The outlook for global tax policy in 2015
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For more than a half decade, the global tax environment has felt something akin to a rollercoaster for many tax professionals.

While such rides can be thrilling, standing tall after such an experience is difficult and maintaining one’s bearings can be challenging.

At the start of 2014, the experience changed from a rollercoaster into more of a hall of mirrors, where tax directors needed to find their way out. Change reflected all around them, twisting and turning amid the concave and convex pieces of glass.

This year – 2015 – the forces bending those mirrors will strengthen and grow in number. Many governments would rather legislate now than await final OECD BEPS recommendations; national and presidential elections risk turning local tax policies on their head. And whether its oil prices, currency fluctuations, budget tax proposals from US President Barack Obama, or new directives from the European Commission, nothing can be taken for granted.

To exit any complex maze, it helps to have a guide. Consider this Outlook your guide to solid ground.

Tax twists and turns
Identifying policy drivers, trends and their impacts as early as possible and then charting the possible trajectory through which a country may pass can be invaluable to an enterprise. It can reduce uncertainty, offer insight regarding tax risk and provide more accuracy to budgetary planning. It can reduce the incidences of dispute. And importantly, it can save unnecessary costs by helping to ensure that transactions are correctly structured and reported in the first place.

The data we have collected from EY tax policy professionals in 32 countries concerning their outlook for 2015 tax policies demonstrates just how quickly the policy mix is changing, even before countries look to the recommendations of the Organisation for Economic Co-operation and Development’s (OECD) Base Erosion and Profit Shifting (BEPS) Project for guidance.

Key trends continue

The broad-base, low-rate business tax trend that has characterized the last half decade continues to play out strongly. Seven of the 32 countries surveyed (22%) have already announced headline CIT rate decreases for 2015. For those same countries in 2014, the number was 6, or 19%. But, at the same time, 10 of the 32 countries (or 31%, exactly the same as for the 32 countries in 2014) report that their overall corporate income tax burden will increase in 2015 as compared to 2014.

The increasing tax burden certainly aligns to recent OECD data\(^1\) that shows that total tax revenues are increasing in 2013\(^2\) among a majority (21 of 30) of OECD members who participated in the organization’s survey, with the overall OECD average of tax revenues to GDP climbing by 0.4 percentage points in 2013 to 34.1%, compared with 33.7% in 2012 and 33.3% in 2011. This is still below the 36% share in 2007.

Outliers

Chile is our 2015 nomination for the country with the highest volume of overall change, taking that mantle from joint nominees Australia and France in 2014. Unfortunately, the vast majority of these changes will create an increased burden for corporate taxpayers. The country is forecast to see change in 12 of the 18 data points measured in our survey, including being the only country of 32 surveyed to be known or forecast to see a headline corporate income tax (CIT) rate increase in 2015.

New trends rising

But while the broad-base, low-rate mantra is arguably the most extensive trend identified in our data, our respondents report that more than six in ten countries are making some form of BEPS-related tax reform, before the BEPS recommendations are in full and final form. Indeed, the tackling of hybrid mismatches is the one area of the tax regime that the largest proportion of reporting countries (11 of 32) are addressing. Other BEPS-related issues are also attracting growing interest from policy makers; Controlled Foreign Companies (CFC), interest deductibility, transfer pricing and thin capitalization are all attracting more attention than in prior years. This attention is likely to grow in 2015 as some of the more complex and controversial elements of the BEPS project reach fruition.

Personal taxes

Personal income taxes (PIT) also seem to be following the broaden-the-base mantra in 2015, though top marginal rates remain stable. Nine of the 32 countries report an increased PIT burden in 2015, surpassing the seven who report a decrease in the overall PIT burden. Thirteen countries report a stable PIT burden in 2015, while two (Chile and Germany) report that the outlook will be mixed. Only three of the 32 countries (Australia, Japan and South Africa) report that top marginal rates of PIT may or will increase in 2015. Three countries (Ireland, Malaysia and Spain) report that top marginal PIT rates will fall, while the remaining 26 forecast a stable top marginal rate of PIT.

Indirect taxes

In the area of indirect taxes, it seems that few countries are yet heeding the OECD’s advice to broaden their value added tax (VAT) base. Only four of the 32 countries surveyed report that the indirect tax base will expand in 2015, while two (China and Poland) forecast that their VAT base will actually contract. The remaining 26 forecast a stable VAT base for 2015. Looking back, the number of countries increasing their headline VAT rates each year dropped dramatically from 2011 onward.

\(^2\) 2013 represents the latest available data.
This reflects a return to more normal policies following the financial crisis, where cuts in VAT rates were initially the stimulatory tool of choice and then those cuts were reversed as additional revenues were needed. In 2015, our respondents forecast that just three of the 32 countries surveyed (Luxembourg, Malaysia and South Africa) will see an increase in their headline rate of VAT, while 29 forecast a stable rate. None of the 32 sampled countries forecast a headline VAT rate reduction.

Change engines: elections, oil and currency

Maintaining a secure and competitive tax base is not the only desire of governments. Winning votes is undeniably important. National or Presidential elections in more than one third of the 32 countries we surveyed have the potential to take national tax policies in completely new directions in 2015. Taxation is increasingly forming a central focal point of many election campaigns, as was shown by Japan’s snap election in December 2014, where the consumption tax increases formed a central part of the debate and also in Greece’s January election which saw a change of government, driven by a debate on whether continuing austerity was the right route for the country. In 2015, 10 of the 32 countries we surveyed have national or presidential elections. In countries such as the UK (7 May 2015), a change for the current coalition can be expected to bring significant tax policy changes during an already uncertain time for business.

Both oil prices and currency fluctuations, meanwhile, have the potential to drive policy change in 2015, particularly if low oil prices are either sustained or fall even further. The significant impact of currency moves was recently demonstrated by Switzerland, where the scrapping of the currency cap with the euro allowed the Swiss Franc to climb by as much as 41% against the euro. Such changes are bound to be reflected in tax policies.

All these changes considered, I hope that this annual publication will provide some useful, actionable insights into the direction of travel of tax policy in 2015. In this document you will find several short sections, prior to more detailed country chapters where our respondents provide further detail on the outlook for their country.

The introductory sections include:

- A review of key tax developments in 2014
- A forecast of global tax policy trends for 2015
- The outlook for the BEPS Project in 2015
- European Commission developments to watch for in 2015
- Actions to consider as we move into another year of rapid policy change

This is an incredible time to be a tax professional – a time when tax has risen far up the agenda of corporate leaders, governments, media and public. It is a period of extraordinary technical change that must be effectively managed if the enterprise is to reduce its risk exposure.

Having access to policy insights can help in this period of evolution and change. This publication is here to help you to obtain such insights and plan your route forward.

Chris Sanger
Global Tax policy Leader, EY
Review of key tax developments in 2014

Before looking forward, what can be said of past performance in the area of tax policy?

2014 provided change on an exceptional level. In some weeks of the year we saw more change than one might have seen in many of the years prior to the crisis. And, if anything, the pace of change accelerated as the year progressed: BEPS discussion drafts turned into final recommendations; the focus of public debate shifted to the role of governments in eroding each other’s tax bases; and across the globe, new and sometimes highly novel national legislation was being released. All this creates a spider’s web of new challenges for the tax function to manage.

Chris Sanger
Global Tax Policy Leader
EY, United Kingdom
What were the highlights of 2014 for companies?

1. **BEPS**
   - In 2014, the BEPS Project really came to life. But notwithstanding the sustained support received from the G20 leaders, the issues that the OECD had to deal with in regard to the seven 2014 BEPS Actions became more difficult to agree on as the months passed and key countries started to dig in more firmly with their demands. With the shift into the detail, the OECD found it harder to obtain consensus as countries started to firm up their positions. With the dates of the BEPS Action Plan inextricably linked to the political calendar (and therefore immobile), this led to a number of issues being carried over for continued work (in 2015) where full agreement could not be reached. Indeed, only two of the reports were final: *Addressing the tax challenges of the digital economy and the Report on the feasibility of developing a multilateral instrument to amend bilateral tax treaties.*

   Alongside the work of the OECD, many countries also put in place unilateral legislative action that could be described as BEPS-inspired or even unilateral. Changes to controlled foreign company (CFC) rules (Chile, China, Greece, India, New Zealand, Peru, Russia, South Africa and Spain) were by far the most prevalent area of BEPS-related change in 2014, while interest deductibility, hybrid mismatches and strengthened transfer pricing regulations all played their own part.

Finally, as 2014 drew toward a close, we also saw new and novel approaches being put in place by individual countries and partnerships of countries. A joint proposal from Germany and the United Kingdom on the subject of patent boxes was supported by the OECD’s Global Forum on Harmful Tax Practices; the United States was reported to have shared a proposal with the OECD on cash boxes. And of course, the United Kingdom Diverted Profits Tax, seeming to pre-empt the OECD’s work on permanent establishment (PE) issues, has drawn interest far and wide.

Pascal Saint-Amans, Director, of the OECD’s Centre for Tax Policy & Administration, adds credence to this notion, stating at EY’s 2014 Asia-Pacific Tax Symposium that “I would not deny the fact that some tax administrations are using the BEPS brand.”

2. **Tax enforcement**
   - On the enforcement side of the coin, everything points to 2014 being a year of heightened scrutiny of taxpayers’ affairs. Sixty-eight percent of the largest companies surveyed for EY’s *2014 Tax risk and controversy survey,* for example, reported that they felt tax audits have become more aggressive in the last two years. The words “BEPS-inspired” return once more in this regard, with many companies reporting that they feel some tax administrators are already applying future BEPS concepts to previously executed transactions. Even if directionally consistent with the BEPS Project, these early actions may actually threaten the coherence of the overall project, creating more uncertainty, greater risk and an erosion of trust between tax authorities and taxpayers.

3. **Transparency**
   - In 2014, tax transparency came of age. Three key developments stand head and shoulders above others. First, BEPS Action 13 makes country-by-country reporting (and the obligation to submit transfer pricing master and local files) a reality, with 2016 corporate financial data being exchanged among tax administrations in 2017. Second was the July 2014 publication and subsequent wide support for the OECD’s Common Reporting Standard, setting in motion the reality that the world will soon move to a model of global, automatic exchange of taxpayer information by 2017 in many countries. Third was the November 2014 publication by a nonprofit group of reporters called the International Consortium of Investigative Journalists (ICIJ) of 28,000 pages of leaked documents relating to 548 Luxembourg tax agreements covering 343 corporations between 2002 and 2010. The November publication was followed by a smaller batch of leaked documents in early December 2014 and set in motion a heated debate on whether countries are also playing a role in base erosion.

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3 www.ey.com/taxriskseries
Tax reform

While not generating nearly as much fanfare, 2014 was also a year for tax reform. During the course of 2014, more than 40% of countries experienced what we consider to be “significant” tax reform activity. These are reform projects over and above the incremental, year-on-year tweaks and annual budgets that any given country typically carries out. It involves more wholesale changes to whole classes of tax (such as personal income taxes) as well as changes to business taxation that are designed to profoundly change the way either taxed. In 2014, the list of countries experiencing such change is long, including (among many others) Australia, Brazil, Chile, China, India, Italy, Japan, Russia, South Africa, Switzerland.

Collaboration

Tax administrators, who launched a whole new phase of closer collaboration in 2014, are increasingly recognizing that the ability to look at international transactions and global businesses through a multilateral lens is far more effective than only understanding and seeing a domestic view. Increased cooperation has been made possible by the many international groups and forums dedicated to helping tax authorities share more information and knowledge — about processes, as well as taxpayers — to improve compliance and curb abuses.

The past year saw a number of new ways in which tax administrations plan to collaborate more closely in the future. Top of the list was perhaps the November 2014 announcement of the creation of a new international platform called the Joint International Tax Shelter Information and Collaboration (JITSIC) Network, whose objective will be to focus specifically on cross-border tax avoidance. This new body is open to all OECD Forum on Tax Administration (FTA) members on a voluntary basis and will integrate the existing JITSIC cooperation among some national tax administrators into the larger FTA framework.

The communiqué also announced agreement on a strategy for “systematic and enhanced co-operation” between tax administrations, based on existing legal instruments that will “allow them to quickly understand and deal with global tax risks whenever and wherever they arise.” This essentially refers to a permanent secretariat that will allow ongoing coordination of collaborative efforts between annual meetings.

Similarly, the communiqué issued at the conclusion of the 44th Study Group on Asian Tax Administration and Research (SGATAR) in Sydney on 24-27 November 2014 outlined the creation of a new task force made up of SGATAR members. The task force is designed to enable the Asia-Pacific region to engage in effective discussions and to keep abreast of international developments and issues including base erosion, profit shifting and tax transparency. According to the SGATAR meeting communiqué, there is already unprecedented and powerful global collaboration on these issues, and the creation of the task force will give all SGATAR members a platform to play a role, including relaying their views to international forums.

These five key themes are each substantial in their own right. But taken together, they show just what an important year 2014 was in the history of corporate taxation. And with much of the 2014 BEPS work either carried over or planned for later implementation, we are now in the midst of a multiyear period of change. 2015 will bring more change, as will 2016 when countries decide whether, when and how to implement the BEPS recommendations. 2014 proved to be an exciting time to be in the business of tax, and as the year unfolds, 2015 will be, too.

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4 Formerly the Joint International Tax Shelter Information Centre.
The 32 countries we asked to provide 2015 tax policy forecasts cover more than 85% of global GDP and include all of the BRICS nations.

Under a revised methodology for our 2015 publication, we asked the EY tax policy leader in each country to provide us with a more detailed analysis of a range of specific areas of tax change than in 2014. For each area of change, our policy professionals note developments that have either been announced by the time this publication was written (31 December 2014) or which they considered were more likely than not to occur in 2015. The results are revealing and provide valuable insight into the overall direction of travel of tax policies around the world.

At a high level, the long-term trend of countries moving toward a low-rate, broad-based corporate tax regime (as recommended by the OECD) continues to play out – even accelerating slightly.

Seven of 32 countries surveyed (22%) have either already announced headline CIT rate reductions for 2015 or are expected to do so during the course of the year.

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5 According to the IMF World Economic Outlook Database (updated October 2014) and accessed on 8 January 2015.
The reductions are relatively marginal: Australia (-1.5 percentage points (pp)); Denmark (-1pp); Japan (-2.5pp); Portugal (-2pp); Spain (-2pp); and the United Kingdom (-1pp). Greece’s rate reduction is a forecast and is not based on a known proposal. The other 24 countries all forecast steady headline CIT rates, and Chile is alone in announcing a CIT rate increase in 2015. Australia and Spain both stand out as unusual cases in 2015, together forecasting headline CIT rate reductions and a parallel overall increase in the CIT burden.

While the incidence of CIT rate reductions seems to be slowing very slightly (22% of countries surveyed are forecasting a rate reduction in 2015, versus 26% in 2014), the number of countries reporting an increase in the overall CIT burden for 2015 is accelerating, albeit mildly – from 26% in 2014 to 31% (10 of the 32 countries) in 2015. This confirms that the low-rate, broad-based trend continues to be sustained, even accelerated. Only five of the 32 countries (Denmark, Greece, Japan, Portugal and the United Kingdom) forecast a decreased CIT burden for 2015, with the remaining 17 countries forecasting a stable CIT burden in 2015.

So from which part of the corporate tax regime are burden increases being delivered? While perhaps not delivering the highest overall volume of tax revenues, it is interesting to note that tackling hybrid mismatches via new or modified legislation was the most prevalent new measure reported among the 32 countries (11 of 32). For an issue that was reported by no countries in our 2014 publication, this is a stunning upward trajectory and indicative of the global focus on BEPS, even in the absence of final OECD recommendations.

The number of countries reporting an increase in the overall CIT burden for 2015 is accelerating slightly, from 26% in 2014 to 31% (10 of the 32 countries surveyed) in 2015.

Countries with National/Presidential elections in 2015

dates listed where known

- Canada – Autumn 2015
- Denmark
- Finland
- Greece
- Italy
- Mexico (Chamber of Deputies) – June 2015
- Poland
- Portugal – October 2015
- Spain – November 2015
- Switzerland – October 2015
- Thailand – Late 2015
- United Kingdom – 7 May 2015
The strong focus on the tax treatment of interest and other business expenses that we saw in 2011-14 seems to be sustained through 2015.

Enforcement
Ten of the 32 countries (31%) surveyed report known or forecasted increases in tax enforcement in 2015. This has slowed a little from our 2014 outlook publication, where the percentage was 39%. It does, of course, still represent an upward trajectory but probably reflects that many tax administrations aligned their increased enforcement levels with the initial announcement of the BEPS Project. Only India, Italy and South Korea forecast an overall improvement in the tax enforcement landscape in 2015.

Transfer pricing
Transfer pricing remains a key focus for many countries, with nine of the 32 countries (28%) forecasting a rising tax burden in 2015 in relation to known or potential changes. This is an acceleration from our 2014 outlook, where the figure was 18%. It also reflects the sustained importance of transfer pricing for business, where companies responding to EY’s 2014 Tax risk and controversy survey6 say it remains their leading source of tax risk.

Research and development (R&D)
Eight of the 32 countries (25%) report that their R&D incentives are either known to be or expected to become more generous overall in 2015. In contrast, three countries (Australia, Finland and Poland) report that their R&D incentives will become less generous in 2015. While Australia’s R&D change is a result of its falling headline CIT rate, the overall incidence of countries making their R&D incentives less generous is accelerating. The picture is not quite that simple, however. Many countries are decreasing the generosity for large enterprises, while increasing the availability (and generosity) of incentives to small and medium-sized enterprises. This reflects the growing confidence of countries that both the global financial and European crises are now behind them, and it indicates that a larger proportion of future economic growth is projected to come from the middle market business segment.

Losses
Six years after the height of the financial crisis, the reduced incidence of changes in tax legislation in relation to the treatment of losses continues to dissipate, as reported in both our 2013 and 2014 outlooks. Just four of the 32 countries (15%, Chile, Hungary, Japan and the United Kingdom) report that the tax burden will rise in their country in 2015 as a result to changes in the tax treatment of losses; Japan’s rising burden relates to one of the base-broadening measures to pay for a 2.5%-percentage-point 2015 headline CIT rate cut. Twenty-seven of the 32 countries report no known changes to the tax burden in this area, while only Germany is forecasting a reduction in tax burden as a result of the tax treatment of losses.

The outlook for US tax reform
Any outlook for taxes in 2015 would not be complete without some discussion of whether 2015 will be the year that US tax reform progresses. The desire to reform the US tax system in order to increase US competitiveness relative to some of its trading partners that have lower corporate income tax rates and territorial tax systems remains intact.

In recent years, though, ideological differences have hindered efforts to advance such debate. The Republican Party will control the legislative agenda in 2015, and those who lead the tax-writing committees support tax reform. Possible compromise with President Barack Obama could occur in areas as both parties see opportunities for economic growth, including via business tax reform. However, overcoming the political hurdles to craft the details of such legislation will be challenging.
The chairmen of the tax-writing committees in the current Congress, Rep. Paul Ryan (R-WI) and Sen. Orrin Hatch (R-Utah), both support tax reform that lowers tax rates and broadens the tax base. The Obama Administration, which has focused on business-only tax reform, will need to be actively engaged if reform is to advance. The Obama Administration released a business tax reform framework in 2012, and President Obama has said he would put forward specific proposals that build upon his previous positions. However, political differences regarding the scope and revenue parameters of such legislation may delay action.

Potentially, 2015 could see greater bipartisan negotiation, with Republicans focusing on their priorities (such as reducing government regulation and enacting energy measures) and President Obama, mindful of his legacy, open to compromise on issues such as international trade agreements and business tax reform.

Republican control of Congress has reinvigorated the tax reform debate, although this does not necessarily mean tax reform will be enacted in the short term. The Senate Finance Committee has already established five bipartisan working groups to examine the major policy issues involved in tax reform. Sen. Hatch has said tax reform is necessary and should encourage job creation and economic growth, make the tax system more internationally competitive, and should result in lower rates. Rep. Ryan has suggested tax reform could be placed on a fast track.

These points notwithstanding, the political dynamic in the US is extremely complex; while Republicans have generally supported comprehensive tax reform, the Obama Administration has increasingly focused on business-only tax reform. So, as in recent years past, there is no clear pathway for US tax reform. But without doubt, the key stakeholders will be mindful of continuing falling rates and broadening tax bases elsewhere in the world.

Indirect taxes
Changes to indirect taxes – and VAT/goods and services taxes (GST) in particular – are forecast to slow considerably in 2015. This should be no surprise, given how active they have been in recent years. Five of the 32 countries surveyed (16%) forecast that their overall VAT burden will increase in 2015, versus 26% of countries surveyed in 2014. Three countries forecast that the overall VAT/GST burden will decrease in 2015.

Two countries (Germany and India) forecast a mixed picture, while the remaining 25 forecast the same overall VAT burden in 2015. Just three of the 32 countries (Luxembourg, Malaysia and South Africa) report a known or potential increase in their headline VAT rate in 2015, while 29 forecast a stable rate. No country within the 32 sampled forecasts that the indirect tax base will expand in 2015, while only two (China and Poland) forecast that the indirect tax base will contract. The remaining 26 forecast a stable indirect tax base for 2015.

Such stability in rate does not mean that indirect taxes are not changing in 2015, however. In Europe, in particular, the ongoing quest for harmonization continues to create challenges. Changes in the place of supply of telecommunication, radio and television broadcasting and electronic services from the country of the supplier to the country of consumption are one (but not the only) development to be aware of as we enter 2015. More information is provided by Steve Bill on page 18.

Personal income taxes
Personal income taxes are anticipated to follow a very similar trajectory to that of 2014. Nine of 32 countries report an increased PIT burden in 2015, surpassing the seven that report a decrease in the overall PIT burden. Fourteen countries report a stable PIT burden in 2015, while two, Chile and Germany, report that the outlook will be mixed. Only three of the 32 countries (Australia, Japan and South Africa) report that top marginal rates may or will increase in 2015, while three countries (Ireland, Malaysia and Spain) report that top PIT rates will fall. The remaining 26 forecast a stable top rate of PIT.

Seven of the 32 countries (Chile, Czech Republic, Finland, France, Italy, South Africa and Spain) forecast that their overall PIT base will expand in 2015, while four (Denmark, Malaysia, Portugal and the Slovak Republic) report that the PIT base will contract overall. The remaining 21 countries forecast a stable PIT base. So, there were no clear trends identified by our respondents – at least, not to the significant extent we saw in the immediate aftermath of the global financial crisis.
Looking ahead, what are the macro trends (other than the BEPS Project) that may influence tax policymakers in 2015? Economic growth prospects will always be on the mind of those that control the levers of policy and the outlook for global growth in 2015 is not easy to decipher. The most recent forecast from the IMF (January 2015) centers on the fact that, even with the sharp oil price decline — a net positive for global growth — the world economic outlook is still subdued, weighed down by underlying weakness elsewhere.

In advanced economies, the legacies of the pre-crisis boom and the subsequent crisis, including high private and public debt, still cast a shadow on the recovery. In the United States, however, growth rates were revised up to 5% in the most recent data, reinforcing the likelihood that the US Federal Reserve, which is already winding down quantitative easing, may start raising interest rates in 2015. Emerging markets, meanwhile, are adjusting to rates of economic growth lower than those reached in the pre-crisis boom and the post-crisis recovery. Overall, the pace of global recovery is becoming more country-specific. That means that close scrutiny of economic data in key markets should be at the top of the list for tax directors in 2015.

Oil and currency may also play key roles in the formation of tax policy in 2015. The benchmark US crude oil price at the end of 2014 was at a six-year low. Oil and currency may also play key roles in the formation of tax policy in 2015. The benchmark US crude oil price at the end of 2014 was at a six-year low. The price has fallen dramatically since the summer of 2014 and is now less than half its June price. In countries with a large extractives sector, sustained low prices below $50 per barrel may prompt tax actions. In some markets these actions may be stimulatory, whereas in others they may aimed at replacing lost revenue. Such is the double-edged nature of tax policy.

Currencies also tell an important story of economic health and should be monitored in 2015. Consider the value of the US dollar, which has been rising sharply against most other nations’ currencies since summer 2014, the same span over which prices and inflation expectations have been falling worldwide. The dollar’s rise has been steepest against currencies in places where the domestic economic outlook is the worst, particularly Europe, but also Brazil. In this regard, the possibility of currency controls and other related taxes should be taken into account as a possibility for 2015.

Notwithstanding the above data points, our country respondents report that stimulus has either been announced or is expected in 2015. Four countries (Greece, Ireland, Japan and Spain) report that some sort of fiscal stimulus has either been announced or is expected in 2015.

New trends can develop at any point in the year. Tax can be likened to fashion, in that trends are quickly replicated among nations. Today, key organizations and countries setting those trends. Being vigilant to their words and actions will continue to be important in the year ahead.

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## 2015 in numbers

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<thead>
<tr>
<th>Number</th>
<th>Description</th>
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<tbody>
<tr>
<td>10</td>
<td>of the 32 countries surveyed (31%) forecast an overall rise in the CIT burden in 2015, exactly the same as in 2014.</td>
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<tr>
<td>10/7</td>
<td>Although 10 of 32 countries (31%) forecast a CIT burden increase in 2015, 7 of 32 countries (22%) have actually announced or are forecasting headline CIT rate decreases for 2015. This compares to 19% of countries surveyed in 2014.</td>
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<tr>
<td>11</td>
<td>of the 32 countries (34%) report that the corporate tax burden will rise in their country as a result of known or expected changes in relation to hybrid mismatches.</td>
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<tr>
<td>10</td>
<td>of the 32 countries (31%) report known or forecasted increases in tax enforcement. Only India, Italy and South Korea forecast that their tax enforcement environment will improve.</td>
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<tr>
<td>9</td>
<td>of the 32 countries (28%) forecast a rising tax burden in 2015 in relation to known or potential changes to transfer pricing.</td>
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<tr>
<td>7</td>
<td>of the 32 countries (22%) report that the tax burden will rise in their country in 2015 as a result to changes to interest deductibility.</td>
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of the 29 countries with a CFC regime, 6 (21%) report a rise in tax burden in this area for 2015. Only Japan and Italy report that a reduced tax burden in this area may occur, while the remaining 21 countries report the same burden for 2015.

9 of 32 countries report an increased PIT burden in 2015, surpassing the 7 who report a decrease in the overall PIT burden.

of the 32 countries (23%) surveyed report that their R&D incentives are either known or expected to become more generous overall in 2015, just slightly less than in 2014 (26%).

8 of the 32 countries (22%) report that other business incentives such as accelerated depreciation or capital allowances are either known or expected to become more generous overall in 2015.

of the 32 countries (23%) forecast that their overall VAT burden will increase in 2015. Two countries report a mixed picture, while 25 forecast the same overall VAT burden in 2015.

5 of the 32 countries forecast that their overall VAT burden will increase in 2015. Two countries report a mixed picture, while 25 forecast the same overall VAT burden in 2015.

Countries reducing their CIT rates in 2015: Australia (-1.5pp), Denmark (-1pp), Greece (forecasted), Japan (-2.54pp), Portugal (-2pp), Spain (-2pp), United Kingdom (-1pp).
The OECD must be admired, particularly Pascal Saint-Amans, for the leadership shown over the last 12 months in actually delivering all of the seven Actions it said it would deliver.

The OECD has not just delivered on the substance of BEPS, but it has also delivered on time. I can speak from my own experience at the OECD about how difficult it is to get a group of countries to develop a consensus on these complex issues, so the amount of effort that has gone into this at both the political and practical levels is something that we must all recognize.

Clearly there remains much work to be done to finalize these agreements, and as all of us know, “nothing is final until everything is final” due to all the interactions that you get between the different Action points.

The only two Action points that were finalized in 2014 were Action 1 on the digital economy and Action 15 on the development of a multilateral instrument. On the multilateral instrument, there's still a lot of work to be done, and it's important to recognize that the implementation may take a long time. They’ll have to fix a date for the Convention to become live, and then countries will need to sign onto it. I think this is particularly important for multinational corporations (MNCs)
The outlook for global tax policy in 2015

My own view is that there’s a good opportunity here for the OECD to look at the underlying technical platforms, to bypass the traditional treaty route, to try to minimize the compliance burden for companies and to maximize the value of the information to countries.

When you consider that we will now have automatic, spontaneous and on-request exchange of information, country-by-country reporting and transfer pricing is that tax administrations are going to have unprecedented access to information. But some of them aren’t able to leverage the information that they already have today.

So the question is whether governments are going to make the investment into how they use all this data. It would be a real waste of effort on everyone’s part if this mass of information ended up left to rot in a box somewhere. And of course, the whole of country–by–country reporting will be reviewed in 2020, so it’ll be fascinating to see what the negotiations focus on at that point.

Disclosure

Action 12 on disclosure of aggressive tax planning arrangements is going to be an interesting one in 2015. It should be quite easy for the OECD to move forward on this. They’ll be picking up on the experiences of Australia, the UK and the United States, countries that already have regimes in place. This is all part of the general tendency to have

to understand; if governments are going to agree to changes to the Model Convention, we can’t afford to wait for bilateral treaty changes to deliver results, something that can take from 10 to 15 years. The important thing is that the multilateral instrument only comes into play once there is agreement on the substance. So it’s purely a technical initiative on how to get a quick implementation.

Into 2015

Looking forward, the Actions where I think we’ll see some clarifications are Action 5 (Harmful tax practices) and more generally on the interface between the different Action points that relate to transfer pricing. Then, of course, the OECD and G20 will be looking at the remaining eight Actions. That’s going to be a whole new set of challenges but, like 2014, I’m confident that they’ll meet their deadlines.

On harmful tax practices, it’s important to distinguish between the emphasis that’s being placed on the transparency issues and the fact that, even before the so-called Luxembourg leaks, countries had already agreed to automatic exchange on rulings. The recent European Commission developments on this issue, where we expect a new Directive in early 2015, are very similar to those within the BEPS Project.

The second aspect that’s important is the focus on intellectual property and patent boxes. There’s still quite a lot of work there to see how the patent box agreement between Germany and the United Kingdom can be implemented, and new countries may well demand transitional rules that the United Kingdom has gained. There is a danger here that we’ll go down the same route as we went down 15 years ago with tonnage taxes, whereby we could see a large extension of low-rate IP boxes around the world that are broadly consistent with Action 5 but which undermine the corporate tax base.

Transfer pricing

In regard to transfer pricing, it wasn’t surprising that fast progress was made in the area of intangibles, as a lot of the groundwork had already been done prior to BEPS. The difficulty with the transfer pricing area is that, again, you can’t look at one Action point in isolation — you need to look at all of them in context of one another. Here, again, is a case of nothing being agreed upon until absolutely everything is in place. That can generate uncertainty for business..

On Action 13, I think the message is getting through that this is going to happen and that companies need to start preparing. Just a year ago, there were many people who still thought it wasn’t going to be delivered. But we now know that it’s a reality. There are still some key open issues, and we still need to see more detail on how it’s all going to be implemented, but the basic standards are now there and it’s going to kick off in 2017. One unresolved but important question is whether the information will be transmitted by the usual treaty route, and if so, what are the resource implications of that and how will countries meet the timing deadlines?

My own view is that there’s a good technical initiative on how to get a quick implementation.

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Disclosure

Action 12 on disclosure of aggressive tax planning arrangements is going to be an interesting one in 2015. It should be quite easy for the OECD to move forward on this. They’ll be picking up on the experiences of Australia, the UK and the United States, countries that already have regimes in place. This is all part of the general tendency to have
more tax transparency and to try and move multinational companies away from aggressive tax planning techniques. It’s going to be a particularly useful Action for tax administrations who will want to add that “micro” information to the new “macro” data that is now becoming available to them. But at its heart, it’s trying to change the underlying behavior of some companies. I think this will be a quick win for the OECD.

Impact of unilateral actions

I think it’s pretty clear that the United Kingdom’s recent Diverted Profits Tax (DPT) blind-sided the OECD. But at the same time, it shouldn’t be that surprising because this is a measure that is designed to change the behavior of companies and is not too difficult to implement unilaterally. Again, it’s a development where there are a lot of open questions on implementation, and it takes a lot of judgment on the part of the tax auditors. It has the capacity to give rise to a lot of dispute. The United Kingdom sees this tax as incentivizing MNCs to be less aggressive and to have a much more cooperative approach with HMRC. The key question is whether other countries will follow the United Kingdom’s lead. Here, I think the answer is “quite probably, yes.”

We’ve already seen interest on the part of Australia, and I wouldn’t be surprised if other countries also pick it up. It’s another case of countries pre-empting the outcomes of the BEPS Project. The second aspect is that some countries might argue that if the OECD adopts the UK DPT concept and generalizes it, it might provide an indirect solution to some of the PE challenges. I think that’s unlikely to happen, as there are too many countries that now have a vested interest in cracking the PE issue, particularly where it applies to fully digital companies.

More widely, the adoption of unilateral actions is a political reality. Any official who goes to a country’s finance minister and says that there is a solution to a particular tax issue is going to be under immediate pressure to adopt such a measure, even if it’s only a temporary stop-gap. But, it’s in the interest of global trade to try to keep unilateral actions to a minimum. First, it creates uncertainty for business. Second, it makes it harder to actually gain consensus on the major issues. And third, it creates a lack of consistency in the way these measures are implemented.

Gaining consensus

Many of the actions that are under consideration in 2015 will require a change to national legislation. It will be challenging to gain consensus on such actions, so CFC legislation, for example, will be a challenge in 2015. Traditionally, the OECD, at least in the tax area, has not made recommendations to governments on what domestic tax legislation should be in place. So this is a new and challenging area. And of course, everything around the PE concept is still going to be difficult to get agreement on as the project moves forward. It’s going to be important that business monitors these two Actions because of the fundamental difference in approach of some of the BRICS nations and the majority of the OECD countries.

Timing

Clearly, the ultimate goal will be to have final reports on all 15 Action points — and not just the recommendations, but also the implementation guidance — by the third quarter of 2015, under the Turkish G20 Presidency. The “sherpas” have already had their first meeting, but no date has yet been set for the Summit, which will be towards the end of 2015. It will be important to have firm recommendations available to the leaders at the Summit. It has been my experience that there will be many implementation issues to be resolved after the Summit.

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8 http://www.g20civil.com/sherpateam/sherpa-list.php
The outlook for global tax policy in 2015

Messages for business

We are now well past where anyone could realistically argue that the issue of BEPS is going away without any impact. There has been a systemic change in the environment, and there’s going to be continued pressure from governments and Non-Governmental Organisations (NGOs). In addition, there will be a lot of media and parliamentary interest. So there will not be any backing off; in fact, I think all of this will create pressure in the reverse direction – some countries might start calling for stronger actions.

