Global Tax Developments Quarterly

Accounting for Income Taxes

Summary of recent international tax developments that may have implications on accounting for income taxes under U.S. GAAP

1 April – 30 June 2014
9 July 2014
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Introduction

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Unless otherwise indicated, the content in this document is based on information available as of 30 June 2014. Accordingly, certain aspects of this document may be updated as new information becomes available. Financial statement preparers and other users of this document should take actions to remain abreast of and carefully evaluate additional events that may be relevant to accounting for income taxes matters.

Applicable U.S. GAAP guidance

Under U.S. GAAP, the effects of new legislation are recognized upon enactment. More specifically, the effect of a change in tax laws or rates on a deferred tax liability or asset is recognized as a discrete item in the interim period that includes the enactment date. The tax effects of a change in tax laws or rates on taxes currently payable or refundable for the current year are reflected in the computation of the annual effective tax rate after the effective dates prescribed in the statutes, beginning no earlier than the first interim period that includes the enactment date of the new legislation. However, any effect of tax law or rate changes on taxes payable or refundable for a prior year, such as when the change has retroactive effects, is recognized upon enactment as a discrete item of tax expense or benefit for the current year. While there is no specific rule as to what constitutes “enactment” under U.S. GAAP, it is commonly accepted that enactment takes place on the date the last step in the legislative process required to promulgate the law is complete (e.g., a law is published in an official gazette, signed by a president, or receives Royal Assent).

Enacted tax law changes: 1 April to 30 June 2014

The following section includes a brief summary of major international income tax law changes enacted during the period 1 April to 30 June 2014, unless specified otherwise.

Brazil

Repeal of RTT and Changes to CFC/Share Premium Allocation Rules Converted into Law

Date of enactment: 14 May 2014
Effective date: 14 May 2014

A provisional measure enacted in November 2013 was published in Brazil's official gazette on 14 May 2014, a full six months after its enactment. The provisional measure introduced measures to update the tax rules to account for differences with Brazilian GAAP and for the transition to IFRS, and made other broad changes to the tax rules. For example, the provisional measure repealed the transition tax regime (RTT) and introduced new controlled foreign company (CFC) rules and allocation of share premium recognition criteria.

The new law provides clarity and certainty to taxpayers with respect to the rules governing the end of RTT. Although further improvements are made to the CFC rules, the new legislation does not address issues, such as a tax treaty override and the immediate taxation of CFC profits. Considering the long-standing litigation in the Brazilian courts on these issues, more developments are likely.

Guidance published on 29 May 2014 states that taxpayers wishing to early adopt the changes described in the new law as from 1 January 2014 must indicate they are making the election on the Federal Fiscal Debts and Credits Return (DCTF, a monthly tax return in which taxpayers must disclose information relating to all federal tax debts and credits). The guidance states that the election must be made on the May DCTF, which will be due on the 15th business day of July. New companies that commenced activities in 2014 as result of mergers or spin-offs generally must make the election on the DCTF related to the first month of the company´s activities; however, a company that commenced activities between January and April 2014 must make the election on the May DCTF.

See also **Brazil Tax Alert – 13 November 2013, Brazil Tax Alert – 15 May 2014** and **Brazil Tax Alert – 3 June 2014**.

Brazil

Government Reopens Tax Amnesty Program

Date of enactment: 20 June 2014
Effective date: 20 June 2014

The Brazilian government published a law on 20 June 2014 that reopens the tax amnesty program created in 2009. The amnesty allows taxpayers, including legal entities, to pay off their Brazilian federal tax debts under the administration of the federal tax authorities and the Office of the Attorney-General of the National Treasury. However, unlike the previous programs, the new amnesty program requires taxpayers to make an up-front payment of a portion of the consolidated tax debt.

The program applies to debts related to federal and social security taxes that were due as of 31 December 2013. The amnesty program provides for generous reductions in self-assessed penalties and penalties assessed by the tax authorities, isolated penalties such as penalties arising from insufficient monthly estimated prepayments of corporate income tax and social security taxes, short-term interest, and legal charges.

See also **Brazil Tax Alert – 27 June 2014.**

Greece

Participation Exemption Rules Amended

Date of enactment: 7 April 2014
Effective date: 7 April 2014

A law published in Greece's official gazette on 7 April 2014 makes changes to the participation exemption that applies to dividends received by Greek companies. For accounting periods commencing after 1 January 2014, dividend income received by a Greek company will be exempt from income tax under the participation exemption regime only if certain requirements are satisfied (EU-source dividends from a qualifying subsidiary, more than a 10% participation for more than 24 consecutive months).

All other dividend income will be considered normal business income, taxed at the standard 26% rate, with a credit available for dividend tax withheld at source. For dividends from EU subsidiaries that do not qualify for the exemption, a credit is available for the aggregate sum of the dividend withholding tax and the underlying income tax; any excess credit is refunded. An applicable tax treaty may allow the same aggregate credit and will override domestic legislation.

See also **World Tax Advisor – 13 June 2014**.

Italy

Changes to IRAP and Withholding Tax Rates Enacted

Date of enactment: 24 April 2014
Effective date: Various

The Italian government passed a law decree on 24 April 2014, which includes changes in tax rates. The decree was published in the official gazette on the same date, and converted into law on 18 June 2014 (the law was published in the official gazette on 23 June 2014).

The new law reduces the standard IRAP rate of 3.9% to 3.5%. The standard rates for financial institutions and insurance companies are reduced from 4.65% and 5.9% to 4.2% and 5.3%, respectively. The new rates are effective for fiscal years starting after 31 December 2013. Due to the rate reduction, special rules will apply to advance payments of IRAP under the forecast method for the 2014 fiscal year.

As from 1 July 2014, the 20% domestic withholding tax currently applicable to certain dividends, interest and capital gains increased to 26%. Interest and capital gains on bonds issued by the Italian government remain taxable at a reduced 12.5% rate.

See also **World Tax Advisor – 27 June 2014**.

Taiwan

Changes Made to Imputation System

Date of enactment: 16 May 2014
Effective date: 1 January 2015

The Taiwan Legislative Yuan passed several amendments to the Income Tax Act on 16 May 2014. One of the changes is a 10% surtax levied on a Taiwan company's current year profits, if the profits are not distributed to shareholders by the end of the following fiscal year. Surtax paid will be included in the imputed credit account as part of the imputed tax credit. The surtax paid may be used as a credit against the withholding tax payable on dividends distributed to nonresident individual or nonresident corporate shareholders in subsequent years. The new rule will limit the amount of the credit to 50% of the surtax paid by the distributing company. The changes will apply as from 1 January 2015.

See also **World Tax Advisor – 13 June 2014.**

Enacted tax law changes that are now effective: 1 April to 30 June 2014

The following section includes a brief summary of major international income tax law changes enacted before 1 April 2014, but are first effective in the period 1 April to 30 June 2014.

India - Interim 2014 Budget Approved

India's "interim budget" was presented on 17 February 2014, approved by the president on 4 March 2014 after being passed by both houses of the Indian parliament, and is effective from 1 April 2014. A regular budget likely will be presented by the new government in July 2014.

The interim budget did not contain any income tax law changes, but because it did not address "sunset provisions" that expired on 31 March 2014, including the special low tax rate of 15% for certain foreign dividend income, that rate increased to the normal corporate income tax rate of 30% (although it is possible that the 15% rate will be extended on a retroactive basis when the new parliament assembles after the election). Further, since the interim budget did not address the one-time surcharge of 10% on individuals with taxable income exceeding INR 10 million, the surcharge will continue to be levied until the new government takes action to withdraw it.

