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Global Tax Developments Quarterly

Accounting for Income Taxes

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

1 October – 31 December 2014
13 January 2015
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Introduction

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Applicable US GAAP guidance

Under US 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 US 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 October to 31 December 2014

The following section includes a brief summary of major international income tax law changes enacted during the period 1 October to 31 December 2014, unless specified otherwise.

Albania

Withholding Tax Increase

Date of enactment: 24 December 2014
Effective date: 1 January 2015

The withholding tax rate on dividends, interest and royalties paid to nonregistered and nonresident persons increased from 10% to 15% on 1 January 2015, according to a law published in the official gazette on 24 December 2014. The new rate also applies to service fees, rents, gaming and gambling income.

See also **World Tax Advisor – 28 November 2014.**

Angola

Tax Codes Rewritten

Date of enactment: Various
Effective date: Various

Angola enacted entirely new versions of five tax codes and simultaneously revoked all contradictory legislation in October 2014. New tax codes apply for industrial income tax (for corporate profits), personal income tax, consumption tax, stamp duty and investment.

The industrial income tax code, which applies as from 1 January 2015, reduces the standard tax rate from 35% to 30% (the 30% rate is applicable as from the 2014 tax year). A reduced rate of 15% applies to income derived from agriculture, aquaculture, forestry, and poultry and livestock production.

Under the new investment income tax code, which entered into force on 19 November 2014, capital losses may be set off against capital gains derived from the disposal of shares, with the balance subject to investment income tax. A 50% discount on the balance applies if the transaction takes place on a regulated market.

Austria

Second Tax Reform Act 2014 Passed

Date of enactment: 29 December 2014
Effective date: 30 December 2014

The Second Tax Reform Act 2014 was passed by both houses of parliament on 11 December 2014 and 18 December 2014, and published in the federal gazette on 29 December 2014. One notable change is that, as from 30 December 2014, there is a further tightening of the rules restricting the deductibility of interest and royalty payments made to recipients in low-tax jurisdictions that apply as from 1 March 2014. The rules now are extended to apply to payments where the level of taxation of the recipient is lower than 10% due to a tax refund to the recipient or its shareholders.

Brazil

Tax Amnesty Program Opened and Reintegra Program Made Permanent

Date of enactment: 14 November 2014
Effective date: Various

A provisional measure that revises the tax amnesty program and that reintroduces the "Reintegra" program was converted into law and published in Brazil's official gazette on 14 November 2014.

The original tax amnesty program, reopened on a retroactive basis (as from 20 June 2014), allows taxpayers (both legal entities and individuals) 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 under conditions that are less stringent than otherwise would apply. However, taxpayers are required to make an up-front payment of a portion of the consolidated tax debt.

The new law reintroduces and makes permanent the Reintegra program introduced in 2011 to allow exporters to recover residual tax costs incurred in the export production chain. As from 1 October 2014, entities that export goods manufactured in Brazil can request a credit (which may be refunded or used to offset other federal taxes) that ranges from 0.1% to 3% of their total export revenue, depending on the type of goods exported.

See also **Brazil Tax Alert – 27 June 2014, Brazil Tax Alert –21 July 2014,** and **Brazil Tax Alert – 21 November 2014.**

Income Tax Rate Threshold for Tax Haven Classification Lowered

Date of enactment: 1 December 2014
Effective date: 1 December 2014

An ordinance published in Brazil's official gazette on 1 December 2014 reduces the income tax rate threshold for the application of the low-tax jurisdiction and privileged tax regime rules from 20% to 17% for countries that follow the OECD international fiscal transparency standards. The income tax rate is one of the criteria used to determine whether a country is classified as a low-tax jurisdiction or a jurisdiction that has a privileged tax regime, and inclusion on either list results in higher withholding taxes on certain outbound payments and the automatic application of Brazil's transfer pricing and thin capitalization rules.

Notably, the ruling that contains the lists of blacklisted countries and grey-listed privileged tax regimes has not been revised to reflect the new income tax rate standard established by the ordinance. The Brazilian authorities may intend to wait for interested countries to take action and request an exclusion from the relevant list through appropriate diplomatic channels.

See also **World Tax Advisor – 12 December 2014.**

Canada

Legislation on Cross-Border Financing and Foreign Affiliate Dumping Passed

Date of enactment: 16 December 2014
Effective date: Various

Draft legislation released by Canada's Department of Finance on 29 August 2014 received royal assent and was passed into law on 16 December 2014. The draft legislation includes implementation of back-to-back financing proposals and other budget measures and revision plans for 2013 draft amendments to the foreign affiliate "dumping" rules,

See also **Canada Tax Alert — 20 February 2014** and **World Tax Advisor — 10 October 2014.**

Colombia

Changes Made to Income Tax and Income Tax for Equality (CREE)

Date of enactment: 23 December 2014
Effective date: 1 January 2015

The Colombian parliament approved a law on 23 December 2014 that makes several changes to the tax regime. The law maintains the 9% CREE rate for FY 2016 and following years (previous legislation considered a reduction of the rate to 8% as from 2016) and allows tax losses and minimum base excesses generated as from FY 2015 to be offset against the CREE tax due in FY 2015 and thereafter. The new law prevents the use of a taxpayer's credit balances with respect to other taxes to offset the CREE tax payable.

The law introduces a CREE surcharge for tax years 2015 to 2018 that will apply to taxpayers whose CREE taxable base is equal to or greater than approximately USD 347,000. The rate of the surcharge is 5% for 2015, 6% for 2016, 8% for 2017 and 9% for 2018. The surcharge payable is calculated on the CREE taxable base of the period and is subject to an advance payment of 100% calculated on the CREE taxable base of the previous year.

The law also provides that income derived by legal entities that is not attributed to a branch or permanent establishment in the years 2015-2018 will be subject to income tax at a rate of 39% for 2015, 40% for 2016, 42% for 2017 and 43% for 2018.

Tax Haven List Updated

Date of enactment: 8 October 2014
Effective date: Various

The Colombian government issued a decree on 8 October 2014 that updates the list of jurisdictions it considers to be tax havens. Four new jurisdictions are included on the list because they have not yet concluded a tax information exchange agreement with Colombia, bringing the full list to 40 tax havens. Ten jurisdictions that have subscribed to the mutual assistance convention have been removed from the list. Transactions between Colombian companies and companies located in a tax haven are subject to more stringent rules.

See also **World Tax Advisor – 24 October 2014**.