In terms of how business should respond, my advice is to get more involved in those Actions that might actually help them. Action 14 on improving dispute resolution is a great example. In conjunction with Action 14, there are three questions that companies need to answer.

1. Why do we have so many disputes?
   In a sense, that goes to the core of the entire BEPS Project. Today, there is no global consensus on some of the basic concepts that underlie tax treaties and transfer pricing rules. Inevitably that takes companies to the debate on source versus residence taxation, and that's clearly been parked. But that's a discussion that needs further exploration as the group of countries that are now dealing with BEPS makes up almost 90% of the global economy. So if they agree on the rules, we are closer to having globally endorsed rules.

2. How do you improve the mutual agreement procedure (MAP) processes?
   It’s not just a case of improving the underlying processes; in addition, we need to make sure that there’s a robust monitoring process in place to make sure countries are fulfilling their end of the bargain.

3. Where are we all heading on arbitration?
   There’s been concern from many developing countries around mandatory, binding arbitration. When the OECD was looking at arbitration for the OECD countries in 2000, the arguments put forward by countries including Canada, the United States and the United Kingdom were exactly the same – arguments about national sovereignty and constitutionality. We managed to have some very frank and open discussion at that time, and we saw a change in attitudes come about. I think we need to have similar discussions today to see how we can address the real concerns of the developing markets.

The starting point should not be how we apply existing arbitration rules, but rather center on how we put in place a new framework for tax arbitration that draws upon the experiences we have had in the World Trade Organization, from bilateral investment treaties, or from the Transatlantic Partnership negotiations that are currently taking place. How can we draw together leading practices to develop a new institutional framework for arbitration that meets the needs of developing countries and that covers such issues as the selection of arbitrators, their training, the sharing of costs and so on? I remain convinced that we can find a way to make this work for all parties – especially business, who too frequently find themselves between a rock and a hard place.
European developments to watch for in 2015

2015 sees the European Commission under the leadership of a new President, Jean-Claude Juncker, and a new Commissioner for Taxation and Economic Affairs, Pierre Moscovici.

At first sight it might seem that Commissioner Moscovici would be more interested in the traditional focus on tax harmonization, while President Juncker, I believe, is more interested in pursuing the BEPS-type work. This is now being translated into a compromise in the Commission’s workplan for 2015.⁹

Tax never used to figure that highly in the workplan, and it’s interesting that two out of the 23 key initiatives for the EC in 2015 are tax issues. The first is the promised proposal for the disclosure of tax rulings between tax administrations. In theory, there is nothing wrong with tax rulings; most Member States give them, business finds them reassuring, and indeed there are many tax incentives that are only available following an advance ruling. What the Commission is now looking into is whether the basis on which some of these rulings have been given constitutes State Aid.

The outlook for global tax policy in 2015

Revision of the EU Emissions Trading System (ETS) as part of the legislative framework, post 2020. There has always been some tension between the ETS and the Commission has announced, as part of the 2015 workplan, that it will withdraw the current proposal for the reform of the Energy Tax Directive. Interestingly, the Commission will come back to this within this strategic framework and try to tie in some developments on energy taxation. That's not evident at this point but it's one to watch.

Trade strategy

There's also going to be a strategic review of the EU’s trade strategy. This will include a comprehensive review of the trade policy strategy and its contribution to jobs, growth and investment. It will cover all aspects of trade policy including bilateral, plurilateral and multilateral negotiations, as well as autonomous measures. It will be interesting both from a customs point of view and indirectly from a tax point of view as there are quite often tax elements to these trade agreements. The trade negotiations with the United States are clearly of great importance and will be pushed forward in 2015. The EC is trying to ensure this is done with greater disclosure and transparency. Whether one can negotiate effectively in an open forum remains to be seen.

Combating tax evasion and tax fraud

The second tax element of the workplan is the action plan on efforts to combat tax evasion and tax fraud. Reading the fine print, it's about building up a system that taxes profits in the country where they are generated. This will bring the discussion to the core of the BEPS Project. Interestingly, the EU has sought to implement many of the debates taking place under the BEPS project. The exchange of information (EoI) had already been well developed in the EU and, building on work at the OECD level to implement the G20 goals, the EU now has the most advanced model of EoI which is itself now forms a model for the OECD as a whole.

Some commentators have questioned whether, with all the work going on (on BEPS) at the OECD level, the Commission has become largely irrelevant in this space. But I would argue that in fact the opposite is true – the EU has become the motor now for a lot of the work that is being done in the BEPS project. The European Union, the Commission and the Presidencies are working closely with the OECD and I believe it has addressed some of the historic rivalry that may have existed between the bodies.

On this second initiative, the Commission has been quite explicit in saying that it aims to stabilize corporate tax bases in the EU, including relaunching work to establish a Common Consolidated Corporate Tax Base (CCCTB). This points to a push for the introduction of the CCCTB, or at least CCTB (i.e., without the consolidation). It's supposed to be a non-legislative initiative, so we might expect a communication that will set out ideas, with an argument that some kind of legislative underpinning in the form of a CCTB is essential.

On a wider level, among the 23 major initiatives for 2015 there is a labor mobility package. Its objectives include the desire to try and achieve better coordination among EU social security systems. There's also an initiative on a strategic framework for the energy union which will focus on promoting research and innovation and decarbonizing the energy mix but will also include the
Financial Transactions Tax

The Financial Transactions Tax remains on the table, but it’s very difficult to forecast what’s going to happen. The Commission itself is standing on the sidelines, waving and encouraging, but this is a matter for the Member States that opted for enhanced cooperation. If it sees the light of day, what we can expect initially is a constrained, first stage that will be little more than a stamp duty on share deals and some derivative products.

Value-added taxes

On VAT, apart from the work that is ongoing on the definitive VAT system (on which EY is providing input), 2015 will include the start of an assessment of the implementation of the Mini One Stop Shop (MOSS). This is clearly important as it can be linked to the development of the VAT system and the move toward a destination system, which the Commission and nearly all Member States are committed to. This will ideally feature a well-functioning MOSS, so the Commission will be looking at how the MOSS is working today and how and when its scope can be extended.

Overall, however, the much needed modernization of the EU VAT system sadly continues to falter. The European Council failed to reach agreement on the vouchers (advance payments) that was necessary by 1 January 2015 in order to be linked with the change in place of supply of telecommunications services. Agreement will probably be achieved sometime in 2015.

Other areas such as modernization of the VAT regime for financial services look to have a died a death, and increasingly it looks like the proposal on a standard VAT declaration is dying a similar death in the European Council due to the increasing demands for inclusion of more and more special items. At some point I expect the EC to snap and withdraw it as it is becoming too watered down.

The key message for business is that the Commission is increasingly changing direction and working on what seems to be wanted by the Member States – namely more information exchange and measures to combat avoidance and evasion. It is placing less and less of its focus – at least in its headline proposals – on tax harmonization to improve the functioning of the internal market.
Actions for business to consider

Against the backdrop of so much change, it is refreshing that our advice to tax leaders remains consistent with earlier editions of this publication, including:

1. **Monitor and assess possible future tax policy shifts.**

   Develop processes and channels to stay up to date with tax legislation and the tax policy environment in key jurisdictions. Communicate this process to your organization’s key stakeholders. These steps help companies anticipate potential adverse policy changes and identify potential opportunities to work closely with government to design policy that meets all stakeholders’ needs.

2. **Be an active participant in tax policy development.**

   In such a rapidly shifting economic, legislative and regulatory environment, new tax laws may sometimes impede commercial decisions in ways unintended by policymakers. Companies faced with this issue can either adapt their business plans accordingly or work collaboratively with the government to explain the impediment, model the potential outcomes and develop alternative policy choices.

3. **Join forces.**

   Consider whether forming an industry or trade group is an appropriate way to develop a collective voice. Alternatively, assess opportunities to join an existing group.

4. **Assess the impact of change.**

   If change is clear and documented, create an impact assessment that contains economic modeling. Policymakers need information to develop good tax and economic policy, and comparative tax studies and insightful analysis of tax policy proposals’ effects on competitiveness can help in this effort.

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**Chris Sanger**
Global Tax Policy Leader
EY, United Kingdom
The **2015 outlook for tax policy** covers a total of 32 countries. All countries, as well as daily EY global tax alerts, can be accessed on the internet at:

ey.com/2015taxpolicyoutlook
Connect with us
# Tax Policy and Controversy Contacts

## Americas

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## EMEIA

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<td>Klaus Von Brocke (<a href="mailto:klaus.von.brocke@de.ey.com">klaus.von.brocke@de.ey.com</a>, +49 89 14331 12287)</td>
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The outlook for global tax policy in 2015
The outlook for global tax policy in 2015

1 Tax rates (2014-15)

1.1 Key tax rates

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<th>Top corporate income tax (CIT) rate (national and local average, if applicable)</th>
<th>2014</th>
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<th>Percentage change</th>
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<th>2015</th>
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</tr>
</thead>
<tbody>
<tr>
<td>10%(^5)</td>
<td>10%(^6)</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

2 2015 tax policy outlook

2.1 Key drivers of tax policy change

The political environment around tax reform is challenging. The Government targeted significant cuts to expenditures in its fiscal consolidation budget of 2014. This has led to opposition to the expenditure cuts and has also encouraged the opposition and civil society to discuss the potential for additional tax revenues, which are challenging in the context of a government looking to a future tax reform agenda.

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\(^2\) Ibid. The Coalition Government elected in September 2013 is proposing to reduce the corporate rate to 28.5%, effective from 1 July 2015. A new 1.5% Paid Parental Leave Scheme levy was also proposed on companies with taxable incomes in excess of A$ 5 million (levied on the excess income amount), effective from 1 July 2015.
\(^3\) Worldwide Personal Tax Guide, EY, 2014-15. The Medicare levy rate increased from 1.5% to 2% of taxable income for the 2014-15 income year and later income years. A Temporary Budget Repair Levy which increases the highest personal marginal income tax rate applicable for individuals by 2 percentage points, is effective 1 July 2014 until 30 June 2017.
\(^4\) Ibid. The Medicare levy rate will increase from 1.5% to 2% of taxable income for the 2014-15 income year and later income years.
\(^6\) Ibid.
The following election goals were achieved:

- Repeal of the carbon tax
- Repeal of the Mining Resources Rent Tax (MRRT)

In the current tax reform environment, the following will also be enacted:

- A personal income tax increase by a Temporary Budget Repair levy of 2% on taxable income above A$180,000 for three years from 1 July 2014
- Tightening of thin capitalization rules and changes to tax exemption of foreign dividends

In addition, the Government is exploring:

- A new Exploration Development Incentive (EDI) to reignite capital investment
- A drive to reduce red tape, which includes regulation repeal days scheduled in parliament
- Delivery of selected tax policies of previous governments

The Government is seeking to re-examine the spending and revenue roles of state and federal governments, with an upcoming Federation Review as well as a potential structural tax reform to take to the 2016 election. The review of tax reform directions is delayed, with a white paper to be issued by the end of 2015.

2.2 Fiscal consolidation vs. stimulus

- **Headline CIT rate**
  - $ Change proposed or known for 2015
  - $ Additional change possible or somewhat likely in 2015
  - $ Lower burden in 2015
  - $ Same burden in 2015
  - $ Higher burden in 2015
- The Government is proposing to reduce the CIT rate to 28.5%, effective from 1 July 2015. A new 1.5% Paid Parental Leave Scheme levy is also proposed on companies with taxable incomes in excess of $A5 million (levied on the excess income amount), effective from 1 July 2015 but has much opposition.

- **Interest deductibility**
  - $ Change proposed or known for 2015
  - $ Additional change possible or somewhat likely in 2015
  - $ Lower burden in 2015
  - $ Same burden in 2015
  - $ Higher burden in 2015
- The Government has indicated it is not proceeding with the former government’s plans to deny the streamlined tax deductions for businesses to fund capital injected into foreign subsidiaries (by repealing section 25-90 of the Income Tax Assessment Act 1997) and is instead proposing to “introduce a targeted anti-avoidance provision after detailed consultation with stakeholders” to “address certain conduit arrangements.”

- **Hybrid mismatches**
  - $ Change proposed or known for 2015
  - $ Additional change possible or somewhat likely in 2015
  - $ Lower burden in 2015
  - $ Same burden in 2015
  - $ Higher burden in 2015
- The tax exemption of foreign non-portfolio dividends has changed to allow an exemption only for “foreign equity distributions” (dividends and returns on non-share equity under Australia’s debt-equity rules) after 16 October 2014.
- The Board of Taxation is undertaking a post-implementation review of the debt equity test, including possible tax arbitrage opportunities. The report is to be provided to the Assistant Treasurer in March 2015, which could give rise to new tax policies.

- **Treatment of losses**
  - $ Change proposed or known for 2015
  - $ Additional change possible or somewhat likely in 2015
  - $ Lower burden in 2015
  - $ Same burden in 2015
  - $ Higher burden in 2015
- **Capital gains tax**
  - $ Change proposed or known for 2015
  - $ Additional change possible or somewhat likely in 2015
  - $ Lower burden in 2015
  - $ Same burden in 2015
  - $ Higher burden in 2015
- **VAT, goods and services tax (GST) or sales tax rate**
  - $ Change proposed or known for 2015
  - $ Additional change possible or somewhat likely in 2015
  - $ Lower burden in 2015
  - $ Same burden in 2015
  - $ Higher burden in 2015
- **VAT, GST or sales tax base**
  - $ Change proposed or known for 2015
  - $ Additional change possible or somewhat likely in 2015
  - $ Lower burden in 2015
  - $ Same burden in 2015
  - $ Higher burden in 2015
- **Controlled foreign companies**
  - $ Change proposed or known for 2015
  - $ Additional change possible or somewhat likely in 2015
  - $ Lower burden in 2015
  - $ Same burden in 2015
  - $ Higher burden in 2015

Australia
The outlook for global tax policy in 2015

Australia

- Thin capitalization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Thin-capitalization rules are tightening, including a reduced main safe harbor to broadly a 1.5:1 ratio of debt to assets (60% debt) from 1 July 2014.
- The Board of Taxation is currently reviewing the thin capitalization arm's-length debt test. The report is expected to be provided to the Assistant Treasurer by the end of 2014.

- Transfer pricing changes
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Transfer pricing changes
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
  - Higher burden in 2015

- Administrative guidance in relation to Australia's transfer pricing and reconstruction provisions (enacted in 2013) is now available. The changes are significant.

- R&D incentives
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
  - Higher burden in 2015

- Legislation currently before Parliament to:
  - Deny R&D tax incentives for large companies with incomes of A$20 billion or more
  - R&D incentive reduced by 1.5% from 1 July 2014, ahead of the proposed reduction in the CIT rate

- Other business incentives – including depreciation/amortization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- The EDI proposed to apply to eligible expenditure incurred after 1 July 2014 is intended to encourage investment in mineral exploration companies undertaking “greenfields minerals exploration” in Australia.
  - EDI credits across all eligible explorers are limited to A$100 million over three years (A$25 million in 2015-16).

- Changes to tax enforcement approach
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Australian Taxation Office (ATO) under Commissioner Chris Jordan is continuing to reinvent its approach, including the client experience for “willing participants,” seeking stronger engagement with business, greater efficiency and effectiveness.
  - Commissioner Jordan is leading initiatives around multilateral joint audits of global corporates (through the OECD’s Forum on Tax Administration) and Mark Konza was appointed as Deputy Commissioner, Public Groups & International Tax (PG&I) – Corporate Tax Erosion.
  - Top marginal personal income tax (PIT) Rate
    - Change proposed or known for 2015
    - Additional change possible or somewhat likely in 2015
    - Lower burden in 2015
    - Same burden in 2015
    - Higher burden in 2015

- The Medicare levy rate increased from 1.5% to 2% of taxable income starting with the 2014-15 income year. The Temporary Budget Repair levy of 2% is effective from 1 July 2014 until 30 June 2017, so the top marginal rate is 49%. The Fringe Benefit Tax rate will temporarily increase from 47% to 49% from 1 April 2015 to 31 March 2017.

- PIT base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
2.3 Tax policy outlook for 2015 – summary

<table>
<thead>
<tr>
<th>Corporate income tax burden</th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income tax burden</td>
<td>Lower</td>
<td>No change</td>
<td>Higher</td>
</tr>
<tr>
<td>VAT/GST/sales tax burden</td>
<td>Lower</td>
<td>No change</td>
<td>Higher</td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2015 – detail

Corporate income taxes
- Review into thin capitalization by the Board of Taxation could affect arm’s-length debt test
- Review into debt/equity test by the Board of Taxation could give rise to measures to reduce tax arbitrage opportunities
- Funding of overseas activities, corporate tax rate and parent leave levy will remain in the spotlight

Taxes on wages and employment
- Taxing point for options issued under tax deferred schemes to be generally deferred until the options are exercised and converted to shares
- Plan to reverse 2009 changes is welcome, but precise details not clear
- Start-up companies will be allowed to provide options and shares at a “small discount” with deferral of the tax liability until the underlying shares are sold, with discounted capital gains tax rates not normal income tax
- Maximum deferral period extended from seven to 15 years
- Start-up definition to be bedded down

VAT, GST and sales taxes
- None expected in 2015
- Tax reform discussion likely to explore broadening the base but with no action until after election

2.5 Fiscal stimulus in 2015

- Very likely
- Somewhat likely
- Neither likely or unlikely
- Somewhat unlikely
- Very unlikely

7 Notwithstanding proposed CIT rate reduction of 1.5%.
2.6 Political landscape

- The Coalition Government was elected in September 2013 for a three-year term. As the Government does not hold a majority in the Senate (Upper House), it needs the support of senators not aligned with any of the established political parties in order to pass legislation.
- A comprehensive white paper on tax reform is to be issued by the end of 2015. This will provide an opportunity to revisit recommendations of the previous Henry Tax Review and consider state and indirect tax policies.
- The Federal Budget will not be returned to surplus during the first term.

2.7 Current tax policy and tax administration leaders

**Tax policy leaders**
- Tony Abbott MP, Prime Minister
- Warren Truss MP, Deputy Prime Minister and Minister for Infrastructure and Regional Development
- Joe Hockey MP, Treasurer
- Senator Mathias Cormann, Minister for Finance and Acting Assistant Treasurer
- Steven Ciobo MP, Parliamentary Secretary to the Treasurer
- Josh Frydenberg MP, Parliamentary Secretary to the Prime Minister

**Tax administration leaders**
- Chris Jordan AO, Tax Commissioner of the Australian Taxation Office (ATO)
- Neil Olesen, Second Commissioner (Compliance Group)
- Andrew Mills, Second Commissioner (Law Design and Practice Group)
- Shane Reardon, Deputy Commissioner, Public Groups and International
- Mark Konza, Deputy Commissioner, Public Groups and International

2.8 Key tax policy changes in 2014

- Repealing of the MRRT, carbon tax and associated measures funded by these measures
- Tightening of the thin-capitalization rules, including reduced main safe harbor to broadly a 1.5:1 ratio of debt to assets (60% debt) for income years commencing on or after 1 July 2014
- Changing the tax exemption of foreign non-portfolio dividends for foreign equity distributions after 16 October 2014
- Restricting deductions for exploration to genuine exploration activity
- Introducing of the Temporary Budget Repair levy, which increases the highest personal marginal income tax rate applicable for individuals by 2 percentage points, effective 1 July 2014 to 30 June 2017

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- Australia held the G20 Presidency in 2014. Treasurer Joe Hockey has supported BEPS measures in both the G20 agenda and Australia’s own tax system.
- In his 20 September 2014 Media Release, the Treasurer noted that Australia has already taken steps to ensure that profits earned in Australia are taxed here, including the ATO’s strong investigative powers in respect of multinational companies, Australia’s strengthened transfer pricing rules and its world-leading anti-avoidance rules. Australia has also committed itself to 2017 implementation of the OECD’s Common Reporting Standard for the automatic exchange of information to allow for greater tax transparency.
- The opposition initiated a Senate Economics References Committee inquiry into “corporate tax evasion” (“tax avoidance and aggressive minimisation”) by companies registered in Australia and multinational corporations operating in Australia. Inquiry will take place from February 2015 with a final report expected by June 2015.
- One of the strategies noted in the ATO’s 2014-18 Corporate Plan is “supporting Australia’s G20 presidency and its taxation priorities including addressing base erosion and profit shifting.”
- The ATO and Treasury represent Australia on a number of OECD BEPS working groups.
2.10 Pending tax proposals

- Measures to protect the corporate tax base include:
  - Closing loopholes in the tax consolidation regime
  - Improving the foreign resident capital gains tax regime by a non-final withholding tax regime from 1 July 2016
  - Making technical changes and integrity rules in respect of the capital gains tax regime
  - Closing loopholes in the Offshore Banking Unit regime
  - Denying R&D tax incentives for large companies with incomes of A$20 billion or more
  - In relation to interest deductions for multinational businesses, proposing a targeted anti-avoidance provision to “address certain conduit arrangements”

- Positive changes include:
  - A new tax regime for managed investment trusts
  - Investment manager regime’s extension of the conduit income rules to exempt certain foreign-managed funds from tax on gains from disposal of foreign non-portfolio investments and from tax on gains from disposal of certain portfolio Australian financial arrangements
  - Changes to allow pension funds to access the managed investment trust withholding tax regime as intended
  - EDI
  - Employee share scheme rules: changing the taxing time and concessional treatment for start-ups

- Plans include:
  - The CIT rate is to be cut by 1.5 percentage points to 28.5% from 1 July 2015.
  - A 1.5% Paid Parental Leave Scheme levy on companies with taxable incomes in excess of A$5 million (levied on the excess income) from 1 July 2015. The levy is not expected to attract franking credits.

2.11 Consultations opened/closed

- Reviews started and completed in 2014:
  - Review of tax impediments facing small business: report in August 2014

- Consultations currently open:
  - Thin capitalization arm’s-length debt test – Board of Taxation review will report by end of 2014, including whether access should be restricted
  - Debt and equity rules – Board of Taxation post-implementation review, including possible tax arbitrage opportunities, for report by March 2015
1 | Tax rates (2014-15)

1.1 Key tax rates

<table>
<thead>
<tr>
<th>Tax type</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax (CIT) rate (national and local average, if applicable)</td>
<td>34%</td>
<td>34%</td>
<td>–</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>27.5%</td>
<td>27.5%</td>
<td>–</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>18%</td>
<td>18%</td>
<td>–</td>
</tr>
</tbody>
</table>

2 | 2015 tax policy outlook

2.1 Key drivers of tax policy change

- The Government must collect more revenue in taxes than it spends.
- The Government is striving to be tax competitive, specifically regarding the use of technology and computerized systems of control and collection.
- The Government is striving to minimize inequality via the tax system.
2.2 Fiscal consolidation vs. stimulus

- Headline CIT rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Interest deductibility
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Hybrid mismatches
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Treatment of losses
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Capital gains tax
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- VAT, goods and services tax (GST) or sales tax rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- VAT, GST or sales tax base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Controlled foreign companies
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Thin capitalization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
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- Transfer pricing changes
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- R&D incentives
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Other business incentives – including depreciation/amortization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Changes to tax enforcement approach
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Top marginal personal income tax (PIT) rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- PIT base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
2.3 Tax policy outlook for 2015 – summary

### Corporate income tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

### Personal income tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
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</table>

### VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

2.4 Tax policy outlook for 2015 – detail

**Corporate income taxes**

- Upon publication of Law no. 12.973-2014, several issues related to the new tax system applicable to profits earned abroad (TBU) will require additional clarification and/or regulation by the Brazilian Internal Revenue Service (RFB), including:
  - Sub-accounts, tax result
  - Exchange variation
  - Tax losses of the controller in Brazil exceeding the added profits earned abroad
  - Calculation of the credit limit related to taxes paid abroad that may be deducted
  - Deduction of taxes paid abroad
  - Consolidation
  - Related company subject to taxation pursuant to Article 82
  - Related company compared to controlled company
  - Related company compared to controlled company abroad with participation in a Brazilian company

**Taxes on wages and employment**

- No changes are anticipated.

**VAT, GST and sales taxes**

- PIS/COFINS unification and simplification: new legislation proposing to change how PIS and COFINS (CVA) are assessed. The new legislation is designed to simplify and improve the efficacy of the tax system (e.g., legal safety concerning the taking of credits, preventing aggravation of accrued credits, maintaining current tax benefits and preventing tax increases)
  - ICMS – standardization and simplification of the legislation related to accrued credits: amendments to the ICMS (Agreement) legislation, by means of standardization and simplification of the rules relating to generation, ascertainment, eligibility, control and use of ICMS accrued credits
2.5 Fiscal stimulus in 2015

- Very likely
- Somewhat likely
- Neither likely or unlikely
- Somewhat unlikely
- Very unlikely

2.6 Political landscape

- 2014 saw re-election of the current President as well as the election of Governors, Senators and state and federal congressmen
- 2015 will see the replacement of the economic team of the government, including the Minister of Finance

2.7 Current tax policy and tax administration leaders

- Carlos Alberto Freitas Barreto – Secretary of the Federal Revenue Department (RFB)

2.8 Key tax policy changes in 2014

- Upon publication of Law no. 12.973/14, some issues related to the new tax system will depend on additional clarification and/or regulation by the RFB. These changes were enacted in 2014, but effective in 2015 unless the taxpayer elects the voluntary adoption for 2014.
- The most relevant issues identified for GETAP’s action are as follows:
  - Tax control of sub-accounts (Articles 66, 67 and 68)
  - Premium – transition rule (Article 65)
  - Basis of calculation of PIS and COFINS – accounting reclassification of assets (Articles 52, 54 and 55)
  - Fine and Iaur (Article 2: Article 8-A of Decree Law no. 1.598/77)
  - Financial instruments (Article 2: Article 38-B of Decree Law no. 1.598/77 and Article 9: §§ 2 and 3 of Article 10 of Law no. 9.249/95)
  - Commercial leasing (Articles 46 to 48 of Law no. 12.973)
  - Premium – added-value report (Articles 20, 21 and 22)
  - Premium – acquisition in phases (Articles 37, 38 and 39)

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- Not applicable

2.10 Pending tax proposals

- Preparation of new legislation that will replace how PIS and COFINS (CVA) are assessed, which is designed to simplify and improve the efficacy of the tax system (e.g., legal safety concerning the taking of credits, preventing aggravation of accrued credits, maintaining current tax benefits and preventing tax increases)
- Amendments to the ICMS (Agreement) legislation, by means of standardization and simplification of the rules relating to generation, ascertainment, eligibility, control and use of ICMS accrued credits
- Reintroduction of a tax on financial transactions (CPMF), which was abolished in 2007

2.11 Consultations opened/closed

- Not applicable
1. Tax rates (2014-15)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top federal general corporate income tax (CIT) rate</td>
<td>15%</td>
<td>15%</td>
<td>–</td>
</tr>
<tr>
<td>Provincial income tax rates vary by province</td>
<td>10% to 16%</td>
<td>10% to 16%</td>
<td>–</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>39% to 50% (Based on province of residence and allocation of business income)</td>
<td>39% to 50% (Based on province of residence and allocation of business income)</td>
<td>–</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>5% to 15% (Varies by province)</td>
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<td>–</td>
</tr>
</tbody>
</table>

Stay up to date with developments in Canada by accessing EY’s global tax alert library at [www.ey.com/taxalerts](http://www.ey.com/taxalerts).
2 | 2015 tax policy outlook

2.1 Key drivers of tax policy change

- In the face of a global economic recovery that continues to be fragile and uneven, the Canadian Federal Government remains focused on supporting growth, creating jobs and returning to budgetary balance in 2015 without raising taxes or reducing important transfers that support health care and social services. Creating jobs, supporting growth and keeping taxes low has been the focus of the current Government since taking office in 2006.

- The Government remains on track to balance the budget in 2015, and achieve a surplus of C$1.9 billion in fiscal 2015-16. Canada has the lowest tax burden as a percentage of gross domestic product (GDP) in over 50 years.

- The federal debt-to-GDP ratio is expected to fall to below its pre-recession level by 2017 and is on track to be reduced to 25% of GDP by 2021. Canada’s total government net debt remains the lowest of any G-7 country.

- The 2014 budget contained a number of measures that reflect the Government’s ongoing commitment “to address international aggressive tax avoidance by multinational enterprises,” including amendments to the taxation of captive insurance companies and offshore regulated banks. The budget also announced a second round of consultations on a proposed domestic anti-treaty shopping rule that was subsequently suspended pending the release of the OECD’s Base Erosion and Profit Shifting (BEPS) action plan report and recommendations on treaty abuse.

2.2 Fiscal consolidation vs. stimulus

- Headline CIT rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
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- Capital gains tax
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The outlook for global tax policy in 2015

Canada

- VAT, goods and services tax (GST) or sales tax rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
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- VAT, GST or sales tax base
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- Controlled foreign companies
  - Change proposed or known for 2015
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- Thin capitalization
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- Top marginal personal income tax (PIT) rate
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### 2.3 Tax policy outlook for 2015 – summary

#### Corporate income tax burden

<table>
<thead>
<tr>
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<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

- **Corporate income tax burden**
- **No change**
- **Higher**

#### Personal income tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

- **Personal income tax burden**
- **No change**
- **Higher**

Modest reduction – as a result of a federal family tax cut of up to C$2,000 for couples with children under age 18 and increases in child care benefits, child care deduction and child fitness tax credit.

#### VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

### 2.4 Tax policy outlook for 2015 – detail

**Corporate income taxes**

- Income tax rates are not expected to change. The Government continues its ongoing commitment “to address international aggressive tax avoidance by multinational enterprises.” Areas of review include transfer pricing practices, taxation of foreign affiliates, interest expense deductibility and tax deferral arrangements.

**Taxes on wages and employment**

- Income tax rates are not expected to change. The Government continues its ongoing review of base broadening measures, targeted tax credits, taxation of high net worth individuals, and contributions to and investments by tax deferred plans (RRSP, RRIF, RCA and TFSA).

**VAT, GST and sales taxes**

- There are ongoing efforts to have remaining provinces harmonize with the federal system and review of the treatment of financial services.

### 2.5 Fiscal stimulus in 2015

- Very likely
- Somewhat likely
- Neither likely or unlikely
- Somewhat unlikely
- Very unlikely
2.6 Political landscape

- The next federal election is scheduled for the fall of 2015, and the current political leaders are expected to lead their respective parties.
- While the Canadian economic recovery has been modest, the Federal Government has systematically reduced its stimulus spending and anticipates returning to a “balanced” budget in fiscal year 2015-16. The current Conservative Party government 2011 election promises included reductions in personal income tax once the budget is balanced. In October 2014, the Government announced a proposed “Family Tax Cut” of up to $2,000 for families with children under the age of 18 (by maintaining current individual marginal tax rates, but allowing income splitting between spouses) and through enhancements to certain child tax benefit programs.
- Throughout the global recession and recovery, the Government remained steadfast in its commitment to return Canada to balanced budgets. The Government achieved this by controlling program spending by federal departments, while at the same time maintaining major transfers to provincial and territorial governments.

2.7 Current tax policy and tax administration leaders

**Tax policy leaders**
- Stephen Harper, Prime Minister
- Joe Oliver, Minister of Finance
- James Rajotte, Chair of the House of Commons Standing Committee on Finance
- Kerry-Lynne D. Findlay, Minister of National Revenue
- Scott Brison, Finance Critic, Liberal Party of Canada
- Peggy Nash, Finance Critic, New Democratic Party of Canada

**Tax administration leaders**
- Stephen Harper, Prime Minister
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- Scott Brison, Finance Critic, Liberal Party of Canada
- Peggy Nash, Finance Critic, New Democratic Party of Canada

2.8 Key tax policy changes in 2014

**Bill C-43, Economic Action Plan 2014 Act, No. 2**
- Back-to-back loan arrangements – Extension of the thin capitalization rules and Part XIII withholding tax to interest to back-to-back loan arrangements
- Base erosion rule for Canadian banks with foreign affiliates – 27 February 2014 proposals as amended to integrate the excess liquidity rules with the existing upstream loan rules effective for taxation years of foreign affiliates that begin after 27 February 2014
- Foreign accrual property income (FAPI) – Amendments to the FAPI regime relating to captive insurance (insurance swaps) and offshore regulated banks
- Foreign affiliate dumping rules – Various revisions to the foreign affiliate dumping rules that are generally applicable to transactions and events that occur after 8 March 2012
- Foreign affiliate rules – Various technical amendments previously released on 12 July 2013, including partnerships and hybrids, foreign mergers, active business income recharacterization rule, base erosion rules and surplus computations
- Thin capitalization rules – Amendments previously released on 16 August 2013, including exclusion from the thin capitalization rules for certain debt obligations that can reasonably be considered to directly or indirectly fund a pertinent loan or indebtedness (PLO) owing to a corporation or another resident corporation not dealing at arm’s length with the corporation

**Bill C-31, Economic Action Plan 2014 Act, No. 1**
- Canada – US intergovernmental agreement to implement FATCA – Amendments to implement the enhanced exchange of tax information between Canada and the United States.
- Mark-to-market property rules – Amendments to the list of prescribed persons excluded from the definition of “financial institution” for purposes of these provisions. Applicable to taxation years ending after 23 November 2013.
- Offshore tax informant program – Measures related to the implementation of the program launched by the Canada Revenue Agency on 15 January 2014
2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- Canada will not likely be the first to initiate any significant BEPS changes but nor is it likely to take any action that could be seen as detracting from these initiatives. Since taking office in 2006, the Conservative Government has been committed to keeping corporate tax rates low while broadening the tax base.

- A number of the BEPS initiatives may provide the Government with a convenient rationale to ultimately change Canadian taxation rules (e.g., interest deductibility related to the investment by Canadian corporations in foreign affiliates). The Canadian Government is, on the other hand, a strong proponent of greater transparency and audit enforcement through sharing of information, joint audits, better transfer pricing rules, etc.

2.10 Pending tax proposals

- Proposed international tax measures announced in the 2014 federal budget — tax planning by multinational enterprises review and treaty shopping review

2.11 Consultations opened/closed

Open

- No open tax consultations as of November 15.

Closed

- Income and sales tax technical amendments — consultations closed 8 May 2014.
- Tax planning by multinational enterprises — consultations on how fairness could be maintained between different categories of taxpayers (i.e., multinationals, small businesses and individuals) and how to better protect the Canadian tax base while maintaining an internationally competitive tax system, consultations closed on 11 June 2014.
### Tax policy

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### Tax controversy

**Carlos Martínez**  
carlos.martinez.c@cl.ey.com  
+56 2 2676 1261

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# Tax rates (2014-15)

## 1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax (CIT) rate</td>
<td>21%</td>
<td>22.5%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>40%</td>
<td>40%</td>
<td>–</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>19%</td>
<td>19%</td>
<td>–</td>
</tr>
</tbody>
</table>

---

# 2015 tax policy outlook

## 2.1 Key drivers of tax policy change

- In September 2014, a major tax overhaul entered into effect in Chile, albeit progressively (the most important changes will actually take place in 2017).