See also **World Tax Advisor – 28 February 2014** and **World Tax Advisor – 11 April 2014.**

Ukraine – New Law Included Provisions Affecting Direct and Indirect Taxes

A law aimed at reducing the Ukrainian budget deficit and averting a fiscal crisis by increasing tax revenue and cutting government spending was signed by the president on 27 March 2014 and published on 31 March 2014. Some provisions became effective on 1 April 2014, including an 18% corporation income tax. The remainder of the tax provisions will enter into effect gradually.

See also **World Tax Advisor – 11 April 2014.**

Enacted tax law changes that are effective as from 1 July 2014

The following section includes a brief summary of major international income tax law changes enacted before 1 April 2014, but are effective as from 1 July 2014.

Japan

Latvia

Japan – 2014 Tax Reform Enacted

On 20 March 2014, Japan's parliament (Diet) enacted the 2014 tax reform proposals that support the government's efforts to revitalize the economy through tax incentives aimed at encouraging investment and consumption by corporations. Along with various tax credit and special depreciation incentives, the legislation includes a provision to repeal the 10% special reconstruction corporation surtax one year earlier than originally scheduled. This will result in a reduction in the Japanese effective tax rate (e.g. the effective corporate income tax rate of a company with its headquarters in Tokyo has been reduced from approximately 38% to 35.64% for fiscal years beginning on or after 1 April 2014). The legislation also will change the way permanent establishments are taxed in Japan for fiscal years beginning on or after 1 April 2016 for corporate tax purposes and from 2017 for income tax paid by individuals.

See also **World Tax Advisor – 10 January 2014.**

Latvia – Super Deduction for Research and Experimental Development Costs

On 1 January 2014, the Latvian parliament revised the corporate income tax relief available for large investments and announced a new "super deduction" for certain research and development (R&D) costs.

A super deduction of 300% of applied research and experimental development costs applies as from 1 July 2014 (limited to labor costs and services of certain certified institutions); the deduction will be granted if the taxpayer maintains internal project documentation, which will need to be presented to the tax authorities upon request. The government is expected to issue regulations on R&D project documentation and compliance.

See also **World Tax Advisor – 14 February 2014.**

On the horizon…

The following developments in tax law had not yet been enacted as of 30 June 2014, but may, in certain cases, be enacted and become effective in the near future. Please follow up with your U.S. or local country tax advisor for more information.

Australia – 2014-15 Budget Announcement and Thin Capitalization Amendments Released

The 2014-15 Australian budget, presented on 13 May 2014, generally reaffirms or refines earlier government announcements affecting cross-border business. The government is committed to reducing the corporate income tax rate by 1.5% from 1 July 2015, but also announced a reduction in the research and development tax offset. In the week leading up to the budget announcement, the government released draft legislation to implement the tightening of the thin capitalization rules and the amendments to the foreign dividend exemption that were announced as part of the 2013-14 budget.

See also **World Tax Advisor — 23 May 2014.**

Chile – Sweeping Tax Reform Bill Presented to Congress

Chile's new president presented a comprehensive tax reform bill to the national congress on 1 April 2014. The proposed reform—which is broader than anticipated—primarily aims to increase tax revenue to fund an extensive reform of the education system, but also is designed to provide for a more equitable distribution of the tax burden, promote investment and savings and reduce tax avoidance. Many of the proposed changes would have an effect on companies (both domestic and foreign) doing business in the country. The most important proposals include the following:

- A gradual increase in the corporate income tax rate;
- A shift from shareholder/partner taxation on a cash basis to taxation on an accrual basis;
- New restrictions on interest deductions;
- New restrictions on payments to related entities abroad;
- The introduction of controlled foreign company (CFC) rules;
- The introduction of a general anti-avoidance rule; and
- Repeal of the foreign investment statute.

The governing coalition holds a sufficient majority in congress to push the reform through, and it hopes to be able to enact the reform by October 2014. If enacted in its current form, the bill would adversely affect certain Chilean investment structures, in particular, the use of leveraged acquisitions.

See also **Chile Tax Alert – 17 April 2014** and **World Tax Advisor — 9 May 2014.**

Denmark – Government Proposes New Central Registry to Report Tax Losses

Denmark's Minister of Taxation presented a new bill to parliament on 26 February 2014 that would create a central electronic registry for companies to report tax loss carryforwards. According to the bill, all corporations, associations and foundations that have limited or unlimited tax liability under the Danish Corporation Tax Act or the Funds Tax Act (including foreign companies subject to Danish taxation) would be required to electronically report all tax losses carried forward as from income year 2002. The government will establish a three-month period for companies to report losses. Failure to comply (or failure to timely report the losses) would result in forfeiture of the tax losses.

See also **World Tax Advisor — 11 April 2014.**

European Union – Changes to Parent-Subsidiary Directive to Tackle Tax Avoidance

At its 20 June meeting, the EU Council of Finance Ministers accepted the amendments to the EU parent-subsidiary directive related to the new anti-hybrid loan rule (and agreed to continue working on potential amendments related to a general anti-avoidance rule). The amendment to the directive closely follows the OECD's base erosion and profit shifting (BEPS) initiative. However, the European Commission has stated that there also is a need to address mismatches and anti-abuse at the EU level, taking into account existing EU legislation, and that the revision of the PSD can be an important contribution to the OECD BEPS project. Once the text of the amended directive is finalized, EU member states will have until 31 December 2015 to amend their domestic law to implement the amended directive.

See also **World Tax Advisor — 9 May 2014.**

Germany – Draft Decree Issued on Interpretation of Change-in-Ownership Rules

The German tax authorities have issued a draft decree outlining their interpretation of the change-in-ownership rules. The decree is intended to update a 2008 decree and includes, for the first time, guidance on the intragroup restructuring exemption rule and the built-in gains exemption rule. The draft decree would provide guidance on some controversial aspects of the exemption rules, as well as on the allocation of profits and losses in cases involving mid-year share acquisitions. Since the decree is in draft form, it is possible that it still could be revised before being finalized.

See also **World Tax Advisor – 23 May 2014**.

India – Updated Version of Direct Tax Code Released

On 1 April 2014, the government released an updated version of the Direct Tax Code for public comment (proposed to be effective as from 1 April 2015). The revised version includes several changes to the taxation of indirect transfers.

See also **World Tax Advisor — 11 April 2014.**

New Zealand – 2014 Budget Announced

The 2014 budget announced on 15 May 2014 contained only a few tax-related measures, including the following: (1) measures providing that R&D start-up companies will have access to all or part of their tax losses in the form of a cash receipt, rather than carrying these losses forward, provided certain requirements are met; (2) measures to ensure that capitalized development expenditure on depreciable intangible assets (e.g. patents) is deductible over time; and (3) an allocation of NZD 132 million to the New Zealand tax authorities over the next five years to bolster tax compliance activities. Notably, the budget does not include any announcements relating to base erosion and profit shifting.

See also **World Tax Advisor — 23 May 2014.**

Russia – “De-Offshoring” Policy May Affect Foreign and Domestic Businesses

Russia’s national strategy for counteracting tax abuse, referred to as “de-offshoring of the economy,” likely will have a significant impact on both domestic and foreign groups of companies. The government intends to take a multi-pronged approach to tax avoidance and evasion and to ensuring that the ownership structures of Russian companies are more transparent. To this end, in February 2014, the government announced a detailed plan to counteract the off-shoring of the Russian economy, and announced legislative measures and deadlines to adopt the necessary laws. A series of draft laws related to de-offshoring are expected to be submitted to the State Duma before the end of 2014. The first draft law, which would amend the tax code, was presented by the Ministry of Finance and published on its website on 18 March 2014. This first wave of proposed measures includes the introduction of a new corporate residence rule, a controlled foreign company (CFC) regime and new rules on the indirect disposal of Russian real estate-rich companies. The draft law is expected to take effect as from 2015. Numerous other changes to Russian tax law are likely.

