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 April – 30 June 2015

10 July 2015
Issue 2015-2

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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 2015. 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 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 April to 30 June 2015

The following section includes a brief summary of major international income tax law changes enacted during the period 1 April 2015 to 30 June 2015, unless specified otherwise.

Australia

Investment Manager Regime Law Enacted

Date of enactment: 24 June 2015
Effective date: Various

On 24 June 2015, the legislation containing the third and final element of Australia's Investment Manager Regime (IMR 3) received Royal Assent, and is now enacted law. This legislation follows a bill that was introduced into Parliament in May 2015 and includes some last-minute changes to improve the operation of the IMR. IMR 3 will apply for the 2015-2016 income year and may be applied retroactively. The IMR should provide some nonresidents (e.g. hedge funds investing in Australia and funds that engage independent Australian fund managers) with an exemption from Australian tax on certain returns and gains.

See also **Australia Tax Alert – 28 May 2015.**

Brazil

Social Contribution on Net Profits Increased for Financial Institutions

Date of enactment: 22 May 2015
Effective date: 1 September 2015

A provisional measure that increases the rate of the social contribution on net profits (CSLL) for financial institutions from 15% to 20% was published in Brazil's official gazette on 22 May 2015 and will apply as from 1 September 2015.

The CSLL is calculated on pretax profit of legal entities currently at a rate of 15% for financial institutions, and 9% for legal entities in general. The 20% rate will apply to the following: (i) banks; (ii) private insurers; (iii) securities distributors; (iv) exchange and securities brokers; (v) credit, financing and investment companies; (vi) real estate credit companies; (vii) credit card administrators; (viii) leasing companies; (ix) credit cooperatives; and (x) savings and loan associations.

See also **Brazil Tax Alert – 22 May 2015.**

India

2015 Finance Act Enacted

Date of enactment: 14 May 2015
Effective date: 1 April 2015

India's 2015 finance act, enacted on 14 May 2015, made changes to the minimum alternate tax (MAT) and corporate residence rules proposed in the 2015-16 budget that apply generally as from 1 April 2015. Although the budget proposed reducing the corporate income tax rate from 30% to 25% for domestic companies, the enacted legislation does not contain any such provision. The finance act does introduce the "place of effective management" test, to replace the "controlled and managed" test to determine the residence of a company for tax purposes.

See also **World Tax Advisor – 12 June 2015.**

Panama

Tax Reform Includes Changes to Withholding Tax Rules

Date of enactment: 5 May 2015
Effective date: 5 May 2015

Amendments to the Panama tax code that apply as from 5 May 2015 change the withholding tax treatment of payments made to nonresidents and introduce rules for nonresidents to qualify for a withholding tax exemption on certain types of income. The scope of the withholding tax obligation is extended to apply to all payments made by governmental entities, companies owned 51% or more by the Panamanian government, "noncontributing" entities (i.e. entities not subject to income tax) and taxpayers incurring losses.

There also are new requirements regarding income tax on dividends, interest, royalties, fees or similar payments made to nonresidents by Panamanian residents when the payments are exempt from withholding tax based on a special domestic law. The tax authorities will allow an exemption from withholding only where the recipient of the payments presents a written opinion issued by an independent "tax expert" (a term that is undefined in the law) in its home country as evidence that withholding tax paid in Panama could not be credited against the tax due in the recipient's country under the domestic law of that country.

See also **World Tax Advisor – 12 June 2015.**

Peru

Nonresidents Must Obtain Certification of Tax Basis for Indirect Share Transfers

Date of enactment: 18 April 2015
Effective date: 19 April 2015

Peru's Ministry of Economy and Finance published a decree on 18 April 2015 that repeals the provision in the capital gains tax (CGT) regulations that exempted nonresident taxpayers from the requirement to obtain a tax basis certification from the Peruvian tax authorities when determining the amount subject to tax on indirect transfers of shares of Peruvian legal entities.

As from 19 April 2015, the same general process that applies to direct transfers of shares by a nonresident applies to indirect transfers: the nonresident transferor of shares of another nonresident entity that owns a Peruvian legal entity must submit an application to the Peruvian tax authorities for a "Certificate of Invested Capital" to support the tax cost basis (amount paid) for the shares that are intended to be transferred. If a certificate is obtained, the nonresident transferor will be taxed only on the difference between the market value of the shares and their certified cost (i.e. on the net capital gain); otherwise, a 30% rate will apply to the total sales proceeds. The certificate must be issued before the agreed-upon consideration is paid by the transferee in order to offset its tax basis against the gain on the shares transferred.