Costa Rica

Updates to Corporate Tax Rates

Date of enactment: 1 October 2014
Effective date: 1 October 2014

Costa Rica's ministry of the treasury has released the amended income tax brackets for the 2015 fiscal year (i.e. the fiscal year from 1 October 2014 to 30 September 2015). The amended brackets are as follows:

- Up to CRC 52,710,000: 10%;
- Between CRC 52,710,000 and CRC 106,026,000: 20%; and
- Over CRC 106,026,000: 30%.

In the 2014 tax year, the 10% corporate income tax rate applied to income not exceeding CRC 49,969,000, and the 20% rate previously applied to income between CRC 49,969,001 and CRC 100,513,000.

European Union

Anti-Abuse Clause Approved for Amended EU Parent-Subsidiary Directive

Date of enactment: 9 December 2014
Effective date: 31 December 2015

The Economic and Financial Affairs Council of the European Union approved an anti-abuse clause for the amended EU parent-subsidiary directive on 9 December 2014 that will allow EU member states to apply stricter national rules, provided they meet the minimum EU requirements in the directive. The anti-abuse clause aims to prevent misuses of the directive and ensure more consistency in its application in the member states; the clause requires governments to refrain from granting the benefits of the directive where there is an arrangement, or a series of arrangements, that are not genuine and have been put in place to obtain a tax advantage.

See also **World Tax Advisor – 9 May 2014** and **World Tax Advisor – 12 December 2014**.

France

Amended Finance Law for 2014 Passed

Date of enactment: 30 December 2014
Effective date: 1 January 2015

The Amended Finance Law for 2014 was enacted on 30 December 2014 after the Constitutional Court reviewed a number of the measures. Measures of particular importance are as follows:

A new form of tax consolidation permits horizontally consolidated tax groups. A consolidated group now may be comprised of French sister companies that share a common parent company established in an EU member state or in a state in the European Economic Area (EEA) that has concluded an administrative assistance agreement with France. (The nonresident parent company can be resident outside of the EU/EEA, provided it has a PE in the EU/EEA (through which it is subject to a corporate tax equivalent to the French corporate income tax).)

- The horizontal consolidation option applies starting from tax years ending on 31 December 2014.
- The participation exemption regime for dividends is amended to transpose the amended EU parent-subsidiary directive into French law.
- Changes are made to the tax treatment of share repurchases so that the capital gains tax regime will apply exclusively to amounts paid to partners or shareholders, irrespective of whether shareholders are individual or corporations. By amending the classification and applying capital gains treatment to all shareholders, including corporate shareholders, the issuing company will no longer be subject to the 3% corporate income tax surcharge due on distributed profits, and, if applicable, withholding tax on dividends paid to nonresident shareholders.

See also **France Tax Alert — 14 November 2014.**

2015 Finance Law Passed

Date of enactment: 30 December 2014
Effective date: 1 January 2015

The 2015 Finance Law, passed on 30 December 2014, contains two measures that affect the French overseas departments (French Guiana, Guadeloupe, Martinique, Mayotte and Reunion): (1) an increase in the research and development tax credit from 30% to 50% of expenditure incurred up to EUR 100 million, and 5% for expenditure exceeding this amount; and (2) an increase in the competitiveness credit, which previously was 6% of total wages paid to employees earning no more than 2.5 times the French legal minimum wage, to 7.5% for salaries paid in 2015 and 9% for salaries paid in 2016 and subsequent years.

See also **World Tax Advisor — 24 October 2014.**

Germany

Anti-Hybrid/Anti-Double Dip Rules Omitted from 2015 Tax Bill

Date of enactment: 30 December 2014
Effective date: 31 December 2014

Germany's 2015 Tax Bill signed by the president on 22 December 2014 and published in the federal gazette on 30 December 2014 does not include the original proposed anti-hybrid and anti-double-dip rules. Instead, the federal government is appointing a task force to discuss the results of the final BEPS reports to be published in 2015 and to come up with a proposal on how to implement the final recommendations into German law. Legislative action is expected in late 2015 or in 2016.

See also **Germany Tax Alert — 7 November 2014, World Tax Advisor – 12 December 2014,** and **Germany Tax Alert – 19 December 2014.**

Ireland

2014 Finance Act Passed

Date of enactment: 23 December 2014
Effective date: Various

Ireland's Finance Act 2014 was enacted on 23 December 2014 to bring into effect the 2015 budget published on 23 October 2014. The minister reaffirmed the government's commitment to the 12.5% corporate tax rate as settled tax policy and outlined measures for providing a competitive tax environment for multinationals to operate in the country. Measures relevant to multinationals include the following:

- The grandfathering of "double Irish" structures created before 1 January 2015, and the change in tax residence rules for Irish companies incorporated after that date;
- Enhancement of the Irish onshore intellectual property regime; and
- Enhancement of the Irish R&D tax credit regime.

See also **Ireland Tax Alert — 14 October 2014** and **Ireland Tax Alert — 23 October 2014.**

Italy

2015 Budget Law Repeals Reduction of IRAP

Date of enactment: 29 December 2014
Effective date: 1 January 2014

Italy's 2015 budget law approved on 22 December 2014 and published on the official gazette on 29 December 2014 repeals the reduction of the IRAP (the regional tax on productive activities) rates that was passed in April 2014. The new IRAP rates (which are the same rates that applied until 31 December 2013, i.e. 3.9% as the general average rate, 4.65% for banks/financial entities and 5.9% for insurance companies) are applicable as from 1 January 2014. Therefore, the reduced rates introduced in April 2014 will never be effective.

Korea

Revisions to Tax Laws Enacted

Date of enactment: 23 December 2014
Effective date: 1 January 2015

The proposed revisions to Korea's tax laws published on 18 September 2014 were enacted on 23 December, 2014 and generally apply as from 1 January 2015, unless otherwise noted. Some important changes include:

- A new accumulated earnings tax (AET) is imposed on excess cash accumulated by large corporations whose equity capital exceeds KRW 50 billion and companies that are members of a group with a restriction on cross-shareholdings. These rules apply for taxable years beginning on or after 1 January 2015 and before 31 December 2017;
- The thin capitalization rules are amended as from fiscal years beginning on or after 1 January 2015;
- The tax credit rate for investment in productivity improvement facilities is increased;
- A Korean parent company that receives dividends from a foreign subsidiary can claim an indirect foreign tax credit with respect to the income tax paid by the foreign subsidiary only if the parent company holds directly at least 25% (previously 10%) of the voting shares of the foreign subsidiary; and
- The ability to calculate the foreign tax credit limitation for foreign-source income received from two or more countries on a combined basis is abolished. The credit now may only be calculated on a country-by-country basis.