See also **World Tax Advisor — 25 April 2014.**

Sweden – Committee on Corporate Taxation Proposed Changes to Corporate Tax Rules

Sweden’s committee on corporate taxation released a report on 12 June 2014 that includes recommendations for a new corporate taxation system. The committee’s report includes two alternative proposals that address the deduction of interest expense and other financial costs: a main proposal and an alternative. The report also includes a number of other proposals for changes to the tax legislation.

The report now will be referred for consideration to relevant bodies (e.g. central government agencies, special interest groups, local government authorities, etc.), whose feedback will allow the government to gauge the level of support for the proposals. The process is further complicated by the fact that there will be an election in September 2014. It is uncertain how (and if) any of the proposals will be accepted by the government and ultimately presented to the parliament for adoption. It is, however, expected that there will be some changes to the tax legislation concerning interest deductions with effect from 1 January 2016.

See also **Sweden Tax Alert — 17 June 2014.**

Thailand – Corporate Tax Rate Proposed

The Director-General of the Revenue Department has proposed to the Minister of Finance to extend the 20% corporate income tax rate for an additional year after the rate expires at the end of the 2014 accounting period. If approved by the Ministry, the proposals will be forwarded to the cabinet for review.

See also **World Tax Advisor — 23 May 2014.**

Ukraine – Potential Overhaul of Tax Code and Introduction of Tax Amnesty

The Ukrainian government is considering two tax initiatives; the enactment of either (or both) of the initiatives would be a significant development in domestic taxation.

The first initiative would provide a comprehensive overhaul of the Ukrainian Tax Code to simplify tax compliance, reduce the gap between financial and tax accounting principles and reduce the overall number of taxes by abolishing some duties and fees applicable only to specific industries. Apart from these general concepts, very few details of the proposed changes are available to general public, since the reform still is at the design stage. It is too soon to tell how long the public discussion stage will last and when (or if) the changes will be enacted.

The second initiative is a tax amnesty, also known domestically as a "tax compromise," which would apply for corporate income tax and VAT purposes. The government would encourage taxpayers to openly declare tax liabilities that were underpaid during tax years 2011-2013 as a result of tax avoidance schemes. To benefit from the amnesty, taxpayers would have to pay 15% of the "avoided" tax liabilities to the state budget. In return, the government would prohibit the tax authorities from: (i) initiating tax audits of such taxpayers for the three most recent tax years; and (ii) charging any fines or initiating a criminal prosecution against taxpayers that agree to the tax compromise.

This bill to create the tax amnesty has passed its first hearing in the parliament. However, significant controversy surrounds the draft law, which could delay its enactment.

Both initiatives have the potential to affect a significant number of Ukrainian taxpayers, and businesses operating in the Ukraine are closely monitoring their progress.

United States – Bills Extend Scope of Section 7874

On 20 May 2014, House Ways and Means Committee Ranking Member Sander Levin (D-Mich.) introduced the "Stop Corporate Inversions Act of 2014;" similar legislation was introduced in the Senate. Both bills would make changes to the anti-inversion rules in Internal Revenue Code section 7874.

The prospects for enactment of the bills are uncertain. House and Senate Republicans have so far shown little appetite for addressing inversions outside the context of a fundamental tax reform plan that lowers corporate tax rates and embraces a territorial system for taxing income of U.S. multinationals. Moreover, Congress has a mixed record when it comes to proposing and approving legislation with a retroactive effective date. When that happens, it is generally in a circumstance in which the chairmen of both tax writing committees are committed to that approach, a consensus that does not exist at this time.

However, this is an issue that needs to be followed closely. An increase in the number of companies inverting could put additional political pressure on Congress to act. Further, Congress has two must-pass tax bills this year (the highway trust funds will need to be replenished this summer and the extenders bill is expected to be addressed later in 2014), and Senate Democrats may seek to force votes on the issue of inversions by concurrently proposing anti-inversion legislation as a revenue raiser to offset the cost of these two must-pass tax bills.

See also **United States Tax Alert – 21 May 2014**.

Did you know?

The following section contains information that may be relevant at the date of publication.

- **Belgium**
- **Brazil**
- **Canada**
- **China**
- **Denmark**
- **European Union**
- **Finland**
- **France**
- **Germany**
- **Hong Kong**
- **India**
- **Ireland**
- **Japan**
- **Luxembourg**
- **Mexico**
- **Norway**
- **OECD**
- **Peru**
- **Switzerland**
- **Taiwan**
- **United States**

Belgium – Notational Interest Deduction and Foreign Permanent Establishments

On 18 April 2014, the Belgian tax authorities issued a circular regarding the consequences of the decision of the Court of Justice of the European Union (CJEU) in *Argenta Spaarbank*. The CJEU held that the Belgian rules on the notional interest deduction (NID), involving a difference in treatment between assets of a permanent establishment (PE) or immovable property situated in an EEA country (Iceland, Liechtenstein or Norway) other than Belgium and assets of a PE or immovable property situated in Belgium, violated the freedom of establishment principle in the Treaty on the Functioning of the European Union (TFEU). The assets of a PE or immovable property situated in Belgium were proportionally not taken into account in determining the amount of equity capital for which the NID is available.

Meanwhile, the legislature amended the Income Tax Code 1992 to the effect that, as from assessment year 2014, assets of a PE in an EEA country or in countries with which Belgium has concluded a tax treaty are taken into account in determining the equity capital.

The remaining issue for the government and tax authorities was how the CJEU decision should be applied in respect of previous assessment years. The circular clarifies that taxpayers could file a notice of objection or a request for automatic relief. The first request must be filed within six months as of the date of the notice of assessment, but the latter request can be filed within five years as of 1 January of the year in which the tax was assessed. Pending administrative and judicial cases must be congruent with the CJEU decision. In respect of the manner in how the actual amount of the NID should be calculated, the circular refers to the new method, thus in some cases limiting the deduction.

See also **Belgium Circular – 23 May 2014**.

Brazil – Financial Transactions Tax on Short-Term Loan Transactions Revised Again

The Brazilian government published a decree on 4 June 2014 that revises the definition of "short-term" for purposes of inbound loans and offshore bond issues (overseas debt) from 360 days to 180 days. The decree is effective as from the date of publication.

As a result of the new decree, Brazilian companies that enter into direct loans (whether or not intercompany) or issue bonds in the market, with a maturity period of less than 180 days, will be subject to the financial transactions tax (IOF) at a rate of 6%. The IOF is assessed at the time the foreign currency is converted into Brazilian Reais. The new rule also applies to "simultaneous foreign exchange transactions" (in which there is no effective cash exchange).

See also **Brazil Tax Alert – 5 June 2014**.

Brazil – Switzerland Moved from Black List to Gray List Status

The Brazilian tax authorities published guidance on 20 June 2014 that removes Switzerland from the list of tax haven jurisdictions (black list), but includes certain Swiss corporate regimes on the list of privileged tax regimes (gray list). The guidance also removes Hungarian limited liability companies (Kft companies) from the gray list.

The tax consequences of inclusion on the gray list are less severe than those of inclusion on the black list. Due to Switzerland's suspension status, transactions between Brazilian and Swiss entities have not been deemed to fall within the scope of the black or gray lists until now. In practice, the retroactive effect of the guidance may result in a restricted thin capitalization limit and a mandatory transfer pricing analysis, even for transactions with unrelated parties, which could result in unexpected issues for taxpayers. Additionally, since Brazil has not concluded a tax treaty with Switzerland, lower withholding tax rates would not be available.