See also **World Tax Advisor – 22 November 2013** and **World Tax Advisor – 8 May 2015.**

Deemed Dividend Rules Amended

Date of enactment: 18 April 2015
Effective date: 19 April 2015

The Peruvian government issued regulations on 18 April 2015 that amend the deemed dividend rules to conform to the 2014 tax reform, which made changes as from 2015 to the rules governing certain "credit" granted by Peruvian corporate taxpayers to resident individual shareholders and nonresident shareholders. The regulations do not address the tax treatment of outstanding credits that were granted for years ended on or before 31 December 2014, or the tax treatment of distributions of amounts previously taxed under the deemed dividend rules.

See also **World Tax Advisor – 23 January 2015** and **World Tax Advisor – 26 June 2015.**

Puerto Rico

Tax Reform Enacted

Date of enactment: 29 May 2015
Effective date: 1 January 2015

A law enacted on 29 May 2015 makes significant changes to the Internal Revenue Code that generally apply for taxable years beginning after 31 December 2014. (A bill with technical amendments that would clarify certain provisions was submitted to the senate, but the bill was not finalized during the legislative session that concluded on 30 June 2015.) Some of the changes affecting corporation income tax include:

- The 51% disallowance remains for payments made to a nonresident related party or costs allocated by a head office to a Puerto Rico branch, but if a waiver is granted, the deductible amount in calculating net taxable income is limited to 60% of the total expenses for which the waiver was granted. The nonallowable portion is subject to the 20% AMT;
- The deduction for net operating losses (NOLs) carried over from prior years is reduced from 80% to 70% of alternative minimum taxable income and from 90% to 80% of net taxable income; and
- Losses from the sale or exchange of capital assets may offset only 80% of the gains from the sale or exchange of capital assets (reduced from 90%).

See also **Puerto Rico Tax Alert – 12 June 2015.**

Enacted tax law changes that are now effective: 1 April 2015 to 30 June 2015

The following section includes a brief summary of major international income tax law changes enacted before 1 April 2015, but are first effective in the period 1 April 2015 to 30 June 2015.

Isle of Man

2015 Budget Enacted

In the 2015 budget enacted on 17 February 2015, the Isle of Man treasury minister stated that the 0% rate for companies will remain unchanged. However, with effect from 6 April 2015, the corporate income tax rate on companies receiving income from Isle of Man land and property increased from 10% to 20%. Although no significant announcements were made in relation to international matters, mention was made of the growing global focus on tax transparency (in particular, with respect to the introduction of a centralized registry of beneficial ownership of companies), the automatic exchange of information based on the OECD common reporting standard and the emergence of new initiatives, such as the OECD's base erosion and profit shifting (BEPS) project.

See also **World Tax Advisor – 27 February 2015.**

Korea

Useful Life of Patents Reduced

A revised ministerial decree on the corporate income tax and international tax coordination laws, effective from 13 March 2015, reduced the useful life of a patent for tax purposes from 10 years to seven years, to help companies recover acquisition costs of patent rights earlier.

See also **World Tax Advisor – 24 April 2015.**

Japan

2015 Tax Reform in Effect

The 2015 tax reform was passed by Japan's House of Councilors of the National Diet on 31 March 2015. There is a new effective corporate income tax rate (for a Tokyo-based company) of approximately 33.06% (for tax years beginning on or after 1 April 2015) and 32.26% (for tax years beginning on or after 1 April 2016) that applies to large companies (i.e. companies with stated capital over JPY 100 million) based in Tokyo for tax years beginning on or after 1 April 2015, but before 1 April 2016. Other changes include the following:

- The ownership threshold for purposes of fully excluding dividends received from another Japanese company is increased from 25% to 33.3% for dividends received for fiscal years beginning on or after 1 April 2015;
- The dividends received deduction is reduced from 50% to 20% for domestic shareholdings of 5% or less for dividends received for fiscal years beginning on or after 1 April 2015; and
- The effective tax rate to trigger the application of the controlled foreign corporation regime (CFC) is changed from "20% or less" to "less than 20%," effective for CFC fiscal years beginning on or after 1 April 2015.