- The key driver for this reform is to fund the educational reform already being discussed in Congress (another major overhaul), alongside many key tax policy issues — e.g., incorporation of general anti-abuse rules (GAARs), controlled foreign corporation (CFC) rules, a whole redesign of the corporate taxation system (including a substantial rate increase), VAT to real estate sales, and more power to an already aggressive tax authority.

- These issues filled the tax policy debate during 2014, and as the tax reform is already law, 2015 promises to encompass two major discussions: (a) whether several technical issues that remain unresolved under the new regulation will be amended, and (b) the feasibility of the reform’s actual implementation (as a result of those technical issues, that many see as true dead ends from a practical perspective), and how the tax authorities will interpret the greatest changes via its instructions and rulings. In other words, the reform already appears difficult on paper, so the question is: will those difficulties remain, be solved or become dire when changes do start happening?
2.2 Fiscal consolidation vs. stimulus

- **Headline CIT rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Interest deductibility**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Hybrid mismatches**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Treatment of losses**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Capital gains tax**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **VAT, goods and services tax (GST) or sales tax rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **VAT, GST or sales tax base**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Controlled foreign companies**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Thin capitalization**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Transfer pricing changes**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **R&D incentives**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Other business incentives – including depreciation/amortization**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Changes to tax enforcement approach**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Top marginal personal income tax (PIT) rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **PIT base**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

---

Chile
2.3 Tax policy outlook for 2015 – summary

Corporate income tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
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</thead>
</table>

Personal income tax burden

<table>
<thead>
<tr>
<th>Lower</th>
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<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>X</th>
<th>Higher</th>
</tr>
</thead>
</table>

2.4 Tax policy outlook for 2015 – detail

Corporate income taxes

- As part of the tax reform’s gradual implementation:
  - The CIT rate shall increase to 20% to 21% (for income generated in 2014) and to 22.5% (for income generated in 2015). The final 2018 rate will be 25% or 27%, depending on which of the new two tax regimes the taxpayer chooses (in force as of 2017).
  - A transitional regime (2015-17) shall enter into effect. This regime is very similar to the current one, albeit with a number of modifications specifically in regard to small and medium-sized businesses (as the different statutes in existence today are merged into a single one).
  - A new general anti-avoidance rule (GAAR) enters into effect as of 29 September 2015.
  - Goodwill amortization and rules are greatly modified. In most cases, goodwill differences are to be treated as an intangible that cannot be amortized.

- New thin capitalization rules enter into effect. Though the 3:1 ratio remains, both the indebtedness base and the “related indebtedness” concept are greatly modified. Local debt now counts to calculate the 3:1 ratio.

- A new definition of “low-tax jurisdiction/harmful regimes” enters into effect. Though stricter than the previous one, OECD countries are excluded by default.

- Reinvestment tax benefits are greatly reduced.

- There are new obligations to inform trusts.

- Potential changes outside the tax reform:
  - A bill regulating alternate dispute resolution mechanisms is expected to enter into Congress for discussion. The process is to be overseen by the tax courts.
  - The bill should also include greater attributions to the tax courts (among them the possibility to have their resolutions enforced by the court itself and the possibility for tax judges to sit on the Court of Appeals).
Taxes on wages and employment

- Tax benefits regarding certain types of voluntary pension savings are substituted for a more general beneficial regime concerning financial instruments held by individuals. Revenue from such instruments will not be levied until it is actually withdrawn by the individual, or until a cap (approximately USD$855,000) is met.
- Other changes to wages and employment contained in the tax reform are to take place in 2017.

VAT, GST and sales taxes

- Relevant changes to VAT shall take place in 2016.

2.5 Fiscal stimulus in 2015

- Very likely
- Somewhat likely
- Neither likely or unlikely
- Somewhat unlikely
- Very unlikely

2.6 Political landscape

- 2015 is the second year of the Bachelet administration. At the time of the election, the new Government promised reform, and 2014 certainly did not come up short with it, as both major tax and education overhauls entered into Congress for discussion. The former has already passed (though still pending implementation), and the latter is currently undergoing a heated discussion. 2015 will also see discussion of labor reform, which the Government has already set in motion.
- All of the above projects responded to popular claims that filled the streets with protests during the Piñera administration (2010-14). However, the actual content of the reforms shows spots of controversy even within the Government coalition, and some polls have started showing a decline in popular support for the Government (compared to the figures at the beginning of 2014). In addition, a major Constitutional reform is also on the agenda in 2015, while the opposition has begun talking of “reform frenzy.”
- As a result, the Government’s main task will be to try to convince voters that the reforms are the right actions to take, and that they will not have a negative effect on employment and the economy (which was not running as many felt it should be at the time Michelle Bachelet took office). It is very unlikely that changes other than the already announced will be introduced to debate.

- The right-wing opposition, on the other hand, is having its own problems as it has been significantly impacted by a scandal on illegal campaign funding, which has triggered criminal investigations and tax audits affecting several politicians.

2.7 Current tax policy and tax administration leaders

- Michel Jorrat, IRS Commissioner
- Alberto Cuevas, Government Advisor and former IRS official, key leader of the tax reform

2.8 Key tax policy changes in 2014

- Nearly all of the 2015 tax policy changes will be a part of the progressive implementation of the 2014 tax reform (whose biggest effects will commence in 2017; see the 2015 changes above in 2.4).
- From an overall perspective, 2015 will see a tax administration that is very focused on issuing key instructions for the proper implementation of the reform (as there are many unresolved technical issues). The new Commissioner also seeks to distinguish his tenure as one focused on tax evasion and avoidance, and from that perspective – and especially considering the implementation of the new GAARs as of September 2015 – we will probably see a more aggressive, substance-oriented tax administration.
- Therefore, the main tax policy change we will likely witness relates to the new set of GAARs (as the implementation of the rest of the reform is a more technical issue). Previously, Chile did not have a general, comprehensive set of such rules, but instead relied on several types of specific anti-avoidance rules (SAARs). Most importantly, Chilean legislation did not formally acknowledge the “substance over form” principle, which for many decades led to a rather “formalistic” approach to several tax issues. In recent years, however (and especially after OECD transfer pricing rules were adopted in 2012), the Chilean authorities have made a gradual yet steady shift from this approach, as audits began to contain more business-oriented questions and the courts started to hear words such as “tax planning” and “business purpose” more often.
- The new set of GAARs comes as a confirmation of the above, as the Chilean tax administration will have express powers to qualify an operation as “abusive” or “simulated” for tax purposes, disregarding its legal or contractual form.
This will definitely constitute a change to accepted tax practices, although it is expected that during the early years of implementation the tax administration will focus on targeting high-profile operations only. The reason for this is that in order to apply the new GAARs the tax administration must take the taxpayer to tax court before any taxes are settled and collected.

Notwithstanding these points, tax advisors are getting their clients accustomed to hearing that “it’s not enough that it’s legal,” fearing the tax administration will adopt too an aggressive approach, considering that revenue is a key issue for President Bachelet’s other reforms.

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

Even though the Chilean tax reform was not a direct result of the BEPS Action Plan, it shares many of its objectives or is inspired by them.

Formally, Chile acknowledged the importance of fighting against BEPS, and the tax authorities are training people under the Action Plan’s guidelines. It is no coincidence that the current Commissioner authored some of the studies that were taken as a base for diagnosing the need for tax reform in Chile.

The Chilean tax reform, therefore, acknowledges several key issues contained in the BEPS Action Plan, some of which are listed below:

- Digital economy
  - New powers to audit digital systems of taxpayers
  - Creation of a specialized unit in 2014
- Hybrid mismatches
- New obligations to inform trusts and foreign investments (and abundant related information) with severe penalties for noncompliance
- CFC rules
  - CFC rules to enter into effect in 2016
- Interest deduction
  - New thin capitalization rules (2015)
  - Interest deduction related to abroad payments requires withholding tax payment on the remittance
- Harmful tax practices and/or aggressive planning
  - New set of GAARs and “substance over form” principle
  - New information obligations in regard to foreign investments
- Risk and capital issues in relation to transfer pricing
  - Modification to transfer pricing rules regarding the transfer of functions within the same corporate group
- The new GAARs and the relatively young transfer pricing rules (2012) certainly constitute the two main focal points by which Chile will seek to adjust its practices to the BEPS Action Plan.

2.10 Pending tax proposals

The Chilean tax reform constitutes a major overhaul from many perspectives, and thus, it has left little “pending” to reform.

However, the Government committed to proposing a bill specifically referred to as the “tax courts statute” in order to have them better prepared by the time the reform comes into full effect in 2017. The most important aspect of the tax court reform is the regulation of alternate dispute resolution mechanisms (specifically, judicial mediation), which today can only take place rather informally during the administrative proceedings stage. Formally, the tax authority is supposed to litigate everything up to the Supreme Court, which could be viewed as highly unusual in the context of Chile’s new GAAR.

The tax court bill should also include the possibility for tax judges to apply for a seat in upper courts (which they cannot do today, discouraging many senior tax specialists from becoming judges), and more powers to judges.

Also, there is market speculation whether a new bill will be necessary to amend technical errors contained in the 2014 tax reform, although according to most specialists, the Government disagrees that such errors exist.
2.11 Consultations opened/closed

- Even though the Government drafted the initial tax reform bill without public consultation, by the time it reached the Senate, several congresspeople invited top economists, lawyers and accountants as experts to the discussion sessions. All of the “Big Four” professional services organizations also participated.

- The Government also indicated that it was open to receiving proposals from several private institutions or groups, though participants remarked that dialogue was never very fluent.

- The result was a negotiated reform that changed many of its original provisions, though kept its spirit and principles.

- However, aside from the Congressional sessions, there were no institutionalized consultative processes on behalf of the Government.
### 1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax (CIT) rate (national and local average, if applicable)</td>
<td>25%(^1)</td>
<td>25%(^2)</td>
<td>–</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>45%(^3)</td>
<td>45%(^4)</td>
<td>–</td>
</tr>
<tr>
<td>Statute value-added tax (VAT) rate</td>
<td>6%, 11%, 13% and 17% (depending on the industries and 0% for certain eligible export goods)(^5)</td>
<td>6%, 11%, 13% and 17% (depending on the industries and 0% for certain eligible export goods)(^6)</td>
<td>–</td>
</tr>
</tbody>
</table>

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2. Ibid.
3. Appendices to the Order of the President of the People’s Republic of China No. 48.
4. Ibid.
5. The Interim Regulations of the People’s Republic of China on VAT (effective 1 January 1994) provides VAT rates of 17%, 13% and 0% for specific exported goods. The 17% rate applies to most VAT taxable goods. The VAT reform was rolled out gradually to nationwide on 1 August 2013. New rates of 11% and 6% were introduced for certain industries per Tax Circular Caishui (2013) 37: railway transport (applicable tax rate of 11%) and postal industries (applicable tax rate of 11%) were included in the VAT reform since 1 January 2014, per Tax Circular Caishui (2013) 106. The telecommunications industry was included from 1 June 2014 with applicable rates of 11% and 6% for basic telecommunication services and value-added services, respectively, per Tax Circular Caishui (2014) 43.
6. Other industries will also be included in the forthcoming VAT pilot expansion.
2.1 Key drivers of tax policy change

• Tax policy is being driven by an economic shift toward promoting innovation and technology in China. The State Council, in its 63rd meeting, resolved to introduce accelerated depreciation in October 2014. The Ministry of Finance (MOF) and the State Administration of Taxation (SAT) jointly promoted six categories of industries:
  • Biopharmaceutical products
  • Special equipment manufacturing
  • Railroad, shipping, aerospace and other transportation equipment
  • Computer, telecommunications and other electronic equipment
  • Instruments and panels
  • Information transmission, software and communications technical services

• In order to promote innovation, the Central Government continues to support special economic zones, including the development of Qianhai (near Hong Kong), Hengqin (near Macau) and Pingtan (opposite Taiwan) areas with preferential tax regimes. The Shanghai Pilot Free Trade Zone (SHFTZ) is also gaining traction with the goal of building Shanghai as an international financial center.

• As one of the initiatives to develop Shanghai as an international financial center, China launched the Shanghai-Hong Kong Stock Connect program on 17 November 2014 to allow mutual stock market access between the Shanghai and Hong Kong Stock Exchanges. To encourage participation in the scheme, China provided certain temporary tax exemptions on capital gains for certain participating investors from 17 November 2014. To ensure consistency, qualified foreign institutional investors (QFIs) and renminbi qualified foreign institutional investors (ROFIs) will also be temporarily exempt from withholding tax (WHT) with respect to gains derived from the trading of shares or other equity interests in Chinese enterprises, effective from 17 November 2014.

• During the Asia-Pacific Economic Cooperation summit, China Chairman Xi Jinping announced that China will put USD40 billion into a new Silk Road Fund to improve the infrastructure connections across the Asia-Pacific. The intention is to connect economic regions by way of building routes to Central Asia and Europe.

2.2 Fiscal consolidation vs. stimulus

• Headline CIT rate
  □ Change proposed or known for 2015
  □ Additional change possible or somewhat likely in 2015
  □ Lower burden in 2015
  □ Same burden in 2015
  □ Higher burden in 2015

• Interest deductibility
  □ Change proposed or known for 2015
  □ Additional change possible or somewhat likely in 2015
  □ Lower burden in 2015
  □ Same burden in 2015
  □ Higher burden in 2015

• Hybrid mismatches
  □ Change proposed or known for 2015
  □ Additional change possible or somewhat likely in 2015
  □ Lower burden in 2015
  □ Same burden in 2015
  □ Higher burden in 2015

• Treatment of losses
  □ Change proposed or known for 2015
  □ Additional change possible or somewhat likely in 2015
  □ Lower burden in 2015
  □ Same burden in 2015
  □ Higher burden in 2015

• Capital gains tax
  □ Change proposed or known for 2015
  □ Additional change possible or somewhat likely in 2015
  □ Lower burden in 2015
  □ Same burden in 2015
  □ Higher burden in 2015

7 http://www.chinatax.gov.cn/n810341/n810755/c1260992/content.html.
The outlook for global tax policy in 2015

- **China**

- **VAT, goods and services tax (GST) or sales tax rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **VAT, GST or sales tax base**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Financial and real estate industries are expected to be covered under the VAT reform. The VAT burden will depend on the tax rate and the transitional measures yet to be announced.**

- **Controlled foreign companies**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **On 30 June 2014, the SAT issued SAT Notice [2014] 38 to impose further reporting requirements for Chinese controlled foreign corporations. Effective 1 September 2014, information of overseas investment where the Chinese entity has over 10% shareholding or de facto control must be reported, including shareholding and directorship and related-party transactions.**

- **Thin capitalization**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Transfer pricing changes**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **A nationwide investigation on substantial outbound payments of service fees (including management fees) and royalty payments to overseas related parties has been launched by the SAT pursuant to Circular Shuizhongbanfa [2014] 146 (effective 29 July 2014).**

- **SAT’s letter submitted to the United Nations**
  - The SAT submitted its views on service fees and management fees to the United Nations in February 2014. The letter states the SAT’s views on the application of the arm’s-length principle for intra-group services, as well as discussing practical difficulties regarding intra-group services in China based on practical experience from transfer pricing investigations.

- **R&D incentives**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **The Government introduced accelerated depreciation for equipment acquired by enterprises and used for R&D to encourage innovation under Caishui [2014] 75 (Circular 75).**

11 http://www.chinatax.gov.cn/n810341/n810755/c1150569/content.html.

12 Ibid.
China

- Other business incentives – including depreciation/amortization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
    - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- The Government has introduced accelerated depreciation for qualifying fixed assets acquired by companies of six industries\(^\text{13}\) under Circular 75. The cost on fixed assets with less than RMB5,000 (approximately USD817)\(^\text{14}\) can be treated as a one-off expenditure.
- Changes to tax enforcement approach
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- The Government aims to tighten tax investigations on general anti-avoidance rules (GAARs) and base erosion and profit shifting (BEPS) cases.
- The revised Tax Collection and Administrative Law was announced on 29 June 2013, which only contains certain procedural changes. It is expected that an updated version of the Tax Collection and Administrative Law and its implementation rules would be promulgated in the coming year, which might incorporate China’s GAARs and the G20 BEPS initiatives.

- Top marginal personal income tax (PIT) rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- PIT base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- The Government is reviewing the possibility of providing flexibility to elect a comprehensive individual income tax (IIT) system.\(^\text{15}\) Currently, the IIT system is under a different head of tax for a person; there is no flexibility to elect a family-based filing.

---

\(^{13}\) The six industries are: (1) biopharmaceutical products; (2) special equipment manufacturing; (3) railroad, shipping, aerospace and other transportation equipment; (4) computer, telecommunications and other electronic equipment; (5) instruments and panels; and (6) information transmission, software and communications technical services.

\(^{14}\) Assuming a foreign exchange rate of USD1=RMB6.12.

2.3 Tax policy outlook for 2015 – summary

**Corporate income tax burden**

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
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<tbody>
<tr>
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**Personal income tax burden**

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td></td>
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</tbody>
</table>

**VAT/GST/sales tax burden**

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td></td>
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</tbody>
</table>

* The overall CIT burden is expected to be higher as the SAT is targeting cross-border base erosion transactions and increasing its transfer pricing audit activity.

** The overall indirect tax burden generally would likely be lowered, because China has been converging business tax (BT) to VAT, which allows an input tax credit that was not available under the BT system.

Since the first launch of the VAT pilot program in 2012, the overall tax burden has been reduced by over RMB327.6 billion (approximately USD53.5 billion) as of October 2014. The VAT reform is expected to include more industries, such as real estate, construction, lifestyle services and financial services by 2015.

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16 [http://www.chinatax.gov.cn/n810341/n810780/c1260876/content.html](http://www.chinatax.gov.cn/n810341/n810780/c1260876/content.html).
2.4 Tax policy outlook for 2015 – detail

One belt, one route, one region

- China has taken the initiative in launching the new Silk Road for Asia to boost economic, commercial and industrial cooperation and build connectivity among Asian governments. The detailed scheme and possible finance and tax supporting policies are expected to be released in 2015.

Resource tax reform

- Similar to the market-based resource tax on coal that will become effective on 1 December 2014, similar reforms are scheduled for metal ores, non-metal ores and water in the near future. In 2015, we may also see further initiatives around “green” tax reform that may penalize carbon polluters as well as support clean industries.

Indirect transfer rules (capital gains tax)

- The supplementary Circular Guoshuihan [2009] 698 (on indirect share transfers) is being drafted and is subject to the SAT’s internal review procedures.

Tax Collection and Administration Law (redrafted)

- The Tax Collection and Administration Law is being revised and could be released in 2015, which might contain certain provisions to accommodate China’s latest developments on tax anti-avoidance and commitments to BEPS.

Property tax

- Property tax (real estate tax) is calculated either based on the residual value of the property or on the rental income from the property. The respective tax rate is 1.2% (on residual value) and 12% (on rental income).

Taxes on wages and employment

- The MOF and SAT have been studying IIT reform. While it is less likely that the new IIT scheme will be promulgated in 2015, considering the large coverage of IIT taxpayers and related tax administration complications, it is certainly in the pipeline as part of China’s overall tax reform agenda.

2.5 Fiscal stimulus in 2015

- Very likely
- Somewhat likely
- Neither likely or unlikely
- Somewhat unlikely
- Very unlikely

2.6 Political landscape

- There were no changes to the political landscape in 2014.
- The fourth plenary session of the 18th Communist Party of China’s Central Committee was held in October 2014; a communiqué was released after its closing, which focused on “comprehensively promoting the rule of law” in China.

2.7 Current tax policy and tax administration leaders

- China does not have a unified tax code. There are specific tax laws and regulations for income tax, turnover tax, customs duty and resource tax, supported by circulars and regulations for different types of taxes. State organizations that have the authority to formulate tax regulations include the National People’s Congress and its Standing Committee, the State Council, the Ministry of Finance, the SAT and the General Administration of Customs.

- The SAT is a ministry-level department directly under the State Council. The SAT oversees 12 functional departments and the Auditing Bureau.

- Wang Jun has been the Commissioner General (a minister-level role) of the SAT since March 2013.

---

2.8 Key tax policy changes in 2014

**Western Region**

- In order to balance the economic developments between the coastal and western areas of China, from 1 January 2011 to 31 December 2020, enterprises established in the western region engaging in encouraged industries as stipulated in the Western Catalogue, and having 70% of their total annual income from the encouraged industries, are entitled to a reduced CIT rate of 15%. On 20 August 2014, the National Development and Reform Commission (NDRC) released NDRC Order (2014) No. 15 (Order 15) announcing the official version of the Western Catalogue, effective 1 October 2014.

**Shanghai Pilot Free Trade Zone**

- After being launched in September 2013, the SHFTZ continued to gain traction in 2014. In June 2014, the revised “negative list” (restricted investment categories) was published to provide broader access to foreign investors, for all sectors that are not listed as restricted will be fully open to foreign investment. The list was cut from 190 measures in 2013 to 139 measures in 2014. Meanwhile, cross-border exchange of intellectual property, such as copyright trading, will be facilitated after the setup of the state-level copyright trading center in the SHFTZ in November 2014.

**VAT pilot program**

- China continued with its nationwide VAT pilot program and expanded the scope of VAT taxable services to cover services related to railway transportation, postal services and telecommunication services.

**Resource tax reform on coal**

- China changed its resource tax on coal by moving to a market price-based tax rather than the previous tax based on the quantity of coal sold. The tax rate will be decided by the provincial governments within a range provided by the Central Government from 1 December 2014.

**Provisional Administrative Measures on GAAR**

- The GAAR draft public consultation was closed in August 2014. The Provisional Administrative Measures (Circular SAT Order [2014] 32) was issued on 2 December 2014 to provide implementation procedures from case discovery to joint examination by tax bureaus; it also further clarifies the applicable scope and criteria for cases subject to GAARs. Please refer to section 2.11 below for details.

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21 Western region refers to Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shanxi, Gansu, Ningxia, Qinghai, Xinjiang, Inner Mongolia, Guangxi, Xiangxi in Hunan, Enshi in Hubei, Yanbian in Jilin and Ganzhou.

22 http://www.chinatax.gov.cn/2013/n2925/n2957/c1397160/content.html


24 http://www.chinatax.gov.cn/n810219/n810729/c1255441/content.html

25 BEPS – SAT debrief in Beijing on 25 September 2014, the State Administration of Taxation, http://www.chinatax.gov.cn/n810219/n810729/n811748/c1117045/content.html
2.10 Pending tax proposals

- The Trial Administrative Measures of Special Tax Adjustment (“Circular 2” on GAAR), effective since 2008, is under revision, possibly to incorporate BEPS deliverables. The SAT is working on a supplementary circular on capital gains on indirect transfer (Guoshuihan SAT letter [2009] 698) to incorporate comments from the various stakeholders and to better reflect the intent of targeting GAAR transactions.
- The Tax Collection and Administration Law is being revised and could be released in 2015, which might contain certain provisions to accommodate China’s latest developments on tax anti-avoidance and commitments to BEPS.

2.11 Consultations opened/closed

- The Legislative Affairs Office of the State Council announced the Consultation Paper on GAAR Regulative Procedures on 3 July 2014 to seek public opinion prior to finalizing. Consultation closed on 1 August 2014. The Provisional Administrative Measures on GAAR (Circular SAT Order [2014] 32) was finally issued on 2 December 2014, effective from 1 February 2015.
- According to the Provisional Administrative Measures on GAAR, GAAR does not apply to:
  - Domestic transactions (i.e., the rules are intended to cover cross-border transactions)
  - Illegal acts in relation to tax evasion or issuance of fictitious tax invoices (as it is under criminal law, not tax law)
- It also defined the features of tax avoidance arrangements:
  - Its sole or principal (main) purpose is to obtain tax benefits (defined as a reduction, exemption or deferral of CIT payable).
  - The arrangement complies with tax law(s) in form but not in economic substance.
  - The methods for making tax adjustments stipulated included:
    - Re-characterize all or part of the nature of transactions
    - Disregard the other contracting party, and deem all parties to the contract(s) as “one entity”
    - Re-characterize the nature of relevant income, deductions, beneficial tax treatments, foreign tax credits or others
    - Reallocate income or deduction
    - Any other reasonable methods
  - Timeline for concluding a case
    - In-charge tax bureaus should reach a conclusion and report to the SAT within nine months from the date that the case is set up. The nine-month timeline does not include the time for review by the SAT. The timeline for the final conclusion may vary depending on the complexity of the case.
- On 2 December 2014, the same date the GAAR Provisional Measures were issued, another SAT order, Circular [2014]34, Measures on the Hearing of Significant Tax Cases, was issued to be effective 1 February 2015.
- The objective of the circular is to enhance the independence of tax determinations by creating a separate committee to hear significant tax cases. The office of the committee will be formed within the legal and tax policy department of the tax administration office.

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27 http://www.chinatax.gov.cn/2013/n2925/n2957/c1397160/content.html
# Tax rates (2014-15)

## 1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Top corporate income tax (CIT) rate</strong>&lt;br&gt;(national and local average, if applicable)</td>
<td>19%</td>
<td>19%(^1)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Top individual income tax rate</strong>&lt;br&gt;(national and local average, if applicable)</td>
<td>Basic tax rate of 15% applied on a “super-gross salary”&lt;br&gt;(i.e., including social security and health insurance paid by the employer), leading to an effective tax rate of approximately 20%&lt;br&gt;Solidarity surcharge of 7% for employment/business income exceeding approximately €48,000 per year(^2)</td>
<td>Basic tax rate of 15% applied on a “super-gross salary”&lt;br&gt;(i.e., including social security and health insurance paid by the employer), leading to an effective tax rate of approximately 20%&lt;br&gt;Solidarity surcharge of 7% for employment/business income exceeding approximately €44,000 per year(^3)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Standard value-added tax (VAT) rate</strong></td>
<td>21%</td>
<td>21%(^4)</td>
<td>–</td>
</tr>
</tbody>
</table>

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2. Ibid.
3. Ibid.
2015 tax policy outlook

2.1 Key drivers of tax policy change

- Generally, the prevailing driver is resourcing tax collection and providing guidance and clarification in the areas where the interpretation has not previously been clear. The anticipated changes should also support and/or be in line with the OECD’s BEPS project.
- Other drivers include:
  - More intensive combat against tax fraud and tax evasion, with a key focus on VAT fraud
  - Enhancements to mutual assistance and exchange of tax information procedures by the tax authorities
  - Efforts to increase the effectiveness of tax collection and administration
  - Efforts to improve attractiveness for foreign investment

2.2 Fiscal consolidation vs. stimulus

- Headline CIT rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015
- Interest deductibility
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015
- Hybrid mismatches
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015
- Treatment of losses
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015
- Capital gains tax
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015
- VAT, GST or sales tax rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015
- VAT, GST or sales tax base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
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  - Increased burden in 2015
- Controlled foreign companies
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015
- Thin capitalization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015
- Transfer pricing changes
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015
- R&D incentives
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015
2.4 Tax policy outlook for 2015 – detail

Corporate income taxes

- A tax legislation amendment provides both clarification and confirmation of the currently applied interpretation, as well as some new principles, e.g., benefits derived from interest-free loans should become taxable under certain circumstances. The amendment was signed by President Milos Zeman in early November 2014 and is an initiative independent from the annual budget.
- The favorable 5% CIT rate currently applicable to investment and mutual funds, including the qualified investors funds (usually used for tax optimization in the real estate area), will be limited to investment vehicles (publicly traded investment funds, open-ended mutual funds and other investment funds with a significantly diversified portfolio).

Taxes on wages and employment

- The amendment provides both clarification and confirmation of the currently applied interpretation.
- There is a compulsory reporting of income (even exempt) above certain threshold (subject to high penalties upon non-compliance).

VAT, GST and sales taxes

- Introduction of a second decreased VAT rate (in addition to the current 15% rate) of 10% for selected items, such as medicines and books
- Launching of mini One Stop Shop for electronic and telecommunication services in business-to-consumer supplies – implementation of the amended EU VAT Directive
Czech Republic

2.5 Fiscal stimulus in 2015
- Very likely
- Somewhat likely
- Neither likely or unlikely
- Somewhat unlikely
- Very unlikely

2.6 Political landscape
In the Czech Republic, tax policy is governed centrally by the Cabinet, with the Ministry of Finance having the key role and responsibilities in this area. The Ministry drafts the majority of tax laws and initiates the legislative process.

Since December 2013, a seemingly stable center-left Government is in power. As such, the legislation process has become rather smooth and quick.

Even though the new Government did not intend for major tax reforms to be passed, 2014 has seen a range of measures passed, with others still under negotiation.

2.7 Current tax policy and tax administration leaders
Tax policy leaders (interim government — will likely be changed once coalition negotiations are finalized)
- Bohuslav Sobotka, Prime Minister
- Andrej Babis, Minister of Finance
- Simona Hornochova, Deputy Minister of Finance – Taxes and Customs

Tax administration leader
- Martin Janecek, Director-General Financial Directorate

2.8 Key tax policy changes in 2014
- Extensive corporate and personal income tax reform was passed in 2014 to reflect the recodification of the Civil Code and the Act on Corporations (primarily new civil law terminology and definitions as well as newly introduced civil law features, e.g., trusts).
- The R&D deduction was extended (100% CIT base deduction of qualifying expenses, which is effectively a double deduction of an individual expense, and 110% deduction applicable to year-on-year increases).
- Further, the abolition of inheritance and gift taxes and their integration under the income tax brought a number of changes in the area of taxation of non-monetary income and related interpretation issues.
- New transfer pricing reporting (an overview of related-party transactions) was introduced for large taxpayers — on a voluntary basis in 2014 — but will become mandatory as of 2015 for companies meeting at least one of the following criteria: (i) their assets exceed CZK40 mil, (ii) their net revenues exceed CZK80 mil and (iii) they have over 50 employees.
- The six-month test for the exemption of income earned by an individual from the sale of securities was prolonged to a three-year term.
- The VAT Act was also amended to reflect certain changes related to the recodification (mostly terminology also).
- The new Real Estate Tax and the new Real Estate Transfer Tax Act became effective as of 2014.

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan
- The contemplated tax law amendments are generally aligned with the OECD BEPS initiative (even though the BEPS Action Plan is not the key driver for the amendments).
- There are currently no formal public statements, consultations, legislation or working group(s) in relation to BEPS.
- At this stage, the Ministry of Finance has indicated its intention to focus primarily on transfer pricing and related profit and loss attribution; for the Czech Republic, related BEPS Action items are of greatest interest.

2.10 Pending tax proposals
- The Investment Incentives Act amendment is pending, which would have an impact on the tax holidays relief (reduction of the percentage from the qualifying new investment is expected).
- Additional amendments to the VAT Act and real estate tax are being proposed. Neither should have material impact.

2.11 Consultations opened/closed
- A new “assets/wealth origin evidence” tax law was released for public consultation. Private individual taxpayers would be required to prove the origin of their private assets (whether acquired from taxed income). Additional income tax and heavy penalties would be assessed if the origin is not proved. The currently available wording has significant retroactive elements as the tax authorities would be effectively able to assess tax from income earned in statute-barred tax periods. Further development is expected in this area.
1 | Tax rates (2014-15)

1.1 Key tax rates

<table>
<thead>
<tr>
<th>Top corporate income tax (CIT) rate (national and local average, if applicable)</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>24.5%</td>
<td>23.5%</td>
<td>-4.1%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Top individual income tax rate (national and local average, if applicable)</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>56.2%</td>
<td>52%</td>
<td>-7.5%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Standard value-added tax (VAT) rate</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%</td>
<td>25%</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

2 | 2015 tax policy outlook

2.1 Key driver of tax policy change

> Denmark is focused on having a competitive tax policy. The Government has made adjustments to tax policy to align with other Scandinavian countries, most especially Sweden.
2.2 Fiscal consolidation vs. stimulus

- Headline CIT rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Interest deductibility
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Hybrid mismatches
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Treatment of losses
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Capital gains tax
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015

- VAT, goods and services tax (GST) or sales tax rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015

- VAT, GST or sales tax base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Controlled foreign companies
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Thin capitalization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Transfer pricing changes
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015

- R&D incentives
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Other business incentives – including depreciation/amortization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Changes to tax enforcement approach
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Top marginal personal income tax (PIT) rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015

- PIT base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015

Denmark
2.3 Tax policy outlook for 2015 – summary

Corporate income tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Personal income tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2015 – detail

Corporate income taxes

- Besides the lowering of the general CIT rate, legislative initiatives have been made to mitigate base erosion. Additional agreements on information exchange have been signed, and the Government participates in international efforts, including the OECD BEPS project.

Taxes on wages and employment

- There is a political goal to make it more attractive to live in the outskirts of Denmark. Therefore, economic incentives have been put in place to make it more attractive to commute from some of the rural areas of Denmark.
- Changes have also been made to the expatriate tax regime in order to make it more attractive.

VAT, GST and sales taxes

- No changes are anticipated.

2.5 Fiscal stimulus in 2015

☐ Very likely
☐ Somewhat likely
☐ Neither likely or unlikely
☐ Somewhat unlikely
☐ Very unlikely

2.6 Political landscape

- A general election for Parliament will be held no later than 3 October 2015. The implications of changes in the Government and its effect on current tax policy are not yet clear.
- There is a strong political focus in Denmark on economic growth, which also has a significant effect on the development of the tax policy.
2.7 Current tax policy and tax administration leader

- Minister for Taxation Benny Engelbrecht, representing the Danish Social Democrats

2.8 Key tax policy changes in 2014

- From a corporate tax perspective, the key changes include a reduction in the CIT rate and a lower burden on dividends paid on unlisted shares.

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- The Minister for Taxation signed an international agreement at the Global Forum on Transparency and Exchange of Information for Tax Purposes (October 2014).
- The Government supports the OECD initiatives and actions on aggressive tax planning.