The removal of Hungarian Kfts from the gray list should reduce the transfer pricing and thin capitalization requirements that apply to transactions with these entities.

See also **World Tax Advisor – 27 June 2014**.

Brazil – Tax Authorities Revised View on Tax Treatment of Payments for Technical Services / Assistance

The Brazilian tax authorities issued guidance on 20 June 2014 in which they revised their position on the withholding tax treatment of payments made abroad for technical services and technical assistance in cases where a tax treaty is applicable.

The new guidance clarifies that the tax treatment of payments made by a Brazilian person to a nonresident entity or individual for the provision of technical services or technical assistance, regardless of whether there is an accompanying transfer of technology, must be determined in accordance with an applicable tax treaty, as follows: 1) where a treaty provides that a payment for technical services and technical assistance should be treated as royalties and the treaty allocates taxing rights to Brazil, the payment should be subject to withholding tax under the royalties article regardless of whether there is an accompanying transfer of technology; 2) where 1) does not apply and the technical services or technical assistance are related to the technical skills of a person or group of persons, and the treaty allocates taxing rights to Brazil, the payment should be taxed in accordance with the independent personal services article; and 3) in all other cases, the payment should be subject to the treatment in the business profits article.

See also **Brazil Tax Alert – 27 June 2014**.

Canada – FCA Limits Scope of Foreign Affiliate Anti-Avoidance Rule

For many years, the Canada Revenue Agency (CRA) has maintained that paragraph 95(6)(b) of the Income Tax Act (Act) is a broad anti-avoidance rule that can be applied to many transactions involving the acquisition or disposition of shares of a foreign affiliate of a Canadian taxpayer as part of a tax-advantageous structure. Most tax advisors maintained that the scope of the rule should be limited to the manipulation of foreign affiliate or controlled foreign affiliate status. On 23 April 2014, the Federal Court of Appeal strongly supported the latter interpretation in its decision in The *Queen v. Lehigh Cement Limited and The Queen v. CBR Alberta Limited (Lehigh)*. This should ease concerns raised by the previous Tax Court of Canada decision and constrain the CRA's ability to assess the provision in a broad range of circumstances.

This decision confines the scope of paragraph 95(6)(b) to situations where the status of a nonresident corporation is manipulated, similar to the example in the technical notes. Related transactions, such as borrowing to make an investment in a foreign affiliate, should have no relevance. The uncertainty created by the tax court decision has been addressed, both in terms of the potentially broad application of the rule to many common transactions and the difficulty of discerning a reasonable alternative transaction for determining the "tax otherwise payable" if the transaction was not undertaken.

See also **Canada Tax Alert – 25 April 2014**.

China – Guidance Issued on Determination of Beneficial Owner in Entrusted Investment Structures

China's State Administration of Taxation (SAT) issued guidance on 21 April 2014 (Bulletin No. 24) that contains supplementary rules on determining beneficial owner status in "entrusted investment" structures and that clarifies previous SAT guidance on tax treaties issued since 2009. Bulletin 24 is effective as from 1 June 2014, and applies to any cases that commenced before this date that are yet to be settled. With the emergence of various investment structures for offshore funds to invest into China, the SAT hopes to clarify the determination of beneficial ownership for certain common investments, and Bulletin 24 thus provides welcome guidance.

See also **World Tax Advisor – 23 May 2014**.

Denmark – National Tax Board Issues Favorable Ruling on PE and Anti-Avoidance Rules

Denmark's National Tax Board published a binding ruling on 25 March 2014, in which it confirmed that foreign owners investing though a Danish partnership (P/S) did not have a PE in Denmark and that the P/S was not taxable under Danish tax law. In another recent ruling, the National Tax Board held that foreign owners investing through a Danish limited partnership (K/S) did have a PE in Denmark, because (among other reasons) the general assembly was held at the premises of a Danish management company.

Further, under Denmark's anti-avoidance rules, a Danish P/S or K/S may be subject to normal Danish corporate taxation if the foreign owner considers the Danish entity as nontransparent or if the foreign owner is a tax resident outside the EU and the country of residence has not concluded a tax treaty with Denmark that contains tax relief for outbound dividends.

See also **Denmark Tax Alert – 12 April 2014**.

European Union – Netherlands Requested to End Discriminatory Taxation of Dividend Distributions to Insurance Companies

The European Commission has requested that the Netherlands end the discriminatory taxation of dividends received on shares held by insurance companies established in another EU member state or in an EEA country (Iceland, Liechtenstein or Norway). The Commission announced on 16 April 2014 that it sent the Netherlands a reasoned opinion (i.e. the second stage of the infringement procedure under the Treaty on the Functioning of the European Union (TFEU)) on the issue.

The Netherlands has two months to respond to the European Commission's request; otherwise, the Commission can refer the case to the CJEU.

This is a new dividend taxation issue in an EU context. Although many cases on inbound or outbound dividends already have been referred to the CJEU (either under a preliminary ruling request or as a result of an infringement procedure) and obvious restrictions have been removed from the domestic tax law of various EU member states, the current pending infringement procedure involves a somewhat less obvious form of discrimination. The different treatment of foreign insurance companies in this case mainly is a result of the fact that the Netherlands does not have any right to levy corporate income tax on foreign insurance companies and, therefore, such companies cannot benefit from a deduction. The CJEU, however, has tended to take the position that the taxation of dividends in any cross-border situation cannot be higher than the taxation of dividends in a comparable domestic situation.

See also **World Tax Advisor – 25 April 2014**.

European Union – CJEU Declares Netherlands Dividend Withholding Tax Compatible with EU Law

The CJEU issued a decision on 5 June 2014, concluding that the imposition of Dutch withholding tax on dividend distributions by a Dutch company to its 100% parent company resident in the (former) Netherlands Antilles is compatible with the free movement of capital principle in the Overseas Country and Territory (OCT) Decision. The immediate effect of the CJEU decision is that, subject to EU requirements relating to the proportionality principle, the Netherlands may levy dividend withholding tax on payments made to parent companies in the (former) Netherlands Antilles. The CJEU seems to be contradicting its earlier case law, in which it did apply the free movement of capital in the TFEU. Although those cases involved the relationship between an OCT and a non-related EU member state, it would appear that the qualification of an OCT as a third country should apply where the relationship concerned involves a related EU member state. However, as a result of the CJEU decision, an OCT can be treated differently in relation to a related or non-related EU member state.

See also **European Tax Alert – 5 June 2014**.

European Union – CJEU Rules Netherlands Fiscal Unity Regime Incompatible with EU Law

The CJEU issued a decision on 12 June 2014, concluding that the fiscal unity regime in the Netherlands Corporate Income Tax Act is incompatible with the freedom of establishment principle in the TFEU and that there is no valid justification for the regime. The Netherlands Ministry of Finance has not yet announced whether or how the fiscal unity decree will be amended. In principle, however, a fiscal unity now will be extended to include indirectly held Dutch resident entities with an EU connecting company, regardless of whether the connecting company is a joint parent or an intermediary company. Whether the principles of the CJEU decision also will be extended to situations in which the connecting company is a third country (i.e. a non-EU) resident entity is uncertain, although it appears unlikely.

See also **European Tax Alert – 12 June 2014**.

Finland – Government Publishes Action Plan to Combat International Tax Avoidance

The Finnish government published its plan for an action program to combat international tax avoidance on 8 May 2014. Some aspects of the program are built on international cooperation, while others seek to develop domestic legislation. There are five focus areas:

- Securing the tax base and preventing harmful tax competition;
- Improving tax controls and exchange of information;
- Promoting transparency of information;
- Addressing issues related to public procurement; and
- Cooperating with developing countries on tax matters.

