



# 2026 international tax planning guide

## The 2026 tax landscape

The international tax environment shifted rapidly in 2025. The year brought legislative reforms, renewed global coordination, and heightened compliance expectations for multinational corporations. This guide is intended to help U.S.-parented companies understand and adapt to those changes for 2026 and beyond.

A central driver of change is the One Big Beautiful Bill Act (OBBBA), which overhauled key U.S. international tax regimes. However, those updated rules interact with a wider set of forces, including trade and tariff pressures, Pillar 2 reporting and more.

With critical provisions taking effect for tax years beginning in 2026, multinational enterprises need to prioritize modeling, coordination across departments, and deliberate long-term planning. Tax leaders can then assess risk and identify planning opportunities so that they can remain positioned for ongoing regulatory and policy developments in the global tax landscape.

**For an extensive look at broad business tax changes in 2026, see our [business tax planning guide](#).**

## FDII / FDDEI

The OBBBA fundamentally reshaped **foreign derived intangible income (FDII)** by rebranding it as “foreign-derived deduction eligible income” (FDDEI), permanently setting the Section 250 deduction at 33.34%. This produces an effective tax rate of approximately 14% on qualifying income from serving foreign markets for tax years beginning after Dec. 31, 2025.

The 14% effective rate sits between the current 37.5% FDII deduction (13.125% effective rate) and the reduced 21.875% deduction (16.406% effective rate) that would have applied beginning in 2026 under pre-OBBBA law. As a result, the period around 2025–2026 represents a transition point where the incentive structure shifts, making it a focal point for timing-based planning.

### Grant Thornton insight:

From a rate perspective, the reduction in the deduction percentage generally favors accelerating qualifying export sales and services into 2025, when the more generous 37.5% FDII deduction still applies. But although the OBBBA narrows the categories of income that qualify for the deduction, it also makes structural changes that can meaningfully increase the FDDEI base for many taxpayers in 2026.

In particular, it (i) eliminates the 10% qualified business asset investment (QBAI) reduction on FDDEI, no longer shaving FDDEI by a deemed tangible asset return; and (ii) stops allocating interest and R&E expenses against DEI/FDDEI, which otherwise would erode the amount of income eligible for the deduction. As a result, for enterprises with significant U.S. tangible investment, high leverage, or substantial R&E spend, the mechanics could produce a better overall FDDEI benefit in 2026 and beyond, even with the lower deduction percentage.

Accordingly, taxpayers may want to model how adjustments to timing of income and expenditures may produce most favorable overall outcome, depending on their specific facts and how the changes affect their calculations of the benefits.

## GILTI / NCTI

Beginning in 2026, the OBBBA rebrands the **global intangible low-taxed income (GILTI) regime** as “net CFC tested income” (NCTI) and makes several substantive changes that change the planning playbook.

Most notably, the 10% QBAI return is eliminated, so capital-intensive CFCs that previously generated little or no GILTI may now produce sizeable NCTI inclusions. At the same time, the Section 250 deduction is reduced from 50% to 40%, and the deemed-paid foreign tax credit haircut is lowered from 20% to 10%.

In addition, for determining the NCTI foreign tax credit (FTC) limitation, neither interest nor R&E expenses are allocable, and other deductions are allocable only if they are “directly allocable” to such income. Corporate U.S. shareholders continue to benefit from a Section 250 deduction on NCTI but with a different balance between inclusion, deduction and FTC relief than under prior law.

### Grant Thornton insight:

For 2026, planning centers on entity-by-entity modeling. That analysis needs a jurisdiction-by-jurisdiction view of effective tax rates, FTC capacity, and the availability of any NCTI high-tax relief, with special focus on low-tax controlled foreign corporations (CFCs) that may still produce residual U.S. tax even with a higher FTC percentage. Capital structure, debt placement, and R&D location should flow through the same model so that Section 250, NCTI, FDDEI and Pillar Two outcomes are optimized together rather than separately.

With the QBAI shield eliminated, groups also should reassess how tangible asset placement affects their overall tax profile. In particular, removing QBAI changes the economics of keeping assets offshore versus locating them in the U.S. Consideration should be given to whether certain assets are better placed onshore — both to align with operational needs and to position the group to access FDDEI and other domestic incentives. It also shifts the dynamics for future investment decisions, since the historical benefit of holding assets offshore for QBAI benefits is no longer available.