Luxembourg

2015 Budget Enacted

Date of enactment: 24 December 2014
Effective date: 1 January 2015

The budget law was published in Luxembourg's official journal on 24 December 2014 and applies as from 1 January 2015. The corporate income tax rate of 22.47% (including the employment fund surcharge) remains unchanged for 2015.

One of the main budget measures affecting companies concerns the minimum income tax. Under the new rules, a collective entity must own qualifying holding and financial assets that exceed 90% of its balance sheet and have a total balance sheet exceeding EUR 350,000 to be liable for the EUR 3,210 (including the employment fund surcharge) minimum income tax. Entities that meet the 90% test and have a total balance sheet below EUR 350,000 are liable for a minimum income tax of EUR 535 (previously EUR 3,210). Other Luxembourg collective entities are subject to a minimum income tax depending on the total of their balance sheets.

A new provision included in the procedural part of the tax law specifically refers to transfer pricing for which the tax authorities may request documents to investigate transactions with related parties.

See also **World Tax Advisor — 14 November 2014.**

Norway

2015 Budget Passed

Date of enactment: 19 December 2014
Effective date: 1 January 2015

The 2015 budget presented to parliament on 8 October 2014 was enacted on 19 December 2014. The budget includes an increase in the cap on the deductibility of internal research and development (R&D) expenses from NOK 8 million to NOK 15 million, and in the cap on outsourced R&D expenses from NOK 22 million to NOK 33 million. The budget is effective from fiscal year 2015 (for fiscal years not following the calendar year, the budget is effective for fiscal years ending on a date in 2015).

See also **World Tax Advisor — 24 October 2014.**

Peru

Tax Reform Bill Enacted

Date of enactment: 31 December 2014
Effective date: 1 January 2015

A bill approved by Peru's parliament on 11 December 2014 was enacted by the executive branch on 31 December 2014. The new law, which applies as from 1 January 2015, contains several tax measures intended to stimulate the economy, including a progressive reduction of the corporate income tax rate (from 30% to 26%), changes to the dividend tax regime and the introduction of a binding private rulings regime. The tax rate for the dividend tax triggered when there is a distribution of profits, or an agreement to distribute profits, to resident individuals or nonresident shareholders is increased from 4.1% to 9.3%.

See also **Peru Tax Alert — 19 December 2014.**

Poland

Corporate Income Tax Act Amended

Date of enactment: 3 October 2014
Effective date: 1 January 2015

On 17 September 2014, the president signed a bill introducing changes to the Corporate Income Tax Act that include the introduction of controlled foreign company (CFC) rules and an update to the thin capitalization rules. The amended act was published on 3 October 2014 (with some further amendments related to the date of application of the CFC rules published on 29 October). The CFC rules and amended thin capitalization rules apply as from 1 January 2015.

Under the CFC rules, Polish taxpayers will be taxed at a rate of 19% on the income of their CFCs. A new debt-to-equity ratio of 1:1 applies (previously 3:1) under the thin cap rules, with any interest on debt exceeding this amount being nondeductible. Further, the scope of the thin cap regime is expanded to cover direct shareholders and direct sister companies, as well as indirectly related entities holding at least 25% of the capital of the borrower.

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

Portugal

Investment Tax Code Approved

Date of enactment: 31 October 2014
Effective date: Various

A new Investment Tax Code aims to increase Portugal's tax competitiveness and encourage investment. The new regime (which includes changes to the corporate income tax code and the tax incentives statute) generally applies to qualifying activities taking place after 1 January 2014, with the exception of contractual tax incentives for certain investment projects where applications have been submitted as from 1 July 2014.

2015 Budget Law Includes Corporate Tax Rate Reduction

Date of enactment: 31 December 2014
Effective date: Various

Portugal's budget law for 2015, published in the official gazette on 31 December 2014, applies as from 1 January 2105. The budget includes a reduction in the corporate income tax rate from 23% to 21% (with a further reduction expected in coming years to between 17% and 19%).

An environmental tax reform became effective on 1 January 2015, which covers areas such as energy, transport, urbanism, forests and biodiversity. The reform introduces a surtax on carbon emissions (applicable to "non-EU ETS entities" (European Union Emissions Trading Scheme) and a tax on plastic bags.

Russia

Changes to Taxation of Foreign Entities Enacted

Date of enactment: 24 November 2014
Effective date: 1 January 2015

Russia's president signed a law on 24 November 2014 that makes fundamental changes to the taxation of foreign entities, with the new rules applying as from 1 January 2015. The law introduces the concept of "beneficial ownership," a new definition of corporate residence, a controlled foreign company regime, new rules on the indirect disposal of shares of Russian real estate-rich companies and requirements that Russian legal entities and individuals disclose information on their interests in foreign companies.

See also **World Tax Advisor – 25 April 2014, World Tax Advisor – 26 September 2014** and **World Tax Advisor – 12 December 2014**.

Spain

Corporate Tax Reform Enacted

Date of enactment: 28 November 2014
Effective date: 1 January 2015

The broad-based tax reform originally proposed by the Spanish government in June 2014 was published in the official gazette on 28 November 2014 and applies as from 1 January 2015. The main change is a reduction of the general corporate income tax rate of 30% to 28% for 2015 and to 25% in taxable years starting from 2016. Other changes affect tax-deductible expenses, tax loss carryforwards, tax credits, the participation exemption, transfer pricing, nonresident income tax and the tax consolidation regime.

See also **Spain Tax Alert – 2 July 2014, World Tax Advisor – 12 September 2014** and **Spain Tax Alert – 2 December 2014**.

Thailand

Corporate Income Tax Rate Extended

Date of enactment: 10 November 2014
Effective date: 1 January 2015

The 20% corporate income tax rate, originally intended to apply for years 2013 and 2014, has been extended for 2015.

See also **World Tax Advisor – 23 May 2014** and **World Tax Advisor – 28 November 2014.**

United States

One-Year Extenders Package Signed

Date of enactment: 19 December 2014
Effective date: 1 January 2014

President Obama signed into law a one-year retroactive extension of most – but not all – of the temporary tax deductions, credits and incentives that expired in December 2013. An extension has been granted for relief from subpart F income for certain related party dividend, interest and royalty payments under Internal Revenue Code section 954(c)(6) for taxable years beginning on or after 1 January 2014, but before1 January 2015.