See also **World Tax Advisor – 23 May 2014**.

France – Tax Authorities Issue Draft Comment on Anti-Hybrid Rule

On 15 April 2014, the French tax authorities (FTA) issued draft comments on the new anti-hybrid rule that limits the deductibility of interest paid to related entities. Although the comments do not resolve all issues relating to the anti-hybrid rule, they provide some welcome clarifications.

Under the anti-hybrid rule, interest paid by a French entity on a loan granted by an affiliated French or nonresident company is nondeductible for French corporate income tax purposes if the borrower is unable to show that the interest is subject to tax at the level of the recipient company at a rate equal to at least 25% of the tax that would have been due under the normal French rules. If the lender is not "domiciled or established" in France, the taxation of interest it receives must be equal to at least 25% of the corporate tax liability that would have been due in France had the company been domiciled or established in France.

Although initially drafted to target "hybrid instruments," i.e. instruments that qualify as debt in France but that are regarded as equity in the country in which the lender is resident, it now appears that the scope of the provision is broader and applies to interest expense where the corresponding interest income is not taxed or is taxed at a low rate, regardless the form of the debt instrument. The rule is applicable retroactively to interest incurred during the fiscal year ended since 25 September 2013, irrespective of the date the loan was granted.

The anti-hybrid rule represents France's first concrete step to give effect to the OECD base erosion and profit shifting (BEPS) project (action No. 2).

See also **France Tax Alert – 17 April 2014**.

Germany – Federal Government Asked to Fight Aggressive Tax Planning

The upper house of the German parliament adopted a resolution on 23 May 2014 that requests the federal government to introduce additional measures against aggressive tax planning by multinational companies. The initiative includes three areas in which the federal government is requested to take action:

- Introduce additional measures against the creation of nontaxed income ("white income" that is not taxed in the country of the recipient) and double-dip strategies that allow taxpayers to deduct expenses multiple times in international structures. In addition, measures are requested against hybrid companies and hybrid instruments.
- Put additional effort into the implementation of the common consolidated corporate tax base project at the EU level, and into initiatives to harmonize the corporate tax rates within the EU.
- Support an EU initiative introducing a disclosure and registration obligation for reportable transactions at an EU level, and to introduce domestic rules for reportable transactions in the near future.

See also **World Tax Advisor – 13 June 2014**.

Germany – Substantial Changes to Investment Taxation System Enacted

The Alternative Investment Fund Managers (AIFM) Tax Adaption Act, enacted by the German legislature on 24 December 2013, introduces substantial changes to the scope of the Investment Tax Act (GITA) and is expected to have a significant impact on the taxation of German investors in various regulated and unregulated fund schemes.

The scope of the GITA has been extended beyond open-ended investment fund schemes to encompass basically all collective investment schemes. Special tax rules are provided for German investors in Undertakings for the Collective Investment of Transferable Securities (UCITS) funds (i.e. all undertakings for collective investment in transferable securities regulated under the European UCITS Directive) and Alternative Investment Funds (AIF) (i.e. collective investment undertakings that raise capital from a number of investors, with a view to investing it in accordance with a defined investment policy for the benefit of those investors, and which are not enterprises operating outside the financial sector). Certain unregulated companies, including certain holding companies, private pension scheme securitization vehicles, family offices, entities and certain tax-exempt organizations are outside the scope of the GITA.

See also **World Tax Advisor – 11 April 2014**.

Hong Kong – New Companies Ordinance Introduces Court-Free Amalgamations

Hong Kong's new Companies Ordinance (New CO), which became effective on 3 March 2014, includes a broad range of measures designed to enhance corporate governance, ensure better regulation, facilitate business and modernize the law itself. Among the measures to facilitate business reorganizations, the New CO introduces a new concept of amalgamation under court-free procedures.

Under the New CO court-free amalgamation procedure, intragroup amalgamations can be carried out without having to involve a court (however, amalgamations that are more complicated still should be pursued under the court-sanctioned procedure). All of the amalgamating companies in a court-free amalgamation must be incorporated in Hong Kong and must be companies limited by shares within the same group. An "amalgamating company" is a company that is the subject of an amalgamation proposal; once the amalgamation is completed, the single continuing entity is referred to as the "amalgamated" company.

The New CO introduces the concept of court-free amalgamations as a way to reduce business costs of intragroup restructuring. However, there are uncertainties regarding the tax treatment, and unless relevant tax provisions are introduced in the Inland Revenue Ordinance or guidance is issued by the Inland Revenue Department, undesirable tax issues could result in significant costs that inhibit the purpose envisaged in the New CO.

See also **World Tax Advisor – 11 April 2014.**

India – Court Rules Secondment Gives Rise to FTS and Service PE

In a decision issued on 25 April 2014 (Centrica India Offshore Pvt. Ltd), on an appeal of a ruling from India's Authority for Advance Rulings (AAR), the Delhi High Court held that reimbursements of salaries by an Indian company to overseas entities in relation to the secondment of employees would qualify as fees for technical services (FTS) under India's tax treaties with the UK and Canada. At the same time, the court rejected the Indian company's arguments that no service PE existed for the overseas entities, thereby implicitly confirming the ruling of the AAR to the effect that such a PE did exist.

The court's approach effectively eliminated the ability to transfer employment through a secondment arrangement. Assuming the decision is not appealed, payments made to reimburse salary costs of seconded employees may result in a tax liability for the overseas entity. Companies should consider reviewing their secondment arrangements in the light of the ruling, to determine whether employees seconded to an Indian company result in performance of a taxable service in India by the seconding entity.

See also **World Tax Advisor – 23 May 2014.**

Ireland – BEPS Consultation Process Launched

Ireland's Minister for Finance launched a BEPS consultation process on 27 May 2014. The purpose of the consultation—which will run to 22 July—is to gather views on how Ireland's tax system may need to change in response to a changing international tax landscape. The outcome of this consultation process will feed into budget 2015, which is expected to be published on 14 October 2014.

See also **Ireland Tax Alert – 27 May 2014.**

Japan – New Corporate Tax May Increase Effective Rates for Certain Inbound Investors

The enactment of the new "local corporate tax" law on 20 March 2014, which was introduced as part of the 2014 tax reforms, could increase the effective tax rate (ETR) for certain Japan-source income of inbound investors that do not have a PE in Japan.

The increase in tax rate on certain types of income generated by nonresidents with no PE in Japan appears to be an unintended consequence of the new local corporate tax. However, absent guidance from the tax authorities, it seems that the change in the law will increase the Japanese tax liability for certain nonresidents.

As a result of introduction of the new local corporate tax, the ETR for a nonresident with no PE in Japan, which has certain Japan-source income, is likely to increase. Based on the current 25.5% national corporation tax rate (not including the special reconstruction surtax that may apply depending on the tax year of the taxpayer), the increase in ETR would be approximately 1.12% (25.5% multiplied by the 4.4% new local corporate tax) and the ETR for a nonresident with no PE in Japan will be approximately 26.62% for fiscal year beginning on or after 1 October 2014. However, a nonresident that can benefit from an exemption under an applicable tax treaty with Japan should not be affected.

See also **World Tax Advisor – 11 April 2014.**

Luxembourg – Tax Authorities Issue Guidance on Use of Foreign Currency for Tax Purposes

Luxembourg's tax authorities issued a circular on 16 June 2014 that contains the rules and conditions under which a taxpayer may use a currency other than the euro in calculating its taxable results. According to the new circular, Luxembourg entities, including partnerships, can opt to determine taxable income in a foreign currency, but the company's commercial accounts must be in the same foreign currency as its share capital.