2.10 Pending tax proposals

- Not applicable

2.11 Consultations opened/closed

- Not applicable
1 Tax rates (2014-15)

1.1 Key tax rates

<table>
<thead>
<tr>
<th>Top corporate income tax (CIT) rate (national and local average, if applicable)</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20%</td>
<td>20%</td>
<td>–</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Top individual income tax rate (national and local average, if applicable)</th>
<th>Top national tax rate is 31.75%</th>
<th>Municipal rates range from 16.50% to 22.50%; the average rate is approximately 19.75%</th>
<th>Top national tax rate is 31.75%</th>
<th>Municipal rates range from 16.50% to 22.50%; the average rate is approximately 19.75%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Standard value-added tax (VAT) rate | 24% | 24% | – |

2 2015 tax policy outlook

2.1 Key drivers of tax policy change

- Balancing the Finnish budget and managing Finland's public economy
- Concerns regarding economic growth and international competitiveness of Finland
2.2 Fiscal consolidation vs. stimulus

- **Headline CIT rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Interest deductibility**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Hybrid mismatches**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Treatment of losses**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Capital gains tax**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **VAT, goods and services tax (GST) or sales tax rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **VAT, GST or sales tax base**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Controlled foreign companies**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Thin capitalization**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Transfer pricing changes**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
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- **R&D incentives**
  - Change proposed or known for 2015
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- **Other business incentives – including depreciation/amortization**
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- **Changes to tax enforcement approach**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
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- **Top marginal personal income tax (PIT) rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **PIT base**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
2.3 Tax policy outlook for 2015 – summary

**Corporate income tax burden**
- Lower: X
- No change
- Higher

**Personal income tax burden**
- Lower: X
- No change
- Higher

**VAT/GST/sales tax burden**
- Lower: X
- No change
- Higher

2.4 Tax policy outlook for 2015 – detail

**Corporate income taxes**
- The 50% deductibility of entertainment expenses will be restored (currently 0% deductible).

**Taxes on wages and employment**
- No major changes are expected.

**VAT, GST and sales taxes**
- No major changes are expected.

2.5 Fiscal stimulus in 2015
- Very likely
- Somewhat likely
- Neither likely or unlikely
- Somewhat unlikely
- Very unlikely

2.6 Political landscape
- Parliamentary elections will occur in spring 2015.

2.7 Current tax policy and tax administration leaders

**Tax policy leaders**
- Alexander Stubb, Prime Minister
- Antti Rinne, Minister of Finance
- Martti Hetemäki, Secretary of State
- To be appointed, Director-General, Ministry of Finance (Tax Department)
- Kimmo Sasi, Chairman, Parliament’s Finance Committee

**Tax administration leaders**
- Pekka Ruuhonen, Director-General of the Finnish Tax Administration
- Marko Koski, Tax Director of the Tax Office of Major Corp.
Finland

2.8 Key tax policy changes in 2014

- Reduction of the corporate tax rate from 24.5% to 20%
- Abolition of temporary R&D tax incentive as from 2015

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- The Finnish Government and Tax Administration are participating and following the outcomes of the BEPS project. No specific measures have been announced.

2.10 Pending tax proposals

- None

2.11 Consultations opened/closed

- None
The outlook for global tax policy in 2015

1 | Tax rates (2014-15)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax (CIT) rate (national and local average, if applicable)</td>
<td>38%</td>
<td>38%</td>
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</tr>
<tr>
<td></td>
<td>Including 10.7% surtax for tax years 2013 and 2014</td>
<td>Including 10.7% surtax for tax years 2013 and 2014</td>
<td></td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>45%</td>
<td>45%</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>53%, including social security taxes (CSG/CRDS)</td>
<td>53%, including social security taxes (CSG/CRDS)</td>
<td></td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>20%</td>
<td>20%</td>
<td>–</td>
</tr>
</tbody>
</table>

2 | 2015 tax policy outlook

2.1 Key drivers of tax policy change

- Budget constraints and deficits
- EU pressure to reduce public expenditures
- High pressure from the left wing of the majority to increase tax pressure over large companies and high net worth individuals
- Fight against tax fraud, tax optimization and BEPS (the French Tax Association (FTA) to develop a tougher approach regarding tax audits and administrative dispute resolution proceedings)
2.2 Fiscal consolidation vs. stimulus

- **Headline CIT rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Interest deductibility**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Hybrid mismatches**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Treatment of losses**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Capital gains tax**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **VAT, goods and services tax (GST) or sales tax rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **VAT, GST or sales tax base**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Controlled foreign companies**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Thin capitalization**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Transfer pricing changes**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **R&D incentives**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Other business incentives — including depreciation/amortization**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Changes to tax enforcement approach**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Top marginal personal income tax (PIT) rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **PIT base**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
2.3 Tax policy outlook for 2015 – summary

Corporate income tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

Personal income tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

2.4 Tax policy outlook for 2015 – detail

Corporate income taxes

- The French Government is aiming to consolidate tax resources without increasing tax rates. As a result, general base broadening and new specific taxes are both being utilized.

Taxes on wages and employment

- In the frame of the so-called “competitiveness pact,” the Government committed itself to decrease taxes on wages and employment. Except some specific measures, such engagement is held.

VAT, GST and sales taxes

- No change is expected.

2.5 Fiscal stimulus in 2015

- Manuel Valls, the new Prime Minister, represents the social-liberal stream of the socialist party, while the precedent Government is more center-left.

2.6 Political landscape

- At the end of 2013, President François Hollande announced a change of economic policy, focusing more on the role of companies. This change led to several governmental initiatives and to a change of prime minister after a local elections defeat for the socialist party in the end of March 2014.

2.7 Current tax policy and tax administration leaders

- The Minister of Finances is Michel Sapin, since 2 April 2014.
- The Director of the General Office of Public Finances is Bruno Parent since 1 July 2014.

2.8 Key tax policy changes in 2014

Increase of the temporary additional contribution to CIT

- The temporary additional contribution to CIT has been increased from 5% to 10.7% and applies to companies (or tax consolidated groups) with an annual turnover exceeding €250 million. The increase applies to the fiscal years ending between 31 December 2013 and 30 December 2015. The maximum CIT rate thus amounts to circa 38% instead of the previous 36.1%.

Limitation on deductibility of interest accrued to low taxed related-party lenders

- The 2014 Finance Bill introduced new rules that disallow the tax deduction of interest accrued to related parties if the French taxpayer cannot justify, upon request of the FTA, that the lender is liable to CIT on such interest that amounts to at least 25% of the CIT that would have been due, had the lender been established in France.

Exceptional solidarity surtax on remuneration exceeding €1 million

- The 2014 Finance Bill introduced an “exceptional solidarity tax” of 50%, borne by companies, on the portion of remunerations granted to an employee or director that
exceeds €1 million. Remunerations taken into account are, in principle, those deductible for CIT purposes. The tax only applies to remunerations granted in calendar years 2013 and 2014 and is capped at 5% of the turnover of the civil year. The employer needs to file a specific return and pay the tax by 30 April of the following year.

**Requirement to provide accounting statements and consolidated accounts in case of tax audit**

- The 2014 Finance Bill introduced a requirement to communicate analytical and consolidated accounts upon a tax audit for taxpayers exceeding certain thresholds, to the extent they keep any such accounts.
- Taxpayers who fail to provide their analytical and consolidated accounts (if any) upon the opening of a tax audit are subject to a €20,000 fine.

**Requirement to provide annual simplified transfer pricing documentation**

- Pursuant to section 223 quinquies B of the French tax code introduced in December 2013, a new transfer pricing documentation obligation is now in force. Companies in the scope of this obligation must file so-called “light documentation” within six months following the deadline to file their tax return (e.g., filing of this light transfer pricing documentation is due by 20 November 2014 for a fiscal year close of 31 December 2013).

**2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan**

- France is at the forefront of the fight against BEPS and has shown several times its support for the OECD and G20 work on this matter.
- Indeed, and for several years now, France has already enacted several provisions in order to fight against BEPS situations.
- Interest deductibility has been a particular target, with several limitations put in place in the last two to three years against acquisitions made through French conduits. The general limitation deduction is now set at 25% when the net amount of financial expenses is above €3 million, with the most recent limitation designed to disallow interest deduction when the beneficiary of the interest is not taxed (on the interest) at least at 25% of the CIT rate it would have been subject to should the beneficiary been established in France.
- Furthermore, and as previously mentioned, France has increased sanctions in the case of a tax audit and failure to comply with new transfer pricing reporting obligations and with new obligations to comply with in the case of a tax audit (accounting entry file, provide analytical and consolidated accounting statements and consolidated accounts in case of tax audit).
- Finally, the 2015 Finance Bill enacted an anti-abuse provision for the distribution of dividends that are normally tax exempted on the basis of the European parent subsidiary directive, where the so-called dividend paid by the subsidiary is tax deductible from its taxable result and tax exempted for the parent company. In addition, the distribution of sums derived from activities not subject to CIT or an equivalent tax will not enjoy the benefit of the parent-subsidiary directive.
- The 2015 Finance Bill also introduced increased penalties for failing to provide appropriate transfer pricing documentation upon the opening of a tax audit. A penalty of €10,000 or 0.5% of transaction volumes with related parties or 5% of reassessed profits, whichever is higher, is now applied.

**2.10 Pending tax proposals**

- Since the second revised 2014 Finance Bill and the Finance Bill for 2015 were passed, there are no pending proposals.
- Nonetheless, it is worth noting the amendment of the French tax consolidation regime to allow “horizontal tax consolidation.”
- In order to comply with a recent decision rendered by the European Court of Justice (ECJ), the Amending Finance Law 2014 allows a French company or permanent establishment (PE) to form a French tax consolidated group with other French companies or PEs as long as all are owned at 95% or more by a company or PE that is subject to a tax equivalent to French CIT in another EU country or European Economic Area country.
- The horizontal tax consolidation will be optional. The provision not only requires that the fiscal year opening and closing dates of the French parent company and French consolidated companies be identical, but that it also be aligned with those of the foreign parent company and all foreign intermediate companies. Under the current tax consolidation regime, the election would need to be filed within the corporate income tax filing deadline of the fiscal year preceding the start of the consolidation (e.g., by mid-May 2015 for the consolidation to start in fiscal year 2015).
- Regarding the operation of the regime, the neutralization of intercompany transactions provided by the current French tax consolidation regime (e.g., intercompany sale of assets, depreciation of intercompany shares or receivables, dividends) would be extended to certain transactions involving the foreign parent company and/or the foreign intermediate companies.
- Likewise, the restructuring provisions applicable under the current regime (i.e., merger, demerger or change of ownership situations) are extended to transactions involving the foreign parent company and/or the foreign intermediate companies.
- The horizontal tax consolidation regime is applicable to fiscal years closed on or after 31 December 2014. However, to apply the regime to calendar year 2014, the election was in principle due mid-May 2014.

**2.11 Consultations opened/closed**

- Not applicable
1 | Tax rates (2014-15)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Top corporate income tax (CIT) rate</strong> (national and local average, if applicable)</td>
<td>Top federal (national) corporate tax rate: 15%¹ (plus solidarity surcharge of 5.5%² ) A (local) trade tax: between 7% and 17.5%³ Total average: 29.83%</td>
<td>Top federal (national) corporate tax rate: 15% (plus solidarity surcharge of 5.5%) A (local) trade tax: between 7% and 17.5% Total average: 29.83%</td>
<td>–</td>
</tr>
<tr>
<td><strong>Top individual income tax rate</strong> (national and local average, if applicable)</td>
<td>45%⁴ (plus solidarity surcharge of 5.5%⁵ for a total 47.48%)</td>
<td>45% (plus solidarity surcharge of 5.5% for a total 47.48%)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Standard value-added tax (VAT) rate</strong></td>
<td>19%⁶ (reduced rate of 7%⁷ applies in many areas)</td>
<td>19% (reduced rate of 7%⁸ applies in many areas)</td>
<td>–</td>
</tr>
</tbody>
</table>

¹ Sec. 23 para. 1 KStG (Corporation tax act).
² Sec. 4 SolzG (Solidarity surcharge act).
³ Sec. 11 and sec. 16 GewStG (Trade tax act).
⁴ Sec. 32a para. 1 EStG (personal income tax act).
⁵ Sec. 4 SolzG (Solidarity surcharge act).
⁶ Sec. 12 para 1 USig (VAT act).
⁷ Sec. 12 para 2 USig (VAT act).
⁸ Sec. 12 para 2 USig (VAT act).
2.1 Key drivers of tax policy change

- Germany maintains its stable economic situation. Economic growth has decreased but has constantly been positive. The strong labor market has performed remarkably well in recent years with record-low unemployment. Public budgets have also developed very well. The draft federal budget for 2015 does not contain any new debt; this is the first time this has happened since 1969. In addition, as of 2016, a strict debt limitation rule will become effective at the federal level, followed by even stricter rules at state level (new debt will entirely be banned at the state level) from 2020. However, consolidated public debt is still around 75% of GDP and far above the target level of 60% for Eurozone Member States. In this context, fiscal consolidation and a decrease of public debt are the most important drivers of German finance policy.

- Between 1999 and 2008, Germany implemented several far-reaching structural tax reforms and decreased both its top individual income tax rate and top CIT rate, the latter significantly. This policy approach increased Germany’s competitive position and contributed to Germany’s remarkable economic recovery since 2006. But the era of big bang tax reforms, at least provisionally, has come to an end. In the last few years, Germany has instead focused on tax legislation to fight tax evasion and profit shifting. Interestingly, German tax policymakers emphasize that they believe their approach has a positive impact on the tax competitiveness of the German economy. If BEPS leads to a reduction of foreign base erosion incentives and harmful tax competition, this will improve Germany’s position as a location for business. With respect to future BEPS implementation, there are considerations within the German Federal Ministry of Finance to combine a BEPS implementation package in 2016 with additional business-friendly tax measures in order to invest additional tax revenue created by BEPS in increased tax competitiveness.

- The outcome of the 2013 federal election was widely interpreted as a vote against significant tax increases that were demanded by opposition parties prior to the election. Nonetheless, a stronger redistribution via the tax system is still favored by many politicians of the political left, which has gained political influence over the last years despite Chancellor Angela Merkel’s success in 2013. The social democrats did not only join the Federal Government in 2013 but have also become part of state governments in 14 of 16 states. Their political will for higher public expenditures in combination with their strong position and the strict debt limitation rules could put tax increases on the political agenda again in the future. At a minimum, Germany will continue its strong BEPS and Common Reporting Standar (CRS) support and will probably be on the forefront of BEPS implementation in 2016.

2.2 Fiscal consolidation vs. stimulus

- Headline CIT rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Interest deductibility
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Hybrid mismatches
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Treatment of losses
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Capital gains tax
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- VAT, GST or sales tax rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- VAT, GST or sales tax base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
Germany

- Controlled foreign companies (CFCs)
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Thin capitalization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Transfer pricing changes
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- R&D incentives
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Other business incentives - including depreciation/amortization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Changes to tax enforcement approach
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Top marginal personal income tax (PIT) rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- PIT base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

2.3 Tax policy outlook for 2015 – summary

**Corporate income tax burden**

| Lower | No change | X | Higher |

**Personal income tax burden**

| Lower | X | Mixed | Higher |

**VAT/GST/sales tax burden**

| Lower | X | Mixed | Higher |
2.4 Tax policy outlook for 2015 – detail

Corporate income taxes

- Taxation of capital gains realized on the disposition of portfolio corporate shareholdings of less than 10% will be reconsidered in 2015. A majority of states strongly support such taxation. Currently, only dividends are fully taxable for a corporate shareholder with such portfolio shareholdings, while capital gains are effectively 95% tax exempt. It has been announced that a draft bill will be published by mid-2015.

- It remains to be seen whether states will enforce the implementation of stricter anti-hybrid rules in 2015. If not, such rules will probably be implemented as from 2016 as a part of the wider implementation of BEPS issues. Hybrid mismatch rules are part of the agenda of a joint federal and state working group on early BEPS implementation that in 2015 will discuss options to introduce BEPS legislation. A draft bill will be announced in 2015 that will include at least some aspects of anti-hybrid mismatch regulation.

- Germany supports the introduction of a common corporate tax base (CCTB) in the EU, and intensified coordination in the field of direct taxation in Europe is seen as a helpful instrument to fight BEPS. Senior tax policymakers are optimistic that progress can be made in the CCTB discussion in 2015. In the longterm, Germany would also support a CCTB, including consolidation and formulary apportionment of the tax base.

Taxes on wages and employment

- Conservative backbenchers have started an initiative to push a reform of the personal income tax rate which would effectively lower personal income taxes. The background to this issue is the progressive course of the marginal personal income tax rate in Germany which starts at a marginal rate of 14 percent and then rises in bands, up to highest marginal rate 45 percent. The conservative initiative criticizes that historically, personal income tax policies have not taken inflation into account. Thus, salary increases that equal to or less than the rate of inflation lead to a higher tax liability. This effect (named ‘cold progression’ in Germany) normally has a minor effect each year, but accumulates significantly over time, even in a relatively low-inflation environment. The initiative aims to reform the income tax rate so as to eliminate such inflationary effects on taxation. Angela Merkel and Finance Minister Wolfgang Schäuble do not support this initiative, but broad support in the conservative party could put it on the tax policy agenda in 2015.

VAT, GST and sales taxes

- Germany is currently introducing the EU reverse charge quick reaction mechanism. Therefore, the extension of the reverse charge system is expected to remain a tax policy issue in 2015.

- The Federal Constitutional Court decided in late December 2014 that the specific business-friendly tax allowances in the inheritance tax act are against German basic law. Therefore, an inheritance tax law amendment will be necessary until 30 June 2016. The new coalition has committed itself to a business-friendly adjustment, but we expect the social democrats and the states to push for a new regulation that increases inheritance tax revenue. Inheritance tax revenue is part of the budget of the states.

- Concerning real estate tax, the current valuation system is under pressure as it utilizes values from the 1930s and 1960s. It is possible that either court decisions will result in reform, or the states and the federal level proactively will agree on reform. Several proposals have been in discussion for the past two years. The outcomes will likely lead to higher real estate taxes. The federal coalition has called the states to agree on a reform model.

- Germany supports a quick introduction of a financial transaction tax (FTT). Since many EU Member States oppose a FTT, Germany is part of the group of 11 Member States that have joined an enhanced cooperation procedure. It is expected that there will be an agreement within the 11 states on at least some kind of first step in 2015.

2.5 Fiscal stimulus in 2015

- Very likely
- Somewhat likely
- Neither likely or unlikely
- Somewhat unlikely
- Very unlikely

In reaction to the discussion on the need for higher public investments at the EU and G20 level, Finance Minister Schäuble has developed a program to increase federal investments from 2016 onwards. This program will cumulatively raise federal investments by EUR10b. from 2016 to 2018. It is not clear yet which specific investments will be made, but it seems likely that the program will not include tax components but instead will focus on higher public expenditures.
2.6 Political landscape

Similar to 2014, 2015 is a year with no highly important elections. There will be two elections at the state level that only concern states that are small and where, additionally, no change in election outcome is expected (Hamburg and Bremen). This will change in 2016 when five state-level elections are scheduled. The next federal election will be in 2017.

Regarding tax policy, the decline of the liberal democrat party since 2013 is a noteworthy fact. The liberal democrats have always been a relatively small party with limited influence, but they have also been the party with the clearest tax policy focus on tax competitiveness. This became increasingly obvious in recent years, when Chancellor Merkel started to highlight social policy issues in her program at the expense of the business wing of her party. After a record election success in 2009, the liberal democrats consistently lost support during their time in coalition with Chancellor Merkel and ultimately failed to enter Federal Parliament in 2013 – the first time this has occurred since 1949. The most convincing explanation for this collapse is that they almost entirely lost their credibility as they were unable to enforce any of their key political demands. Most notably they could not convince the conservatives of the need for far-reaching tax reform. In 2014, the liberal democrats were additionally voted out of two state parliaments. Current party chairman Christian Lindner plans a political campaign in 2015 in order to reestablish his party as a relevant political player. Whether or not his strategy succeeds will probably not be clear before 2016 or 2017, as the liberal democrats are traditionally weak in the two states in which elections take place in 2015.

2.7 Current tax policy and tax administration leaders

Tax policy leaders

- Ingrid Arndt-Brauer, Chairman of the Bundestag Finance Committee
- Finance policy speakers of the Bundestag parliamentary groups
- Markus Söder (CSU), Bavarian State Minister of Finance
- Dr. Norbert Walter-Borjans, State Minister of Finance of North Rhine-Westphalia
- The “big 8” business associations and other representative bodies

Tax administration leaders

- Johannes Geismann, State Secretary, Federal Ministry of Finance
- Dr. Michael Meister, Parliamentary State Secretary, Federal Ministry of Finance
- Michael Sell, Head of the Tax Division of the Federal Ministry of Finance
- Sixteen heads of tax departments at the state level

2.8 Key tax policy changes in 2014

- Dividend stripping: the adjustment to the opinion held by the tax authorities on the taxation of profits from the sale of dividend entitlements (as of the 2014 assessment period).
- This is the readjustment of the real estate transfer tax (RETT) group transaction exemption (applicable to purchase transactions performed after 6 June 2013, and therefore also retroactively).
- Germany enacted provisions implementing the Authorised OECD Approach (AOA) on the attribution of profits to a permanent establishment (PE) into the tax law. In 2014, the German Ministry of Finance issued the final version of a new Regulation on the Profit Attribution to Permanent Establishments (PE Regulation), providing details on the application of the AOA.
- VAT: This is the implementation of the mini One Stop Shop.
- The long-awaited double tax treaty (DTT) with the People’s Republic of China was signed in Berlin on 28 March 2014. Contrary to Germany’s usual treaty policy, the DTT China does not contain the AOA to allocate profits to the headquarters and the permanent establishment.
2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

Germany has supported the OECD BEPS initiative since its inception, and the governing coalition remains strongly committed. Germany has already implemented strong regulations to hinder BEPS strategies in the past, including strict CFC rules, exit taxation rules and the interest barrier. In addition, legislation against hybrid mismatch arrangements was implemented in 2013.

It is expected that Germany will adopt BEPS outcomes into domestic law as soon as the BEPS project concludes. In general, Germany will also apply BEPS-related changes in the OECD model tax convention into its own model tax convention and in pending and new treaty negotiations.

The Federal Ministry of Finance aims to implement the BEPS recommendation in 2016, after the project has been finalized at the OECD level. The states and the social democrat party, however, have started a campaign to implement first steps as soon as possible. In late 2014, they announced their intention to deny their approval for a government bill if no steps were undertaken in this respect. As part of a compromise, the Federal Government and states agreed to create a BEPS working group in early 2015, which will discuss options to introduce BEPS legislation in 2015. Additionally, the Federal Government has committed to publish a draft bill on the basis of the working group’s discussions in 2015. In general, we expect that the majority of German BEPS-related legislation will happen in 2016.

Regarding the country-by-country reporting discussion, which is part of the BEPS action point 13, the Ministry of Finance supports a disclosure of information only towards the finance authorities and not into the public domain.

2.10 Pending tax proposals

The state of Hessen has started a legislative initiative to the Federal Council (Bundesrat) that contains:
- Introduction of a measure against “patent box” and similar intellectual property taxation regimes established by other jurisdictions. Royalties paid to any group affiliate should only continue to be deductible as an expense in Germany if those payments are subject to tax in the hands of the affiliated recipient with a tax rate of 25% or more
- Temporary introduction of the declining-balance tax depreciation method for investments made during years 2015 and 2016
- Repeal of LIFO (last in, first out) as a permitted convention for inventory tax accounting purposes
- Repeal of the capital gains exemption for stock sales of corporate sellers, if the seller’s interest in the sold company’s shares is below 10%

It is unlikely that the whole package will be implemented in 2015 but all single topics will be, to some extent, on the tax policy agenda.

2.11 Consultations opened/closed

Federal Parliament conducted public hearings on all relevant tax bills, most notably:
- Legislation to Adapt National Tax Law to Croatia’s Accession to the EU and to Amend Further Tax Regulations
- Self-disclosure rule amendments
- Law Concerning the Adoption of the General Tax Code to the European Customs Codex and Other Tax Law Amendments

In 2014, the Federal Ministry of Finance conducted several consultations, most importantly on a revised letter memorandum concerning section 8c of the Corporate Income Tax Act (CITA).
## Tax rates (2014-15)

### 1.1 Key tax rates

<table>
<thead>
<tr>
<th>Top corporate income tax (CIT) rate (national and local average, if applicable)</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
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<tr>
<td>26%</td>
<td>26%</td>
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</table>

<table>
<thead>
<tr>
<th>Top individual income tax rate (national and local average, if applicable)</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>42%</td>
<td>42%</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Standard value-added tax (VAT) rate</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>23%</td>
<td>23%</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

## 2015 tax policy outlook

### 2.1 Key drivers of tax policy change

- The tax system aims to help the Government monitor tax evasion and enhance transparency.
- The Government aims to enhance competitiveness and to give incentives for further investments and creating new posts.
- The Government also aims to boost healthy growth. It is hoped that action in this direction will reduce the odds of another crisis in the long term, by boosting competitiveness and avoiding the build-up of large external imbalances.
- Furthermore, the Government has introduced penalties to create strong disincentives to tax evasion.
2.2 Fiscal consolidation vs. stimulus

- Headline CIT rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Interest deductibility
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Hybrid mismatches
  - Change proposed or known for 2015
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- Treatment of losses
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
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- Capital gains tax
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- VAT, goods and services tax (GST) or sales tax rate
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- VAT, GST or sales tax base
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- Thin capitalization
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- Transfer pricing changes
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  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
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- R&D incentives
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  - Additional change possible or somewhat likely in 2015
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- Other business incentives – including depreciation/amortization
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- Changes to tax enforcement approach
  - Change proposed or known for 2015
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  - Higher burden in 2015

- Top marginal personal income tax (PIT) rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
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  - Higher burden in 2015

- PIT base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
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  - Higher burden in 2015
2.3 Tax policy outlook for 2015 — summary

Corporate income tax burden

<table>
<thead>
<tr>
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<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>☒</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Personal income tax burden

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
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<td></td>
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</tr>
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</table>

VAT/GST/sales tax burden

<table>
<thead>
<tr>
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</thead>
<tbody>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2015 — detail

Corporate income taxes

- A legislative election took place in Greece on 25 January 2015. The election was held earlier than scheduled due to the failure of the Greek parliament to elect a new president on 29 December 2014. Left-wing party SYRIZA won a legislative election for the first time, securing 149 out of the 300 seats, 2 seats short of an absolute majority. The new government was formed on the 26th of January between SYRIZA and ANEL, while the policies and working program of the newly elected government have not been announced yet and are expected shortly.

Taxes on wages and employment

- No significant changes are expected.

VAT, GST and sales taxes

- The Prime Minister has also stated his intention to proceed with legislating indirect ways in view of enhancing competitiveness of SMEs, such as the restriction of the VAT obligation.

2.5 Fiscal stimulus in 2015

- Very likely
- Somewhat likely
- Neither likely or unlikely
- Somewhat unlikely
- Very unlikely

If Very or Somewhat likely, which tax measures do you think will most likely be included? (select all that apply)

- Headline CIT rate reductions
- More generous tax treatment of losses
- More generous business incentives (including R&D)
- Accelerated depreciation
- VAT/GST rate reductions
- PIT rate reductions

2.6 Political landscape

- Greece's political landscape is fragile at the moment given the early national election in late January 2015, forced due to the failure of the Greek parliament to elect a new president in 29 December 2014. The said election was won by leftist party SYRIZA for the first time. The said result caused a significant shift in the political power that might jeopardize the country's economic recovery, given that the former government was negotiating an early exit from Greece's EU/IMF bailout.
2.7 Current tax policy and tax administration leaders

- Yanis Varoufakis was appointed New Minister of Finance.

2.8 Key tax policy changes in 2014

- The Government introduced a new income and corporate tax code (ITC) and procedural code on 1 January 2014. The new ITC introduces terms and definitions in alignment with OECD principles.

- In this respect, tax residency provisions have been clarified, and the code provides the conditions when an individual is considered to be a Greek tax resident. Accordingly, a legal entity is deemed as Greek tax resident when Greece is either the place of establishment, incorporation, registered seat or the place of effective management. Furthermore, the concept of “effective management” is included in the Greek tax legislation according to the meaning set by the OECD guidelines.

- The new measures also introduced a general limitation for interest deductibility. The amount of net interest (interest on debt minus interest income) paid by a company is now not tax deductible to the extent it exceeds 25% of the earnings before interest, taxes, depreciation and amortization (EBITDA) after tax adjustments; such non-deductible expenses may be carried forward for five years.

- Under the new legislation, transfer pricing provisions have been clarified. In this context, the term “associated person” has been extended. Moreover, the concept of “business restructurings” was also introduced in the new law, which follows the guidelines set out in the 2010 OECD Report on the transfer pricing aspects of business restructurings.

- Furthermore, in light of the new ITC and procedures code, mandatory new transfer pricing documentation requirements were introduced, adopting the two-tier Master File and Local File approach. The additions to the previous mandatory documentation content aim to capture the “big picture” of the group’s supply and value chain in line with the OECD BEPS initiative.

- Provisions regarding mergers and spin-offs, transfers of assets for shares and exchanges of shares were introduced, transposing into the code the EU Directive 2009/133/EC on the common system of taxation applicable to mergers, spin-offs, transfers of assets and exchanges of shares concerning companies of different Member States.

- The new code also includes a general anti-abuse rule which covers all kinds of transactions that are now embedded in the Greek Tax Procedures Code. According to this rule, all tax benefits enjoyed when performing such transactions may be lost if it is found that the principal objective, or at least one of the principal objectives, behind such transaction(s) was tax avoidance and, thus, the corresponding transaction was not motivated by sound commercial reasons.

- CFC rules were also introduced into Greek tax legislation. The taxable income of a tax payer with tax residence in Greece shall be increased by the “undistributed” income of a foreign company, provided that the conditions of “control” as set in domestic law are cumulatively met.

- Alongside the ITC, a Tax Procedures Code also provides a long-awaited compilation of procedural provisions that were previously scattered in several different pieces of legislation. This tax legislation is ultimately aimed at setting the basis for the establishment of an efficient tax and audit mechanism.

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- The new Tax Procedures Code introduces a general tax anti-avoidance rule for the first time in Greek tax law. The rule, whose application scope seems rather broad, seeks to capture cases where taxpayers make use of artificial structures without any underlying commercial substance and that have been implemented for tax avoidance purposes and lead to the generation of tax advantages.

- In cases where the rule is deemed to apply, the Greek tax authorities may impose taxes while disregarding the artificially created structure.

- Indicative criteria in order for an arrangement to be considered as artificial are included in the new provision, such as arrangements that are not in line with ordinary business practices and tax benefits that are not proportionate to the risks assumed.

- Furthermore, regarding the transfer pricing documentation requirements, the two-tier approach, with a Master File and a Local File, has been adopted in the new Greek legislation, and additions to the previous mandatory documentation content have been introduced, aiming to capture the “big picture” of the group’s supply and value chain in line with the OECD BEPS initiative.

2.10 Pending tax proposals

- None

2.11 Consultations opened/closed

- On November 20, 2014 a law was voted by the Parliament introducing new Greek GAAP as shall be applied for fiscal years beginning from 1 January 2015. The new law implements significant changes regarding the maintenance of books and records, replacing the current Tax Transactions Reporting Code (TTRC).
1 | Tax rates (2014-15)

### 1.1 Key tax rates

<table>
<thead>
<tr>
<th>Top corporate income tax (CIT) rate (national and local average, if applicable)</th>
<th>2014</th>
<th>2015</th>
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</tr>
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<tbody>
<tr>
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<tr>
<th>Top individual income tax rate (national and local average, if applicable)</th>
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</tr>
</thead>
<tbody>
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<td>16%</td>
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<td>–</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Standard value-added tax (VAT) rate</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>27%</td>
<td>27%</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

### 2 | 2015 tax policy outlook

#### 2.1 Key drivers of tax policy change

- The Government is determined to keep the fiscal deficit under 3% while maintaining economic growth.
- Its main aim is to increase employment and encourage investments and job-creating activities in Hungary.
- The Government specifically addresses VAT frauds, as those directly hinder the above aims.

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1 Section 19(1)-(2) of Act LXXXI of 1996 on Corporate Income Tax.
2 Section 8(1) of Act CXVII of 1995 on Personal Income Tax.
3 Section 82(1) of Act CXXVII of 2007 on the Value Added Tax.
2.2 Fiscal consolidation vs. stimulus

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2.3 Tax policy outlook for 2015 – summary

<table>
<thead>
<tr>
<th>Corporate income tax burden</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Personal income tax burden</td>
<td>Lower</td>
<td>No change</td>
<td>Higher</td>
</tr>
<tr>
<td>VAT/GST/sales tax burden</td>
<td>Lower</td>
<td>No change</td>
<td>Higher</td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2015 – detail

Corporate income taxes

- The utilization of losses incurred during or after 2015 will be limited to five years. In cases of restructuring or legal succession, the legal successor will only be entitled to use the predecessor’s losses in each tax year in proportion to the ratio of the revenues realized on the basis of the activities previously pursued by the predecessor and the average revenue the predecessor realized on the basis of the same activities. The utilization of previously incurred losses will also be restricted.
- Related parties will be required to use the interquartile range to establish the fair market value of their transactions from 2015 onward (where appropriate).

Taxes on wages and employment

- No major changes are expected.

VAT, GST and sales taxes

- No major changes are expected.
- New date of supply rules will be introduced for periodically settled transactions in the case of accounting, audit and tax advisory services. In general, the date of supply will be the last day of the period concerned, but exemptions may be applicable if the payment deadline is later than or prior to the last day of the period concerned. The new rules will cover all periodically settled transactions from 2016 onward.
- In the case of swap (barter) transactions, the in-kind advances (e.g., raw materials) will also be subject to VAT.
2.5 Fiscal stimulus in 2015

- Very likely
- Somewhat likely
- Neither likely or unlikely
- Somewhat unlikely
- Very unlikely

2.6 Political landscape

- The coalition of Fidesz-KDNP, which has governed since the 2010 elections, won three elections during 2014 (the general parliamentary elections in April, the European elections in May and the local government elections in November). Currently, Fidesz-KDNP has nearly a two-thirds majority in the Hungarian Parliament.
- The last Hungarian parliamentary elections were held on 6 April 2014. The Fidesz-KDNP coalition won the election and currently holds 132 seats in the Parliament out of a total of 199. The opposition is fragmented; the Hungarian Socialist Party (MSZP) has the second largest number of seats in the Parliament, at 29.
- The elections did not result in any changes in the leadership that would affect the tax policy landscape.

2.7 Current tax policy and tax administration leaders

- Mihály Varga, Minister for National Economy
- Ildikó Vida, Head of National Tax and Customs Administration

2.8 Key tax policy changes in 2014

- There were no major changes in tax policy during 2014.

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- No clear position has been revealed by the Government regarding the BEPS initiative. A new anti-hybrid rule will be introduced in 2015, but it does not explicitly refer to BEPS.
- According to the new anti-hybrid rule, Hungary will not exempt income from taxation if the contracting states interpreted the underlying double tax treaty or the facts and circumstances differently, and this different interpretation has the effect that none of the contracting states deem the income to be taxable.