See also **World Tax Advisor – 23 January 2015.**

United Kingdom

2015 Finance Bill Measures Effective

The UK Finance Bill was enacted on 26 March 2015 with a number of tax changes effective on 1 April 2015, including the following: (1) the introduction of a 25% diverted profits tax; (2) an increase in the bank levy from 0.156% to 0.21%; (3) only 50% of annual profits of banks can be offset by carried forward losses; (4) an increase in the VAT registration threshold from GBP 81,000 to GBP 82,000, and the deregistration threshold from GBP 79,000 to GBP 80,000; (5) the introduction of an investment allowance for North Sea oil and gas to replace the offshore field allowances; and (6) simpler rules that apply to the associated companies based on 51% group membership.

See also **United Kingdom Tax Alert – 18 March 2015** and **World Tax Advisor – 10 April 2015.**

Diverted Profits Tax Rules in Effect

On 26 March 2015, the diverted profits tax (DPT) received Royal Assent and the UK tax authorities published detailed interim guidance on 30 March 2015. The 25% DPT, effective from 1 April 2015, applies to profits of multinationals artificially shifted from the UK; the tax will apply where a UK company or a foreign company with a UK taxable presence creates a tax advantage by using transactions or entities that lack economic substance, or where a foreign company artificially avoids having a taxable presence in the UK. DPT is distinct from corporation tax, and the UK considers that it will fall outside the scope of the UK's existing tax treaties.

See also **United Kingdom Tax Alert – 18 March 2015.**

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

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

Per a review of the jurisdictions that are generally monitored and tracked in this publication, no tax law changes that are effective as from 1 July 2015 have been identified.

The measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated (ASC 740-10-30-2(a)). When a change in tax law is enacted in an interim period, a corporation should account for the enactment in accordance with the guidance set forth under ASC 740-270, Income Taxes: Interim Reporting. For current taxes payable or refundable, the annual effective tax rate (AETR) is adjusted to reflect the new tax law in the period in which the new tax law is effective, but not before it is enacted. Deferred taxes are adjusted for changes in tax law discretely in the interim period that includes the enactment date. These rules sometimes result in accounting for a change in tax law in more than one quarter.

On the horizon…

The following developments in tax law had not yet been enacted as of 30 June 2015, 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 – Draft Diverted Profits Legislation to be Released

Australia's 2015-16 federal budget announced on 12 May 2015 includes measures to tackle multinational tax avoidance, including an amendment to the existing general anti-avoidance rules (GAAR) to address circumstances where multinational enterprises are diverting profits earned in Australia to no or low tax jurisdictions. The amendment of the GAAR presumably would be intended to counter the treaty-based argument that a multinational does not have a PE in Australia, and so should not be liable for Australian tax on business profits. If the budget is approved, the new rules will apply as from 1 January 2016.

See also **Australia Tax Alert – 11 May 2015** and **Australia Tax Alert – 14 May 2015.**

Costa Rica – Transition Period for Imposition of Withholding Tax on Payments Abroad Expires

A six-month transition period that delayed the application of new withholding tax rules in Costa Rica expired on 28 May 2015. A law which became effective on 27 November 2014, amended the withholding tax rules for certain payments made to nonresidents, including interest payments made to foreign banks; the law abolished certain exemptions from the 15% withholding tax on payments made to specific banks and entities engaged in international operations. The transition rules allowed taxpayers to continue to apply the exempt treatment for a period of six months after the new law became effective, i.e. until 28 May 2015. The 15% rate applies immediately after the expiration for any new loans signed after 27 November 2014.

See also **World Tax Advisor –12 June 2015.**

France – Temporary "Additional Depreciation" Mechanism Approved

As part of its review of the Growth and Economic Activity Bill ("Macron bill"), the French Senate has passed an amendment to the tax code that would establish an "additional depreciation" mechanism (a "super deduction"), under which new companies subject to corporate income tax would be entitled to an additional deduction from their taxable income, equal to 40% of the original cost (excluding financial expenses) of eligible assets that are used for the company's business and are acquired or manufactured by the company between 15 April 2015 and 14 April 2016. This measure must be approved by the National Assembly (the first chamber of the French Parliament), and is expected to be enacted in July 2015.

See also **World Tax Advisor – 24 April 2015.**

Germany – Parliament Recommends Codification of Participation Exemption for Trade Tax Purposes

On 8 May 2015, the upper house of the German parliament launched an initiative to codify the tax authorities' position on the trade tax treatment of dividends distributed by a nonresident subsidiary to its German parent company that is a controlled company in a German tax group. According to the tax authorities, such dividends should be only 95% exempt (as is the case for corporate income tax purposes). The courts have issued inconsistent decisions on this issue.