See also **Luxembourg Tax Alert – 16 June 2014.**

Mexico – Deadlines Approaching for Maquiladoras and Companies Operating Under Customs Regimes

Companies operating in Mexico under a maquiladora structure or under the automotive bonded warehouse, bonded warehouse or strategic bonded warehouse customs regimes should be aware that they may need to take action very soon to meet compliance, election and application deadlines.

See also **World Tax Advisor – 9 May 2014.**

Mexico – Supreme Court Rules on Expense Sharing Agreements with Nonresidents

The second chamber of Mexico's Supreme Court issued a decision on 19 March 2014, ruling that expenses incurred on a pro rata basis with nonresidents may be deductible if certain requirements are met, despite a provision in the Income Tax Law that specifically disallows the deductibility of such expenses. This is an important decision in Mexico, and a welcome interpretation by the Supreme Court that is consistent with current international practice. However, the Mexican tax authorities will not necessarily automatically apply the decision, so controversies are likely to arise; affected taxpayers, therefore, should maintain appropriate documentation to support claims for the deductibility of expenses shared with nonresidents.

See also **World Tax Advisor – 9 May 2014.**

Norway – Ministry of Finance Issues Exceptions to Interest Deduction Limitation Rules

Norway's Ministry of Finance issued regulations on 24 April 2014 that set out certain exceptions to the application of the interest deduction limitation rules. The regulations apply as from fiscal year 2014, i.e. for the same period as the interest deduction limitation rules in general.

The interest deduction limitation rules, which are designed to prevent earnings stripping via intercompany debt financing, were adopted in 2013 and apply as from fiscal year 2014. The general rules primarily limit the deduction of interest expense on related party debt, but also will capture interest on third-party debt if a related party provided security for the debt. With the new regulations, Norway's interest limitation rules are complete.

See also **Norway Tax Alert – 25 April 2014.**

OECD – Update on BEPS Action 13: Transfer Pricing Documentation and Country-by-Country Reporting

On 2 April 2014, the OECD announced via a BEPS update webcast that tentative decisions have been made to streamline the initial proposals for country-by-country information reporting and transfer pricing master file documentation. The revisions follow responses received to the discussion draft issued on 30 January 2014. The OECD cautioned that the Committee on Fiscal Affairs has yet to review the template, which may still be subject to change, and that further work is needed (in particular, on the important issue of the mechanism for filing and sharing information).

Simplification of the data to be reported and increased flexibility for businesses are welcome, as is confirmation of the high-level nature of the master file. It is noteworthy that the focus is on providing useful, relevant and manageable global information for tax authorities that does not duplicate information better provided in tax returns and local transfer pricing documentation, and that this is intended to be achieved in a cost-effective and practical way for businesses. The revisions announced on 2 April are a significant step toward these objectives. Confidentiality of tax and commercial information will remain a concern for many businesses, unless a mechanism for sharing information under a treaty or information exchange agreement framework is made available.

See also **United States Tax Alert – 4 April 2014** and **World Tax Advisor – 11 April 2014.**

Peru - Guidance Issued on Reporting Obligations for indirect Transfers

The Peruvian tax authorities (SUNAT) recently issued guidance setting out the reporting procedures that resident legal entities must follow with respect to indirect transfers of their shares or participating interests in accordance with rules introduced in 2011. The reporting rules, which entered into effect on 5 June 2014 and are supplemented by additional provisions that entered into effect on 28 June, require resident legal entities to report certain transfers by 31 July 2014.

Transactions concluded during the period 16 February 2011 until 31 May 2014 must be reported in accordance with the new guidance unless the resident legal entity already reported the transaction and provided all information required by the SUNAT in the new guidance; otherwise, such transactions must be reported by 31 July 2014.

Failure to comply with the reporting obligation before the filing deadline could result in the imposition of a penalty equal to 30% of the tax units involved in the transaction per electronic form omitted, plus interest.

Switzerland – Cantons Announce Lower Headline Tax Rates in Anticipation of Corporate Tax Reform III

Switzerland is considering a comprehensive corporate tax reform, referred to as the “Corporate Tax Reform III,” that could result in the phasing out of certain tax regimes, such as the holding, mixed and domiciliary company regimes between 2018 and 2020. The regimes would be replaced with a variety of other measures.

The overriding objective of the contemplated reform is to secure and strengthen the tax competitiveness and attractiveness of Switzerland as an international location for corporations. To achieve this objective, the steering committee in charge of the reform considers it an imperative that the tax system offer competitive tax rates that are accepted internationally.

See also **Switzerland Tax Alert – 15 April 2014.**

Taiwan – Ruling Issued on Tax Treatment of Bargain Purchase Gains under IFRS

Taiwan’s tax authorities have issued a ruling dated 10 April 2014 that addresses the tax treatment of gains arising from a bargain purchase under International Financial Reporting Standards (IFRS). Publicly listed companies in Taiwan were required to adopt IFRS as from 1 January 2013; private companies can continue to follow the Taiwan local GAAP.

IFRS 3, *Business Combinations*, sets out the principles that apply to the recognition and measurement of acquired assets and liabilities when an acquirer obtains control of a business, such as through a merger. A bargain purchase gain arises where the fair value of the identifiable net assets acquired exceeds the purchase price in a merger. According to the ruling issued by the Taiwan tax authorities, when a surviving company adopting IFRS 3 acquires identifiable net assets from dissolved companies via a bargain purchase in the course of a merger, for tax reporting purposes, the surviving company can recognize the relevant gain as a bargain purchase gain equally over a five-year period starting from the year the merger takes place. To be consistent with the tax basis, assets acquired under the merger can be recognized at their fair market value.

Before the adoption of IFRS 3, the tax treatment of gains arising from a bargain purchase was unclear. In practice, such gains rarely were recognized, since the gains first were allocated to reduce the value of acquired noncurrent assets. The issuance of the ruling clarifies that the gains arising from a bargain purchase under a merger are taxable for companies adopting IFRS 3. However, since the ruling does not address the treatment of bargain purchase gains in a share acquisition transaction, affected parties should request a ruling from the authorities in this situation.

See also **World Tax Advisor – 9 May 2014.**

United States – Cross-Border Triangular Reorganizations Notice

On April 25, 2014, the Internal Revenue Service and Treasury Department issued Notice 2014-32 to notify taxpayers that they will issue regulations to modify Treas. Reg. §1.367(b)-10's treatment of cross-border triangular reorganizations. Such reorganizations involve the purchase of some of the shares used to effect the acquisition (generally, a reorganization where a subsidiary (S) purchases shares of its parent (P), either P or S is a foreign corporation, and S uses the shares to acquire a target (T) in a section 368 reorganization). The changes would tend to:

- Reduce the ability to rely on the Priority Rule in Treas. Reg. §1.367(b)- 10(b)(2)(iii) to allow §1.367(b)-10 to trump the application of section 367(a)(1) for certain so-called expatriation transactions,
- Increase the U.S. tax cost of the deemed distribution under §1.367(b)-10 (when applicable), and
- Reduce P's basis in the stock of S after the reorganization (i.e., prevent preservation of basis in S stock to the extent there is a section 301(c)(2) component to the deemed distribution).

The changes will apply to a reorganization that is completed on or after April 25, 2014, unless it occurs in relation to an acquisition of an unrelated target pursuant to a binding agreement entered into, or tender offer announced, before April 25, 2014. Although the new rules reflected in the first and third items above are clearly changes to the current regulations, the Notice includes language describing the changes it announces (primarily addressing the second item above) as clarifications to the regulations, and disagrees with various interpretations to the contrary. Thus, although the regulations are effective on April 25, 2014, the Notice states that no inference is intended with respect to transactions under current law and that the IRS may challenge such transactions under current law and judicial doctrines.