2.10 Pending tax proposals

- Not applicable

2.11 Consultations opened/closed

- Not applicable
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### 1.1 Key tax rates

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<tbody>
<tr>
<td>Domestic companies: <a href="#">1</a> regular tax of 33.99%, including surcharge and education cess (32.445% where the total income is more than INR10 million and up to INR100 million; 30.9% where the total income is equal to or less than INR10 million)</td>
<td></td>
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<td>–</td>
</tr>
<tr>
<td>Foreign companies: regular tax of 43.26%, including surcharge and education cess (42.024% where the total income is more than INR10 million and up to INR100 million; 41.2% where the total income is equal to or less than INR10 million)</td>
<td></td>
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<td>–</td>
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</tbody>
</table>

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<tbody>
<tr>
<td>30%</td>
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<td>Central VAT levied on manufactured goods: 12%</td>
<td></td>
<td></td>
<td>–</td>
</tr>
<tr>
<td>State VAT levied on sale and purchase of goods: 12.5% to 15%</td>
<td></td>
<td></td>
<td>–</td>
</tr>
<tr>
<td>Central VAT and service tax levied on manufactured goods and services: 12.36% (12% + 3% education cess)</td>
<td></td>
<td></td>
<td>–</td>
</tr>
<tr>
<td>State VAT on sale and purchase of goods: 12.5% to 15%. Varies from one state to another</td>
<td></td>
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<td>–</td>
</tr>
</tbody>
</table>

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1. EY India Budget Plus 2013.
2. EY India Budget Plus 2014.
3. EY India Budget Plus 2014.
2015 tax policy outlook

2.1 Key drivers of tax policy change

- Aid economic growth revival
- Continue on path of fiscal consolidation
- Facilitate greater flow of resources for productive purposes and investment
- Maintain expenditure restraint while ensuring resources or priority flagship schemes
- Rationalize and simplify the tax regime
- Adopt goods and services tax (GST), addressing all concerns of state governments
- Establish non-adversarial and conducive tax environment

2.2 Fiscal consolidation vs. stimulus

- Headline CIT rate
  - Change proposed or known for 2015
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- **PIT base**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- India
2.4 Tax policy outlook for 2015 – detail

Corporate income taxes
- No change is expected in corporate income taxes as the Government is facing fiscal constraints.

Taxes on wages and employment
- No changes are expected.

VAT, GST and sales taxes
- The Central/Federal Government is likely to maintain the Central Excise Duty (CENVAT) and service tax rate at 12%.
- A Constitution (Amendment) Bill for implementation of GST was tabled in the Parliament on 19 December 2014.
- A GST is likely to be introduced in India from 1 April 2016.

2.5 Fiscal stimulus in 2015

☑ Very likely
☐ Somewhat likely
☐ Neither likely or unlikely
☐ Somewhat unlikely
☐ Very unlikely

2.6 Political landscape

- The May 2014 general elections brought the National Democratic Alliance (NDA) into power, with the leader of the coalition, Bharatiya Janata Party (BJP), gaining an absolute majority in the Lok Sabha (the lower house of Parliament). However, the ruling coalition does not have a majority in the Rajya Sabha (the upper house of Parliament) and is unlikely to have a majority until 2016.

2.7 Current tax policy and tax administration leaders

Tax policy leaders
- Arun Jaitley, Finance Minister
- Rajiv Mehrishi, Secretary, Dept. of Economic Affairs, Ministry of Finance
- Shaktikanta Das, Revenue Secretary, Ministry of Finance
- Dr. Arvind Subramanian, Chief Economic Adviser to Prime Minister

Tax administration leaders
- K V Chowdary, Chairperson, Central Board of Direct Taxes (CBDT)
- Kaushal Srivastava, Chairperson, Central Board of Excise and Customs (CBEC)

2.8 Key tax policy changes in 2014

Personal income tax
- The Ministry of Finance issued circulars to bring clarity on The PIT exemption limit was raised from INR200,000 to INR250,000 in the case of individual taxpayers below the age of 60. The exemption limit was raised from INR250,000 to INR300,000 in the case of senior citizens.
- The investment limit under section 80C of the Income Tax Act was raised from INR100,000 to INR150,000.
- The deduction limit for loan interest for self-occupied house property was raised from INR150,000 to INR200,000.

Corporate income tax
- A conducive tax regime for infrastructure investment trusts and real estate investment trusts will be set up in accordance with the regulations of the Securities and Exchange Board of India.
- An investment allowance at the rate of 15% is available to a manufacturing company that invests more than INR25 million in any year in a new plant and machinery. The benefit is available for three years, i.e., for investments up to 31 March 2017.
- A 10-year tax holiday is extended to the undertakings that begin generation, distribution and transmission of power by 31 March 2017.
Income arising to foreign portfolio investors from a transaction in securities is treated as capital gains.

To remove tax arbitrage possibilities, the rate of tax on long-term capital gains increased from 10% to 20% on the transfer of units of mutual funds, other than equity-oriented funds.

An income and dividend distribution tax is levied on the gross amount instead of the amount paid net of taxes.

In the case of non-deduction of tax on payments, 30% of such payments will be disallowed instead of 100%.

A high-level committee will review retrospective amendments regarding indirect transfers.

**Excise duty**

To boost domestic manufacturing and to address the issue of inverted duties, a basic customs duty (BCD) has been reduced on certain items.

To incentivize expansion of processing capacity, the excise duty on specified food processing and packaging machinery has been reduced from 10% to 6%.

To develop renewable energy, various items are exempt from excise duty.

The specific rates of excise duty on cigarettes increased in the range of 11% to 72%.

**Service tax**

The service tax base was extended, whereby the sale of space or time for advertisements in broadcast media was extended to cover additional segments, such as online and mobile advertising. The sale of space for advertisements in print media, however, remains excluded from service tax. Services provided by radio taxis were brought under the service tax.

Services by air-conditioned contract carriages and technical testing of newly developed drugs on human participants were brought under the service tax.

The provision of services rules will be amended, and tax incidence will be reduced on the transport of goods through coastal vessels to promote the Indian shipping industry.

The advance ruling scheme in indirect taxes will be expanded to cover resident private limited companies. The scope of the Settlement Commission will be enlarged to facilitate quick dispute resolution.

The Customs and Central Excise Acts will be amended to expedite the process of disposal of appeals.

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

From an Indian perspective, measures to deal with treaty shopping and other forms of treaty abuse, transfer pricing rules in the key area of intangibles and country-by-country reporting (CbCR) are of great importance.

Equally important is the agreement to implement BEPS measures through a multilateral instrument as well as thinking on taxation of the digital economy.

**Action 1**

The deliverable under Action 1 seeks to address the tax challenges of the digital economy. India has no specific provisions in its tax laws concerning the digital economy. The domestic tax law definition of the term royalty (after its amendment by the Finance Act 2012) is perceived to be wide enough to capture most technology and/or digital economy transactions. However, the characterization of payments (i.e., business income vs. royalty) has been the subject of current litigation as business income in the hands of a nonresident is generally not taxable in India in the absence of a permanent establishment (PE).

**Action 6 and Action 15**

The Action 6 report includes proposed changes to the OECD Model Tax Convention to prevent treaty abuse, and the Action 15 report identifies the issues arising from the development of a multilateral instrument that modifies bilateral tax treaties.

There has been a heightened focus on the part of the tax authorities on claims of treaty benefits. Indian tax law contains provisions requiring tax residency certificates and other self-declarations for claiming tax treaty benefits. Indian tax law also contains GAAR provisions, proposed to be effective from 1 April 2015. The GAAR provisions also contain a clause for treaty override under specific circumstances. India is also renegotiating certain tax treaties to specifically include anti-abuse provisions, such as limitation of benefits rules and beneficial ownership clauses. Given this, the contents of the report under Action 6 should largely be welcomed by India. The introduction of the multilateral instrument to renegotiate treaties faster should also be welcomed by India.
Action 8

The Indian transfer pricing regulations do not contain any specific guidance on transfer pricing aspects of intangibles. In this backdrop, the guidance assumes significance from an Indian perspective. Courts in India have often acknowledged the role of OECD Transfer Pricing Guidelines while applying the applying Indian transfer pricing regulations.

The Indian tax administration believes that core R&D functions that are located in India require important strategic decisions by management and employees of the Indian subsidiary and, accordingly, the Indian subsidiary exercises control over operational and other risks. In this context, the allocation of the routine cost plus return will not reflect an arm's-length price for the services rendered.

Action 13

From an Indian perspective, it may be noted that Rule 10D of the Indian transfer pricing rules provides an exhaustive list of documents that a taxpayer is expected to maintain. From a compliance point of view, Indian taxpayers would be governed by the Indian rules regarding documentation, and the OECD guidance may not directly impact their compliance obligations. However, they do set a higher standard of expectation of the Indian tax authorities on the information they may want to see in the transfer pricing documentation. The executive summary of the report states that some emerging countries, including India, may require reporting in the CbCR of additional transactional data (beyond what is available in the master file and local file for transactions operating in their jurisdictions) regarding related-party interest payments, royalty payments and especially related-party service fees.

2.10 Pending tax proposals

- Direct Taxes Code
  - Goods and service tax, Constitutional (122th Amendment) Bill, placed in Parliament on 19 December 2014 and likely to be passed in the 2015 budget session of Parliament in February or March 2015
  - Introduction of a "roll back" provision in the advanced pricing agreement (APA) scheme so that an APA entered into for future transactions is also applicable to international transactions undertaken in the previous four years in specified circumstances
  - Introduction of a range concept for the determination of the arm's-length price in transfer pricing regulations

2.11 Consultations opened/closed

- Pre-budget consultations are currently running.
1 | Tax rates (2014-15)

1.1 Key tax rates

<table>
<thead>
<tr>
<th>Top corporate income tax (CIT) rate (national and local average, if applicable)</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.5%</td>
<td>12.5%¹</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Top individual income tax rate (national and local average, if applicable)</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>48%</td>
<td>48%²</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Standard value-added tax (VAT) rate</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>23%</td>
<td>23%³</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

2 | 2015 tax policy outlook

2.1 Key drivers of tax policy change

- Fiscal policy in Ireland is set within the boundaries of both the Stability and Growth Pact (the Pact) and the Fiscal Compact. Ireland is currently subject to the requirements of the corrective arm of the Pact; within this correction framework, interim targets for the headline deficit have been set.

- Budget 2015 was presented to the Irish Parliament on 14 October 2014. The measures announced are estimated to cost €585m which will be partly offset by revenue raising measures of €167m (net cost €418m). The Government is targeting a deficit of 2.7% in Budget 2015, lower than the required target of 2.9% of GDP. Ireland will then be no longer subject to the corrective arm of the Pact, but subject to the requirements of the preventative arm and the Fiscal Compact.
2.2 Fiscal consolidation vs. stimulus

- **Headline CIT rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Interest deductibility**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Hybrid mismatches**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Treatment of losses**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Capital gains tax**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **VAT, GST or sales tax rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **VAT, GST or sales tax base**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Controlled foreign companies**
  - N/A

- **Thin capitalization**
  - N/A

- **Transfer pricing changes**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **R&D incentives**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Other business incentives - including depreciation/amortization**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Changes to tax enforcement approach**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Top marginal personal income tax (PIT) rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **PIT base**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

Ireland
2.3 Tax policy outlook for 2015 – summary

<table>
<thead>
<tr>
<th>Corporate income tax burden</th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Personal income tax burden</th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>VAT/GST/sales tax burden</th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2015 – detail

Corporate income taxes
- The Irish Government remains committed to the 12.5% rate of corporation tax.
- No major changes in corporate income taxes are expected in 2015.
- Budget 2015 contained a number of positive incentive-related measures.

Taxes on wages and employment
- Marginal rate of income tax to reduce by 1% to 40%
- Widening of standard rate tax bands (€1,000 for single and €2,000 for married)

Universal social charge
- Lower rate threshold increased from €10,036 to €12,012 and a 1% increase in rate (to 8%) for income above €70,044
- 1% increase in rate (to 11%) for self-employed individuals earning in excess of €100,000

VAT, GST and sales taxes
- Headline VAT remains at 23%
- Retention of 9% targeted (broadly tourism sector) VAT rate
- Excise increase on tobacco products

2.5 Fiscal stimulus in 2015

- Very likely
- Somewhat likely
- Neither likely or unlikely
- Somewhat unlikely
- Very unlikely

If very or somewhat likely, which tax measures do you think will most likely be included? (select all that apply)
- Headline CIT rate reductions
- More generous tax treatment of losses
- More generous business incentives (including R&D)
- Accelerated depreciation
- VAT/GST rate reductions
- PIT rate reductions
2.6 Political landscape

- The current Irish Government, which enjoys a comfortable majority, is a coalition of two political parties: Fine Gael (center-right) and Labour (center-left). It has been in power since March 2011 and can remain in office until April 2016, by which time the next election must be held. While there have been some minor tensions, the administration appears stable to date.

2.7 Current tax policy and tax administration leaders

**Tax policy leaders**
- Michael Noonan, Minister for Finance
- Brendan Howlin, Minister for Public Expenditure and Reform
- Derek Moran, Secretary General Department of Finance

Note: the position of Assistant Secretary with responsibility for the Fiscal Policy Division is currently vacant.

**Tax administration leaders**
- Josephine Feehily, Chairman of Irish Revenue Commissioners (retirement in 2015 announced)
- Liam Irwin, Revenue Commissioner
- Niall Cody, Revenue Commissioner

2.8 Key tax policy changes in 2014

- Enhancements to research and development regime, including an increase in the volume basis de minimus amount from €200K to €300K
- “Stateless” companies legislation — certain Irish registered companies, if not resident anywhere, will be regarded as resident in Ireland
- Enhanced double tax relief for leasing companies
- Introduction of new levy on financial institutions
- Increase in deposit interest retention rates to 41%
- Introduction of capital gains tax relief where certain gains are reinvested in trading activities
- A new start your own business initiative
- Amendments to pensions/retirement provisions
- Investment in film relief: from 1 January 2015 move away from principle of relief for investors in films to system whereby tax credit is made available for producer companies
2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- On 15 October 2013, the Department of Finance released Ireland’s International Tax Strategy. This strategy document reaffirms that Ireland’s corporate tax system is open and transparent and that all rules are clearly set down in national law. It reaffirms Ireland’s commitment to be part of the solution to combat tax evasion through active participation and support of both OECD and European Union initiatives, including the OECD’s BEPS project. The document states that: “Ireland is taking an active part in the BEPS project and we are committed to working with our OECD colleagues to address aggressive international tax planning.”

- In May 2014, the Minister for Finance launched a public consultation on BEPS (see section 2.11 below). In October 2014, the results of this consultation were published by the Department of Finance in its paper OECD Base Erosion and Profit Shifting Project in an Irish context; this document also explores the potential impact of the actions on Ireland and Ireland’s tax regime.

- In October 2014, the Department of Finance also published A Road Map for Ireland’s Tax Competitiveness, which “builds on the results of the OECD BEPS consultation process,” setting out a roadmap for Ireland’s tax competitiveness now and into the future. The document also provides an update on the objectives set out in the International Tax Strategy.

2.10 Pending tax proposals

- Company residence: Budget 2015 proposed that all Irish incorporated companies will be regarded as Irish resident subject to an override within a double taxation treaty. This rule will apply from 1 January 2015 for companies incorporated on or after 1 January 2015. For companies incorporated before 1 January 2015, the new rule will apply from the earlier of 1 January 2021 or from a date on or after 1 January 2015 where there is a change in ownership of the company and within one year before or five years after, there is a major change in the nature or conduct of the business of the company.

- R&D: abolition of 2003 “base year” requirement.

- Intangible assets: removal of 80% cap on the annual utilization of capital allowances for specified intangible assets.

- Knowledge development box: plan announced to introduce legislation in 2015 or as soon as EU and OECD processes allow.

- Start-up operations: extension of three-year tax relief to companies commencing operations in 2015.

- Foreign earnings deduction (FED): relief extended to include travel to Japan, Singapore, South Korea, the UAE, Qatar, Bahrain, Indonesia, Vietnam, Thailand, Chile, Oman, Kuwait, Mexico and Malaysia. Number of days required to be spent abroad reduced to 40 with travel time being included.

- Special Assignee Relief Programme (SARP): relief extended for a further three years until the end of 2017. Further enhancements include the removal of the upper salary threshold of €500,000.

- General anti-avoidance rule (GAAR) significant amendments apply to transactions commenced on or before 23 October 2014.

- Film corporation tax credit: minimum eligible expenditure is being reduced from €200,000 to €125,000.

- Agri-taxation: a number of agri-taxation measures are proposed.
2.11 Consultations opened/closed

OECD base erosion and profit shifting (BEPS) project – closed 22 July 2014

- In the context of the ongoing OECD BEPS project, the Department of Finance sought to engage interested parties in a discussion on how Ireland’s domestic tax system might best respond to international tax changes.
- Views were requested on:
  - Which international tax issues identified in BEPS Action Plan should be considered highest priority for Ireland to action
  - Any other international tax proposals of concern to Ireland
  - The best way for Ireland to ensure tax provisions are competitive
  - If Ireland’s company residence rules are appropriate in the context of BEPS and other international developments
  - What are the critical considerations in shaping Ireland’s response to current international tax developments
  - Other priority areas that should be considered as part of this process

Employment and Investment Incentive and Seed Capital Scheme, the Foreign Earnings Deduction and the Special Assignee Relief Programme – closed 9 May 2014

Employment and Investment Incentive and Seed Capital Scheme

- Views were requested on the operation of the schemes and any changes that might be proposed.

Foreign Earnings Deduction (FED)

- Views were requested on:
  - Whether relief should be extended beyond 31 December 2014
  - Operation of FED
  - Changes to the relief

Special Assignee Relief Programme (SARP)

- Views were requested on:
  - Whether relief should be extended beyond 31 December 2014
  - Operation of SARP
  - Changes to the relief
### 1.1 Key tax rates

<table>
<thead>
<tr>
<th>Tax type</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax (CIT) rate (national and local average, if applicable)</td>
<td>31.4%</td>
<td>31.4%</td>
<td>–</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>45.93%</td>
<td>47.23%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>22%</td>
<td>22%</td>
<td>–</td>
</tr>
</tbody>
</table>

1. EY Worldwide Corporate Tax Guide, EY, 2014. The legislative disposal for corporate income tax is Article 77 of the Presidential Decree, 22 December 1986, n. 917, while the disposal for regional tax is Article 16 of the Legislative Decree, 15 December 1997, n. 446. The corporate income tax (imposta sul reddito delle società, or IRES) rate is 27.5%. A 6.5% surcharge (increasing the effective tax rate to 34%) is imposed on oil, gas and energy companies with revenues exceeding €3 million and taxable income exceeding €300,000. A regional tax on productive activities (imposta regionale sulle attività produttive, or IRAP) is imposed on the net value of production and the basic tax rate is 3.9%. In any case, each region may apply a higher or lower tax rate according to the types of taxpayer.

2. EY Worldwide Personal Tax Guide, EY, 2014. The legislative disposal for individual tax is Article 11 of the Presidential Decree, 22 December 1986, n. 917. The rate includes an additional regional tax ranging from 0.7% to 3.33% (based on the region) and an additional municipal tax ranging from 0% to 0.9%. The rate does not include a solidarity tax of 3% (deductible from income subject to ordinary taxation) applicable on income in excess of €300,000, as well as does not include the additional income tax of 10% imposed on employees working in the credit sector on their variable remuneration (which may be represented by cash bonuses, stock options or shares) exceeding the yearly fixed remuneration.

2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

- The Government is striving to stimulate economic growth and keep the deficit under control by:
  - Reducing taxation on labor costs
  - Increasing tax competitiveness by providing tax incentives for income deriving from certain value-added activities
  - Reducing some public costs (e.g., health, public administration, education)
  - Fighting against tax evasion and harmful tax planning

2.2 Fiscal consolidation vs. stimulus

- Headline CIT rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Interest deductibility
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Hybrid mismatches
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
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  - Higher burden in 2015

- Treatment of losses
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Capital gains tax
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- VAT, goods and services tax (GST) or sales tax rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- VAT, GST or sales tax base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Controlled foreign companies
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Thin capitalization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Transfer pricing changes
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- R&D incentives
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
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  - Same burden in 2015
  - Higher burden in 2015

- Other business incentives – including depreciation/amortization
  - Change proposed or known for 2015
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  - Higher burden in 2015

- Changes to tax enforcement approach
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
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  - Same burden in 2015
  - Higher burden in 2015

- Top marginal personal income tax (PIT) rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- PIT base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
2.3 Tax policy outlook for 2015 – summary

<table>
<thead>
<tr>
<th>Corporate income tax burden</th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income tax burden</td>
<td>Lower</td>
<td>No change</td>
<td>Higher</td>
</tr>
<tr>
<td>VAT/GST/sales tax burden</td>
<td>Lower</td>
<td>No change</td>
<td>Higher</td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2015 – detail

Corporate income taxes
- On 22 December 2014, the Italian Parliament approved the budget law for 2015, which has been published on the Official Gazette on 29 December 2014 and is effective as of 1 January 2015. The most relevant measures contained in the budget law, aimed at promoting economic growth, are related to:
  - Introduction of a favorable patent box regime for income generated through the use of certain intangible assets; such income shall benefit from a 50% CIT exemption (30% in 2015 and 40% in 2016)
  - Introduction of an R&D tax credit, applicable from FY 2015 to FY 2019; the tax credit is 25% of the exceeding qualified expenditures (or 50% for some specific expenditures) in a given financial year in respect of the average of the three previous financial years
  - Full deduction for regional income tax (IRAP) of labor costs related to employees hired on a permanent basis
  - Restoration of the 3.9% standard IRAP rate; the 3.5% IRAP rate introduced in 2014 is replaced by the previously effective rate of 3.9%, with retroactive effect to FY 2014
  - Revision of the criteria to identify black-listed countries
  - Extension of the voluntary disclosure program

Taxes on wages and employment
- No changes are anticipated.

VAT, GST and sales taxes
- From 1 January 2015, the VAT rate applied on purchases of electronic books has been reduced from 22% to 4%.

2.5 Fiscal stimulus in 2015

☐ Very likely
☐ Somewhat likely
☐ Neither likely or unlikely
☐ Somewhat unlikely
☐ Very unlikely

2.6 Political landscape

- The current Government is led by Prime Minister Matteo Renzi and is supported by a coalition of progressive parties. The next Italian general election will be held before or during 2018.
2.7 Current tax policy and tax administration leaders

- Matteo Renzi, Prime Minister
- Pier Carlo Padoan, Minister of Economy and Finance
- Rossella Oriandi, Head of the Revenue Agency

2.8 Key tax policy changes in 2014

- The main tax updates occurring in 2014 are summarized as follows:
  - Introduction of a one-off asset step-up option through the payment of a substitute tax of 16% for amortizable or depreciable assets and 12% for non-amortizable or depreciable assets
  - Increase of the notional interest deduction (ACE) on new equity from 3% to 4% for 2014, 4.5% for 2015 and 4.75% for 2016; in addition, the basis is increased up to 40% for newly listed companies
  - Interest on loans paid by Italian borrowers to certain foreign lenders on financing with a maturity longer than 18 months are no longer subject to 26% withholding tax
  - Extension of the scope of the 0.25% substitute tax on medium- and long-term loans also to transfer of the credit deriving from the loan facilities, assignment of the loan agreements and transfer of the related guarantees
  - Increase of the withholding tax on financial income (dividends, interest and capital gains) from 20% to 26%
  - Tax credit for new plants and equipment for the period from 25 June 2014 to 30 June 2015 for companies investing in new plants and equipment identified by decree that may benefit from a 15% tax credit computed on the incurred expenses, following specific ratios
  - Reintroduction of the participation step-up through the payment of a substitute tax of 16%
  - New law provisions whereby deferred tax assets (DTA) can be turned into tax credits in new instances
  - Special bad debt provisions for banks and insurance companies
  - Reduction of the period related to the deduction of leasing instalments for CIT purposes
  - Application of transfer pricing rules for IRAP purposes
  - Extension of the scope of the International Standard ruling
  - Introduction of a personal income tax (IRPEF) bonus of €80,00 per month

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- No public statement, consultation or legislation in relation to the OECD BEPS Action Plan has been published or enacted to date, but there is great attention paid to the BEPS agenda from Italian tax legislators and the tax authorities. In addition, the guidelines provided to the Revenue Agency’s tax audit teams did refer specifically to focusing on those transactions listed in the BEPS Action Plan.
- The recently enacted patent box legislation includes several references to OECD Action 5 on harmful tax practices. Transfer pricing is another item likely to be of great interest in Italy.

2.10 Pending tax proposals

- On 27 February 2014, the Italian Parliament approved a framework law that enables the Government to implement a major tax reform. The Law (n. 23/2014), which was published in the Official Gazette of 12 March 2014, became effective as of 27 March 2014 and provides the following principles to guide the future action of the Government:
  - General measures addressed to equity and rationality of the fiscal system (Cadastre review, monitoring and measurement of the tax evasion, tax erosion review)
  - Measures to tackle tax avoidance (introduction of a general principle of abuse of law, reinforcement of specific tax investigations)
  - Review of the relationship between taxpayer and tax authority (introduction of a system of communication and reinforced cooperation, review of the criminal and administrative tax penalties system, review of the tax litigation system)
  - Simplification of the fiscal system to remove duplication and superfluous complexity
  - Introduction of rules aiming to reduce uncertainty in determining corporate tax income (bad debts, depreciations, amortizations, general expenses) and to promote the internationalization of the economic agents operating in Italy (review of the rules governing cross-border transactions: tax residence, blacklist costs, taxation of permanent establishments)
- In order to enact the tax reform, the Government is expected to issues a series of law decrees over the next few months.

2.11 Consultations opened/closed

- Not applicable
The outlook for global tax policy in 2015

1 | Tax rates (2014-15)

1.1 Key tax rates

<table>
<thead>
<tr>
<th>Top corporate income tax (CIT) rate (national and local average, if applicable)</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>35.64% (including local corporate taxes)</td>
<td></td>
<td>33.10%¹ (including local corporate taxes)</td>
<td>-7.1%</td>
</tr>
</tbody>
</table>

Top individual income tax rate (national and local average, if applicable)

| 40% (10%, plus additional local individual income tax rate) | 45%² (10%, plus additional local individual income tax rate) | 12.5% |

Standard value-added tax (VAT) rate

| 8% (from 1 April 2014) (consists of the national rate of 6.3% and local rate of 1.7%) | 8%³ (from 1 April 2014) (consists of the national rate of 6.3% and local rate of 1.7%) | - |

2 | 2015 tax policy outlook

2.1 Key drivers of tax policy change

- Prime Minister Abe has adopted monetary easing measures, a progressive fiscal policy and an economic growth strategy in order to reverse deflationary trends within the Japanese economy and to achieve adequate economic growth for the future.

- In addition, it is critical to reduce the national deficit in order to achieve fiscal health and cope with an aging population and low future birthrate.

¹ The Government has a policy to cut the effective corporate tax rate from the current 35% to below 30% over several years starting in the fiscal year starting on or after 1 April 2015. Under the 2015 tax reform plan announced on 30 December 2014, the effective corporate tax rate (Tokyo area) will be reduced by 2.54 percent point in the fiscal year starting on or after 1 April 2015.

² The top marginal rate (income exceeding JPY40 million) for national individual income tax will be increased from 40% to 45% from 1 January 2015.

³ A rate increase from 8% to 10% effective on 1 October 2015 was initially planned. However, the Government has confirmed that this tax rate increase will be postponed by 18 months until 1 April 2017 as economic conditions after the initial tax rate hike (1 April 2014) will not accommodate an additional increase.
2.2 Fiscal consolidation vs. stimulus

- **Headline CIT rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Interest deductibility**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Hybrid mismatches**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Treatment of losses**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Capital gains tax**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **VAT, goods and services tax (GST) or sales tax rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **VAT, GST or sales tax base**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Controlled foreign companies**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Thin capitalization**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Transfer pricing changes**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **R&D incentives**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Other business incentives – including depreciation/amortization**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Changes to tax enforcement approach**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Top marginal personal income tax (PIT) rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **PIT base**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
2.3 Tax policy outlook for 2015 – summary

<table>
<thead>
<tr>
<th>Corporate income tax burden</th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>X</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Personal income tax burden</th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>X</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>VAT/GST/sales tax burden</th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>X</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2015 – detail

**Corporate income taxes**

Japan’s FY2015 tax reform outline was released on 30 December 2014. While the compiling and the release of the Outline came later than in past years due to the House of Representatives election in December, the main reforms revealed in the Outline were largely in line with what had been discussed since early autumn. Below are descriptions of the main reforms:

- Effective corporate tax rates lowered
  - The corporate tax rate will be lowered to 23.9% (current rate: 25.5%) (applied to taxable years beginning on or after 1 April 2015).
  - The current standard effective corporate tax rate through the country and municipalities will be lowered from 34.62% (Tokyo base: 35.64%) to 32.11% (Tokyo base: 33.10%). This decrease takes into account the decrease in the corporate enterprise tax per income levy (from 7.2% to 6%).
  - The aim is to further lower the rate to 31.33% in the 2016 reforms and to below 30% within a few years.

- Revision of the net operating loss (NOL) carry-forward system
  - The current 80% utilization limitation of an annual NOL deduction will be lowered to 65% for taxable years beginning between on or after 1 April 2015 and on or before 31 March 2017 and further lowered to 50% for taxable years beginning on or after 1 April 2017. The carry forward period (currently 9 years) will become 10 years for NOLs incurring for taxable years beginning on or after 1 April 2017.
  - As a rule, the above reform does not apply to small and medium-sized enterprises.

- A special rule will apply to a newly established corporation and a corporation which commences rehabilitation procedures, which allows a 100% NOL deduction for a seven-year period.
Revision of the dividends received deduction (DRD) system

- The amount that can be excluded from gross revenue for each stock ownership ratio category will be amended as follows. Stocks with under 5% ownership will have the exclusion amount greatly reduced, from the current 50% to 20%.

<table>
<thead>
<tr>
<th>Ownership ratio</th>
<th>Amount excluded from gross revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td>Full amount of dividends received</td>
</tr>
<tr>
<td>More than 1/3, less than 100%</td>
<td>Full amount of dividends received (with debt interest exemptions)</td>
</tr>
<tr>
<td>More than 5%, up to 1/3</td>
<td>50% of dividends received (no debt interest exemptions)</td>
</tr>
<tr>
<td>5% or less</td>
<td>20% of dividends received (no debt interest exemptions)</td>
</tr>
</tbody>
</table>

- In the case of insurance companies, as a special provision, 40% of dividends received from stocks with an ownership ratio of 5% or less may be excluded from gross revenue.
- Dividends of stock investment funds will be fully included in the gross revenue. (80% of ETF dividends will be included in the gross revenue.)

Expansion of size-based taxation (corporate enterprise tax)

- The rate of corporate enterprise tax will be revised. The ratio of income-based taxation to size-based taxation (added value-based, capital-based) will be gradually revised (from current 3:1 to 5:3 in FY2015, and 1:1 in FY2016)
- A new system will be created, in which an increase in salary under the tax credits for salary growth regime can be deducted from the taxable basis of added value-based taxation.
- For corporations below a certain size that experience an increased burden as a result of the expansion of size-based taxation, measures will be implemented to reduce the burden for a two-year period.
- Revision of tax credit for R&D expenses
  - The R&D tax credit limitation with regards to so-called “gross amount” category will be reduced from the current 30% to 25% of corporate tax liability of a taxable year. Separately, the new R&D tax credit limitation only for the special experiment and research expenses (up to 5% of corporate tax liability) will be introduced.
  - A carryover of unused creditable amount will be repealed.

International taxation

- The effective tax rate used as a measure for determining low tax-rate countries under the anti-tax haven rules (also called the trigger tax rate) will be changed from “20% or under” to “less than 20%.” This will be applicable for the fiscal year of a specified foreign subsidiary company which begins on or after 1 April 2015.
- Under the foreign dividends exclusion (FDE) system, dividends that are included as deductible expenses according to the laws of the country where the foreign subsidiary resides will be excluded from the FDE system.

Other

- In order to revitalize rural areas, reduced taxes for investment in offices and special provisions in the job development tax system will be introduced for companies that strengthen their local presence by moving their offices from Tokyo or expanding their businesses in rural areas, etc.
- The reduced tax rate on eco-cars and the light motor vehicle tax will be reviewed.

Taxes on wages and employment (personal income tax)

- The top marginal rate of national individual income tax (on income exceeding JPY 40 million, approximately US$333,000) will be increased from 40% to 45% from 1 January 2015.
- In order to prevent the evasion of capital gains tax by moving to a country where capital gain on stocks, etc. are not taxed, an “exit tax” in which unrealized capital gains are taxed at the time of departure from Japan will be introduced (applicable to individuals moving their residences out of Japan on or after 1 July 2015).
- In order to encourage the transfer of assets between generations, a system in which gift tax is not applicable to the provision of lump-sum funds for marriage and child-rearing will be introduced. The system of non-taxation of funds for acquiring a house-dwelling, etc. will be expanded and the applicable period will be extended.
VAT, GST and sales taxes

- Consumption tax
  - The second phase of the consumption tax rate increase (from 8% to 10%) will be postponed for 18 months to 1 April 2017. At the time of the increase, after gaining the understanding of citizens including relevant businesses, a reduced tax rate on certain items will be introduced.
  - Consumption tax will be applied to the provision of services that cross international boundaries such as the provision of digital services (e.g., the distribution of electronic books, music and advertisement) from overseas businesses to Japanese residents or corporations (from 1 October 2015). Business to Consumer transactions will be taxed by self-assessment by the overseas business. Business to Business transactions will be taxed in principle by the reverse charge mechanism, in which the domestic business that receives the services will file the tax.
  - The consumption tax treatment of in-bound e-commerce transactions will be revised. Such transactions will be subject to tax under the 2015 tax reform plan.

2.6 Political landscape

- In November 2014, Prime Minister Abe dissolved the lower house after he confirmed that the consumption tax rate increase, initially planned for October 2015, would be postponed. The national election in the lower house was held on 14 December 2014, returning Prime Minister Abe to power.
- As a result, the current Japanese tax policy environment is expected to remain largely stable.