See also **World Tax Advisor – 22 May 2015.**

Gibraltar – Capital Allowance Measures Introduced

Gibraltar's budget includes a 100% capital allowance on eligible capital expenditure for new business in the first year of trade, a 150% deduction for training costs and an increase in the audit threshold from GIP 1 million to GIP 1.25 million. The government also will consider the introduction of capital allowances for intangible assets and a research and development regime. The measures apply as from the date of announcement, 1 July 2015, but implementing legislation has yet to be enacted.

See also **World Tax Advisor – 26 June 2015.**

Sweden – Government Proposes Restrictions on Participation Exemption

A memorandum issued by the Swedish Ministry of Finance on 22 April 2015 includes proposals to introduce restrictions on the application of the domestic participation exemption to prevent companies from using structures that do not reflect economic reality (i.e. no participation exemption for dividends paid to a Swedish company in cases where the dividends may be deducted as interest by the payer company) and extend the Tax Avoidance Act to cover the Swedish withholding tax regime. The proposal relating to the participation exemption would implement the amended EU parent subsidiary directive into Swedish law. If enacted, the proposed rules would apply as from 1 January 2016.

See also **World Tax Advisor – 8 May 2015.**

Switzerland – Draft Corporate Tax Reform III Legislation Announced

The Swiss federal government introduced revised draft legislation and a detailed commentary on the Corporate Tax Reform III (CTR III), into parliament on 5 June 2015. The CTR III likely will become effective on 1 January 2019.

The CTR III would allow many Swiss companies that currently do not benefit from special tax privileges, as well as foreign companies that intend to migrate into Switzerland, to benefit from lower taxation. It also would phase out all special corporate tax regimes, such as the mixed, domiciliary, holding and principal company regimes, as well as the Swiss finance branch regime. A number of measures are included in the revised draft legislation to compensate for the elimination of the beneficial tax regimes, including the following:

- Reduction of the general tax rate at the discretion of the individual cantons;
- Introduction of a mandatory patent box and R&D incentives in the form of R&D deductions (super deductions);
- Allowing a step-up (including for self-created goodwill) for direct federal and cantonal/communal tax purposes upon the migration of a company or of additional activities and functions to Switzerland; and

- Extension of the eligibility for foreign tax credits to Swiss permanent establishments of foreign entities that are subject to ordinary Swiss taxation at both a federal and a cantonal/communal level.

See also **Switzerland Tax Alert – 23 September 2014** and **Switzerland Tax Alert – 8 June 2015.**

United Kingdom – Summer Budget 2015 Announced

The 2015 Summer Budget announced on 8 July 2015 includes a number of measures that would affect companies, including the following:

- Reduction of the corporate tax rate to 19% as from 1 April 2017 and to 18% as from 1 April 2020;
- Introduction of a new accelerated quarterly installment regime for companies with taxable profits greater than GBP 20 million that would apply for accounting periods beginning on or after 1 January 2007;
- Increase of the 100% annual capital allowance from GPB 25,000 to GBP 200,000 per annum as from 1 January 2016; and
- Tightening of CFC rules as from 8 July 2015.

See also **United Kingdom Tax Alert – 8 July 2015.**

Did you know?

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

Australia – Tax Transparency Rules to Take Effect in 2015

The Australian Taxation Office (ATO) is expected to publish the first tranche of company information required by the tax transparency rules introduced in 2013. The rules require the public disclosure of certain information relating to the tax affairs of large corporate entities in Australia. The tax transparency rules require the ATO to publish the company name, total income, taxable income and income tax payable for corporate tax entities for an income year whose total income for that year exceeds AUD 100 million. Publication of the information on the ATO website is likely by the end of 2015.

See also **Australia Tax Alert – 4 May 2015.**

Chile – New Rules on Taxation of Foreign Passive Income

Chile's 2014 tax reform includes measures proposed under the OECD BEPS, such as a CFC regime to regulate passive income earned by Chilean companies abroad and prevent the deferral of tax on foreign-source income by requiring Chilean resident taxpayers to include in their current taxable income certain types of passive income earned by nonresident foreign entities that are deemed to be CFCs. The CFC regime will apply as from 1 January 2016.