See also **World Tax Advisor — 12 December 2014.**

Enacted tax law changes that are now effective: 1 October to 31 December 2014

The following section includes a brief summary of major international income tax law changes enacted before 1 October 2014, but are first effective in the period 1 October to 31 December 2014.

Chile – Tax Reform Effected

A broad-based tax reform enacted on 29 September 2014 is effective from dates ranging from 1 October 2014 through 1 January 2017. Some of the measures included in the reform are:

- The introduction of a dual tax system;
- A gradual increase of the First Category Income Tax rate;
- New anti-avoidance rules, such as thin capitalization rules, controlled foreign company rules, a general anti-avoidance rule and additional requirements for the deduction of payments to foreign related parties;
- The introduction of a program for voluntary disclosure of foreign assets and income;
- The elimination of the benefit that allows amortization of certain tax goodwill over 10 years;
- The introduction of green taxes; and
- A one year window in 2015 to withdraw historical accumulated profits at a reduced rate.

See also **Chile Tax Alert — 17 April 2014, World Tax Advisor – 26 September 2014** and **Chile Tax Alert — 23 August 2014.**

Denmark – New Central Registry to Report Tax Losses and Tax-free Restructuring

As from 1 October 2014, companies, associations and foundations that have limited or unlimited tax liability under the Corporation Tax Act or the Funds Tax Act (including foreign companies subject to Danish taxation) must report tax losses incurred between income year 2002 and the end of 2013, as well as tax-free restructurings, to the tax authorities via an electronic web portal.

Failure to comply or failure to timely report the tax losses by 1 August 2015 will result in the forfeiture of the losses. Tax-free restructurings carried out as from 1 October 2014 must be reported within one month after the restructuring; failure to comply will result in the restructuring being considered a taxable event.

See also **World Tax Advisor — 11 April 2014** and **World Tax Advisor — 28 November 2014.**

India – 2014 Finance Act Enacted

India's budget for 2014-15 received the president's assent on 6 August 2014. Some highlights of the tax measures in the budget are as follows:

- Expenditure incurred on corporate social responsibility activities generally is not deductible for tax purposes;
- The holding period required for gains from sales of shares of an unlisted company to qualify as long-term capital gains is increased from 12 to 36 months;
- Dividend distribution tax is payable on a "grossed up" basis for dividends distributed on or after 1 October 2014; and
- A specific tax regime applies to certain real estate investment trusts and infrastructure investment trusts as from 1 October 2014.

Other changes relate to advance pricing agreements, the transfer pricing rules and the concessional withholding tax rate that applies to certain interest.

See also **World Tax Advisor — 25 July 2014** and **World Tax Advisor — 10 October 2014.**

Uruguay – Tax Incentives Granted to Shared Services Centers

A decree published on 4 September 2014 and that applies as from that date grants tax incentives in the form of tax exemptions or reductions to new shared services centers established in Uruguay that provide services to nonresident related parties. A number of requirements must be met to qualify for the incentives.

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

Enacted tax law changes that are effective as from 1 January 2015

The following section includes a brief summary of major international income tax law changes enacted before 1 October 2014, but are effective as from 1 January 2015.

Austria – Tax Group Regime Changes

The 2014 Tax Reform Act, passed on 28 February 2014, included changes to the tax group regime that apply as from 1 January 2015. The changes to the regime include a limitation on the use of foreign losses to 75% of the taxable income of the Austrian tax group members (including the Austrian head of the group). Foreign losses that cannot be used in a particular year will become part of the tax loss carryforwards of the head of the group. Additionally, income generated by the recapture of previously utilized foreign losses will be able to be fully offset against tax losses carried forward.

See also **Austria Tax Alert – 23 January 2014** and **Austria Tax Alert – 20 March 2014.**

Estonia –Changes to Taxation of Directors' Fees

As from 1 January 2015, directors' fees (as well as nonmonetary benefits) paid to nonresident board members of an Estonian company are taxable in Estonia, even if the payer is not a resident legal entity or an Estonian permanent establishment of a nonresident. The treatment of directors' fees for social tax purposes, however, remains unchanged, i.e. social tax will be due on fees paid to a nonresident director, regardless of who pays the fees or where the management activities are performed. An exemption from social tax may be available in certain cases.

See also **World Tax Advisor – 28 November 2014.**

Kazakhstan – Changes to Investment Rules

New rules designed to improve Kazakhstan's overall investment climate became effective on 24 June 2014 and apply as from 1 January 2015. Preferential treatment is granted for investors involved in "priority investment projects," and other beneficial options are available for projects that do not qualify as priority investment projects. The list of priority activities includes crop and animal production; activities related to food and beverage production; the manufacturing of pharmaceuticals, textiles and clothing, computer; electronic and optical products, and coke and refined petroleum products; and the production of chemical industry products.

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

South Africa – Postponement of Withholding Taxes

The effective date for the introduction of withholding tax on interest has been postponed from 1 January 2015 to 1 March 2015. The withholding tax will apply in respect of interest that is paid or that becomes due and payable on or after that date.

See also **World Tax Advisor — 24 October 2014.**

On the horizon…

The following developments in tax law had not yet been enacted as of 31 December 2014, but may, in certain cases, be enacted and become effective in the near future. Please follow up with your US or local country tax advisor for more information.

Australia – Proposed Withholding Tax

The government has issued a discussion paper on the proposed design of a 10% nonfinal withholding tax that would apply to the disposal of certain taxable Australian property by nonresidents as from 1 July 2016. This measure previously was announced in the 2013-14 federal budget. Under the proposal, the payer would be required to withhold an amount equal to 10% of the proceeds from the transaction and to pay this amount to the commissioner where all of the following apply: (1) the payee is a nonresident for Australian income tax purposes; (2) the transaction involves an asset that is taxable Australian property (i.e. Australian real property or assets used in carrying on a business through a permanent establishment in Australia); and (3) the asset is not residential property with a value less than AUD 2.5 million. The tax is proposed to apply regardless of whether the gains on disposal are subject to tax under the capital gains tax regime or are subject to tax because the gains constitute ordinary income. Submissions on the discussion paper were due by 28 November 2014, but there have been no further developments.