2.7 Current tax policy and tax administration leaders

Tax policy leaders
- Shinzo Abe, Prime Minister
- Taro Aso, Minister of Finance

Tax administration leader
- Nobumitsu Hayashi, Commissioner of the National Tax Agency

2.8 Key tax policy changes in 2014

- The 10% special corporate reconstruction surtax was repealed. The effective corporate tax rate was reduced from 38.01% to 35.64% as a result.
- Various tax incentive measures that promoted “Abenomics” were introduced.
- The basic principle of taxation on nonresidents and foreign corporations was changed from the current “entire income principle” to the “attributable income principle,” in line with the Authorized OECD Approach.
- In regard to PIT, the reduced tax rate (10%) on dividends and capital gain income derived from listed stocks was abolished and the original tax rate (20%) became applicable.
- The consumption tax rate (federal plus local) was increased from 5% to 8% on 1 April 2014.
2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- The Government has announced that it strongly supports the OECD BEPS Action Plan. Although there is no special working group or committee in relation to BEPS, the Government’s tax advisory committee has been continuously discussing various BEPS issues since 2013.
- There are some concerns that excessive policies or measures derived from BEPS discussion may negatively affect the international business operations of Japanese corporations.
- In the 2015 tax reform, some tax revisions in response to the BEPS discussion are expected to be introduced:
  - Revision of participation exemption (non-application to deductible dividends)
  - Revision of consumption tax on cross-border e-commerce transactions
  - Introduction of an exit tax for individuals

2.10 Pending tax proposals

- Further consumption tax rate increase (from 8% to 10%)
- Introduction of the special reduced consumption tax rate for foods and the necessities of life

2.11 Consultations opened/closed

- In November 2014, the Government’s tax advisory committee discussed the individual income taxation issue regarding the “spouse deduction,” which distorts the working status of Japanese women.
## Tax rates (2014-15)

### 1.1 Key tax rates

<table>
<thead>
<tr>
<th>Category</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax (CIT) rate (national and local average, if applicable)</td>
<td>29.22%¹</td>
<td>29.22%²</td>
<td>–</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>The maximum income tax rate is 42.80% or 43.60%,³ including the contribution of 7% or 9% to the employment fund.⁴</td>
<td>The maximum income tax rate is 42.80% or 43.60%, including the contribution of 7% or 9% to the employment fund.</td>
<td>–</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>15%</td>
<td>17%⁵</td>
<td>13.3%</td>
</tr>
</tbody>
</table>

¹ Article 174 of the law of 4 December 1967 on income tax, as amended, and the law of 21 December 2012. The rate consists of 21% of CIT with additional 7% of employment fund surcharge and 6.75% of municipal business tax for companies located in Luxembourg City and which taxable income exceeds EUR15,000. A CIT rate of 20% (plus surcharges) will be applicable on taxable income up to EUR15,000. Since January 2013, all Luxembourg resident entities in corporate form and liable to CIT are subject to a minimum corporate income tax regime.


³ Article 118 and 120bis of the law of 4 December 1967 on income tax, as amended and law of 21 December 2012.

⁴ Article 6 of the law of 30 June 1976 on creation of an employment fund, as amended; a further 0.5% temporary budget balancing tax will be introduced as from 1.1.2015; see Section 2.4.

⁵ Article 6 of the draft Budget Law 2015.
2015 tax policy outlook

2.1 Key drivers of tax policy change

- Use tax revenues responsibly
- Establish increased fairness and justice for expenses and revenues
- Implement policies as per governmental coalition program, including sustainable economic development and growth and developing competitiveness of Luxembourg, especially in regard to headquarters of multinationals

2.2 Fiscal consolidation vs. stimulus

- Headline CIT rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Interest deductibility
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Hybrid mismatches
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Treatment of losses
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  - Lower burden in 2015
  - Same burden in 2015
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- Capital gains tax
  - Change proposed or known for 2015
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  - Lower burden in 2015
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  - Higher burden in 2015
- VAT, goods and services tax (GST) or sales tax rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- VAT, GST or sales tax base
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  - Lower burden in 2015
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  - Higher burden in 2015
- Controlled foreign companies
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Thin capitalization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Transfer pricing changes
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- R&D incentives
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
### Other business incentives — including depreciation/amortization
- Additional change possible or somewhat likely in 2015
- Lower burden in 2015
- Same burden in 2015
- Higher burden in 2015

### Changes to tax enforcement approach
- Additional change possible or somewhat likely in 2015
- Lower burden in 2015
- Same burden in 2015
- Higher burden in 2015

### Top marginal personal income tax (PIT) rate
- Additional change possible or somewhat likely in 2015
- Lower burden in 2015
- Same burden in 2015
- Higher burden in 2015

### PIT base
- Additional change possible or somewhat likely in 2015
- Lower burden in 2015
- Same burden in 2015
- Higher burden in 2015

---

#### 2.3 Tax policy outlook for 2015 — summary

<table>
<thead>
<tr>
<th>Corporate income tax burden</th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
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<tbody>
<tr>
<td>⊗</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Personal income tax burden</th>
<th>Lower</th>
<th>No change</th>
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</thead>
<tbody>
<tr>
<td>⊗</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>VAT/GST/sales tax burden</th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>⊗</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2.4 Tax policy outlook for 2015 – detail

Corporate income taxes

- Corporate income tax rates should remain unchanged in 2015. However, as announced by the Minister of Finance, tax evasion will increasingly be combatted.

- A provision dedicated to the tax ruling practice will be incorporated into the General Tax Law, reflecting and formalizing the existing administrative practice and thus providing the taxpayer with adequate up-front legal security. The delivery of such binding advance decision will trigger the payment of a specific duty of EUR3,000 to EUR10,000, depending on the type of binding advance decision obtained.

- The Government proposes to introduce a new provision entirely dedicated to the arm’s-length principle, under which profits of associated enterprises entering into transactions that do not meet the arm’s length principle will be determined according to normal market conditions and taxed accordingly. Additionally, the taxpayer’s obligation to be able to justify the data contained in his or her tax returns with appropriate information and documentation is formally extended to transfer pricing matters.

Taxes on wages and employment

- While the top marginal income tax rate should remain unchanged, a specific tax of 0.5% to be levied on each category of income realized by individuals will be introduced.

VAT, GST and sales taxes

- The current VAT rates will be increased by 2 percentage points, except for the super-reduced rate of 3%. As from 1 January 2015, VAT will thus apply at a rate of 17%, 14%, 8% or 3%.

- The super-reduced rate of 3% will continue to apply as in the past, except for the delivery of alcoholic beverages in catering services and the acquisition of dwellings intended for rental.

2.5 Fiscal stimulus in 2015

- Very likely
- Somewhat likely
- Neither likely or unlikely
- Somewhat unlikely
- Very unlikely

2.6 Political landscape

- As a result of elections that were held in October 2013, the Government is composed of three parties: the DP, LSAP and Déi Gréng. No elections are scheduled for 2015.

2.7 Current tax policy and tax administration leaders

Tax policy leaders
- Xavier Bettel, Prime Minister
- Pierre Gramegna, Minister of Finance, Treasury and Budget

Tax administration leaders
- Guy Heintz, Director of the Direct Tax Administration
- Romain Heinen, Director of the Indirect Tax Administration (VAT and Customs)

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6 Article 8 of the draft law on the implementation of the first part of the “Package for the Future.” The 258 measures of the Package for the Future aim at saving more than EUR1b in 2018 and thus to rebalance the public finances by that date.

7 Article 13 of the draft law on the implementation of the first part of the Package for the Future.

8 Article 7 of the draft Budget Law 2015.
2.8 Key tax policy changes in 2015

- Transposal into Luxembourg law of article 8 of the Council Directive 2011/16/EU dated 15 February 2011 on administrative cooperation in the field of taxation: this introduces the automatic and mandatory exchange of information for three specific categories of income, income from employment, directors’ fees and pensions.

- Deferral of exit taxes: the law of 26 May 2014 introduces the possibility to opt for a payment deferral of the tax normally due upon outward migration of (i) the statutory seat and place of effective management of a resident company and of (ii) a Luxembourg undertaking or permanent establishment to another Member State of the European Economic Area (EEA). The same law extends the existing rollover of capital gains regime to replacement assets allocated to a permanent establishment situated in an EEA Member State.

- To further increase transparency, the law of 28 July 2014 provides for the mandatory registration of bearer shares to ensure that it is possible at any time to identify the beneficial owner.

- Procedure applicable to the exchange of information upon request: this new law of 4 November 2014 (modifying the law dated 31 March 2010) is a fundamental element of the implementation of the action plan adopted in December 2013 by the Government following the non-compliant rating by the Global Forum on Transparency. The action plan shall enable Luxembourg to comply as soon as possible with the international requirements. The procedure setup by this law will regulate the exchange of information upon request and addresses a large number of recommendations made by the Global Forum.

- Automatic exchange of information on interest payments: the Parliament has passed a law on 5 November 2014 implementing, as at 1 January 2015, the mandatory automatic exchange of information for all interest payments made by Luxembourg financial operators to individuals resident in another EU Member State, in an effort to ensure taxation according to the laws of the latter Member State while safeguarding protection of fiscally non-relevant data. The fiscal regime for individuals living in the Grand-Duchy of Luxembourg will remain unchanged; a 10% withholding tax will be applied to savings revenues paid by Luxembourg financial operators to those residents who will enjoy bank secrecy as it exists today.

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- Since Luxembourg is a key player in international tax structures, discussions around BEPS are of course of high interest to the country.

- In his response to a parliamentary question on BEPS and the future of patent boxes, the Minister of Finance stated in September 2014 that certain recommendations will require an adaptation of the current domestic tax framework, for example as regards substance or material and operational presence of companies based in Luxembourg (as already foreseen in the governmental program). Luxembourg fully supports the work on BEPS and participates actively in more than 15 working and sub-working groups. The Government also pays a particular attention to the impact of those future rules on the Luxembourg economy and consults with the industry to analyze on how to implement the BEPS recommendations at national level. Certain tax optimization practices will have to be reviewed. However, the new rules should have positive consequences for the Luxembourg economy and the financial center. As an example, the introduction of a more substantial substance requirement will lead companies wishing to benefit from certain tax advantages to increase their activities and/or workforce in Luxembourg, which will have a positive impact on employment levels.

- Over the last 18 to 24 months, and independently from BEPS, there has been an increasing awareness around aggressive tax planning by all stakeholders, i.e., taxpayers, tax practitioners and tax authorities. The tax authorities have become more demanding, while taxpayers and tax practitioners have focused on developing transparency and awareness for reputational risks, increased economic substance and business purpose as well as transfer pricing aspects when setting up their tax structures.
2.10 Pending tax proposals

- As mentioned in Section 2.4 above, a new regulation on transfer pricing as well as formalization of the tax ruling practice have been submitted to the Parliament within the framework of the 2015 Budget.

2.11 Consultations opened/closed

- Not applicable
### Tax rates (2014-15)

#### 1.1 Key tax rates

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax (CIT) rate</td>
<td>25%</td>
<td>25%</td>
<td>-</td>
</tr>
<tr>
<td>Top individual income tax rate</td>
<td>26%</td>
<td>25%</td>
<td>-3.8%</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>Sales tax (5%, 10% and specific rates) and service tax (6%)</td>
<td>Goods and services tax (GST) will be implemented as of 1 April 2015 at the rate of 6%. It will replace the current sales tax (5%, 10% and specific rates) and service tax (6%).</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

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2 | 2015 tax policy outlook

2.1 Key drivers of tax policy change

- Tax policy is driven by the need to reduce the annual budget deficit. Fiscal consolidation toward achieving a developed nation status and a balanced budget by 2020 is the key driver. Tax policy changes are expected to target such economic sectors as financial services and oil and gas.
- The introduction of GST, effective 1 April 2015, is one of the key tax policy measures intended to reduce the annual budget deficit by widening the tax paying population and hence enhancing national tax revenue.
- The Government aims to remain competitive from a tax perspective by reducing corporate and individual tax rates upon the introduction of GST, enhancing tax incentives and improving tax administration through tighter enforcement.

2.2 Fiscal consolidation vs. stimulus

- Headline CIT rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Corporate income tax will be reduced to 24% as of the YA 2016 as proposed in the 2015 National Budget. Small and medium enterprises with paid-up capital in ordinary shares of MYR2.5 million or less (upon satisfying specified conditions) will be taxed at 19% (reduced from 20%) on their first MYR500,000 of chargeable income, and the balance will be taxed at 24% as of the year of assessment (YA) 2016. This proposal has yet to be gazetted.
- Interest deductibility
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Hybrid mismatches (not applicable)
- Treatment of losses
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Capital gains tax
- VAT, goods and services tax (GST) or sales tax rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- A 6% GST rate will be implemented as of 1 April 2015. As this rate is lower than the current sales tax (5%, 10% and specific rates) and service tax (6%), it should not burden taxpayers and should lower the cost of doing business. No change in the GST rate is proposed or known beyond 2015.
VAT, GST or sales tax base
- Change proposed or known for 2015
- Additional change possible or somewhat likely in 2015
- Lower burden in 2015
- Same burden in 2015
- Higher burden in 2015

Controlled foreign companies (not applicable)
- Change proposed or known for 2015
- Additional change possible or somewhat likely in 2015
- Lower burden in 2015
- Same burden in 2015
- Higher burden in 2015

Thin capitalization (not applicable)
- Change proposed or known for 2015
- Additional change possible or somewhat likely in 2015
- Lower burden in 2015
- Same burden in 2015
- Higher burden in 2015

Malaysia currently has no specific thin capitalization rules, but the legislation has been amended to allow for such rules. However, the implementation of the thin capitalization rules has been deferred to 31 December 2015.

Transfer pricing changes
- Change proposed or known for 2015
- Additional change possible or somewhat likely in 2015
- Lower burden in 2015
- Same burden in 2015
- Higher burden in 2015

R&D incentives
- Change proposed or known for 2015
- Additional change possible or somewhat likely in 2015
- Lower burden in 2015
- Same burden in 2015
- Higher burden in 2015

Other business incentives — including depreciation/amortization
- Change proposed or known for 2015
- Additional change possible or somewhat likely in 2015
- Lower burden in 2015
- Same burden in 2015
- Higher burden in 2015

Changes to tax enforcement approach
- Change proposed or known for 2015
- Additional change possible or somewhat likely in 2015
- Lower burden in 2015
- Same burden in 2015
- Higher burden in 2015

In 2015, the focus will be placed on criminal tax investigation and transfer pricing audits. The tax authorities in collaboration with other Government agencies will carry out criminal tax investigations under the Anti-Money Laundering and Anti-Terrorism Financing Act 2001.

Top marginal personal income tax (PIT) rate
- Change proposed or known for 2015
- Additional change possible or somewhat likely in 2015
- Lower burden in 2015
- Same burden in 2015
- Higher burden in 2015

The tax rate for resident individuals on chargeable income up to MYR100,000 (approximately US$28,500) is reduced by 1% to 3%. The tax rate for resident individuals on chargeable income between MYR100,001 and MYR400,000 is reduced by 1% to 2%, and the tax rate on chargeable income exceeding MYR400,000 is reduced by 1% to 25% as of the YA 2015. The tax rate for nonresident individuals is reduced by 1% to 25% as of the YA 2015.

PIT base
- Change proposed or known for 2015
- Additional change possible or somewhat likely in 2015
- Lower burden in 2015
- Same burden in 2015
- Higher burden in 2015

A reduction in personal income tax rates as of the YA 2015 is likely to reduce the number of individuals subject to income tax, thus reducing the tax base. This is expected to be compensated by a larger revenue base from the collection of GST from consumers.
2.3 Tax policy outlook for 2015 – summary

Corporate income tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

Personal income tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

2.4 Tax policy outlook for 2015 – detail

Corporate income taxes

- The corporate tax rate remains unchanged in 2015. With the introduction of GST on 1 April 2015, the 2015 National Budget proposed that the corporate tax rate will be reduced to 24% as of the YA 2016.
- In 2015, higher tax revenue is expected through enhanced enforcement activities. Alongside normal tax audits, the focus will be placed on criminal tax investigation and transfer pricing audits. Besides instituting criminal charges for tax offences under the provisions of the Income Tax Act 1967, tax authorities are also carrying out criminal investigations of tax evaders under the Anti-Money Laundering and Anti-Terrorism Financing Act 2001 in collaboration with other Government agencies. Previously, the tax authorities only carried out civil tax investigation against tax offenders.
- The 2015 National Budget announced that customized incentives for principal hubs will be introduced in 2015 to increase the number of multinational companies’ global operation centers in Malaysia. Other tax incentives relating to medical tourism, scholarships in vocational and technical fields, structured internship programs and training expenses in the fields of accounting, finance and project management have also been announced.

Taxes on wages and employment

- With the introduction of GST on 1 April 2015, personal income tax rates for individuals will be reduced as of YA 2015.
- As of 2014, employees with employment income and their employers who have made monthly tax deductions (MTDs) under the Income Tax (Deduction from Remuneration) Rules 1994 to the Inland Revenue Board (IRB) can treat the MTDs as a final tax and opt not to file a personal income tax return upon meeting certain conditions.

VAT, GST and sales taxes

- As of 1 April 2015, a 6% GST rate will be implemented to replace the current sales tax (5%, 10% and specific rates) and service tax (6%).
2.5 Fiscal stimulus in 2015

- Very likely
- Somewhat likely
- Neither likely or unlikely
- Somewhat unlikely
- Very unlikely

2.6 Political landscape

- In the general elections held in May 2013, the ruling party was returned to power and hence, no major tax policy changes are expected. The National Transformation Policy launched in 2010 will continue to be the catalyst for Vision 2020. To this end, strategies are being planned to become a high-income, developed nation.

2.7 Current tax policy and tax administration leaders

**Tax policy leaders**

- Dato’Sri Mohd Najib bin Tun Abdul Razak, Prime Minister and Minister of Finance
- Dato’ Siti Halimah bt Ismail, Undersecretary, Tax Analysis Division, Ministry of Finance

**Tax administration leaders**

- Tan Sri Dr Mohd Shukor bin Hj. Mahfar, Chief Executive Officer, Inland Revenue Board
- Dato’ Seri Khazali bin Hj. Ahmad, Director General of the Royal Malaysian Customs Department

2.8 Key tax policy changes in 2015

- As of 1 April 2015, a 6% GST rate will be implemented to replace the current sales tax (5%, 10% and specific rates) and service tax (6%).
- Corporate income tax will be reduced to 24% as of the YA 2016 as proposed in the 2015 National Budget. Small and medium enterprises with paid-up capital in ordinary shares of MYR2.5 million or less (upon satisfying specified conditions) will be taxed at 19% (reduced from 20%) on their first MYR500,000 of chargeable income, and the balance will be taxed at 24% as of the YA 2016. This proposal has yet to be gazetted.
- The tax rate for resident individuals on chargeable income up to MYR100,000 is reduced by 1% to 3%. The tax rate for resident individuals on chargeable income between MYR100,001 and MYR400,000 is reduced by 1% to 2%, and the tax rate on chargeable income exceeding MYR400,000 is reduced by 1% to 25% as of the YA 2015. The tax rate for nonresident individuals is reduced by 1% to 25% as of the YA 2015.
- The 2015 National Budget announced that customized incentives for principal hubs will be introduced in 2015 to increase the number of multinational companies’ global operational centers in Malaysia. Other tax incentives relating to medical tourism, scholarships in vocational and technical fields, structured internship programs and training expenses in the fields of accounting, finance and project management were announced.
- As of 2014, employees with employment income and their employers have made monthly tax deductions (MTDs) under the Income Tax (Deduction from Remuneration) Rules 1994 to the IRB can treat the MTD as a final tax and opt not to file a personal income tax return upon meeting certain conditions.
- In the 2015 National Budget announcement, as a tax relief measure for individual taxpayers, the tax relief on medical expenses will increase from MYR5,000 to MYR6,000, tax relief for a disabled taxpayer or a taxpayer with a disabled child will increase from MYR5,000 to MYR6,000 and tax relief for the purchase of basic supporting equipment will increase from MYR5,000 to MYR6,000. These relief measures are intended to alleviate the cost of living.
2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- The BEPS Action Plan is gaining high-level attention and a committee has been put in place within the IRB to work on the plan for Malaysian implementation.

- While unilateral action based on the OECD report is being considered by the IRB (such as reviewing the present anti-avoidance measures in domestic legislation), the committee is also obtaining more knowledge on the BEPS Action Plan through its non-member country representation at the OECD and from the UN Tax Committee. It is also closely monitoring developments of BEPS in other countries around the world.

2.10 Pending tax proposals

- Revamp of the Stamp Act 1949

- Real property gains tax (RPGT) on gains from the disposal of real properties and shares of real property companies is to be self-assessed in 2016 in tandem with the Government's aspiration to modernize the tax system. Changes to the Real Property Gains Tax Act 1976 are expected to cater for the self-assessment regime. In addition, the amount to be retained by the acquirer and paid over to the IRB as an advance payment of RPGT is to be increased from 2% to 3% of the total value of the consideration as of 1 January 2015.

2.11 Consultations opened/closed

- The 2015 Budget consultative talks commenced in July 2014 and closed around August 2014, i.e., prior to the 2014 National Budget announcement on 10 October 2014.
1 | Tax rates (2014-15)

1.1 Key tax rates

<table>
<thead>
<tr>
<th>Tax rate</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax (CIT) rate (national and local average, if applicable)</td>
<td>30%</td>
<td>30%&lt;sup&gt;1&lt;/sup&gt;</td>
<td>–</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>35%</td>
<td>30%&lt;sup&gt;2&lt;/sup&gt;</td>
<td>–</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>16%</td>
<td>16%&lt;sup&gt;3&lt;/sup&gt;</td>
<td>–</td>
</tr>
</tbody>
</table>

2 | 2015 tax policy outlook

2.1 Key drivers of tax policy change

- On 27 February 2014, President Enrique Peña Nieto signed the Tax Certainty Agreement. This agreement aims to provide certainty and stability to the Mexican tax structure and commits to proposing no changes to the current tax structure from 2014 to 2018.
- From 27 February 2014 until 30 November 2018, the Tax Certainty Agreement specifies that there will be no new taxes proposed to the Congress, no increases to the tax rates of current taxes and no reductions to or eliminations of tax benefits or exemptions currently in force.

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<sup>1</sup> Article 9 of the Mexican Income Tax Law (hereinafter referred as “MITL”).
<sup>2</sup> Article 152, MITL.
<sup>3</sup> Article 1, Value Added Tax Law.
### 2.2 Fiscal consolidation vs. stimulus

- **Headline CIT rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Interest deductibility**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Hybrid mismatches**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Treatment of losses**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Capital gains tax**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **VAT, goods and services tax (GST) or sales tax rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **VAT, GST or sales tax base**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Controlled foreign companies**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Thin capitalization**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Transfer pricing changes**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **R&D incentives**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Other business incentives – including depreciation/amortization**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Changes to tax enforcement approach**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Top marginal personal income tax (PIT) rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **PIT base**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
2.3 Tax policy outlook for 2015 – summary

<table>
<thead>
<tr>
<th>Tax Category</th>
<th>Expected Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate income tax burden</td>
<td>Lower</td>
</tr>
<tr>
<td>Personal income tax burden</td>
<td>Lower</td>
</tr>
<tr>
<td>VAT/GST/sales tax burden</td>
<td>Lower</td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2015 – detail

**Corporate income taxes**
- CIT is not expected to change in 2015 as a result of the Tax Certainty Agreement (whereby the Federal Government promised it would propose no major tax reform, no new taxes, no increases to the current tax rates, and no reductions to or eliminations of current tax benefits or exemptions from 2014 to 2018).
- In 2015, the Government will be focused on fully implementing structural reforms (e.g., Pemex and CFE will transition to a new model as state productive companies).

**Taxes on wages and employment**
- Taxes on wages are not expected to change in 2015.

**VAT, GST and sales taxes**
- VAT is not expected to change in 2015 as a result of the Tax Certainty Agreement.

2.5 Fiscal stimulus in 2015

- Very likely
- Somewhat likely
- Neither likely or unlikely
- Somewhat unlikely
- Very unlikely

2.6 Political landscape

- In June 2015, elections will be held to choose the representatives of the Chamber of Deputies.
- Currently, the PRI (the political party to which President Enrique Peña Nieto belongs) members of the Chamber of Deputies represent 42% of available seats.
- Senators will remain the same until 2018.
- Alfredo Gutiérrez, former Head of the Tax Administration Service (SAT), was appointed in December 2012 as a justice of the Mexican Supreme Court for a 15-year period.
2.7 Current tax policy and tax administration leaders

**Tax policy leaders**
- Enrique Peña Nieto, President
- Luis Videgaray Caso, Secretary of Finance and Public Credit
- Miguel Messmacher, Undersecretary of Revenue
- Damián Zepeda Viales, Chairman of the Finance and Public Credit Commission, Chamber of Deputies
- José Francisco Yunes Zorilla, Chairman of the Finance and Public Credit Commission, Senate

**Tax administration leaders**
- Aristóteles Núñez Sánchez, Head of the SAT
- Oscar Molina Chie, Head of the Large Taxpayers Division

2.8 Key tax policy changes in 2014

- In addition to the 2014 Tax Reform, the following regulations and rulings have been issued:
  - Mexican tax authorities issued temporary tax regulations (Miscellaneous Rules) and a special form (Official Form no. 76) to comply with the obligation to report so-called “relevant transactions.” In March 2014, the Mexican Supreme Court issued a ruling that allows the deduction of pro rata expenses paid to residents abroad so long as certain requirements are met.
  - Temporary tax regulations (details) on reporting accounting through electronic systems were issued in July 2014.
  - Temporary tax regulations were issued on maquila transactions (permanent establishment exemption) in July 2014.
  - In September 2014, temporary tax regulations on VAT refunds were issued (refund on a maximum 20-day period) for taxpayers that are engaged in fixed asset investment projects provided certain requirements are met.
  - In October 2014, temporary tax regulations were issued to detail and to add other requirements to pro rata expenses deductions.
  - In October 2014, temporary tax regulations were issued with respect to royalties, interest or technical assistance payments performed by a Mexican entity considered transparent for the purposes of foreign legislation.
  - In November 2014, the Mexican Supreme Court issued a ruling granting a temporary stay of execution of the obligation to file electronically for those filing an amparo lawsuit.

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- The 2014 Tax Reform addressed issues identified in the BEPS Action Plan, making interest, royalties and technical assistance payments to a foreign entity that controls or is controlled by the taxpayer non-deductible if the foreign entity is a transparent entity; the payment is considered in the recipient country as nonexistent or the foreign entity does not consider the payment as taxable income. Payments to a related party are nondeductible if the same payment is considered as a deduction by another related party resident in Mexico or abroad.

2.10 Pending tax proposals

- PAN Congressmen (*Partido Acción Nacional*) are attempting to reintroduce a 11% VAT rate (border zone rate).
- PAN Congressmen are trying to reintroduce an immediate deduction for income tax purposes (the immediate deduction was eliminated with the 2014 Tax Reform).

2.11 Consultations opened/closed

- Not applicable
1 | Tax rates (2014-15)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax rate (national and local average, if applicable)</td>
<td>25%(^1)</td>
<td>25%(^2)</td>
<td>–</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>52%(^3)</td>
<td>52%(^4)</td>
<td>–</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>21%(^5)</td>
<td>21%(^6)</td>
<td>–</td>
</tr>
</tbody>
</table>

2 | 2015 tax policy outlook

2.1 Key drivers of tax policy change

- The Dutch Cabinet has not included any major policy measures in their 2015 Tax Plan. To enable the Dutch Tax Authorities to benefit from a year with relatively little legislation, the Cabinet has limited itself to the measures considered to be more urgent. The measures found to be essential will be submitted to the Lower House of Parliament in the spring of 2015 and generally concern measures that need not necessarily come into force on 1 January 2015 and that do not contribute to simplification.

- This approach does not diminish the fact that the Cabinet has submitted an additional legislative proposal on the tax liabilities of governmental bodies. Another legislative proposal on the introduction of a “no payroll tax decision” is also underway.

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2 Ibid.
4 Ibid.
6 Ibid.
Additionally, the Cabinet has sent a few letters to the Lower House on various topics, including wealth inequality in the Netherlands and the future of the tax system. However, the letters do not contain any concrete plans.

2.2 Fiscal consolidation vs. stimulus

Fiscal stimulus

As a result of the state aid provisions in the EU Treaty, the Netherlands does not in principle stimulate particular sectors through its tax system. Nevertheless, the following measures should be noted:

- Energy investment deduction
- Environment investment deduction
- Tonnage tax regime (shipping industry)
- Innovative sector (innovation box, deduction for certain wage taxes, research and development deduction)

Fiscal consolidation

No particular sectors are consolidated through the Dutch tax system, but the aforementioned fiscal stimulation of the innovative sector, the energy sector and the environmental sector will be (slightly) reduced, in the sense that, generally speaking, those arrangements only apply to investment of a certain (larger) amount.

- Headline CIT rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015

- Interest deductibility
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015

- Hybrid mismatches
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015

- Treatment of losses
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015

- Capital gains tax
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015 (no capital gains tax in NL)
  - Increased burden in 2015

- VAT, GST or sales tax rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015

- VAT, GST or sales tax base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015

- Controlled foreign companies (CFCs)
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015 (no CFC rules in NL)
  - Increased burden in 2015

- Thin capitalization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015 (no thin cap in NL)
  - Increased burden in 2015

- Transfer pricing changes
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015
2.3 Tax policy outlook for 2015 – summary

Corporate income tax burden

<table>
<thead>
<tr>
<th></th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>X</td>
<td>No change</td>
<td></td>
</tr>
</tbody>
</table>

Personal income tax burden

<table>
<thead>
<tr>
<th></th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>X</td>
<td>No change</td>
<td></td>
</tr>
</tbody>
</table>

VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th></th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>X</td>
<td>No change</td>
<td></td>
</tr>
</tbody>
</table>
2.4 Tax policy outlook for 2015 – detail

Corporate income taxes

› On 17 December 2014, the Dutch Ministry of Finance announced that the Dutch fiscal unity rules will be amended in order to comply with EU law. This follows a recent decision by the Dutch High Court that held the current Dutch fiscal unity regime contrary to EU law. A legislative proposal to this end is expected to be launched in the first half of 2015. In anticipation of this proposal, an administrative decree is expected to be released shortly. On the basis of this Decree, Dutch companies that are linked with each other through an intermediate company in another EU or EEA (European economic area) Member State should, subject to certain conditions, already be eligible to opt for the Dutch fiscal unity regime.

› The Cabinet proposes to abolish the deductibility of foreign monetary fines. Monetary fines imposed by (among other authorities) a Dutch criminal court, the Dutch Government or a European Union (EU) institution are already non-deductible for (corporate) income tax purposes.

› The Cabinet proposes treating specifically defined hybrid capital instruments of insurance companies, which are comparable with Tier 1 capital instruments of banks, as loans. As a result, insurance companies will be able to deduct the consideration for these types of instruments. It may also result in the consideration’s recipient owing tax on the consideration.

› Another proposal calls for the taxation status of public enterprises to be amended. In the proposed legislation, direct public enterprises will be liable to pay corporate income tax to the extent they conduct a business. Indirect public enterprises will be wholly or partially liable to pay corporate income tax in accordance with the customary legislative system, depending on the legal form chosen. It should be noted that a number of exemptions are available to public enterprises. The law is planned to come into force in 2015 and will be applicable as of 1 January 2016.

Taxes on wages and employment

› In 2014, the combined rate in the first PIT bracket was 36.25%. Effective 1 January 2015, this rate will be increased to 36.5%. Although the rate will be increased, the amount of the increase is less than anticipated, since the initial plan was to increase the rate to 36.76% (after the one-off reduction in 2014). The rates for the second, third and fourth brackets will remain unchanged.

› The general tax credit is a deduction on PIT payable and applies to all taxpayers. The tax credit will be reduced at an accelerated rate for incomes in excess of EUR19,645.

› The working persons’ tax credit is a reduction on personal income tax payable by taxpayers who enjoy income from employment. The working persons’ tax credit is income related. Measures have been made, resulting in a higher working persons’ tax credit.

› In addition, the PIT rate for income derived from shares forming part of a substantial shareholding (5% or more), also referred to as “Box 2 income,” was reduced from 25% to 22% in 2014. In 2015, that rate will be returned to 25%.

› Application of the work-related expenses scheme (werkkostenregeling, “WKR”) will become compulsory as from 1 January 2015, and the optional regime is set to be abolished.

› A director and majority shareholder who holds a substantial interest and performs work for his or her company is deemed to have received a minimum salary from that company. The Cabinet aims to reduce the difference in taxable pay compared with regular employees. At present, a director/majority shareholder’s salary must equal at least 70% of the salary of an employee under comparable circumstances. With effect from 2015, this will be increased to 75%.

VAT, GST and sales taxes

› No major changes are expected.
2.5 Fiscal stimulus in 2015

☐ Very likely  ☐ Somewhat likely  ☐ Neither likely or unlikely  ☒ Somewhat unlikely  ☐ Very unlikely

2.6 Political landscape

➢ The current Dutch Government is a coalition between the Liberals (VVD) and the Social Democrats (Labor Party, or PvdA). While this coalition holds a majority in the Dutch Lower House, it does not in the Dutch Upper House. As a result, the Government has to seek support for law proposals “outside the coalition,” in order for such proposals to be enacted. Thus, the Dutch Parliament seems to have more influence on the Government’s tax policy. However, as none of the other parties are acting or willing to act as a regular supporter of the Dutch Government, it is hard to tell what the tax policy consequences are. The next elections for the Dutch Upper House are in 2016. The next elections for the Dutch Lower House are in 2017.

2.7 Current tax policy and tax administration leaders

Tax policy leaders

➢ In the Netherlands, there is a vivid discussion between the Government (both members of Parliament and civil servants) and business regarding tax policy – either via organized engagement, individually or any form in between.

➢ In addition, numerous scholars and tax professionals (tax advisors and, for example, tax inspectors) are involved in tax policy via publications, interviews and other channels. Finally, the Dutch organization of tax advisors (NOB) is heavily involved in tax policy.

Tax administration leaders

➢ Eric Wiebes, State Secretary of Finance

➢ Michiel Sweers, acting Director-General Fiscal Affairs on the Dutch Ministry of Finance

➢ Frank Jongbloed, acting Deputy Director-General Fiscal Affairs on the Dutch Ministry of Finance

➢ Jos de Bliek, Deputy Director-General Tax Authorities on the Dutch Ministry of Finance

2.8 Key tax policy changes in 2014

➢ No significant policy changes occurred in 2014.

➢ On September 16, 2014, the State Secretary of Finance published a letter entitled “Possible Future Directions for a Better Tax System,” describing the Cabinet’s thoughts on how to best reform the Dutch tax system. The letter does not contain any concrete plans, but rather lists a series of possible future directions for the tax system. The first step to be taken, according to the State Secretary, is to gain the broadest possible political and public support for a tax reform.