See also **World Tax Advisor – 8 May 2015.**

China – Tax Audit Plans for 2015 Announced

China's State Administration of Taxation (SAT) has announced the nationwide tax audit plans for 2015. The plans set out the main sectors/industries that will be the focus of audits during calendar year 2015, as well as the timetable for the local tax bureaus to provide reports to the SAT. Audit targets are divided into two main categories: mandatory and "instructive" (the latter being sectors/industries in which the SAT recommends that audits be conducted). The local tax bureaus have discretion to carry out tax audits on taxpayers in other sectors/industries.

See also **World Tax Advisor – 22 May 2015.**

China – Tax Authorities Released a New Negative List

China's General Office of the State Council released a new "negative list" on 20 April 2015 that further reduces the number of sectors in which foreign investment is restricted or prohibited; the list was released along with the framework plans for three new pilot free trade zones (FTZs) in Fujian, Guangdong and Tianjin. The negative list applies in these pilot FTZs, as well as in the Shanghai FTZ as from 8 May 2015. Foreign investors engaged in activities that are not included on the list will enjoy the same treatment as domestic investors (i.e. national treatment), so it will not be necessary to obtain preapproval for a foreign investment project or to set up a foreign-invested enterprise. Instead, a reporting requirement will apply.

See also **World Tax Advisor – 22 May 2015.**

Colombia – Withholding Tax Rates Clarified on Payments Abroad

Colombia's tax authorities issued a ruling on 29 April 2015 that clarifies the withholding tax rates applicable to certain payments made by Colombian residents to foreign entities. The law provides that while foreign entities generally are subject to a 33% income tax on their Colombian-source income that is not attributable to a branch or permanent establishment (PE) in Colombia, the rate will be increased for four years (in 2015 to 39%, in 2016 to 40%, in 2017 to 42% and in 2018 to 43%). The law does not affect the withholding rates in other articles of the tax code; it only applies to other Colombia-source income obtained by foreign entities that is not attributable to a Colombian PE.

See also **World Tax Advisor – 22 May 2015.**

Colombia – Constitutional Court Rules that Loss Carryforwards Can Affect CREE Taxable Base

In a decision dated 20 May 2015, Colombia's Constitutional Court affirmed the constitutionality of the provision used to calculate the tax base for the income tax for equality (CREE), which applies in addition to the corporate income tax.

See also **World Tax Advisor – 12 June 2015.**

Colombia – Legal Framework Set to Introduce International Financial Reporting Standards

The tax authorities issued an opinion on 5 June 2015 that sets out the legal framework to apply a 2014 decree that implements legislation relating to the gradual introduction of International Financial Reporting Standards (IFRS) in Colombia. The opinion provides that the calculation of the tax basis should not change during the four years following the entry into force of IFRS. Full IFRS generally apply in Colombia as from 1 January 2016 for small and medium-sized entities, and as from 1 January 2015 for other companies.

See also **World Tax Advisor – 26 June 2015.**

European Union – Action Plan Released

On 17 June 2015, the European Commission unveiled a corporate tax action plan that sets out a series of initiatives in the effort to tackle tax avoidance, secure sustainable revenue and generally improve the corporate tax environment for businesses throughout the EU. The plan also states that the EU needs to consider how best to integrate the result of the OECD base erosion and profits shifting (BEPS) project, taking into account EU factors such as the freedom of establishment and the Eurozone, as well as the goal of maintaining a focus on preventing profits generated in the EU from not being taxed anywhere in the EU.

See also **World Tax Advisor – 26 June 2015.**

European Union – CJEU Decision Regarding German Tax Rules on Tax Liability on Reserves

The Court of Justice of the European Union (CJEU) has issued a decision that involves German tax rules establishing a tax liability to be paid in annual installments on hidden (undisclosed) reserves. These rules apply when assets are transferred from a German PE belonging to a German undertaking to a PE abroad. The tax is not payable immediately, but in annual installments over a 10-year period. The CJEU held that, although the rules violate the freedom of establishment principle, recovery of tax spread over 10 annual installments is a proportionate measure to attain the objective of preserving the allocation of taxation powers among EU member states.