See also **World Tax Advisor — 14 November 2014.**

Norway – Advisory Panel Proposes Tax Reform

A panel appointed by the Norwegian government in March 2013 presented its report, "Capital Taxation in an International Economy," to the ministry of finance on 2 December 2014 and a public hearing was held on the report on 5 January 2015. The report makes a number of recommended changes to the tax system and the corporate tax rules:

- Reducing the general corporate income tax rate from 27% to 20%;
- Amending the rules governing the deduction of interest to include a limitation on the deduction of all net interest expense;
- Abolishing withholding tax on dividends paid to nonresidents, except for distributions to shareholders resident in low-tax jurisdictions outside the European Economic Area (EEA) (no changes are proposed for corporate shareholders resident in low-tax jurisdictions within the EEA);
- Exempting Norwegian companies from tax on gains derived from the disposal of shares in, and dividends received from, nonresident companies, including non-EEA companies regardless of the ownership percentage or the holding period;
- Introducing a withholding tax on interest, royalty and lease payments made to nonresidents for the use of fixed assets. A 15% rate is recommended for royalties, but no rate is specified for interest or lease payments; and

- Reducing depreciation rates for certain fixed assets, and abolishing additional tax depreciation for machinery, cars, tools and equipment during the year of acquisition.

See also **Norway Tax Alert – 2 December 2014.**

Thailand – New Investment Promotion Strategy Announced

On 25 November 2014, the Thailand Board of Investment (BOI) approved the "Seven-Year Investment Promotion Strategy" that applies to investment applications submitted as from 1 January 2015, and on 3 December, the BOI announced the list of eligible activities. The investment strategy gives priority to high-tech and creative industries, service industries that support the development of the digital economy and activities that develop and utilize local resources. Incentives include a corporate income tax exemption, an import duty exemption on machinery and/or raw and essential materials and certain nontax incentives, depending on the activity.

See also **World Tax Advisor — 12 December 2014.**

United Kingdom – Draft Legislation on Diverted Profits Tax Released

The UK government published further details on the new diverted profits tax (DPT) on 10 December 2014, including draft legislation for Finance Bill 2015 and a Technical Note with some examples of cases where the UK tax authorities, HM Revenue & Customs (HMRC), consider that the DPT could apply. The introduction of the DPT was originally announced in the Autumn Statement 2014.

The DPT is scheduled to apply as from 1 April 2015 at a rate of 25% to profits of multinationals that are artificially diverted from the UK. The DPT will be separate and distinct from corporation tax and is intended to encourage companies to adjust their corporate tax position to reflect the expected outcomes from the G20/OECD base erosion and profit shifting (BEPS) project.

See also **UK Tax Alert – 4 December 2014** and **UK Tax Alert — 11 December 2014.**

Did you know?

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

Australia – Final Guidance on ATO's Transfer Pricing Reconstruction Power

The Australian Taxation Office (ATO) issued a ruling on 12 November 2014 that grants the Commissioner of Taxation broad powers to "reconstruct" transactions undertaken by Australian taxpayers if the transactions are deemed not to have occurred at arm's length.

See also **Australia TP Alert – 15 November 2014.**

Brazil – New Regulations Issued on Transition Tax Regime, New CFC Rules

The Brazilian tax authorities have issued two rulings that provide additional guidance on the transition tax (RTT) regime as from 1 January 2015 and introduce changes to the controlled foreign company (CFC) rules.

The ruling related to the RTT regime provides that where there are differences (positive or negative) between the accounting GAAP assets reported on the digital accounting bookkeeping return and the tax GAAP assets reported on the transition tax regime control return and the "sub-accounts" (which are used to track certain tax figures) are properly maintained, tax neutrality should prevail. Clarification is provided on the mechanisms that apply to the corporate taxable income computation for accounting for such differences to ensure tax neutrality.

The ruling related to the CFC rules provides further guidance on the tax treatment of CFCs, the disclosure of CFC attributes and includes new procedures for electronically reporting information regarding the taxpayer's CFC entities under the corporate tax income electronic reporting regime.

See also **World Tax Advisor – 12 December 2014.**

Brazil – New Tax Treatment of Vessel Charter Payments in the Oil and Gas Industry

The Brazilian government published a law on 13 November 2014 that introduces new rules on the tax treatment of a contractual structure commonly used in the oil and gas industry to carry out remittances for the charter of vessels. The rules apply as from 1 January 2015.

The rules clarify that, when a vessel charter or lease agreement and a service agreement related to oil and gas exploration are executed simultaneously between related parties, they should be treated as a single contract.

However, the portion of the total contract amount related to the charter cannot be higher than certain percentages. The Minister of Finance may reduce or increase the percentages by up to 10%. The portion of the charter contract that exceeds the above percentages will be subject to a 15% or 25% withholding income tax.

See also **World Tax Advisor – 12 December 2014.**

China – SAT Responds to BEPS

China's State Administration of Taxation (SAT) issued a press release on 17 September 2014 related to the deliverables of the OECD BEPS actions, in which it acknowledged the impact of the BEPS initiatives on tax administration in China and that the tax authorities in China will face pressure in fulfilling their corresponding obligations, regardless of the final output of the various BEPS actions. The SAT stated that it is important for China to continue to actively participate in global initiatives to ensure equitable transfer pricing enforcement through an appropriate legislative and administrative framework, as well as international cooperation.

See also **World Tax Advisor — 10 October 2014.**

China – Tax Treatment of Investment through Shanghai Hong Kong Stock Connect Program and of QFIIs/RQFIIs Clarified

China's Ministry of Finance (MOF), the State Administration of Taxation (SAT) and the China Securities Regulatory Commission (CSRC) issued two circulars that clarify the tax treatment of investors that invest through the new Shanghai Hong Kong Stock Connect program, as well as the treatment of qualified foreign institutional investors (QFIIs) and renminbi-qualified foreign institutional investors (RQFIIs). The two circulars are dated 31 October 2014 although they were not published on the MOF website until 14 November, the last business day before the Shanghai Hong Kong Stock Connect program officially launched on 17 November.

The circulars provide enterprise and individual investors with certain temporary exemptions (as yet undefined) from PRC income tax and business tax on gains derived from disposals made under the new program that links the Shanghai and Hong Kong stock exchanges, and clarify that a 10% or 20% dividend withholding tax will be applied in certain situations. QFIIs and RQFIIs are granted a corresponding exemption from tax on gains derived from transfers of shares. (Chinese law provides for a 10% capital gains tax, although the tax authorities have not been enforcing collection of this tax on QFIIs and RQFIIs.)

