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## Tax Alert – Canada

**Canada introduces further Pillar Two amendments in Bill C-31, including new safe harbours and GMTA technical amendments**

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

Bill C-31, *Budget 2025 Implementation Act, No. 2*, received first reading on 6 May 2026 and contains significant – though mostly previously announced – proposed amendments to Canada's *Global Minimum Tax Act* (GMTA) and *Income Tax Act* (ITA). Most notably, Bill C-31 would implement the UTPR (undertaxed profits rule), with some modifications since draft legislative proposals were released for public comment on 12 August 2024. Also, the application of the UTPR is deferred by one year to apply to fiscal years of a qualifying multinational enterprise (MNE) group that begin on or after 31 December 2025.

Bill C-31 also includes numerous amendments from previous draft legislative proposals intended to reflect aspects of the OECD/G20 Inclusive Framework on BEPS administrative guidance, address certain safe harbour measures, coordinate foreign domestic minimum top-up taxes with the Canadian foreign affiliate rules, and make technical and consequential amendments to the Canadian Pillar Two framework.

However, while Bill C-31 includes the Side-by-Side Safe Harbour (SBSH) and the Ultimate Parent Entity Safe Harbour (UPESH), it does not include amendments to implement the Substance-based Tax Incentives (SBTI) Safe Harbour or permanent Simplified Effective Tax Rate (ETR) Safe Harbour concepts discussed in the January 2026 OECD/G20 administrative guidance.

In this Tax Alert, we provide a brief overview of certain Pillar Two measures included in Bill C-31 and comments on what is not included in the bill. For a high-level summary of the other income tax measures contained in Bill C-31, see [EY Tax Alert 2026 Issue No. 29, Budget 2025 implementation bill no. 2 tabled in the House of Commons](#).



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## Key changes introduced in Bill C-31

### Deferral of UTPR effective date

The UTPR is the third element of the Pillar Two global anti-base erosion (GloBE) model rules, operating as a backstop to the income inclusion rule (implemented in Canada as the “Global Minimum Tax”) and the qualified domestic minimum top-up tax (QDMTT), also included in the GMTA. Broadly, the UTPR requires a taxpayer to pay top-up tax relating to low-taxed profit of any group entity if it has not been already subject to an income inclusion rule or QDMTT.

Under the previous legislative proposals released on 12 August 2024,<sup>1</sup> the UTPR was set to be effective for fiscal years commencing on or after 31 December 2024, which is one year after the entry into effect of the Global Minimum Tax and the QDMTT in Canada, and would have generally been consistent with the implementation date of the UTPR in many other jurisdictions. Bill C-31 would incorporate the UTPR as Part 2.1 of the GMTA. However, Bill C-31 would also defer the effective date by one year to fiscal years commencing on or after 31 December 2025.

Presumably this change was made to better align the effective date of the UTPR with the effective date of the new SBSH and the UPESH discussed below.

### New safe harbour measures and extension of the TCSH by one year

Bill C-31 would amend the QDMTT safe harbour provisions and introduce new SBSH and UPESH provisions. Bill C-31 would also extend the Transitional CbCR Safe Harbour (TCSH) by one year to include fiscal years beginning before 1 January 2028 and ending before 1 July 2029. These amendments are consistent with the OECD Side-by-Side package released on 5 January 2026,<sup>2</sup> which introduced additional permanent safe harbour concepts and extended the TCSH by one year.

Under the SBSH, the top-up amount of constituent entities and joint venture entities may be deemed to be nil where the ultimate parent entity (UPE) jurisdiction has a qualified side-by-side regime for the year, as determined by the Inclusive Framework and published by the OECD, and the filing constituent entity elects the safe harbour.

Bill C-31 would also add a UPESH for constituent entities and joint venture entities located in the UPE jurisdiction that would deem the top-up amount for these entities to be nil for purposes of computing the UTPR top-up amount, subject to similar Inclusive Framework determination and election requirements. The SBSH and UPESH would be effective for fiscal years beginning on or after 1 January 2026. Currently, only the United States is listed as qualifying for the SBSH, and no jurisdiction is listed as qualifying for the UPESH.