See also **World Tax Advisor – 12 June 2015.**

European Union – CJEU Rules on Capital Gains Tax

The Court of Justice of the European Union (CJEU) has issued a decision on German rules, under which the tax on capital gains realized on the sale of certain capital assets (“replaced assets”) is deferred by “transferring” those capital gains to newly acquired or newly produced capital assets (“replacement assets”) until the sale of the replacement assets, but only if the replacement assets form part of the assets of a PE of the taxable person located within Germany. Deferral is not possible where such assets form part of the assets of a PE of the taxable person located in another EU/EEA member state. The CJEU held that the rules infringe the freedom of establishment principle.

See also **World Tax Advisor – 24 April 2015.**

Greece – Guidance Issued on Withholding Tax Obligations for Commercial Vessel Employees

Greece’s Finance Ministry issued guidance on 8 April 2015 on the tax withholding obligations relating to remuneration received by Greek and foreign officers and crew members working on commercial vessels. The employer (i.e. the Greek or foreign flag ship-owning company or the Greek management office) is responsible for operating “pay as you earn” (PAYE) withholding on both Greek and non-Greek individuals working on vessels engaged in domestic transport under the Greek or a foreign flag, or vessels engaged in international transport operating under the Greek flag. The individuals must obtain a Greek tax registration number and file a personal income tax return at year-end. However, income derived by foreign officers/crew from working on vessels engaged in international transport under a foreign flag is deemed to be foreign-source income and, therefore, is not subject to PAYE tax withholding.

See also **World Tax Advisor – 24 April 2015.**

India – Income Computation and Disclosure Standards Effective

India’s Central Board of Direct Taxes has announced that 10 income computation and disclosure standards (ICDS) are effective from 1 April 2015 and will apply as from assessment year 2016-17. The ICDS apply to all taxpayers following the accrual system of accounting, for purposes of computing business/professional income and “income from other sources.” The ICDS are aligned with existing provisions in the Income-tax Act, 1961, and provide clarification on certain topics through specific instructions for computing taxable income.

See also **World Tax Advisor – 24 April 2015.**

Indonesia – Regulation Issued that Allows Taxpayers to Reduce Late Filing Penalties

Indonesia’s Ministry of Finance has issued a regulation providing that taxpayers may obtain a reduction or waiver of administrative penalties for the late filing of tax returns or the late settlement of tax underpayments (including underpayments due to an amended return) in circumstances where the failure to comply with the tax rules was due to the taxpayer’s negligence or a mistake that was not made by the taxpayer. Relief generally is available for monthly tax returns for December 2014 and earlier and annual tax returns for fiscal year 2014 and earlier. The relief must be requested during 2015 through an application to the Tax Office.

See also **World Tax Advisor – 26 June 2015.**

Indonesia –Income Tax Incentives Modifications for Investment in Certain Industries and Regions

The Indonesian government issued a regulation on 6 April 2015 that revises the income tax incentive regulation that applies to investments in certain industries and regions and revokes previous guidance issued in 2007 and 2011. The regulation, which applies from 6 May 2015, makes various changes and clarifications to available incentives. Under the new regulation, taxpayers that obtained a tax incentive under the previous regulation may continue to enjoy the incentive until it expires.

See also **World Tax Advisor – 12 June 2015.**

Malaysia – New Tax Incentives Introduced for Principal Hubs

The Malaysian government issued detailed guidelines on 6 April 2015 for the new tax incentives to promote the establishment of "principal hubs" in Malaysia. The principal hub incentive scheme temporarily reduces the corporate tax rate, provides certain other incentives for qualifying companies and replaces certain other incentive schemes. Principal hubs will enjoy a reduced corporate tax rate of 0%, 5% or 10% for years of assessment 2009-2015, or 24% from year of assessment 2016 for a five-year period, with a possible extension of another five years. An application for the principal hub incentives must be submitted to the Malaysian Investment Development Authority between 1 May 2015 and 30 April 2018.

See also **World Tax Advisor – 12 June 2015.**

United States – Proposed Regulations Address the PFIC Status of Foreign Insurance Companies

On 23 April 2015, the US Treasury and the Internal Revenue Service (IRS) issued proposed regulations clarifying the scope of the passive foreign investment company (PFIC) rules in the Internal Revenue Code (IRC) and its application to foreign insurance companies. The proposed regulations provide guidance in defining many of the key terms in the IRC to prevent foreign insurance companies to operate as hedge fund vehicles and avoid the PFIC rules.