See also **World Tax Advisor — 28 November 2014.**

China – SAT Issues Regulations on Application of GAAR

On 2 December 2014, China's State Administration of Taxation (SAT) issued regulations on the application of the general anti-avoidance rule (GAAR). The regulations will apply from 1 February 2015. The GAAR was introduced in 2008 and the SAT provided some general principles on the implementation of the GAAR in 2009. The new regulations are designed to operate in conjunction with previous comments to provide a more comprehensive and transparent framework for the administration of the GAAR.

The regulations set a nine-month deadline for the responsible tax authorities to finalize an examination after obtaining the approval of the SAT to investigate a case. However, taxpayers will have only 60 days to respond to a tax examination notice (with a possible extension of 30 days).

See also **China Tax Alert — 19 December 2014.**

European Union – Amended Directive on Mandatory Exchange of Information

The European Council reached a final agreement on 14 October 2014 on an amended directive that extends the scope of the mandatory automatic exchange of information between EU member state tax authorities to include dividends, interest and other income, such as account balances and sales proceeds, in line with the new global standard on automatic exchange of information adopted by the OECD and endorsed by the G20.

The new amended directive should be transposed into national law by 1 January 2016 at the latest and should apply as from 2017 (except for a one-year transition period provided for Austria until 2018, during which time the EU savings directive will continue to apply in Austria). Tax treaties with third countries, including Andorra and Liechtenstein, are to be amended accordingly.

See also **World Tax Advisor — 24 October 2014.**

Germany – Local Tax Court Rules on Subordination of Claims Agreement

The Local Tax Court of Lower Saxony ruled on 12 June 2014 that a subordination-of-claims agreement does not lead to "de-recognition" (i.e. release) of a loan liability in the debtor's tax balance sheet where the agreement specifically refers to repayment in the case of "retained earnings."

Under German income tax law, a loan liability must be de-recognized in the debtor's tax balance sheet if the loan agreement (or side letters) contains a provision indicating that the repayment of the loan is dependent on whether the debtor realizes future profits/revenue. De-recognition of a loan generally triggers taxable income at the level of the debtor. The tax court denied the de-recognition of the loan liability and referred to the broader definition of the term "retained earnings" under German GAAP rules. Under such rules, "retained earnings" include not only future profits, but also withdrawals from capital or revenue reserves. The court held that the repayment consequently was not dependent only on future profits, but also depended on other, non-profit-related items, such as withdrawals from capital reserves.

See also **World Tax Advisor — 10 October 2014.**

Gibraltar –State Aid Investigation Expanded to Include Review of Tax Rulings

The European Commission has announced that it is expanding the scope of its ongoing state aid investigation into the Gibraltar corporate tax regime to include a review of tax rulings issued by the Gibraltar tax authorities.

See also **Gibraltar Tax Alert – 11 June 2013, Gibraltar Tax Alert – 24 December 2013,** and **World Tax Advisor — 10 October 2014.**

Greece – Request to Amend Legislation on Greek and Foreign Flag Ships

The European Commission has asked Greece to amend its legislation relating to Greek and foreign flag ships. , Under Greek tax rules, Greek-flag ships and certain vessels managed from Greece are exempt from income tax and instead are subject to the simplified and lower special tonnage tax for maritime activities. Foreign-flag ships are subject to a less favorable income tax regime. Greek legislation also allows an income tax exemption for dividends from entities using Greek-flag ships, but not for dividends from companies using foreign-flag ships. The Commission considers that such rules are contrary to EU law.

See also **World Tax Advisor — 14 November 2014.**

Greece – Templates and Guidelines for APA Negotiations Issued

In an effort to provide taxpayers with an integrated procedural framework for the negotiation of advance pricing agreements (APAs), the Greek Ministry of Finance released on 16 October 2014 template application forms for both preliminary consultations and formal negotiations, additional guidelines with respect to the APA process and template application forms for the pre-filing stage and the formal application stage,

See also **Greece Transfer Pricing Alert — 3 November 2014.**

Hong Kong – BOR Rules on Source of Directors' Fee Income

In a recently published case, the Hong Kong Board of Review (BOR) determined that director's fee income received from a foreign-incorporated investment holding company listed on the Hong Kong stock exchange was sourced in Hong Kong and subject to Hong Kong tax.

The BOR opined that modern-day companies organize their activities in a wide variety of ways, and that no single factor is determinative of residence; in this case, the location of board meetings was not so paramount as to lead to a conclusion that the company's management and control were located in mainland China. In determining that the company was resident in Hong Kong, the BOR considered a number of factors in addition to the location of board of directors' meetings that pointed to Hong Kong residence (e.g. the company maintained its status as a listed company in Hong Kong to leverage the Hong Kong bank and financial infrastructure to obtain corporate financing; the company maintained its principal place of business, branch share registrar and transfer office in Hong Kong; some of the directors' and committee meetings were held in Hong Kong; and the company maintained staff and bank accounts in Hong Kong).

See also **World Tax Advisor — 28 November 2014.**

India – Supreme Court Dismissed Ruling on Secondment Arrangements

India's Supreme Court has dismissed the taxpayer's special leave petition against the Delhi High Court's decision in *Centrica India Offshore Pvt. Ltd*. The Delhi High Court had held that an employee secondment arrangement between overseas entities and an Indian company gave rise to fees for technical services, and dismissed the taxpayer's arguments that no service permanent establishment existed for the overseas entities.

See also **World Tax Advisor — 23 May 2014** and **World Tax Advisor — 24 October 2014.**

India – Restriction Relaxed on Certain Transfers of Technical Personnel

India's Central Board of Direct Taxes issued a circular on 8 October 2014 in which it eased restrictions on the transfer of technical personnel by taxpayers engaged in the development of software or providing information technology (IT)-enabled services from a unit set up in a Special Economic Zone in India.

See also **World Tax Advisor — 24 October 2014.**

International – Multilateral Competent Authority Agreement

Fifty-two countries have signed the Multilateral Competent Authority Agreement on the implementation of the global standard for the automatic exchange of financial account information. The signatory jurisdictions have committed to adopting the Common Reporting Standard (CRS), most as from 1 January 2016, and other countries will follow a later date. Under the new standard, governments are required to collect detailed information from financial institutions to be shared with other jurisdictions on an annual basis. All EU member states, except Austria, will introduce the CRS from 1 January 2016 and it is expected that the EU savings directive gradually will be phased out. The first automatic exchanges of information will take place in September 2017.