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<sup>1</sup> For more information, see [EY Tax Alert 2024 Issue No. 46, Canada proposes the undertaxed profits rule and further amends the GMTA](#).

<sup>2</sup> For more information, see [EY Tax Alert 2026 Issue No. 02, Initial insights regarding the OECD Side-by-Side administrative guidance on Canadian taxpayers](#).

The availability and administration of these new safe harbours will need to be monitored closely, particularly because the application of the SBSH and UPESH depends on Inclusive Framework determinations and OECD publication.

### **Other technical amendments**

In addition to the above, Bill C-31 includes previous legislative proposals released on 12 August 2024, 15 August 2025 and 29 January 2026, with some minor modifications since their releases, which are generally clarifying in nature. One modification worth noting is that references to “marketable transferable tax credits” in the current definitions of “flow-through tax benefits”, “other flow-through amounts” and “qualified flow-through ownership interest” in subsection 28(1) of the GMTA would be removed by Bill C-31.

### **What has not been included in Bill C-31**

Notably, Bill C-31 does not include amendments to implement the SBTI Safe Harbour or the Simplified ETR Safe Harbour, two other permanent safe harbours included in the Side-by-Side package. The SBTI Safe Harbour is particularly relevant for Canadian MNE groups with significant Canadian tax incentives, including research and development incentives and clean economy credits, that had been monitoring the potential Canadian implications of the January 2026 OECD administrative guidance.

Also absent in Bill C-31 are amendments to the *Income Tax Regulations* corresponding to ITA amendments included in the bill. In addition, no regulations to the GMTA have been made or announced to date.

### **Outstanding corrections to the GMTA**

The GMTA still contains typos that could lead to practical issues for taxpayers trying to apply Canada’s Pillar Two rules, including:

- ▶ Creating a cumulative condition rather an alternative condition in the definition of “deduction/non-inclusion arrangement” for purposes of the TCSH (subsection 47(1) of the GMTA); and
- ▶ Incorrect cross-reference in subparagraph 22(2)(c)(ii) of the GMTA to paragraph 22(3)(d) (instead of paragraph 22(3)(e)).

### **CRA commentary**

Separately, the CRA has begun responding to questions posed to it by taxpayers on administrative Pillar Two matters in Canada through its series of stakeholders emails. If you want to stay up to date on CRA guidance and important reminders related to the Global Minimum Tax, consider signing up for the CRA’s [Global Minimum Tax electronic mailing list](#).

## What's next

Given the new majority government status, Bill C-31 is expected to progress through the legislative process without significant changes, and it may obtain Royal Assent by the end of June. MNE groups should review Bill C-31 against their existing Pillar Two implementation plans, particularly given the deferral of Canada's UTPR by one year. As a reminder, the GloBE Information Return filing due date is 30 June 2026 for applicable MNE groups following a calendar fiscal year for 2024.

Other jurisdictions are still in the process of legislating the Side-by-Side package,<sup>3</sup> which we will continue to monitor. It remains to be seen which jurisdictions, in addition to the United States, will seek to obtain a Qualified Side-by-Side or UPE Regime.

On 16 April 2026, the OECD released its "Secretary-General Tax Report to G20 Finance Ministers and Central Bank Governors" (the Report), ahead of the G20 Finance Ministers and Central Bank Governors' first 2026 meeting under the United States Presidency. The Report indicates, among other things, that further Administrative Guidance is under development in the Inclusive Framework, including a routine profits safe harbour and a de minimis simplification to take the place of those tests in the TCSH. It also indicates that work will be done on integrity measures. Any new Administrative Guidance may require further legislation in order to be implemented.<sup>4</sup>

As further guidance and CRA administrative guidance become available, Canadian and inbound MNE groups should revisit their modelling, data requirements and compliance governance to ensure they are prepared for the continued evolution of Canada's Pillar Two regime.

## Learn more

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<sup>3</sup> For more information, see [EY Global Tax Alert, OECD releases Side-by-Side Package on Pillar Two Global Minimum Tax: First impressions](#), dated 6 January 2026.

<sup>4</sup> For more information, see [EY Global Tax Alert, OECD releases 'Secretary-General Tax Report' ahead of G20 Finance Ministers and Central Bank Governors' first 2026 meeting](#), dated 24 April 2026.

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