## BEAT

The OBBBA raised the rate on the base erosion and anti-abuse tax (BEAT) from 10% to 10.5% and permanently excluded the research credit and a portion of applicable Section 38 credits from reducing regular tax liability for purposes of computing a BEAT liability. These changes are effective for tax years after Dec. 31, 2025, and the increased BEAT rate is lower than the 12.5% scheduled under the TCJA.

## Limitation on downward attribution

The OBBBA reinstated the limitation on downward attribution, under Section 958(b)(4), reversing the repeal enacted under the TCJA. The repeal enabled stock owned by foreign persons to be broadly attributed downward to related U.S. persons, which, in turn, caused certain foreign corporations to be treated as CFCs even when no U.S. shareholder had actual control. This led to unintended inclusions under Subpart F and GILTI for indirect U.S. owners and created onerous filing requirements.

In addition, the bill introduced a new Section 951B, which applies Subpart F and GILTI inclusion rules to “foreign controlled United States shareholders” (FCUSS) that own more than 50% of “foreign controlled foreign corporations” (FCFC).

Under the OBBBA, FCUSS will include in their income a pro rata share of Subpart F and GILTI with respect to the Section 958(a) ownership that the FCUSS has in the FCFC. Both FCUSS and FCFC are determined without regard to Section 958(b)(4). The provision is intended to narrowly target structures viewed by Congress as abusive, realigning the rules with the original policy objectives of the TCJA.

### Grant Thornton insight:

Reinstating Section 958(b)(4) should reduce unintended CFC status and related Subpart F and GILTI inclusions for many U.S. minority investors, but new Section 951B introduces a targeted regime that can still subject foreign-controlled U.S. shareholders to these rules.

## Tariffs

As 2026 approaches, taxpayers facing rising inventory costs from tariffs or inflation should view the last in-first out (LIFO) inventory method as a concrete planning lever. Properly designed LIFO methods and sub-methods can push tariff- and inflation-driven cost increases into cost of goods sold (COGS) more quickly, reducing taxable income and improving cash-tax outcomes. For example, a LIFO method that measures inflation using internal cost indexes can allocate recent cost increases driven by tariffs or inflation into current-year COGS, rather than leaving those higher costs trapped in ending inventory.



### Grant Thornton insight:

This is a time-sensitive opportunity. Taxpayers that are not currently on LIFO for financial reporting must change their book inventory method to LIFO to satisfy the tax LIFO conformity requirement, and adoption of LIFO for tax purposes involves specific procedural steps and forms. Entities already using LIFO may need advance consent to modify existing LIFO methods or sub-methods to better capture tariff-driven inflation. A range of LIFO methods and inflation measurement approaches is available and can be aligned with a client's broader 2026 international tax and cash-flow objectives.

For 2026 planning, the practical takeaway is straightforward: if a taxpayer has meaningful inventory and is seeing sustained increases in costs because of tariffs or inflation, a focused review of LIFO adoption or optimization is likely to show positive benefits. The various LIFO methods and sub-methods can be tailored to align with the client's broader international tax and cash-flow strategy, turning rising inventory costs into an opportunity to manage the 2026 tax profile rather than just a drag on profitability.

Additionally, in some circumstances, the proactive application of transfer pricing policies can improve transfer pricing and Customs compliance, as well as reduce the amount of tariffs paid.

The payment of tariffs is initially the responsibility of the importer of record. In appropriate circumstances, a U.S. importer can shift the tariff cost on goods imported from a foreign manufacturer by lowering the import price, i.e., to reflect the tariff paid by the U.S. importer that should be borne by the foreign entity. The related buyer and seller of imported goods may not have a contract in place that specifically allocates tariff costs between them; however, the actions of the parties may indicate the proper allocation of risks.

The characterizations of the parties in previous transfer pricing documentation and benchmarked levels of income may indicate the appropriate allocation. For example, a benchmarked distributor's profit between 2% and 5% would appear to be inconsistent with an expectation that the distributor would bear a 25% tariff. Assuming that the U.S. importer can support an allocation of the tariff costs to the non-U.S. related party, the taxpayer will need to reduce the import price by an amount to achieve the transfer of tariff costs.

Although allocation of the tariff costs to the non-U.S. entity does not avoid the tariff, it does reduce the import value, thus reducing the total amount of tariff cost.

## Pillar 2

Pillar 2 introduces a 15% global minimum tax for large multinational groups, enforced through a package of top-up taxes: the Income Inclusion Rule (IIR), the Qualified Domestic Minimum Top-up Tax (QDMTT) and, from 2025 onwards in many territories, the Undertaxed Profits Rule (UTPR).