See also **United States Tax Alert – 25 April 2014.**

Example disclosures

The following section contains example financial statement disclosures that may be considered relevant, in part or in whole, at the date of publication.

There are no example disclosures for this edition.

FASB Accounting Standards Codification (ASC or the "Codification") Topic 740, Income Taxes states that deferred tax liabilities and assets should be adjusted for the effect of changes in tax laws or rates in the period that includes the enactment date. Before enactment, financial statement preparers should consider whether potential changes represent an uncertainty that management reasonably expects will have a material effect on the results of operations, liquidity or capital resources. If so, financial statement preparers should consider disclosing information about the scope and nature of any potential material effects of the changes. After enactment, when material, financial statement preparers should consider disclosing in Management's Discussion & Analysis (MD&A) the anticipated current and future impact on their results of operations, liquidity, and capital resources. In addition, financial statement preparers should consider disclosures in the critical accounting estimates section of MD&A, the footnotes to the financial statements, or both, to the extent that the changes could materially impact existing assumptions used in making estimates of tax-related balances.

Certain legislation that has been discussed in other sections of this document may lead to an adjustment to the deferred tax balances and current taxes payable recorded on an entity's books and, if material, may need to be disclosed in the company's financial statements. In addition, proposals to change tax laws, rules, regulations, and interpretations could impact an entity's accounting for income taxes in the future. In preparation for possible impacts of the changes in tax laws, companies should consider including disclosure of the impacts of these proposed changes in their financial statements or in MD&A.

Quick reference guide — Applicable income tax rates

The following section includes a summary of combined tax rates applicable in several key jurisdictions, the related dates of enactment, for US GAAP purposes, of certain income tax rate changes, and supplemental information with respect to certain taxing jurisdictions.

Jurisdiction	Combined national/ local rate (incl. surcharges, etc.) 2014	2015	Date the combined national/ local rate enacted	Notes
Argentina	35%	35%	N/A	A 1% asset tax on corporate assets, including shareholdings in foreign companies (but not holdings in resident companies) operates as a minimum income tax. Asset tax paid may be credited against the company's income tax liability for up to 10 fiscal years.
Australia	30%	30%	N/A	The government has proposed a reduction in the corporate tax rate from 30% to 28.5% as from 1 July 2015.
Belgium	33.99%	33.99%	N/A	Reduced rates may be available for companies with taxable income that does not exceed EUR 322,500.
Brazil	34%	34%	N/A	The corporate income tax base rate is 15%. The additional surtax (10%) and social contribution (9%, 15% for financial institutions) yields an effective tax rate of 34%.
Canada	25%–31%	25%–31%	14 Dec 2007	Phased-in decreases of the federal income tax rate were enacted in 2007. The last of the phased-in tax rate decreases came into force in 2012. Provincial rates vary, ranging generally from 10% to 16%.
Chile	20% (21%)*	20% (22.5%)*	27 Sep 2012	* On 1 April 2014, the new government presented a tax reform bill to Congress that would result in a gradual increase in the First Category Tax rate from 20% to 25% over four years. Income earned in 2014 would be subject to a rate of 21% and income earned in 2015 would be subject to a rate of 22.5%. The government hopes to obtain legislative approval and enact the changes in 2014, in which case the 21% rate would apply retroactively to income earned in 2014.
China	25%	25%	16 Mar 2007 26 Dec 2007	Companies that were entitled to the 15% lower rate under the pre-2008 law were entitled to a gradual increase in the tax rate to 25% over a five-year period. The last such gradual increase applied in 2012. Entities qualifying as small-scale taxpayers are subject to a 20% tax rate and a 15% rate applies to enterprises that qualify as new and high-tech enterprises or companies set up in certain geographical locations.

Jurisdiction	Combined national/ local rate (incl. surcharges, etc.) 2014	2015	Date the combined national/ local rate enacted	Notes
France	33.33% – 38%	33.33% – 34.43%	30 Dec 2013 (See **Note 1**)	For taxable income derived in a fiscal year closed on or after 31 December 2013 and before or on 30 December 2015, an additional surcharge of 10.7% (based on the income tax due at the standard 33.33% tax rate) is applicable for companies with revenue exceeding EUR 250 million (see **Note 1** for details). As a result of the surcharge, the effective tax rate applicable to large profitable companies is either 36.9% or 38%. One of the surcharges is due to expire on 30 December 2015, so the maximum rate for 2015 is changed to 34.43%. A rate of 36.9% applies to large profitable companies with basic corporate tax liability lesser than Euro 763,000 and a rate of 38% applies to large profitable companies with basic corporate tax liability exceeding Euro 763,000. These rates do not include the impact of the CVAE, an annual local business tax that is considered an income tax under U.S. GAAP. These rates also do not include the impact of the 3% surtax on distributions that was enacted on 17 August 2012 and that is considered an income tax and effectively creates a dual tax rate regime in France under U.S. GAAP (see **Note 2** for details). Small and medium-sized companies may be subject to a lower tax rate in certain cases.
Germany	30%–33%	30%–33%	17 Aug 2007	The corporate rate is 15%. The municipal trade tax rate typically ranges between 14% and 17%. In addition, a 5.5% solidarity surcharge is levied on corporate income tax. The effective corporate tax rate (including the solidarity surcharge and trade tax) typically ranges between 30% and 33%.
Hong Kong	16.5%	16.5%	N/A	Profits tax is levied at a rate of 16.5% (15% for unincorporated businesses) where the person is carrying on a trade, profession or business in Hong Kong and the relevant income is a profit arising in or derived from Hong Kong.
India	30.9% or 32.45% or 33.99%	30.9% or 32.45% or 33.99%	10 May 2013	The effective rate for domestic companies is 30.9% (where taxable income is less than or equal to INR 10 million), 32.45% (where taxable income exceeds INR 10 million, but is less than or equal to INR 100 million), and 33.99% (where taxable income exceeds INR 100 million). If an entity's annual income tax liability, as a percentage of book profits, is less than 18.5%, the Minimum Alternative Tax (MAT) applies at 18.5% of book profits. The effective MAT rate is 19.06% (where income is less than or equal to INR 10 million) and 20.01% (where income exceeds INR 10 million, but is less than or equal to INR 100 million) and 20.96% (where taxable income exceeds INR 100 million). The excess of MAT paid over the annual tax liability may be credited against the regular tax liability for the subsequent 10 years. These effective rates may increase if the earnings are distributed (see **Note 3** for details).
Ireland	12.5% or 25%	12.5% or 25%	N/A	The standard corporate tax rate on trading income is 12.5% and on nontrading income, 25%. The Finance Act 2013, enacted on 27 March 2013, includes an increase in the capital gains tax rate from 30% to 33% that is effective for disposals occurring on or after 6 December 2012.