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

➢ The Dutch Government takes a balanced approach with respect to the OECD BEPS Action Plan.

➢ Both the Dutch Prime Minister and the Dutch State Secretary of Finance have made it clear that the attractive position of the Netherlands as an investment country should be maintained. As such, they seem keen not to enact law proposals that may jeopardize said attractive position of the Netherlands, for instance, by introducing, unilaterally, BEPS measures.

➢ However, the Netherlands is and has been actively engaged in various international discussions (for instance at the OECD level) on (international) taxation. The Dutch Government takes the position that international platforms are indeed the place for such discussions, and it actively contributes to and participates in these discussions. In this respect, according to the Dutch Government and also mentioned in public statements and letters to the Dutch Parliament, any measures in this area should be taken in an international context and not unilaterally by individual countries, in order that they remain effective and fair. In addition, the level playing field between (smaller and larger) countries has to be taken into account, according to the Government.

➢ The aforementioned balanced approach can also be found in the Dutch Government’s letter of 30 August 2013. In the letter, the Dutch Government underlined that holding and intermediate companies make an important contribution to the Dutch economy and that it is not willing to take measures that may damage the Netherlands’ position as an attractive location for such companies. For this reason, the Dutch Government underlined that it will not alter elements.
of the Dutch tax regime, such as the Dutch participation exemption, the tax treaty network and the possibility to obtain tax rulings from the Dutch tax authorities. However, the Government also wishes to avoid abusive situations, particularly regarding developing countries.

- On 16 September 2014, in a letter to the Dutch Parliament, the Dutch State Secretary of Finance provided the Dutch Government’s response to the reports in the OECD BEPS project that had been published earlier that day. In line with earlier official statements, the State Secretary indicated that the Dutch Government has actively participated in the BEPS project and will continue to do so as part of a broader effort to develop a durable solution that does not harm the Dutch fiscal investment climate. These efforts have, for instance, led to the extension of the application of the safe harbor rules on substance to group financing/licensing companies that do not request an advance pricing agreement and to holding companies that wish to conclude an advance tax ruling.

- Importantly, and also in line with earlier official statements, the State Secretary reiterated that at this stage (December 2014) it would be premature to take any unilateral actions based on the 2014 BEPS recommendations and that the Dutch Government will await further developments, as the BEPS project is an holistic one and the OECD is expected to provide further recommendations in 2015.

- On 1 December 2014, the Dutch State Secretary of Finance provided input on previously raised parliamentary questions regarding the future of the innovation box regime. Generally, the Dutch State Secretary supports the discussions around substance requirements, but also wants to safeguard the position of innovative small and medium sized entities. The Dutch State Secretary has stated that the Netherlands plans to continue to promote innovation through tax and other incentives and expressed the view that, in light of the strong substance requirements that are in place for the Dutch innovation box, the regime should not be vulnerable for abuse. Based on this, it is not expected that the Dutch Government will propose major changes to the Dutch innovation regime at this time.

2.10 Pending tax proposals

- Legislative proposal regarding the taxation status of public enterprises: in the proposed legislation, direct public enterprises will be liable to pay CIT to the extent they conduct a business. Indirect public enterprises will be wholly or partially liable to pay CIT in accordance with the customary legislative system, depending on the legal form chosen. It should be noted that a number of exemptions are available to public enterprises.

- Legislative proposal decree no payroll-taxes (wet invoering beschikking geen loonheffingen)

- Legislative proposal to approve the tax treaty between the Netherlands and Germany as concluded on 12 April 2012

- Legislative proposal to enact the General Tax Act with respect to re-assessments and regulations regarding electronic communication (law to simplify formal communication by/with the tax authorities);

- Legislative proposal to codify the so-called “compartmentalization” of income derived under the participation exemption regime.

2.11 Consultations opened/closed

- Legislative proposal regarding the taxation status of public enterprises

- Implementation of FACTA treaty
1 | Tax rates (2014-15)

1.1 Key tax rates

<table>
<thead>
<tr>
<th>Top corporate income tax (CIT) rate (national and local average, if applicable)</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>28%</td>
<td>28%</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Top individual income tax rate (national and local average, if applicable)</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>33%</td>
<td>33%</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Standard value-added tax (VAT) rate</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>15%</td>
<td>15%</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

- The Government’s tax policy work program covers three broad areas:
  - Improving current tax settings within a broad-base, low-rate tax framework
  - International tax reform and addressing base erosion and profit shifting
  - Modernizing tax administration by looking at all rules for when people pay tax, how they pay it and how tax enforcement is managed, as part of a multi-year investment in upgraded systems (the “Business Transformation” project)
- The Government is committed to returning to fiscal surplus for the 2014-15 year and to increasing but modest surpluses in coming years.
2.2 Fiscal consolidation vs. stimulus

- Headline CIT rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Interest deductibility
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Hybrid mismatches
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Treatment of losses
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Capital gains tax
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015
- VAT, goods and services tax (GST) or sales tax rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015
- VAT, GST or sales tax base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Controlled foreign companies
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Thin capitalization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Transfer pricing changes
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015
- R&D incentives
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Other business incentives – including depreciation/amortization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Changes to tax enforcement approach
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Top marginal personal income tax (PIT) rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015
- PIT base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015
2.3 Tax policy outlook for 2015 – summary

<table>
<thead>
<tr>
<th>Corporate income tax burden</th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income tax burden</td>
<td>Lower</td>
<td>No change</td>
<td>Higher</td>
</tr>
<tr>
<td>VAT / GST / sales tax burden</td>
<td>Lower</td>
<td>No change</td>
<td>Higher</td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2015 – detail

**Corporate income taxes**
- The re-elected Government has reaffirmed its commitment to broad-based and low-rate taxes, that is, minimizing rates through avoiding concessions or preferences in the tax system.
- Work is likely to include:
  - International tax and BEPS: focus on preventing profit shifting using related-party debt, removing tax advantages from certain investment vehicles and ensuring that the international tax rules keep pace with changes in the global economy. The Inland Revenue anticipates consultation on draft proposals before any resulting changes take place. Scoping work on the OECD’s draft proposals on automatic exchange of information (AEOI), to apply on a voluntary basis from 2018, mandatory from 2019.
  - R&D: targeted tax incentives, aimed specifically at loss-making companies. The regime will allow “cash out” of tax losses, rather than having to carry them forward for use against future profits. It is anticipated the new rules will apply for income years beginning on or after 1 April 2015.
  - Closely held companies: review aimed at making tax treatment simpler and more coherent.
  - Debt capitalization for insolvent companies: current rules seen as overreaching.
- Modernizing tax administration (“Business Transformation”): consultation on secure digital services and collection of information.

**Taxes on wages and employment**
- Reforms to improve administration in medium term, with consultation on PAYE collection of information in 2015.

**VAT, GST and sales taxes**
- Work is likely to include a focus on the taxation of digital imports, working towards implementing the probable OECD recommendation of GST registration of nonresident suppliers. This option could also be extended to import of low-value goods.

2.5 Fiscal stimulus in 2015

☐ Very likely
☐ Somewhat likely
☐ Neither likely or unlikely
☐ Somewhat unlikely
☒ Very unlikely
2.6 Political landscape

- The incumbent center-right government, led by the National Party, convincingly won re-election for a third three-year term in September 2014. Tax policy featured strongly in the election campaign, with the National Party committing not to introduce a capital gains tax and indicating that modest personal tax cuts may be possible by 2018.
- We expect continuity in tax policy. The Government has stated that it does not see fundamental problems with the current broad-base low-rate framework. It will announce its tax policy work program in early 2015.

2.7 Current tax policy and tax administration leaders

**Tax policy leaders**
- John Key, Prime Minister
- Bill English, Minister of Finance
- Todd McClay, Minister of Revenue

**Tax administration leader**
- Naomi Ferguson, Commissioner of Inland Revenue
- Struan Little, Deputy Commissioner, Policy and Strategy
- Martin Smith, Chief Tax Counsel

2.8 Key tax policy changes in 2014

- Clarification of tax treatment of employer-provided accommodation, accommodation allowances and other payments provided to employees as reimbursement for expenses
- Legislation enabling financial institutions to comply with United States FATCA legislation, together with FATCA intergovernmental agreement signed between New Zealand and United States
- Relief for certain non-deductible “black hole” expenditure
- Changes to the taxation of land-related payments, including ensuring that certain land transfer payments are taxable
- Simplification to rules regarding taxation of foreign superannuation
- Introduction of minimum financial reporting framework for companies

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- The Government has committed to working with the OECD to ensure that New Zealand’s international tax rules provide a robust way of taxing multinational enterprises. At the same time, it wants New Zealand to remain a good place to base an exporting business.
- All Action Plan items are of interest. Existing legislation is relatively BEPS compliant. Changes are likely to be at the level of detail. While there has been no public statement, we judge the greatest interest to be limiting base erosion via interest deductions (Actions 4 and 9), neutralizing hybrids (Action 2) and enforcing nonresident withholding taxes (Action 6).
- New Zealand’s international tax rules provide a robust way of taxing multinational enterprises. At the same time, it wants New Zealand to remain a good place to base an exporting business.
- Areas under examination for possible law change include:
  - Profit shifting by nonresidents who fund their New Zealand investment using related-party debt that gives rise to deductible interest payments
  - Whether to restrict interest deductions on hybrid instruments where the interest payment is not taxed in the foreign jurisdiction
- The Inland Revenue, together with Business New Zealand, coordinate a BEPS advisory group of business and tax professionals. The group has no formal status.
- Inland Revenue enforcement activity increasingly focuses on BEPS-type activities.

2.10 Pending tax proposals

- Measures announced but not yet effective will favor growth agenda:
  - Allowing tax deductions for research and development "black hole" expenditure that is currently non-deductible or not able to be depreciated
  - Allowing start-up firms to "cash out" a maximum of NZD2 million of their tax losses arising from qualifying research and development expenditure

2.11 Consultations opened/closed

- Consultations opened and closing during 2014:
  - GST treatment of bodies corporate
  - Income tax scenarios on tax avoidance
- Due to the recent election, there has been little public consultation during 2014.
1 | Tax rates (2014-15)

1.1 Key tax rates

| Top corporate income tax (CIT) rate (national and local average, if applicable) | 2014 | 2015 | Percentage change |
| Top individual income tax rate (national and local average, if applicable) | Progressive two-tiered scale: 18 and 32% | Progressive two-tiered scale: 18 and 32% | – |
| Standard value-added tax (VAT) rate | 23% | 23% | – |

2 | 2015 tax policy outlook

2.1 Key drivers of tax policy change

- Poland is still under the European Commission’s excessive deficit procedure (EDP); thus, any tax reform must not lead to decreased revenues to the state budget.
- Simultaneously, the Polish tax system has numerous inefficiencies (e.g., administrative and compliance burdens). Thus, Polish lawmakers are striving to increase the effectiveness of the fiscal environment, for instance by simplifying and clarifying provisions.
- In spite of the global slowdown, in recent years the Polish economy has continued to grow at a decent pace. At the same time, Poland has been playing a pivotal role in the development of the region.
- Currently, the main focus of Polish lawmakers is to amend CIT rules on taxation of a CFC (controlled foreign corporation), as well as to introduce GAAR (general anti-avoidance rules).

---

2.2 Fiscal consolidation vs. stimulus

- **Headline CIT rate**
  - □ Change proposed or known for 2015
  - □ Additional change possible or somewhat likely in 2015
  - □ Same burden in 2015
  - □ Higher burden in 2015

- **Interest deductibility**
  - □ Change proposed or known for 2015
  - □ Additional change possible or somewhat likely in 2015
  - □ Same burden in 2015
  - □ Higher burden in 2015

- **Hybrid mismatches**
  - □ Change proposed or known for 2015
  - □ Additional change possible or somewhat likely in 2015
  - □ Same burden in 2015
  - □ Higher burden in 2015

- **Treatment of losses**
  - □ Change proposed or known for 2015
  - □ Additional change possible or somewhat likely in 2015
  - □ Same burden in 2015
  - □ Higher burden in 2015

- **Capital gains tax**
  - □ Change proposed or known for 2015
  - □ Additional change possible or somewhat likely in 2015
  - □ Same burden in 2015
  - □ Higher burden in 2015

- **VAT, goods and services tax (GST) or sales tax rate**
  - □ Change proposed or known for 2015
  - □ Additional change possible or somewhat likely in 2015
  - □ Same burden in 2015
  - □ Higher burden in 2015

- **VAT, GST or sales tax base**
  - □ Change proposed or known for 2015
  - □ Additional change possible or somewhat likely in 2015
  - □ Same burden in 2015
  - □ Higher burden in 2015

- **Controlled foreign companies**
  - □ Change proposed or known for 2015
  - □ Additional change possible or somewhat likely in 2015
  - □ Lower burden in 2015
  - □ Same burden in 2015
  - □ Higher burden in 2015

- **Thin capitalization**
  - □ Change proposed or known for 2015
  - □ Additional change possible or somewhat likely in 2015
  - □ Lower burden in 2015
  - □ Same burden in 2015
  - □ Higher burden in 2015

- **Transfer pricing changes**
  - □ Change proposed or known for 2015
  - □ Additional change possible or somewhat likely in 2015
  - □ Lower burden in 2015
  - □ Same burden in 2015
  - □ Higher burden in 2015

- **R&D incentives**
  - □ Change proposed or known for 2015
  - □ Additional change possible or somewhat likely in 2015
  - □ Lower burden in 2015
  - □ Same burden in 2015
  - □ Higher burden in 2015

- **Other business incentives – including depreciation/amortization**
  - □ Change proposed or known for 2015
  - □ Additional change possible or somewhat likely in 2015
  - □ Lower burden in 2015
  - □ Same burden in 2015
  - □ Higher burden in 2015

- **Changes to tax enforcement approach**
  - □ Change proposed or known for 2015
  - □ Additional change possible or somewhat likely in 2015
  - □ Lower burden in 2015
  - □ Same burden in 2015
  - □ Higher burden in 2015

- **Top marginal personal income tax (PIT) rate**
  - □ Change proposed or known for 2015
  - □ Additional change possible or somewhat likely in 2015
  - □ Lower burden in 2015
  - □ Same burden in 2015
  - □ Increased burden in 2015

- **PIT base**
  - □ Change proposed or known for 2015
  - □ Additional change possible or somewhat likely in 2015
  - □ Lower burden in 2015
  - □ Same burden in 2015
  - □ Increased burden in 2015
2.3 Tax policy outlook for 2015 – summary

Corporate income tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

Personal income tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

2.4 Tax policy outlook for 2015 – detail

Corporate income taxes

- There are no proposed changes to statutory CIT rates in 2015. Changes to CIT rules regarding taxation of CFCs may impact certain taxpayers, and such impacts should be investigated.
- The major changes will also affect current thin capitalization rules. The new provisions introduce a significantly altered scope regarding issues, such as a new debt-to-equity ratio.
- The new rules introduce also a new alternative method for the calculation of the interest deductibility threshold.
- Amendments to the Polish CIT Act partially restrict the right to deduct from the taxable amount expenses incurred by the taxpayer with respect to new technologies. Poland has excluded from preferential CIT treatment acquisitions of new technology purchased through contribution in kind. That said, Poland has also launched the Intelligent Development Program (Program Inteligentny Rozwoj) which will support realization of R&D projects conducted jointly by entrepreneurs and academic sector. Applicants will receive within the Program EUR 8.61 billion of EU funds, during the period 2014-2020.

Taxes on wages and employment

- Despite CFC rules introduced also in the PIT Act, the few minor changes to personal income tax compliance (e.g., regarding electronic returns) should have no significant impact on employment opportunities in Poland.

VAT, GST and sales taxes

- No major amendments to Poland’s VAT Act come into force in 2015. Some other changes include:
  - Debtors under bankruptcy proceedings or under liquidation proceedings will be waived from the obligation to amend input VAT; regulations regarding tax settlements with regard to bad debts will be also applicable within groups of related entities
  - Introduction of a VAT reverse charge mechanism on “electronic devices”
  - Changes regarding the method of calculation of the VAT co-efficient
2.5 Fiscal stimulus in 2015

☐ Very likely
☐ Somewhat likely
☑ Neither likely or unlikely
☐ Somewhat unlikely
☐ Very unlikely

2.6 Political landscape

- The following statutory elections in Poland are scheduled in the near future:
  - Polish Parliamentary elections will be held in 2015.
  - Presidential elections will be held in 2015.
  - Local community elections, which were held in November 2014, left an unchanged balance of power in the current political landscape.
- The elections scheduled for 2015 are not likely to lead to major changes in either the political landscape or current tax policy.

2.7 Current tax policy and tax administration leaders

Tax policy leaders
- Ewa Kopacz, Prime Minister
- Janusz Piechociński, Deputy Prime Minister
- Mateusz Szczurek, Minister of Finance

Tax administration leaders
- Mateusz Szczurek, Minister of Finance

2.8 Key tax policy changes in 2014

- The most significant provision introduced in 2014 concerned the taxation of partnerships limited by shares.
- PIT and VAT changes did not provide major amendments that have impacted business in Poland.

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- The Polish Government has already addressed some measures presented in the OECD Base Erosion and Profit Shifting (BEPS) Action Plan. The CIT and PIT amendment regarding the taxation of CFCs and new thin capitalization rules are about to enter into force on 1 January 2015.
- Nevertheless, Poland has not yet formally engaged in the public debate on the BEPS Action Plan.

2.10 Pending tax proposals

- Not applicable

2.11 Consultations opened/closed

- Consultations are open with respect to all 2015 tax amendments.
- Currently, consultations have recently closed in respect to:
  - Ordinance Law
  - Inheritance tax and TCLT (tax on civil law transactions)
  - VAT
1 | Tax rates (2014-15)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax (CIT) rate (national and local average, if applicable)</td>
<td>23%</td>
<td>21%</td>
<td>-8.7%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(a reduced 17% tax rate applies to the first €15,000 of taxable profit for small and medium-sized companies)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>A municipal surcharge is generally imposed on the taxable profit and a state surcharge of 3% (i.e., where the taxable purpose is &gt; €1,500,000 and &lt; €7,500,000) of 5% (i.e., on the taxable profit that &gt; €7,500,000 and &lt; €35,000,000) or of 7% (i.e., on the taxable profit that &gt; €35,000,000)</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>56.5%</td>
<td>56.5%</td>
<td>-</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>23%</td>
<td>23%</td>
<td>-</td>
</tr>
</tbody>
</table>

Stay up to date with developments in Portugal by accessing EY’s global tax alert library at www.ey.com/taxalerts.

Content provision date

22 December 2014
2 | 2015 tax policy outlook

2.1 Key drivers of tax policy change

- After conducting a reform of the CIT regime in 2014, the Government has presented a number of proposals to overhaul the country’s personal income tax reform (PIT) regime, to be enacted as from 1 January 2015.
- The PIT reform (which remains under Parliamentary discussion) is expected to introduce several measures to reduce the tax burden of individuals and families, following a considerable tax increase that occurred in 2012-13.
- Under the scope of the PIT reform, the Government has proposed the introduction, for the first time in Portugal, of a family coefficient system, in order to combine the progressive tax rate with the taxing capacity of households, as well as new system of household tax credits. The PIT reform also includes incentives to encourage entrepreneurship, a favorable expatriate tax law and other measures to promote savings.
- The Portuguese Government is also conducting a reform of environmental taxes, which aims to reduce Portugal’s dependence on energy imports, make production and consumption more sustainable, promote the efficient use of resources, foster entrepreneurship and job creation and diversify revenue sources. This reform is expected to be fiscally neutral, meaning that any tax increases introduced under the proposed reforms would be offset by reductions in the tax burden in other areas.

2.2 Fiscal consolidation vs. stimulus

- Headline CIT rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
    - ☒ Lower burden in 2015
    - ☐ Same burden in 2015
    - ☐ Higher burden in 2015

- Interest deductibility
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
    - ☒ Lower burden in 2015
    - ☐ Same burden in 2015
    - ☐ Higher burden in 2015

- Hybrid mismatches
  - Change proposed or known for 2015
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- Treatment of losses
  - Change proposed or known for 2015
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    - ☐ Higher burden in 2015

- Capital gains tax
  - Change proposed or known for 2015
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    - ☒ Lower burden in 2015
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    - ☐ Higher burden in 2015

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  - Change proposed or known for 2015
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    - ☐ Same burden in 2015
    - ☐ Higher burden in 2015
2.3 Tax policy outlook for 2015 – summary

Corporate income tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

Personal income tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
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</tr>
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</table>

VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>
2.4 Tax policy outlook for 2015 – detail

Corporate income taxes

- The Government launched a CIT reform process in 2014, which, among other measures, comprised a progressive reduction of the headline CIT rate, from 25% (in 2013) to 23% (in 2014) and to 21% (in 2015).

Taxes on wages and employment

- The Government has launched a reform of the PIT regime, to be enacted in 2015, which is designed to:
  - Protect families - e.g., by introducing for the first time in Portugal a family coefficient system that combines the progressive tax rate with the taxpaying capacity of the household, as well as a new system of household tax credits
  - Stimulate social mobility - e.g., includes incentives to encourage entrepreneurship and a favorable expatriate tax law
  - Simplify tax compliance
  - Based on the draft legislation, the PIT reform does not encompass a PIT rate reduction, but it is likely to reduce the tax burden by the introduction of the rules and/or regimes summarized above. Also, a tax credit is foreseen based on the 2015 state budgetary performance.

VAT, GST and sales taxes

- No major tax changes are expected. The Government will continue to increase the control over the taxpayers’ invoicing systems.

2.5 Fiscal stimulus in 2015

- Very likely
- Somewhat likely
- Neither likely or unlikely
- Somewhat unlikely
- Very unlikely

If Very or Somewhat likely, which tax measures do you think will most likely be included? (select all that apply)

- Headline CIT rate reductions
- More generous tax treatment of losses
- More generous business incentives (including R&D)
- Accelerated depreciation
- VAT/GST rate reductions
- PIT rate reductions

2.6 Political landscape

- The 2015 Portuguese legislative election will be held in October 2015, which is likely to lead to the introduction of tax measures aimed at lighting the overall tax burden, also bearing in mind that the EU/IMF Financial Assistance Programme terminated in May 2014.

2.7 Current tax policy and tax administration leaders

- Maria Luís Albuquerque, Minister of Finance
- Paulo Núncio, Secretary of State for Tax Affairs
- José António de Azevedo Pereira, Director-General Tax Affairs

2.8 Key tax policy changes in 2014

- CIT reform (see the 2014 Tax policy outlook).

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- The CIT reform undertaken in 2014 clearly stated that such reform was aligned with the OECD’s BEPS Action Plan.

2.10 Pending tax proposals

- PIT reform – under parliamentary discussion; to be enacted as from 1 January 2015
- Environmental tax reform – under parliamentary discussion; to be enacted as from 1 January 2015

2.11 Consultations opened/closed

- PIT reform – opened 15 July and closed on 20 September 2014
- Environmental tax reform – opened on 30 June and closed on 15 August 2014
## Tax rates (2014-15)

### 1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Top corporate income tax (CIT) rate (national and local average, if applicable)</strong></td>
<td>The general rate of income tax is set at 20%, of which 2% goes to the federal budget and 18% goes to the regional budget. The regional rate can be reduced to a minimum of 13.5% in certain regions for certain categories of taxpayers.</td>
<td>The general rate of income tax is set at 20%, of which 2% goes to the federal budget and 18% goes to the regional budget. The state percentage can be reduced to a minimum of 13.5% in certain regions for certain categories of taxpayers.</td>
<td>–</td>
</tr>
<tr>
<td><strong>Top individual income tax rate (national and local average, if applicable)</strong></td>
<td>Personal income tax rates: general rate of 13% for Russian residents, 35% on gifts, 30% for non-Russian residents, and 15% on dividends and participation income received.</td>
<td>Personal income tax rates: general rate of 13% for Russian residents, 35% on gifts, 30% for non-Russian residents, and 15% on dividends received by non-residents. The 13% tax rate applies from 1 January 2015 to dividends and participation income received.</td>
<td>+4% (on dividends and participation income received)</td>
</tr>
<tr>
<td><strong>Standard value-added tax (VAT) rate</strong></td>
<td>VAT tax rate: The general rate is 18%; 0% is set for export sales and international transportation; 10% is set for food products, products for children, medical products and periodical publications. VAT exempt: financial services, warranty repairs, medical services, educational services</td>
<td>VAT tax rate: The general rate is 18%; 0% is set for export sales and international transportation; 10% is set for food products, products for children, medical products and periodical publications. VAT exempt: financial services, warranty repairs, medical services, educational services</td>
<td>–</td>
</tr>
</tbody>
</table>

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2015 tax policy outlook

2.1 Key drivers of tax policy change

- The De-offshorization legislation begins to apply in 2015. It's aimed at creating a mechanism to prevent the use of low-tax jurisdictions to obtain unjustified preferences and tax benefits, and to improve legislation on taxes and tax collection as it pertains to taxation of foreign organizations.
- New tax administration regime for large taxpayers with respect to the exchange of information (Tax Monitoring) between tax authorities and taxpayers will come into force.
- In December 2014 President of Russia declared several goals, that should be realized in 2015:
  - Tax moratorium, which means that tax burden will not be increased during next year
  - Investment projects development in Far East Region
  - Tax “vacations” for small and medium business
  - Capital amnesty and comfortable business climate

2.2 Fiscal consolidation vs. stimulus

- Headline CIT rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Interest deductibility
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Hybrid mismatches
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Treatment of losses
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Capital gains tax
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- VAT, goods and services tax (GST) or sales tax rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- VAT, GST or sales tax base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Controlled foreign companies
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Thin capitalization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
- Transfer pricing changes
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
2.3 Tax policy outlook for 2015 – summary

Corporate income tax burden

- Lower: X
  - No change
  - Higher

Personal income tax burden

- Lower: X
  - No change
  - Higher

VAT/GST/sales tax burden

- Lower: X
  - No change
  - Higher
2.4 Tax policy outlook for 2015 – detail

Corporate income taxes

- No significant changes with respect to CIT are expected in 2015 and statutory CIT rates will remain the same.

The De-offshorization legislation

- The new Law (which came into force on 1 January 2015) will govern the determination of a controlled foreign company (CF) and when Russian residents are to be recognized as controlling persons. The criterion of recognition of a Russian resident whose participation in a CFC exceeds 50% as a controlling person will be applicable only during 2015.

- The Law provides the criteria for determining when a company’s place of effective management will be considered to be in Russia. The law also adds a definition of “actual recipient (beneficial owner) of income. As regards formal requirements to access treaty benefits, in addition to a certificate of tax residency, the law requires a confirmation from a foreign recipient that the organization has an actual right to receive the income in question. In addition, the Law allows the actual owner of income to apply the provisions of a treaty or domestic law to income paid from a Russian source to a foreign person resident in a treaty jurisdiction which is not the actual owner, provided that in the event of the actual owner being resident in Russia, the tax authority in the place of registration of the company which is the source of payment is notified. This applies to both dividends and other types of income. The Law also states that if tax on income of a foreign company is withheld as a result of tax control measures, the actual owner of income may subsequently apply for a refund of excess tax withheld.

Russian draft law on extension of the thin capitalization rules submitted to State Duma

- On 16 December 2014, Russia’s Draft Law No. 675906-6 “Concerning the Introduction of Amendments to Article 269 of Part Two of the Tax Code of the Russian Federation in Regard to the Definition of the Concept of Controlled Indebtedness” (the December draft) was submitted to the State Duma. It was scheduled for a first reading on 21 January but consideration of the bill has been postponed until another plenary session.

- At this time this document was published, no revised text has been published. Representatives of the Ministry of Finance have suggested that amendments will be made to the formula for the thin capitalization ratio for foreign currency debts to exclude the impact of any devaluation of devaluation of the ruble after 1 July 2014 (which could otherwise be extremely significant). This “exemption” is expected to be a short-term measure and effective until the end of 2015. The required changes are expected to be introduced in time for the second reading.

- The December draft broadens the range of debt covered by the thin capitalization rules by replacing the current criteria relating to Russian organizations with foreign shareholders with new criteria relevant to Russian organizations (and foreign companies treated as Russian organizations for profits tax purposes) with foreign interdependent persons. The draft also provides for the exclusion of loans from third-party banks from the scope of thin capitalization rules, provided that certain conditions are met.

Personal income tax

- In 2014 the tax rate on dividends and participation income received was 9%, in 2015 – 13%.

VAT, GST and sales taxes

- No significant changes with respect to VAT are expected in 2015.

A number of amendments will come into force in 2015

- The Federal Law which introduces a new tax administration regime for large taxpayers with respect to the exchange of information (Tax Monitoring) between tax authorities and taxpayers will come into force on 1 January 2015.

- The Federal Law introducing tax maneuver for oil and gas sector will come into force on 1 January 2015. Excise duty will increase, at the same time custom duty will decrease.

- From tax periods 2015 VAT declaration includes information from the VAT invoices, received and issued.

- A federal law providing that the tax base in respect of individual property is determined by their cadastral value will come into force from 1 January 2015.

- Untaxable amount for calculation of insurance contributions in Medical insurance fund will be repealed.

2.5 Fiscal stimulus in 2015
2.6 Political landscape

- The last presidential and State Duma elections were held in 2012. No important elections affecting trends with respect to tax policy are expected.
- No significant changes in the political landscape are expected in 2015.

2.7 Current tax policy and tax administration leaders

There have been no changes in the structure or tax administrative leaders since last year.

Tax policy leaders

- Anton Siluanov, Minister and Head of the Federal Minister of Finance of the Russian Federation (in charge of nine deputy finance ministers who are responsible for the activity of 17 existing departments, each managed by a director)
- Tatyana Nesterenko, Deputy Minister
- Sergei Shatalov, Deputy Minister
- Ilya Trunin, Director of the Tax and Customs Policy Department
- Sergey Barsukov, Director of the Financial Policy Department
- Leonid Shneydman, Director of the Department of Financial Control, Audit Services, Accounting and Financial Statements Regulation Department

The structure of the tax administration

- Federal Tax Service
- Regional offices of the Federal Tax Service
- Regional tax authorities
- Local tax authorities

2.8 Key tax policy changes in 2014

- A federal law “Concerning property tax and procedures of determining of tax base” came into force from 1 January 2014, according to which the tax base in respect of certain property is determined by their market value
- The main amendments concerning mandatory appeal procedures against any acts of tax authorities came into force in 2014. New concepts of pre-trial and court appeal procedures were introduced in the Tax Code
- The favorable tax conditions have been created for investment activity in certain areas through the introduction of the new beneficial category to the legislation – the participant of the investment project (for Far Eastern District, Zabaikalye region, the Republic of Buryatia or Irkutsk region)
- The procedure for the initiation of criminal cases concerning tax crimes has been reviewed. The previously applied procedure provided for the possibility of initiation of a criminal investigation based on the tax audit materials submitted by the tax authorities. The federal law proposes the elimination of the requirement on gathering tax audit materials and permits the initiation of criminal cases based on general rules established by general Criminal-Procedural rules, i.e. without obligatory tax authorities participation
2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- Russian tax policy's routine developments are in line with the provisions of BEPS, but the Russian authorities didn't take action directly related to the publication of the BEPS Action Plan. Russia is not a member of the Organisation for Economic Co-operation and Development, and BEPS is not a part of Russian legislation.

- The Russian Government generally supports the BEPS Action Plan; however, no official documents directly related to BEPS were developed and issued.

- On the other hand, there are a number of local developments with regard to matters similar to issues disclosed in the BEPS Action Plan:
  - Russia ratified Convention on Mutual Administrative Assistance in Tax Matters. The Convention provides a basis for several forms of mutual administrative assistance in tax matters: information exchange on request, automatically and spontaneously; simultaneous tax examinations; tax examinations abroad; tax recovery, including interim measures. The ratification of the Convention is an important measure in the “de-offshorization” process in Russia.
  - The Federal law defining the CFC rules has been signed. The Law will come into force on 1 January 2015. It's aimed at creating a mechanism to prevent the use of low-tax jurisdictions to obtain unjustified preferences and tax benefits, and to improve legislation on taxes and tax collection as it pertains to taxation of foreign organizations. The new Law will govern the determination of a controlled foreign company and when Russian residents are to be recognized as controlling persons. The Law provides the criteria for determining when a company’s place of effective management will be considered to be in Russia. The law also adds a definition of “actual recipient (beneficial owner) of income.”

2.10 Pending tax proposals

- By July 2015 the Russian federal government, with the participation of Russian business community, should develop the draft of Law on capital amnesty. It is expected that the bill as a part of a comprehensive anti-offshore legislation will release of tax and criminal liability those, who return to Russia the income previously transferred to "foreign jurisdictions without paying appropriate taxes."

2.11 Consultations opened/closed

- The state authorities also considered a possibility to establish at the legislative level a principle of taxpayer’s good faith, to define the concept of rights abuse and to determine the conditions upon which tax authorities were entitle to restrict taxpayer’s rights, in the case of undue reduction of tax obligations by improper expenditure or unearned tax deductions.

- The bill was aimed against aggressive tax optimization mechanisms, i.e. situations when taxpayers use formally valid legal actions with the primary objective of default (partial performance) of tax obligation or receipt of compensation (refund, offset).

- Upon the results of public discussion further consideration of the bill was postponed without date.
1 | Tax rates (2014-15)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax (CIT) rate (national and local average, if applicable)</td>
<td>17%</td>
<td>17%</td>
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</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>20%</td>
<td>20%</td>
<td>–</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>7%</td>
<td>7%</td>
<td>–</td>
</tr>
</tbody>
</table>

2 | 2015 tax policy outlook

2.1 Key drivers of tax policy change

- Sustain a fair and progressive fiscal system
- Continue the push to restructure the Singaporean economy in an attempt to increase Singapore’s productivity by 2% to 3% per year over the next decade
- Support upgrading by firms and provide more help for businesses so they can restructure to upgrade productivity and achieve quality growth
- Promote an inclusive society that improves all lives, focusing especially on keeping quality healthcare affordable, cost of living for low-income Singaporeans.
- The Singapore government will continue to push ahead with its key economic policy to restructure the country’s economy. The focus will likely be on areas to help businesses, particularly small and medium enterprises, with the costs of restructuring and making changes to their businesses in order to survive, grow and compete internationally.
- The economic strategies and related tax policies are likely to continue to be directed at raising the skill of the workforce and growing productivity through innovation.

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Overall, key areas of tax focus are likely to remain broad-based and directed at helping businesses to restructure for sustainability, in particular small and medium enterprises as well as to attract foreign investments and building a fair and equitable society.

