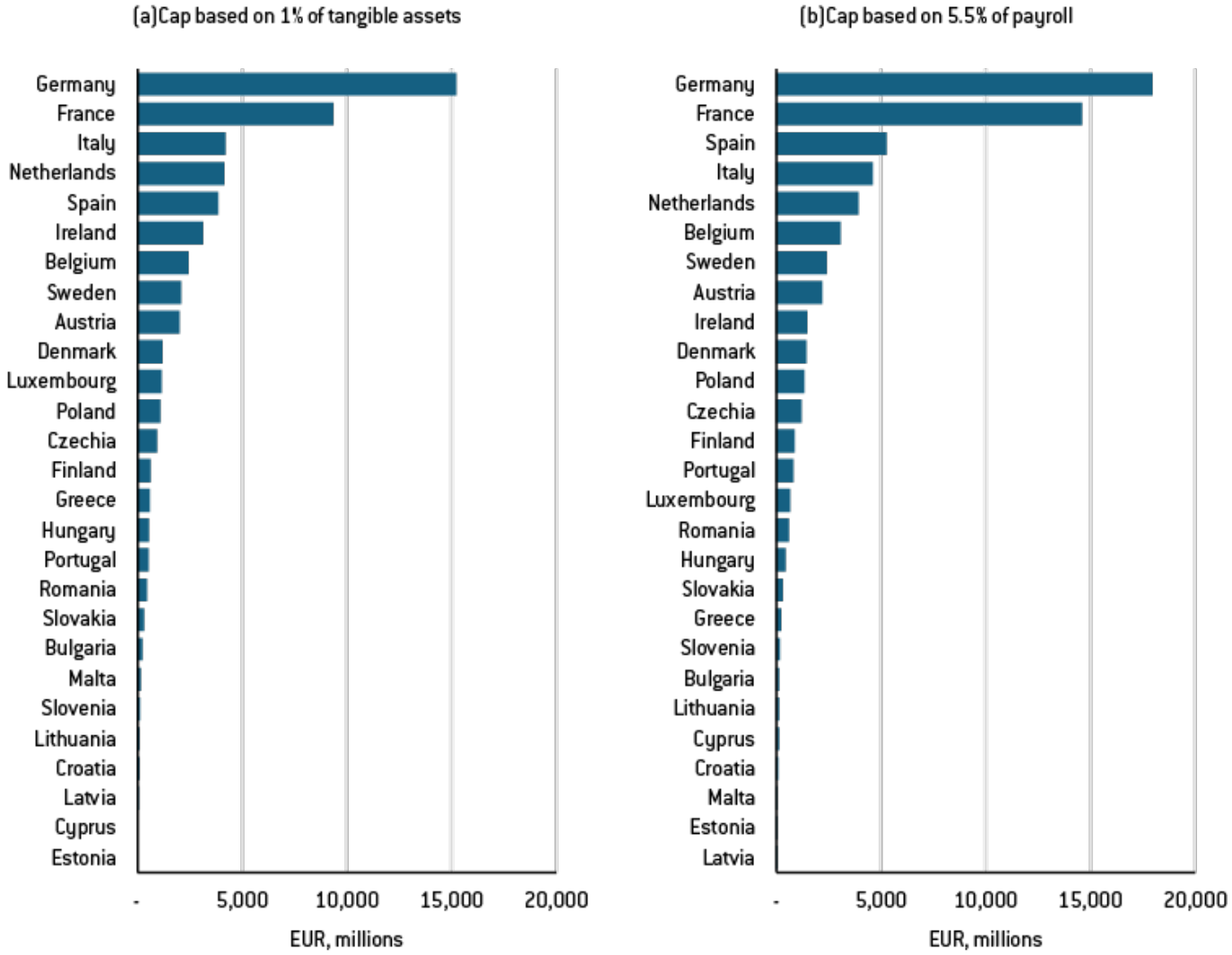
References

Saint-Amans, P. (2026) 'Has the global minimum tax survived Trump?' *Analysis*, 13 January, Bruegel, available at https://www.bruegel.org/analysis/has-global-minimum-tax-survived-trump

Annex: Potential leeway for tax incentives under the SBTI-SH, by country, € millions



Source: Bruegel based on Eurostat, AMECO, ECB, OECD country-by-country reporting data sourced from the EU Tax Observatory Country-by-Country Report statistics explorer (https://www.taxobservatory.eu/repository/the-cbcr-explorer/). Note: based on 2022 data. For explanations, see the text and Figure 1.