For many implementing jurisdictions, the IIR and QDMTT apply to accounting periods beginning on or after Jan. 1, 2024, with the more controversial UTPR generally following for periods beginning on or after Jan. 1, 2025. As a result of the 18-month filing deadline for the first year of Pillar 2 compliance, 2026 represents the first major year of Pillar 2 compliance for U.S.-headquartered multinationals. By that point, most key jurisdictions will have Pillar 2 rules in force.

In addition, full Global Anti-Base Erosion (GloBE) rules and transitional country-by-country reporting (CbCR) safe-harbor calculations will be well under way, and the first wave of GloBE information returns (GIR) and related Pillar 2 filings will be due. A key date to watch is June 30, 2026. For in-scope calendar-year groups, this is when the first GIR filings — along with many initial QDMTT and other top-up tax returns — will come due, resulting in a concentration of filings around mid-2026. In practical terms, the first half of 2026 is likely to be heavily Pillar 2 compliance-focused for many U.S. multinationals.

### Grant Thornton insight:

The OECD Inclusive Framework is discussing a side-by-side system that would exempt U.S. multinationals from the IIR and UTPR, but unless and until laws are changed in foreign jurisdictions, U.S.-parented groups should not change their planning assumptions. More than 60 countries have already enacted Pillar 2 legislation into law, and key deadlines for registration and reporting are still in place. U.S.-parented groups should continue preparing and modeling IIR and UTPR exposure based on currently enacted laws.

### Grant Thornton insight:

Whichever route a firm chooses, Pillar 2 compliance cannot realistically be bolted on at the last minute. U.S.-headed groups should be using early 2026 to design and implement their Pillar 2 operating model so that they are ready for the first wave of GIR, QDMTT and top-up tax filings in mid-2026.

Against this backdrop, there are three headline planning priorities for U.S.-headquartered groups:

### 1. Building the Pillar 2 compliance and operating model

The first priority is operational: how the group will actually comply with Pillar 2 across all in-scope jurisdictions.

This includes:

- Preparing and filing the GIR, including key elections, safe-harbor positions, and jurisdiction-by-jurisdiction effective tax rate and top-up tax calculations.
- Managing multiple QDMTT and other Pillar 2 top-up tax returns, each with its own forms, data requirements, and penalty regimes.
- Aligning Pillar 2 data and processes with existing CbCR, tax provision, internal controls and broader international tax planning.

Different multinationals are taking different approaches. Broadly, models fall into two camps:

- Co-sourced or insourced with software: The group licenses or accesses Pillar 2 software, builds internal data pipelines and processes, and may rely on external advisers for implementation support and complex technical matters. Implementation is typically a multi-month effort, involving data discovery, system configuration, testing and embedding controls.
- Outsourced solutions: An external provider runs the Pillar 2 calculations and delivers jurisdiction-level outputs and filings, with the group focusing on data provision, oversight and governance.

### Grant Thornton insight:

U.S.-headquartered multinationals should evaluate surrogate filer options early and confirm their chosen filing jurisdiction well ahead of the first GIR deadline. This decision may impact resourcing and risk management for years to come and is most effective when it is aligned with the broader Pillar 2 compliance and governance framework.

## 2. Treating surrogate filer selection as a strategic decision

Because the U.S. has not implemented Pillar 2, most U.S.-headquartered MNEs will need to rely on a surrogate filing jurisdiction for the GIR. In simple terms, this means designating a constituent entity in a jurisdiction that has implemented a qualifying IIR or QDMTT and is able to file the GIR, which is then shared with other relevant tax authorities. Surrogate filer selection should be treated as a strategic decision rather than a compliance afterthought.

## 3. Monitoring ongoing Pillar 2 policy developments

The global Pillar 2 landscape remains highly dynamic. While current expectations are that any future legislative or political developments — whether in the U.S. or overseas — will not apply retroactively to years that have already closed, businesses should continue to monitor the evolving position closely. U.S.-headed groups should build periodic reviews of Pillar 2 policy developments into their governance framework so that they can adapt their strategies accordingly as guidance shifts.

## Digital content and cloud transactions

New digital content and cloud regulations under Reg. Sections 1.861-18 and 1.861-19 affect how U.S.-parented groups structure their digital businesses. These rules broaden the historical computer software framework to cover digital content generally and treat all cloud transactions as services, with mixed arrangements classified by their predominant character. They also lock in specific sourcing rules, such as billing-address sourcing for many electronically delivered copyrighted articles.