See also **United States Tax Alert – 27 April 2015.**

United States – Final Regulations Address the Substantial Business Activities Exception to the Section 7874 Anti-Inversion Regime

On 3 June 2015, the US Treasury and IRS released final regulations under IRC section 7874 addressing when an expanded affiliated group (EAG) is considered to satisfy the substantial business activities exception in a foreign country for purposes of determining whether a foreign corporation is a surrogate foreign corporation under section 7874(a)(2)(B), and thus whether the anti-inversion rules apply. The new final regulations replace former temporary regulations issued on 7 June 2012.

See also **United States Tax Alert – 4 June 2015.**

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 jurisdictions.

Jurisdiction	Combined national/ local rate (incl. surcharges, etc.) 2015	2016	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 for small businesses.
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%, 20% for financial institutions) yield an effective tax rate of 34% or 45% for financial institutions.
Canada	25%–31%	25%–31%	14 Dec 2007	Provincial rates vary, ranging generally from 10% to 16%.
Chile	22.5%	22.5%	29 Sep 2014	The 2014 tax reform 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 21% rate and income earned in 2015 is subject to a 22.5% rate.
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.) 2015	2016	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 on or before 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 36.9% rate applies to large profitable companies with basic corporate tax liability less than EUR 763,000 and a 38% rate 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%. 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.

Jurisdiction	Combined national/ local rate (incl. surcharges, etc.) 2015	2016	Date the combined national/ local rate enacted	Notes
India	30.9% or 32.45% or 33.99%	30.9% or 33.06% or 34.61%	6 August 2014 14 May 2015	For taxable years 1 April 2014 through 31 March 2015, the effective rates 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). For taxable years beginning on 1 April 2015, the effective rate for domestic companies is 30.9% (where taxable income is less than or equal to INR 10 million), 33.06% (where taxable income exceeds INR 10 million, but is less than or equal to INR 100 million), and 34.61% (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. For taxable years 1 April 2014 through 31 March 2015, 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). For taxable years beginning 1 April 2015, the effective MAT rate is 19.06% (where income is less than or equal to INR 10 million) and 20.39% (where income exceeds INR 10 million, but is less than or equal to INR 100 million) and 21.34% (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.
Italy	31.4%	31.4%	28 Dec 2007	The corporate income tax rate is 27.5% (see **Note_1Note 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.

Jurisdiction	Combined national/ local rate (incl. surcharges, etc.) 2015	2016	Date the combined national/ local rate enacted	Notes
Japan	34.6%–35.6% or 36.0%-37.1%	32.1%–33.1% or 34.3%-35.4%	31 Mar 2015	The national corporate tax rate is reduced from 25.5% to 23.9% for fiscal years beginning on or after 1 April 2015. In addition, the tax rate applicable to the income factor of factor-based enterprise tax for large companies with more than JPY 100 million of stated capital will be reduced over the next two years. Thus, the effective corporate income tax rates for 2016 are lower than those for 2015. Japanese corporations and foreign corporations carrying on a business through a PE 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, including special local corporate tax, generally is levied on taxable income at a rate between 6.0% and 10.1%, depending on the amount of capital and location of the corporation. The inhabitants tax generally is levied on taxable income at a rate of 12.9% or 16.3% 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.
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 was abolished as from 1 January 2014.
Netherlands	25%	25%	N/A	A 20% tax rate applies to income below EUR 200,000.
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 fulfilled. 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.

Jurisdiction	Combined national/ local rate (incl. surcharges, etc.) 2015	2016	Date the combined national/ local rate enacted	Notes
United Kingdom	21% and 20%	21% and 20%	17 Jul 2013	A 21% rate was effective from 1 April 2014 and a 20% rate is effective from 1 April 2015. As a result of the mid-year change, a blended tax rate of 20.25% applies for taxpayers with a 31 December 2015 year-end.

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: The government enacted a 3% surtax on 17 August 2012 that is levied on dividends and certain other distributions paid on or after that date by French and foreign entities subject to corporate income tax in France (including PEs 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 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 upon 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 dividends or upon liquidation of the company. Effective 1 October 2014, the dividend is to be grossed up and the rate of tax is to be applied on the grossed-up amount of dividend. The total effective tax rate on earnings would be 42.42%/43.71%/44.99%, 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. On 9 February 2015, Italy’s Constitutional Court declared the Robin Hood tax unconstitutional and repealed the surcharge effective from 12 February 2015 (the day after the decision was published in the official gazette). The Robin Hood tax was levied on the oil, gas and energy producers and trading companies, in addition to the regular corporate income tax.

Additional resources

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