See also **World Tax Advisor — 28 November 2014.**

Israel – Software Companies Eligible for Preferred Income Tax Break

Israel's tax authorities published a ruling on 28 September 2014 that addresses whether software companies are entitled to tax benefits (reduced tax rates, accelerated depreciation) as a "preferred enterprise" under the Law for the Encouragement of Capital Investment and specific legislation that authorizes the tax director to characterize income attributed from the use, or the right to use, a program or know-how developed by an enterprise as a preferred enterprise. According to the ruling, the tax incentives will be available for income received by an Israeli company that develops software to be used for online advertising and on commission fees paid to the Israeli company by suppliers for the use of the software. However, the tax benefits will not apply to income received from the provision of services, such as optimization of the software and other technical services because these services do not qualify as "industrial activities."

Mexico – Deadline for Reporting Transactions on SAT Website Extended

Mexico's State Administration of Taxation (SAT) has extended the deadline for reporting information on certain transactions carried out during fiscal year 2014 to April 2015.

The Federal Tax Code approved in 2013 and in effect from 1 January 2014 included a new requirement for taxpayers to report certain transactions on the SAT website. On 17 October 2014, the SAT published new annexes to the tax miscellaneous rules, which include the guidelines for the relevant transactions that taxpayers must report, as well as the schedule of deadlines for reporting the information. The reporting deadlines originally were between 30 October 2014 and 30 January 2015, depending on when the transaction took place.

See also **World Tax Advisor — 14 November 2014.**

Mexico – SAT Issues Regulations on Deductions Under Shared Expense Agreements

Mexico's State Administration of Taxation (SAT) published regulations on 16 October 2014 that allow expenses incurred on a pro rata basis with nonresidents to be deductible if certain requirements are met, despite a specific provision to the contrary in the Income Tax Law (ITL). The regulations give effect to the decision issued by the second chamber of the Supreme Court on 19 March 2014, in which the court held that the provision in the ITL could not be justified because Mexico's transfer pricing rules require taxpayers to adjust their transactions with related nonresident parties to arm's length terms.

See also **World Tax Advisor — 9 May 2014** and **World Tax Advisor — 14 November 2014.**

Mexico – Requirements to Submit Electronic Accounting Records Modified

On 4 December 2014, Mexico's State Administration of Taxation (SAT) issued a bulletin and draft modifications to the rules regarding the requirement for taxpayers to electronically upload accounting records to the SAT website, including some modifications to previously announced rules.

It should be noted that the electronic reporting requirement is being challenged before Mexican courts and on 26 November 2014, the Supreme Court temporarily suspended electronic reporting for taxpayers that have challenged the requirement on constitutional grounds. The suspension will be in effect until the Supreme Court decides whether the new obligation does violate the constitution.

See also **World Tax Advisor — 12 December 2014.**

New Zealand – Timetable Announced for Global Crackdown on Tax Evasion

On 28 October 2014, New Zealand's Revenue Minister announced the country's timetable for participation in the global automatic exchange of information aimed at cracking down on tax evasion. The measure is part of the base erosion and profit shifting (BEPS) project and follows an endorsement by the G20 finance ministers of a standard automatic exchange agreement.

See also **World Tax Advisor — 28 November 2014.**

OECD – Discussion Draft Released on Deductibility of Interest Expense

On 18 December 2014, the OECD, as part of its work on the action plan to address base erosion and profit shifting (BEPS), released a discussion draft on Action 4 in relation to the deductibility of interest expense and economically equivalent financing payments. The discussion draft outlines three main alternatives to tackle nontaxation through the use of interest deductions:

- Deduction limitations based on group attributes;
- Deduction limitations based on fixed economic ratios; and
- Targeted anti-avoidance measures.

It also summarizes a number of areas where further work is needed, and sets out how Action 4 may interact with other BEPS measures, such as the hybrid mismatch proposals in Action 2 and the controlled foreign company (CFC) proposals in Action 3.

See also **OECD Tax Alert — 20 December 2014.**

OECD – BEPS Action 7: Preventing the Artificial Avoidance of PE Status

In its first release of a paper under the G20/OECD base erosion and profit shifting (BEPS) project following release of the seven "deliverables" in September 2014, on 31 October, the OECD released a public discussion draft on Action 7, "*Preventing the Artificial Avoidance of PE Status.*" Action 7 will ultimately change article 5 of the OECD model treaty (which defines permanent establishment) with the goal of combatting base erosion and base profit shifting that might be achieved through, for example, the use of commissionaire arrangements and the specific activity exemptions provided in article 5(4).

See also **OECD Tax Alert – 4 November 2014** and **United States Tax Alert – 3 December 2014.**

Ukraine – Currency Control Restrictions Extended

In August and September 2014, the National Bank of Ukraine issued a series of decrees that make temporary changes to the rules governing foreign exchange transactions. On 3 December, the NBU extended a number of currency restrictions that lapsed on 2 December until 3 March 2015 and proposed new mechanisms for currency market regulation.

See also **World Tax Advisor – 10 October 2014** and **World Tax Advisor – 12 December 2014**.

United Kingdom – CJEU Rules on Gain Attribution to Members of Close Companies

The Court of Justice of the European Union (CJEU) has ruled that the "old" version of the UK's legislation attributing gains to members of close companies infringed the free movement of capital. Taxable gains derived by a nonresident close company, including a company resident in another EU member state or the European Economic Area, were attributed to UK-resident participators that held more than 10% of the company's shares immediately after the disposal of the assets. The CJEU concluded that the UK had failed to meet its obligations under the EU Treaty and the EEA Agreement, as the rules constituted a restriction of the free movement of capital. The law was amended with retroactive effect from 6 April 2012 to include a motive test, though many argue that it is still not acceptable, and another complaint has been submitted to the European Commission.

See also **World Tax Advisor — 28 November 2014.**

United States – Final Regulations Address Gain Recognition Agreements and Other Cross-Border Transfer Reporting

On 19 November 2014, the US Internal Revenue Service and US Treasury Department issued final regulations revising the reporting rules applicable to stock and property transfers under Internal Revenue Code sections 367 and 6038B, including section 367(a) gain recognition agreements. Most notably, the regulations provide common standards to address untimely and incomplete filings, including revised coordination of the sections 367 and 6038B rules. The regulations adopt, with amendments, proposed regulations issued on 31 January 2013. The final regulations are effective for filings that are due on or after 19 November 2014, and requests for late or incomplete filing relief that are submitted on or after that date.