Taxpayers should consider planning into these rules rather than merely complying with them. Groups should review customer and intercompany contracts, product bundling, and legal-entity roles to align character and source with desired outcomes for FDDEI, NCTI, foreign tax credits, and withholding. That may mean separating clearly “cloud” offerings from “download” offerings instead of selling everything in a single blended bundle; redefining which entities are named service providers; or shifting platform and key personnel location to avoid unfavorable service-income sourcing.

### Grant Thornton insight:

Modeling these choices in 2026, including whether to rely on any early-adoption positions for prior years, turns the digital content and cloud regulations into a tax-planning lever.

## Foreign currency

For 2026, Section 987 planning is mainly about when and where foreign exchange gains and losses from foreign branches show up in U.S. taxable income.

### Grant Thornton insight:

Groups should review their major Section 987 branches and ask: Does this operation still belong in branch form, or should it be converted to a CFC or merged locally? The answer determines whether the income (and currency swings) sit in the U.S. base or in the NCTI / FDDEI / FTC world. Modeling should occur alongside other 2026 international planning considerations, not in a vacuum.

## Public country-by-country reporting

2026 represents the first year public CbCR becomes a live requirement for many U.S.-headed groups with operations in Europe and Australia. The two regimes move on broadly similar timelines and can be planned for together.

- **EU:** The EU public CbCR directive applies, at the latest, to financial years beginning on or after June 22, 2024. For most Member States, that means calendar-year 2025 was the first in-scope year, with reports generally due within 12 months of year-end. Some jurisdictions have gone earlier or introduced shorter deadlines. For example, Romania and Croatia have already required public CbCR for earlier years, and Spain has set a six-month publication deadline — meaning Spanish public CbCR may be due as early as June 30, 2026 for calendar-year groups. The rules also will impact non-calendar fiscal year-end groups (for example, those with June 30 year-ends) sooner.
- **Australia:** Australia's public CbCR regime applies to large multinational groups with an Australian presence (broadly, global consolidated revenue of at least AUD 1 billion and sufficient Australian-sourced income) for years beginning on or after July 1, 2024. For a December year-end group, that typically means the year ending Dec. 31, 2025, was the first in scope, with public reporting due 12 months after year-end. Australia's regime is more prescriptive in some areas; for example, it requires disclosures about tax strategy and explanations of variances between headline rates and reported tax expense.

From a compliance and data perspective, public CbCR should be seen as an evolution of existing CbCR rather than as a separate exercise. For many U.S.-headed groups, the ordinary U.S. Form 8975 remains the starting point, but both the EU and Australian regimes typically will require refinements to the existing process, including:

- Earlier preparation of the form to meet accelerated local deadlines (for example, Spain's six-month deadline and earlier fiscal year-ends).
- Adjustments to how jurisdictions are grouped or presented and, in Australia's case, additional prescribed disclosures and narrative.

### Grant Thornton insight:

Across both regimes, three practical priorities should be on the 2026 agenda for U.S.-headed groups:

- **Test scope and nexus by jurisdiction:** Public CbCR obligations are triggered at the jurisdiction level, not just at the global group level. In addition to consolidated revenue thresholds (typically EUR 750 million in the EU and AUD 1 billion in Australia), groups should confirm where they meet local nexus tests, e.g., the presence of medium or large EU entities or branches, and the level of Australian-sourced income. A structured scope review should confirm where public CbCR applies, from which year, and which entities will carry the publication obligation.
- **Educate senior stakeholders and align messaging:** For many privately held U.S. multinationals, EU and Australian public CbCR represent a level of public tax disclosure not previously encountered. Jurisdiction-level revenue, profit, tax and headcount data will sit on public websites alongside financial statements and ESG reporting. Boards, senior management, investor relations and corporate communications teams should be briefed early so that there is a shared understanding of what will become public and when, and to ensure that the group's tax narrative is consistent across public CbCR and other external communications.

Consider available reliefs and options – but do not rely on them: Some jurisdictions offer limited relief mechanisms. The EU directive allows temporary omission of specific commercially sensitive information in defined circumstances, while Australia includes an exemption request process where specified criteria are met. These are discretionary and should not be treated as a default solution, but for particularly sensitive structures or datasets they may form part of a broader risk-management strategy.

The key is to understand early whether such reliefs might be relevant and to build them into the overall compliance and communication plan, rather than addressing them at the filing deadline.

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