Jurisdiction	Combined national/ local rate (incl. surcharges, etc.) 2014	2015	Date the combined national/ local rate enacted	Notes
Italy	27.5%	27.5%	28 Dec 2007	IRAP, the regional tax on productive activities, is levied within a range of up to 0.92% around the basic IRAP rate (3.5% from 2014). From 2014, the basic IRAP rate is 4.2% for banks and 5.3% for insurance companies. Taxpayers will need to determine whether to treat IRAP as an income tax under ASC 740. An additional (6.5% "Robin Hood" tax is levied on certain companies (see **Note 4** for details). An additional 8.5% tax is levied on banks, other financial institutions, and insurance companies for FY 2013.
Japan	37.0%–38.0% or 38.4%-39.4%	34.6%–35.6% or 36.0%-37.1%	20 Mar 2014	The national corporate tax rate for fiscal years beginning on or after 1 April 2012 is 25.5%. In addition, a temporary 10% surtax on the national corporation tax rate was expected to be effective for two consecutive years starting with the first fiscal year beginning on or after 1 April 2012. However, for a calendar year taxpayer with a fiscal year beginning on or after 1 January 2015, the 10% surtax generally is no longer applicable. Japanese corporations and foreign corporations that are carrying on a business through a permanent establishment in Japan also are subject to a local inhabitants tax and a local enterprise tax. Inhabitants and enterprise tax rates vary depending on certain factors. The local enterprise tax generally is levied on taxable income at a rate between 7.19% and 10.073%, depending on the amount of capital and location of the corporation. The inhabitants tax generally is levied on taxable income at a rate of either 17.3% or 20.7% of the national corporate tax rate depending on the location of the corporation. The local enterprise tax is deductible for national corporation tax purposes generally when it is paid. The top ETR ranges are for corporations with stated capital of more than JPY 100m while the bottom ETR ranges are for corporations with stated capital of JPY100m or less. The inhabitant tax rates will be reduced for fiscal years beginning on or after 1 October 2014, but the effective combined rate will not change because the reduction will coincide with the introduction of a new local corporate tax.
Luxembourg	~29.22%	~29.22%	28 Dec 2012	This rate applies to the municipality of Luxembourg City. Rates for residents of other municipalities may vary.
Malta	35%	35%	N/A	N/A
Mexico	30%	30%	11 Dec 2013	The 30% tax rate remains in effect. A special regime applies for maquiladoras. The Business Flat Tax (IETU) that was introduced in 2007 was abolished as from 1 January 2014.
Netherlands	25%	25%	N/A	Tax changes enacted on 1 July 2009 introduced a 20% tax rate applicable to income below EUR 200,000, effective retroactively to 1 January 2009.

Jurisdiction	Combined national/ local rate (incl. surcharges, etc.) 2014	2015	Date the combined national/ local rate enacted	Notes
Russia	20%	20%	26 Nov 2008	The 20% (18% regional and 2% federal) tax rate can be reduced to 15.5% (13.5% regional and 2% federal) by the regional governments. As from 1 January 2012, the regional authorities in Special Economic Zones may grant a further reduction of the regional tax rate to as low as 0%, leaving only the 2% federal portion. As from 1 January 2014, qualifying investors in certain regions in the far eastern part of the country and Siberia are entitled to a profits tax rate of 0% to 10% for the first five years of income generation and from 10% to 18% for the following five years. Certain companies in technology and tourist zones may be exempt from the 2% federal tax as well. Companies providing educational or medical services and agricultural goods producers are subject to 0% profits tax rate if certain criteria are met. In addition, residents of Skolkovo Innovation Centre are subject to a 10-year profits tax exemption.
Singapore	17%	17%	29 Dec 2009	75% of the first SGD 10,000 of chargeable income and 50% of the next SGD 290,000 of chargeable income are exempt from tax. Singapore tax is imposed on a preceding year basis (i.e., year of assessment 2014 refers to a financial year ended in 2013).
Sweden	22%	22%	22 Nov 2012	The corporate tax rate was reduced from 26.3% to 22% as from fiscal years starting on or after 1 January 2013.
Switzerland	11.5%–24.5%	11.5%–24.5%	N/A	The rate includes federal and cantonal/communal taxes for an ordinarily taxed legal entity. The tax rate at the cantonal/communal level depends on the canton/municipality in which the company is located.
United Kingdom	23% and 21%	21% and 20%	17 Jul 2012 and 17 Jul 2013	A 23% rate was effective from 1 April 2013 and a 21% rate is effective from 1 April 2014. As a result of the mid-year change, a blended tax rate of 21.5% applies for taxpayers with a 31 December 2014 year-end. The corporate income tax rate will be further reduced to 20% from 1 April 2015.

Note 1: The 2014 Finance law was enacted on 30 December 2013, increasing the rate of the additional surcharge of 5% applicable for companies with revenue exceeding EUR 250 million from 5% to 10.7%. The additional surcharge applies to all fiscal years closed on or after 31 December 2013 and before or on 30 December 2015.

Note 2: On 17 August 2012, the French government enacted a 3% surtax that is levied on dividends and certain other distributions paid on or after 17 August 2012 by French and foreign entities subject to corporate income tax in France (including permanent establishments of foreign entities). The new surtax effectively creates a dual tax rate regime in France. (See also **Accounting for Income Taxes Quarterly Hot Topics: September 2012** for a discussion of certain related accounting for income taxes implications).

Note 3: A domestic entity is subject to an additional tax of approximately 16.995% when earnings are either distributed as a dividend or in liquidation of the company. This incremental tax is commonly known as a Dividend Distribution Tax (DDT) and becomes payable when previously taxed earnings are distributed to shareholders as either dividends or in liquidation of the company, increasing the total effective tax rate on earnings from 30.9%/ 32.45%/33.99% to 40.94%/42.26%/43.58%, respectively.

Note 4: Law No. 148, enacted on 16 September 2011, has introduced a temporary increase of the “Robin Hood” tax from 6.5% to 10.5% effective for fiscal years 2011-2013.The tax is levied on the oil, gas, and energy producers and trading companies in addition to the regular corporate income tax. The law also broadens the scope of the tax to include the renewable energy sector and other businesses in the energy sector that were previously exempt.

Additional resources

A Roadmap to Accounting for Income Taxes — This Roadmap includes all of Deloitte's interpretive guidance on the accounting for income taxes, combining the income tax accounting rules and implementation guidance from ASC 740 with Deloitte's interpretations.

Accounting for Income Taxes — Global Tax Developments archive

Accounting for Income Taxes Hot Topics archive — A quarterly publication that highlights certain recent tax and accounting developments that may have accounting for income taxes (ASC 740) implications.

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***World Tax Advisor* archive** — Biweekly bulletin of international tax developments written by professionals of the member firms of Deloitte. The newsletter focuses on analyses of cross-border tax developments that reflect the dynamic business environment faced by multinationals.

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***Transfer Pricing Alert* archive** — The latest updates in Transfer Pricing from around the world.

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2014 Global Transfer Pricing Country Guide — A comprehensive and authoritative guide, compiling essential information regarding the transfer pricing regimes in 58 jurisdictions around the world and the OECD.

Deloitte International Tax Source (DITS) — An online database featuring corporate, withholding and tax treaty rates and information for 65 jurisdictions worldwide.

Financial Reporting for Taxes Dbriefs Webcasts — A collection of live and archived Dbrief webcasts that give you valuable insights on important developments impacting financial reporting for taxes.

Financial Accounting & Reporting — Income Taxes — Financial accounting and reporting for income taxes have become increasingly complex. Tax departments are working to keep up with the latest regulatory developments and guidance related to income tax accounting, disclosures and documentation, as well as seeking ways to address their tax provision process and technology needs. Deloitte can help.

Tax Publications — A collection of tax publications issued by Deloitte to help clients stay informed on tax legislation and regulations and the potential impact on their businesses.

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Financial Reporting for Taxes 2014 Training — Professionals continue to face significant challenges in financial accounting and reporting for income taxes. Deloitte's Financial Reporting for Taxes training can help you stay informed. Our next program with multiple course offerings is scheduled for December 8-12, 2014 in Las Vegas. Course offerings are designed for corporate tax and accounting professionals.

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