See also **United States Tax Alert — 24 November 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.

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.

We have accumulated a select group of example disclosures that report impacts of enacted laws and the potential impacts of proposed legislation. The information in these example disclosures reflects pronouncements as of 31 December 2014. These disclosures were obtained from public filings on **www.sec.gov**. Although taken from public filings, any information specific to the registrant has been removed. New laws are being enacted and new proposals are introduced on a regular basis. The disclosures included in this publication cover only the period noted above. The user of this document should consider new laws enacted or proposed after the period covered and consider whether disclosures would be impacted.

These disclosures may be used to gain insight into registrants’ communications to their shareholders and the market about the impacts that tax legislation could have on their business. It is not a substitute for your understanding of such requirements and the exercise of your judgment. You are presumed to have a thorough understanding of the requirements and should refer to the text of the underlying rules, as necessary, in considering particular items in this example disclosure.

Example disclosures with respect to tax changes related to the Base Erosion and Profit Shifting (BEPS) initiative

"The US Congress, the Organisation for Economic Co-operation and Development and other Government agencies in jurisdictions where the taxpayer and its affiliates do business have had an extended focus on issues related to the taxation of multinational corporations. One example is in the area of "base erosion and profit shifting," where payments are made between affiliates from a jurisdiction with high tax rates to a jurisdiction with lower tax rates. As a result, the tax laws in the United States and other countries in which the taxpayer and its affiliates do business could change on a prospective or retroactive basis, and any such changes could adversely affect the taxpayer and its affiliates (including the Company and its affiliates after the taxpayer's Merger)."

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"On July 19, 2013, the Organisation for Economic Co-operation and Development published its Action Plan on Base Erosion and Profit Shifting (the "BEPS Action Plan"), in an attempt to coordinate multilateral action on international tax rules. The recommended actions include an examination of the definition of a "permanent establishment" and the rules for attributing profit to a permanent establishment. Other recommended actions relate to the goal of ensuring that transfer pricing outcomes are in line with value creation, noting that the current rules may facilitate the transfer of risks or capital away from countries where the economic activity takes place. Any changes in Australian, German, Russian, Swedish, UK or US tax law in response to the BEPS Action Plan could adversely affect the Company's liability to tax."

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"The taxpayer operates in jurisdictions throughout the world. As such, the taxpayer remits a variety of taxes and fees to various governmental authorities, including US federal, state and local governments and various foreign jurisdictions. The taxes and fees remitted by the taxpayer are subject to review and audit by the applicable governmental authorities, which could result in liability for additional assessments. The laws and regulations related to tax matters are extremely complex and subject to varying interpretations. Although the taxpayer believes its positions are reasonable, various authorities may challenge its positions or apply existing laws and regulations more broadly, which may potentially result in a significant increase in the taxpayer's liabilities for taxes.

Legislative initiatives may be proposed from time to time, such as proposals for fundamental tax reform in the United States or multi-jurisdictional actions to address "base erosion and profit shifting" by multinational companies, which may impact the taxpayer's effective tax rate and could adversely affect its tax positions and/or tax liabilities."

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"In 2013, the OECD published an "Action Plan on Base Erosion and Profit Shifting." The plan proposes the development of rules to prevent Base Erosion and Profit Shifting which may drive fundamental changes in the perception of tax structuring and transfer pricing by tax authorities. The action plan includes adopting transfer pricing rules or special measures to ensure that returns will not accrue to an entity solely because it has contractually assumed risks or has provided capital. The action plan will likely put a much greater emphasis on the location of individuals and their contributions towards profit generation. This may result in a significant change to the existing transfer pricing rules and would potentially have a significant impact on the allocation of taxable profits throughout our subsidiaries. As a consequence, profits currently generated in Bermuda may become subject to taxation outside Bermuda."

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 jurisdictions.

Jurisdiction	Combined national/ local rate (incl. surcharges, etc.) 2014	2015	Date the combined national/ local rate enacted	Notes
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	Provincial rates vary, ranging generally from 10% to 16%.
Chile	21%	22.5%	27 Sep 2012	On 29 September 2014, Chile enacted a tax reform that includes a gradual increase in the First Category Tax rate from 20% to 25% or 27% (depending on the tax regime) between 2014 and 2018. Income earned in 2014 is subject to a rate of 21% and income earned in 2015 is subject to a rate of 22.5%.
China	25%	25%	16 Mar 2007 26 Dec 2007	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 and to 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% – 38%	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 2016, 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 36.9% or 38%. A rate of 36.9% applies to large profitable companies with basic corporate tax liability lesser than EUR 763,000 and a rate of 38% applies to large profitable companies with basic corporate tax liability exceeding EUR 763,000. These rates do not include the impact of the CVAE, an annual local business tax that is considered an income tax under US 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 US 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 capital gains tax rate is 33% for disposals taking place 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	31.4%	31.4%	28 Dec 2007	The corporate income tax (IRES) rate is 27.5%. An additional 6.5% "Robin Hood" tax is levied on certain companies (see **Note 4** for details). IRAP, the regional tax on productive activities, is levied within a range of up to 0.92% around the basic 3.9% IRAP rate (4.65% for banks and 5.9% for insurance companies). The 2015 budget law repealed the reduction of the IRAP rates that was passed in April 2014.
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 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 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 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 effective tax rate ranges are for corporations with stated capital exceeding JPY 100 million and the bottom effective tax rate ranges are for corporations with stated capital of JPY100 million or less. The inhabitant tax rates were reduced for fiscal years beginning on or after 1 October 2014, but the effective combined rate did not change because the reduction coincided 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.
Mexico	30%	30%	11 Dec 2013	A special regime applies for maquiladoras. The Business Flat Tax (IETU) introduced in 2007 was abolished as from 1 January 2014.
Netherlands	25%	25%	N/A	A 20% tax rate applies to income below EUR 200,000.

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. 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.
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% on 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 2016 (the surcharge of 10.7% due to expire on 31 December 2015, was extended another year by the amended finance law for 2014).

Note 2: On 17 August 2012, the 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 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, 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. In 2014, the surtax is 6.5%. Therefore, the total corporate income tax rate is 34% (27.5% + 6.5%).

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.

Click to **subscribe** to receive an email when a new *Transfer Pricing Alert* is issued.

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.

Financial Reporting for Taxes 2015 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 March 25-26, 2015 in Dallas. Course offerings are designed for corporate tax and accounting professionals within the Regulated Utilities industries.

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