2.2 Fiscal consolidation vs. stimulus

- **Headline CIT rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Interest deductibility**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Hybrid mismatches**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Treatment of losses**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Capital gains tax**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
  - Not applicable

- **VAT, goods and services tax (GST) or sales tax rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **VAT, GST or sales tax base**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Top marginal personal income tax (PIT) rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **PIT base**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Controlled foreign companies**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
  - Not applicable

- **Thin capitalization**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Transfer pricing changes**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **R&D incentives**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Other business incentives – including depreciation/amortization**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Changes to tax enforcement approach**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

Singapore
2.3 Tax policy outlook for 2015 – summary

Corporate income tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
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</table>

Personal income tax burden

<table>
<thead>
<tr>
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<th>Higher</th>
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<tbody>
<tr>
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<td></td>
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</table>

VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2015 – detail

Corporate income taxes

- Corporate tax rate of 17% is generally viewed as being competitive. The 2015 Budget will be delivered on 23 February 2015.
- On 6 January 2015, the tax authorities released revised transfer pricing guidelines. Taxpayers are required to prepare and keep contemporaneous transfer pricing documentation, to include a "master file" and a "local file" explaining and justifying their transfer pricing for related party transactions.

Taxes on wages and employment

- Top marginal rate of 20% is generally viewed as being competitive.

VAT, GST and sales taxes

- The government indicated in the last general election in 2011 that there should not be any GST increase, at least until the next nationwide poll, which is due in 2016.

2.5 Fiscal stimulus in 2015

- Very likely
- Somewhat likely
- Neither likely or unlikely
- Somewhat unlikely
- Very unlikely

2.6 Political landscape

- There are no major changes from 2014.
- The next parliamentary general election in Singapore must be held by January 2017.

2.7 Current tax policy and tax administration leaders

**Tax policy leaders**

- Lee Hsien Loong, Prime Minister
- Tharman Shanmugaratnam, Deputy Prime Minister and Minister for Finance
- Peter Ong, Permanent Secretary (Finance) and Chairman of Inland Revenue Authority of Singapore Board
- Tax administration leaders
- Tan Tee How, Commissioner of Inland Revenue

2.8 Key tax policy changes in 2014

Singapore's Minister for Finance delivered the 2014 Budget for the financial year April 1, 2014 to March 31, 2015 in Parliament on 21 February 2014. Some key measures include:

**Extending and enhancing the Productivity and Innovation Credit (PIC) scheme**

- To give businesses more time to put in place productivity improvements, the PIC scheme will be extended for three years to year of assessment (YA) 2018. The expenditure cap
of S$400,000 of qualifying expenditure per activity will be combined across YA 2016 to YA 2018.

- A PIC+ scheme is introduced to provide support to SMEs that are making more substantial investments to transform their businesses. Under the PIC+ scheme, the expenditure cap for qualifying SMEs will be increased from S$400,000 to S$600,000 per qualifying activity per YA. The PIC+ scheme will take effect for expenditure incurred in YA 2015 to YA 2018. The combined expenditure cap per qualifying activity will be as follows: up to S$1.4m for YA 2015 and up to S$1.8m for YA 2016 to YA2018. An entity is a qualifying SME if (a) its annual turnover is not more than S$100m or (b) its employment size is not more than 200 workers. This criterion will be applied at the group level if the entity is part of a group.

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- As mentioned by our Prime Minister, Lee Hsien Loong in his speech at the G20 Summit on 5 September 2013, he indicated that profits made by companies should be rightfully taxed in jurisdictions where there are substantive economic activities. In the same speech, he said that Singapore supports the OECD action plan to crack down on tax evasion by MNCs.
- The tax authorities have issued guidance on the income tax treatment of hybrid instruments and revised its transfer pricing guidelines.
- Singapore government constantly reviews and updates the tax rules and policy in line with changes in global tax rules.
- Singapore is already taking steps to strengthen its framework for international cooperation to combat cross-border tax offences, increase the number of exchange of information (EOI) sharing agreements before BEPS Action Plan was released. This can be seen in the light of the signing of the Convention on Mutual Administrative Assistance in Tax Matters on 29 May 2013 as well as strengthening its EOI framework such as extending its EOI assistance to all existing treaty partners subject to reciprocity, without having to individually update the agreements with them. In addition, Singapore and the US have signed a FATCA Model 1 IGA on 9 Dec 2014 to help ease Singapore-based FIs' FATCA compliance burden. Singapore has also amended its laws to put in place the legislative framework to deal with Group Requests for EOI, with effect from 28 Nov 2014. With this amendment, Singapore is now able to assist with Group Requests from our treaty partners, subject to reciprocity.

2.10 Pending tax proposals

- None as at 31 December 2014.

2.10 Consultations opened/closed

- Public consultations with the Ministry of Finance/Inland Revenue Authority of Singapore that were closed as of 31 December 2014 include:
  - Draft Income Tax (Amendment) Bill 2014
  - Draft Stamp Duties (Amendment) Bill 2014
  - Transfer pricing documentation
  - Proposed Regulations to Help Financial Institutions Comply with US FATCA
  - Survey on IRAS’ publishing of Advance Rulings
  - Taxpayer Compliance Perception Survey

4 Requests for information on a group of taxpayers not individually identified but which have certain characteristics in common and as described in the 2012 update to Article 26 of the OECD Model Tax Convention and its Commentary (“Group Requests”) are regarded as coming within the scope of EOI requests based on the EOI Standard.
1 | Tax rates (2014-15)

### 1.1 Key tax rates

<table>
<thead>
<tr>
<th>Tax Category</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax (CIT) rate (national and local average, if applicable)</td>
<td>22%</td>
<td>22%¹</td>
<td>–</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>19%/25% on portion of gross income exceeding €3,370 per month²</td>
<td>19%/25% on portion of gross income exceeding €3,370 per month³</td>
<td>–</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>20%</td>
<td>20%⁴</td>
<td>–</td>
</tr>
</tbody>
</table>

¹ Act No. 595/2003 Coll. on Income Tax, as later amended; Section 15 lit. b).
² Act No. 595/2003 Coll. on Income Tax, as later amended; Section 15 lit. a) points 1 and 2, respectively.
³ Act No. 595/2003 Coll. on Income Tax, as later amended; Section 15 lit. a) points 1 and 2, respectively.
⁴ Act No. 222/2004 Coll. on Value Added Tax, as later amended; Section 27 (1) as per the wording effective as of 1 January 2015.

2 | 2015 tax policy outlook

### 2.1 Key drivers of tax policy change

The Social Democratic Government (party in charge) develops tax policy according to these key drivers:

- Fiscal consolidation (which is currently the main driver)
- Increase of state income
- Minimization of inequality in tax system
- Fight against tax fraud and tax evasion
- Goal to keep public finance deficit below 3% of gross domestic product

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Stay up to date with developments in the Slovak Republic by accessing EY's global tax alert library at [www.ey.com/taxalerts](http://www.ey.com/taxalerts).
2.2 Fiscal consolidation vs. stimulus

- **Headline CIT rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Interest deductibility**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Hybrid mismatches**
  - Change proposed or known for 2015
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- **Treatment of losses**
  - Change proposed or known for 2015
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- **Capital gains tax**
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  - Same burden in 2015
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- **VAT, GST or sales tax rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
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- **VAT, GST or sales tax base**
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  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Controlled foreign companies**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
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  - Same burden in 2015
  - Higher burden in 2015

- **Thin capitalization**
  - Change proposed or known for 2015
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  - Higher burden in 2015

- **Transfer pricing changes**
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- **R&D incentives**
  - Change proposed or known for 2015
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- **Other business incentives – including depreciation/amortization**
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- **Changes to tax enforcement approach**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **Top marginal personal income tax (PIT) rate**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- **PIT base**
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
2.3 Tax policy outlook for 2015 – summary

<table>
<thead>
<tr>
<th>Corporate income tax burden</th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
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<tr>
<th>Personal income tax burden</th>
<th>Lower</th>
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<tr>
<th>VAT/GST/sales tax burden</th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

2.4 Tax policy outlook for 2015 – detail

Corporate income taxes – effective as of 1 January 2015

- Adequate tax expenses, assets usable for personal benefits (base broadening)
- In connection with assets that may be used for private purposes, as well as with related expenses, the law provides the following options:
  - A flat deduction of 80% of tax deductible expenses, if the assets are also used for private purposes
  - A substantiated amount of expenses, depending on the actual use of the assets for private/personal and business purposes
- Transfer pricing (TP) rules to apply also to transactions between domestic related parties (base broadening)
- As of 2015, all transactions between related parties (including domestic parties) will be subject to strict TP rules, including contracts concluded before the change becomes effective.

- Thin capitalization rules and tax deductibility of interest from loans (base broadening)
- The maximum amount of tax deductible interest from loans between local and foreign related parties is limited to 25% EBITDA. While these rules should not apply to financial institutions and leasing companies, they should apply to all contracts, including those that were concluded before 1 January 2015.
- New R&D tax allowances (base reduction)
  - 25% of R&D costs
  - 25% of wage costs of newly hired graduates,
  - 25% of the year-on-year increase of R&D costs
Slovak Republic

VAT, GST and sales taxes
  ▶ Mini One Stop Shop (MOSS)
    ▶ Change in the place of supply of telecommunication, radio and television broadcasting and electronic services from the country of the supplier to the country of consumption.
    ▶ Companies concerned may choose between two schemes under which they will fulfill their VAT obligations from January 2015. They may register under the so-called:
      ▶ Mini One Stop Shop (MOSS) scheme, and fulfill their VAT obligations through a single point of contact – the tax administration of the country of registration
      Or
      ▶ They may register for VAT in each country of consumption (i.e., the country where the customer, non-taxable person, resides) and fulfill the VAT obligations in each of these countries.

2.5 Fiscal stimulus in 2015
  □ Very likely
  □ Somewhat likely
  □ Neither likely or unlikely  ☒ Somewhat unlikely
  □ Very unlikely

2.6 Political landscape
  ▶ No changes since the Government change in March 2012
    ▶ Robert Fico, Prime Minister
    ▶ Single party coalition – sufficient parliamentary power to implement the political program
    ▶ Left oriented
    ▶ Four-year mandate: 2012-16

2.7 Current tax policy and tax administration leaders
  Tax policy leader
  ▶ Peter Kažimír, Minister of Finance
  Tax administration leaders
  ▶ Frantisek Imrecze, President of Financial Directorate
  ▶ Dana Meager, Vice-President of Financial Directorate

2.8 Key tax policy changes in 2014
  ▶ Introduction of a general anti-abuse provision (substance-over-form principle)
    ▶ A transaction without any economic substance, the result of which is the purposeful avoidance of tax or purposeful reduction of tax liability, or gaining a tax advantage from which the taxpayer could not have otherwise benefited, should be disregarded for tax purposes.

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan
  ▶ So far, there are no specific changes as a result of the BEPS Action Plan in Slovakia.

2.10 Pending tax proposals
  ▶ None

2.11 Consultations opened/closed
  ▶ None
1. Tax rates (2014-15)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax (CIT) rate (national and local average, if applicable)</td>
<td>28%</td>
<td>28%</td>
<td>–</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>40%</td>
<td>40%</td>
<td>–</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>14%</td>
<td>14%</td>
<td>–</td>
</tr>
</tbody>
</table>

2. 2015 tax policy outlook

2.1 Key drivers of tax policy change

- Raising revenue to fund government programs and deliver services
- Addressing fiscal consolidation
- Minimizing inequality using the tax system
- Changing taxpayer behaviors
- Addressing base erosion and profit shifting
2.2 Fiscal consolidation vs. stimulus

- Headline CIT rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Interest deductibility
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
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- Hybrid mismatches
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- Other business incentives – including depreciation/amortization
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  - Same burden in 2015
  - Higher burden in 2015

- Changes to tax enforcement approach
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Top marginal personal income tax (PIT) rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- PIT base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
### 2.3 Tax policy outlook for 2015 – summary

#### Corporate income tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

#### Personal income tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

#### VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

### 2.4 Tax policy outlook for 2015 – detail

**Corporate income taxes**
- Broadening the tax base through increased enforcement and reportable arrangements
- See also section 2.10 below

**Taxes on wages and employment**
- The maximum marginal tax rate is likely to increase or there may be partial relief for fiscal drag.

**VAT, GST and sales taxes**
- Somewhat likely to change; however, given the regressive nature of the VAT system, the changes are politically sensitive.

### 2.5 Fiscal stimulus in 2015

- Very likely
- Somewhat likely
- Neither likely or unlikely
- Somewhat unlikely
- Very unlikely

### 2.6 Political landscape

- The political environment in South Africa is stable, with one party, the African National Congress (ANC), relatively dominating the landscape. In the 2014 elections, a significant challenge was forged by minority political parties, but the ANC retains a significant majority and control of the Government.

### 2.7 Current tax policy and tax administration leaders

- Ismail Momoniat, Deputy Director-General, National Treasury
- Thomas Swabhi Moyane, Commissioner, South African Revenue Service
2.8 Key tax policy changes in 2014

- Taxpayers who derive South African-sourced service income are required to file a return, irrespective of whether or not South Africa has taxing rights over the services income in terms of a treaty. The filing is intended to monitor compliance with the permanent establishment requirements.
- Transfer pricing secondary adjustments are to be treated as deemed dividends, moving away from the previous deemed loan treatment.

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- On 23 December 2014, the Davis Tax Review Committee released the first interim draft report on BEPS for public comments. The closing date for comments is 31 March 2015. The report aligns closely to the application of the various OECD Action Plan items in the domestic context, and in certain instances, makes policy recommendations for South Africa. It is expected that the National Treasury will take the final recommendations of the committee into account when designing future tax policy.

2.10 Pending tax proposals

- Withholding tax on interest will be introduced at a rate of 15% from 1 March 2015.
- Withholding tax on service fees will be introduced at a rate of 15% from 1 January 2016.
- A notice in terms of section 35(2) of Tax Administration Act 28 of 2011 (TAA) was issued for public comment regarding six arrangements that will be added to a list of reportable arrangements. Proposed reportable arrangements include service fees paid to nonresidents, share buybacks and assessed loss trafficking. It is expected that the notice may be finalized in 2015.
- In 2013, the Davis Tax Review Committee was established to provide tax policy advisory services to the Minister of Finance. The terms of reference of the committee are very broad. The generic mandate of the committee is to evaluate the South African tax system against international tax trends, principles and practices, as well as recent international initiatives to improve tax compliance and deal with tax base erosion. The specific items announced for review include: (i) the overall tax base and tax burden, including the appropriate tax mix between direct, indirect, provincial and local taxes; (ii) impact of the tax system in the promotion of small and medium-sized enterprises (SMEs); and tax avoidance (e.g., base erosion, income splitting and profit shifting, including the tax bias in favor of debt financing). So far, the committee released two interim reports for public comment. The first interim report on SMEs was issued on 14 July 2014 (public comment was due by 31 August 2014), and the first interim report on BEPS was issued on 23 December 2014 (public comment is due by 31 March 2015). It is expected that the committee may issue additional reports that may influence tax policy in South Africa.

2.11 Consultations opened/closed

- The Davis Tax Review Committee's interim report on BEPS is still open for public comment.
- Consultations for proposed amendments in the 2015 fiscal year have already started. The amendments will culminate into the 2015 Taxation Laws Amendment Bill.
South Korea

Tax policy and controversy

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+82 2 3770 0934

Stay up to date with developments in South Korea by accessing EY’s global tax alert library at www.ey.com/taxalerts.

1 | Tax rates (2014-15)

1.1 Key tax rates

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<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax (CIT) rate (national and local average, if applicable)</td>
<td>24.2% (including local income taxes)</td>
<td>24.2% (including local income taxes)</td>
<td>–</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>41.8% (including local income taxes)</td>
<td>41.8% (including local income taxes)</td>
<td>–</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>10%</td>
<td>10%</td>
<td>–</td>
</tr>
</tbody>
</table>

2 | 2015 tax policy outlook

2.1 Key drivers of tax policy change

- The Government announced proposed changes in the tax laws on 6 August 2014.
  Key drivers of tax policy include:
  - Revitalization of the economy
  - Stabilization of public welfare
  - Fair taxation
  - Rationalization of taxation

Content provision date
21 November 2014
2.2 Fiscal consolidation vs. stimulus

- Headline CIT rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Interest deductibility
  - Change proposed or known for 2015
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  - Higher burden in 2015

- PIT base
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  - Higher burden in 2015
2.3 Tax policy outlook for 2015 – summary

<table>
<thead>
<tr>
<th>Corporate income tax burden</th>
<th>Lower</th>
<th>No change</th>
<th>X</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income tax burden</td>
<td>Lower</td>
<td>No change</td>
<td>X</td>
<td>Higher</td>
</tr>
<tr>
<td>VAT/GST/sales tax burden</td>
<td>Lower</td>
<td>No change</td>
<td>X</td>
<td>Higher</td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2015 – detail

Corporate income taxes

- On 6 August 2014, Korea’s Ministry of Strategy and Finance announced 2015 tax reform proposals (the 2015 Proposal), aimed at stimulating the domestic economy and laying the foundation for an advanced taxation system. On 2 December 2014, Korea’s National Assembly passed the 2015 Proposal, which was enacted into law on 23 December 2014. The new law will be effective for taxable years beginning on or after 1 January 2015 and before 31 December 2017. Major proposed changes are as follows:

  - Corporate accumulated earnings tax: A new corporate accumulated earnings tax will be imposed on excess cash accumulated by large corporations whose equity capital exceeds KRW50 billion (approximately USD49 million) and corporations that are members of an enterprise group with restrictions on mutual investment.
  
  - Change in the debt-to-equity ratio: Under the current law, the debt-to-equity ratio in determining deductibility of interest paid, including a discount fee, to a foreign controlling shareholder is 3:1, i.e., a debt equals up to three times the amount invested by the foreign controlling shareholder. Any interest expense in excess of the debt-to-equity ratio will be treated as a dividend in general. Under the 2015 Proposal, the debt-to-equity ratio is revised to 2:1.

- Extended statute of limitation period on tax evasion involving cross-border transactions: The current 10-year statute of limitation period is proposed to be extended to 15 years for cross-border tax evasion matters.

- Increased penalties on tax evasion involving cross-border transactions: The 2015 Proposal introduces a new penalty for non-filers or underreporting of income derived by cross-border transactions. The new rate is 60% of the amount of tax.

Taxes on wages and employment

- No major changes have been proposed.

VAT, GST and sales taxes

- No major changes have been proposed.

2.5 Fiscal stimulus in 2015

- Very likely
- Somewhat likely
- Neither likely or unlikely
- Somewhat unlikely
- Very unlikely
2.6 Political landscape

- There are no major changes from 2014.

2.7 Current tax policy and tax administration leaders

**Tax policy leader**
- Deputy Prime Minister Choi Kyung Hwan, Ministry of Strategy and Finance (MOSF)

**Tax administration leader**
- Commissioner Lim Hwan-soo, National Tax Service

2.8 Key tax policy changes in 2014

- On 1 January 2014, Korea's National Assembly passed the tax reform proposal originally made on 1 August 2013, which included several modifications to the previous R&D incentives regime. These changes, included in the Tax Incentives Limitation Law, are outlined below and are all effective as of 1 January 2014.
  
  **Deductibility of R&D reserve:** Under the previous tax law, 3% of a company's reserves used as future R&D was permitted to be deducted for corporate income tax purposes. Under the new law, these reserves are no longer deductible. Amounts that were accrued prior to 31 December 2013 may be deducted.
  
  **Changes in R&D investment tax credit:** Under the new law, the previous credit of 10% on the cost of developing a new R&D facility for SMEs (small and medium-sized enterprises) and large companies has been decreased to 5% for medium-sized companies and 3% for large companies. The 10% credit remains for small companies.
  
  **Changes in R&D tax credit:** To limit large companies from making excessive utilization of R&D tax credits, under the new law the available R&D tax credit for large taxpayers equals the greater of: (i) 40% of current year R&D expenditures exceeding the average of the three prior years' (two prior years for 2014 and a prior year for 2015) R&D expenditures, or (ii) the R&D expenditures for the current year multiplied by 3% plus an additional rate defined as 50% of the R&D expense ratio, capped at 4%. Under the previous law, this limitation was limited to 6%.

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- The South Korean Government takes the BEPS agenda seriously as it sees some domestic and foreign entities paying a lesser amount of taxes than they should have paid through foreign related-party transactions.
  
  - As in many other countries, the Government has legislated a transfer pricing regime, controlled foreign corporation (CFC) rules, thin capitalization rules and many other rules in order to secure tax revenues from foreign related-party transactions.
  
  - The Government's position on the BEPS Action Plan can be defined as a “supporter,” and it has not raised contradictory opinions on any particular elements of the Plan.
  
  - Based on informal discussions with the MOSF, we understand that it has assigned a team to closely monitor discussions on BEPS issues around the world, including the OECD.
  
  - However, there have been no local developments in relation to the BEPS Action Plan yet. The MOSF will consider revising relevant laws and regulations in line with the BEPS Action Plan after details on each of the action items are agreed.
  
  - Transfer pricing-related action plans, including management service fees and royalties, may be of greatest interest to the Government.

2.10 Pending tax proposals

- None

2.11 Consultations opened/closed

- There were no significant public consultations as of 21 November 2014.
The outlook for global tax policy in 2015

1 | Tax rates (2014-15)

### 1.1 Key tax rates

<table>
<thead>
<tr>
<th>Top corporate income tax (CIT) rate (national and local average, if applicable)</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>30%</td>
<td>28%</td>
<td>-6.7%</td>
</tr>
</tbody>
</table>

| Top individual income tax rate (national and local average, if applicable) | General base: 52% | General base: 47% | General base: -9.6% |
| | Saving base: 27% | Saving base: 24% | Saving base: -11.1% |

| Standard value-added tax (VAT) rate | 21% | 21% | - |

2 | 2015 tax policy outlook

### 2.1 Key drivers of tax policy change

- Taxable base increase
- Tax rates decrease
- New anti-fraud rules within the scope of the OECD guidelines in order to avoid tax mismatches using hybrid financing structures, such as participative loans.

Stay up to date with developments in Spain by accessing EY’s global tax alert library at www.ey.com/taxalerts.
2.2 Fiscal consolidation vs. stimulus

- Headline CIT rate
  - Change proposed or known for 2015
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- Thin capitalization
  - Not applicable

- Transfer Pricing changes
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2.3 Tax policy outlook for 2015 – summary

<table>
<thead>
<tr>
<th>Corporate income tax burden</th>
<th>Lower</th>
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</tr>
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<tbody>
<tr>
<td>Personal income tax burden</td>
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</tr>
<tr>
<td>VAT/GST/sales tax burden</td>
<td>Lower</td>
<td>No change</td>
<td>X</td>
<td>Higher</td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2015 – detail

Corporate income taxes

- From 1 January 2015, the new participation exemption regime of the CIT Law will not tax capital gains on the sale of shares subject to the fulfilment of certain requirements. Foreign investments might increase in Spain if this regime was applied also to nonresident companies.

- The recently approved Spanish Corporate Income Tax Law 27/2014 provides that the initial demonstration or pilot projects related to animation and video games will be considered R&D. Therefore, the development of these projects give the possibility to apply a deduction of 12% of the costs incurred in the year in which these activities take place. Formerly, game development was not considered innovative. Additionally, as from 2015, if a company allocates more than 10% of its turnover to R&D, the amount of the deduction for this concept may raise from three to five million euros annually. This possibility was not contemplated in 2014 in which the limit was, in any case, three million euros.

Taxes on wages and unemployment

- The withholding rate on payments to individuals is currently 21% and will be lowered to 20% as from 2015 and 19% as from 2016.

VAT, GST and sales taxes

- More incentives (lower VAT rates) for housing and cultural activities could be approved in order to stimulate domestic consumption. Lower rates in the real estate sector could reduce significantly the large stock of empty houses in Spain.

- The VAT rate on goods and services related to cultural services was raised from the reduced rate of 8% to the general rate of 21% in 2012, and it would be advisable, in order to smooth the way out of the crisis of this sector, to lower it.
2.5 Fiscal stimulus in 2015

- Very likely
- Somewhat likely
- Neither likely or unlikely
- Somewhat unlikely
- Very unlikely

If Very or Somewhat likely, which tax measures do you think will most likely be included? (select all that apply)
- Headline CIT rate reductions
- More generous tax treatment of losses
- More generous business incentives (including R&D)
- Accelerated depreciation
- VAT/GST rate reductions
- PIT rate reductions

2.6 Political landscape

- Elections in 2015:
  - Local (Town Halls) and autonomous (Regions) elections: May 2015
  - Central Government elections: November 2015

2.7 Current tax policy and tax administration leaders

- Cristóbal Montoro, Finance Minister

2.8 Key tax policy changes in 2014

- Fiscal consolidation temporary measures initially stated for 2012 and 2014 were extended for 2014.

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- Spanish tax authorities have joined the BEPS working group.
- Some restrictions and anti-fraud measures following the OECD guidelines have been assimilated by the new CIT Law that will enter into force in 2015.

2.10 Pending tax proposals

- New CIT Law to enter into force in 2015
- Relevant changes to enter into force in 2015 on:
  - Nonresidents Income Tax law
  - PIT Law
  - VAT Law
- Amendments to the General Tax Law to be passed by the Parliament in 2015

2.11 Consultations opened/closed

- Not applicable
1 | Tax rates (2014-15)

1.1 Key tax rates

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<tr>
<th></th>
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<tbody>
<tr>
<td>Top corporate income tax (CIT) rate</td>
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</tr>
<tr>
<td>(national and local average, if applicable)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top individual income tax rate</td>
<td>60%</td>
<td>60%</td>
<td>–</td>
</tr>
<tr>
<td>(national and local average, if applicable)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>25%</td>
<td>25%</td>
<td>–</td>
</tr>
</tbody>
</table>

2 | 2015 tax policy outlook

2.1 Key drivers of tax policy change

- Key guiding principles have been tax uniformity and neutrality. In more recent years the tax policy principles of uniformity and neutrality have been challenged to a certain extent as policy makers have experimented with new tax designs and selective tax cuts in their efforts to promote employment and entrepreneurship.
- Furthermore, tax policy has come to play a more important role as a means of supporting environmental policy goals.
2.2 Fiscal consolidation vs. stimulus

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  - Same burden in 2015
  - Higher burden in 2015

- Thin capitalization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Transfer pricing changes
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- R&D incentives
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Other business incentives – including depreciation/amortization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Changes to tax enforcement approach
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Top marginal personal income tax (PIT) rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- PIT base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

Sweden
2.3 Tax policy outlook for 2015 – summary

<table>
<thead>
<tr>
<th>Corporate income tax burden</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
<td>X</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Personal income tax burden</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
<td>X</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>VAT/GST/sales tax burden</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
<td>X</td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2015 – detail

Corporate income taxes

- No major changes expected in 2015.

Taxes on wages and employment

- Calculation of the lower threshold for the state income tax on employment income is aligned with the consumer price index instead of with the consumer price index plus two percentage points. The lower threshold is SEK421,800 whereas the higher threshold is SEK616,100.
- A reduction of the deductibility of contributions made to private pension insurance schemes
- Reduced social security contributions are proposed for young employees below 23 years of age to 10.21% in combination with an abolished reduction for employees of 25 years of age or younger, i.e. increased to 31.42%. If enacted, this change is proposed to enter into force as of 1 May 2015.

VAT, GST and sales taxes

- Excise duties on tobacco products and alcohol are increased.

2.5 Fiscal stimulus in 2015

☐ Very likely
☐ Somewhat likely
☐ Neither likely or unlikely
☐ Somewhat unlikely
☑ Very unlikely

2.6 Political landscape

- The newly-elected government (September 2014) has not indicated that it would be looking to implement significant policy changes (compared to the previous government) in relation to the corporate income tax regime.

2.7 Current tax policy and tax administration leaders

- Guiding principles for Swedish tax policy have inter alia been tax neutrality and uniformity.
- In the sphere of personal income taxation, the basic principles of dual income tax are by and large maintained, i.e. combination of a progressive taxation of labor and transfer income with a relatively low proportional tax on capital income. The introduction of an Earned Income Tax Credit in 2007 was a new innovation in the taxation of labor income and mainly intended to stimulate labor force participation.
In the area of corporate income taxation, Swedish policy makers have stuck to the principle of combining a broad tax base with a relatively low tax rate, rather than trying to tune the level and composition of business investment through various special deductions and allowances that would require a higher tax rate to generate the same revenue.

The previous government made a move towards reduced social security taxes for selected groups in the labor market and the introduction of a tax credit for the purchase of household-related services.

Within the government, tax policy and tax legislation are the responsibilities of the Minister of Finance. Tax bills are prepared by the tax department within the Ministry of Finance. These bills are often based on reports by government committees. All tax legislation is decided by Parliament (Sw. Riksdagen). Tax bills are referred to the parliamentary tax committee (Sw. skatteutskottet) before being put to the vote.

Using a narrow definition, the Swedish tax administration may be described as comprising the Swedish Tax Agency, with its headquarter and its eight tax regions. However, many other agencies and authorities also take part in administering the tax system, for example the Enforcement Authority and Customs.

2.8 Key tax policy changes in 2013

No key changes introduced during 2014.

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

The formal reactions from the Swedish Ministry of Finance have so far been limited to confirming that any developments will be monitored and likely to be adhered to. The BEPS developments have however not yet resulted in any new legislation, BEPS committees or the like.

Considering that several elements of the BEPS report already have been addressed in current income tax legislation – including extensive GAAR – it may perhaps not be likely to render a significant amount of new legislation, with the exception of the transfer pricing area.

Whereas no proposals for new transfer pricing legislation have been prepared yet – any updates of the OECD guidelines would be expected to impact the interpretation for Swedish transfer pricing purposes (e.g. including country-by-country reporting).

2.10 Pending tax proposals

Corporate taxation

A committee appointed by the Ministry of Finance presented its draft white paper proposals during 2014, which primarily focus on introducing extended limitations of interest deductions.

Under this proposal - net financing costs (thus including e.g. all interest expenses) should be non-deductible for tax purposes, and that the tax payer instead should be granted a notional deduction in the form of a financial allowance corresponding to 25% of its taxable profit.

The proposal also contains a proposed permanent reduction of existing tax losses carried forward by 50%.

This proposal has been heavily criticized, and it remains to be seen to which extent the government will make amendments to the draft proposal before presenting a formal law proposal to the Parliament.

Social security

Reduced social security contributions are proposed for young employees below 23 years of age to 10.21% in combination with an abolished reduction for security contributions for employees of 25 years of age or younger implying an increase to 31.42%. If enacted, it is proposed to enter into force as of 1 May 2015.

2.11 Consultations opened/closed

The above law proposal regarding interest limitation rules was open (and closed) for consultations during 2014. It remains to be seen to which extent the criticism of the proposal will lead to any changes in the final law proposal.
# Switzerland

## Tax policy

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## Tax controversy

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### Tax rates (2014-15)

#### 1.1 Key tax rates

<table>
<thead>
<tr>
<th>Rate Type</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate (CIT) income tax rate (national and local average, if applicable)</td>
<td>24.17%</td>
<td>2015 rates are not yet known</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>44.75%</td>
<td>2015 rates are not yet known</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>8%</td>
<td>8%¹</td>
<td>–</td>
</tr>
</tbody>
</table>


---

### 2015 tax policy outlook

#### 2.1 Key drivers of tax policy change

- Switzerland’s GDP is expected to grow by 2.1% in 2015 compared to 1.8% in 2014. The unemployment rate is estimated to remain at a low 3%. The governmental budget projects a slight surplus of CHF 524 million.
- The biggest risk for the Swiss economy is the continued uncertainty around economic development in the Eurozone.
- The Swiss Government pursues a sustainable fiscal policy. Successful instruments, such as the debt brake, ensure a balanced federal budget and low debt ratio. The overall fiscal policy aims at maintaining a strong fiscal position internationally, necessitating continuous improvement of the fiscal system.
- The key driver for upcoming tax policy change is the previously decided alignment of the Swiss Corporate Tax legislation with international developments, in particular the G20/OECD standards. The ongoing third series of corporate tax reforms should put an end to the differing taxation of domestic and foreign company profits, develop the Swiss tax system further and strengthen competitiveness while taking international developments into account.
2.2 Fiscal consolidation vs. stimulus

- Headline CIT rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Same burden in 2015
  - Higher burden in 2015
  - Note: some companies will have a higher burden, others a lower burden, due to the complex nature of the ongoing tax reforms.

- Interest deductibility
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Hybrid mismatches
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Treatment of losses
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Capital gains tax
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- VAT, goods and services tax (GST) or sales tax rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- VAT, GST or sales tax base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Controlled foreign companies
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Thin capitalization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Transfer pricing changes
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- R&D incentives
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Other business incentives – including depreciation/amortization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Changes to tax enforcement approach
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Top marginal personal income tax (PIT) rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- PIT base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
2.3 Tax policy outlook for 2015 – summary

<table>
<thead>
<tr>
<th>Corporate income tax burden</th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income tax burden</td>
<td>Lower</td>
<td>No change</td>
<td>Higher</td>
</tr>
<tr>
<td>VAT/GST/sales tax burden</td>
<td>Lower</td>
<td>No change</td>
<td>Higher</td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2015 – detail

Corporate income taxes

- As a result of international developments, Swiss policies on the granting of tax privileges in the cantons are under review. Plans are to abolish the status of “domicile company,” to adjust the cantonal holding privilege to meet international standards and to introduce a minimum tax rate for holding and mixed companies. In addition, foreign and domestic income generated by mixed companies is to be treated equally for tax purposes in order to satisfy EU calls for an end to what is known as “ring-fencing.”
- In return, royalties should be taxed at a reduced rate at the cantonal level by means of a royalty box, and an interest-adjusted profit tax on above-average levels of equity capital has been proposed. Adjustments are also to be made to cantonal taxes on capital. Further measures under discussion are the abolition of the issue tax on equity capital, adjustments to participation deductions and the offsetting of losses.
- The average cantonal corporate income tax rates could be lowered from 22% (currently) to around 14%.

Taxes on wages and employment

- Restrictions of lump-sum taxation of wealthy foreigners will be enacted as of 2016 as a result of this tax model being perceived as somewhat unfair. In that regard, the model has come under international pressure. That said, an initiative to completely abolish lump-sum taxation was dismissed by the Swiss people in 2014.

Inheritance tax

- The Swiss Socialist Party successfully launched an initiative introducing an inheritance tax with a flat rate of 20% and a general exemption threshold of CHF2 million for inheritance and an exemption threshold of CHF20,000 per annum for occasional gifts and donations. Spouses or registered partners shall be exempt from the tax.
- A popular vote on this initiative will take place in 2015. Today, there is no inheritance or gift tax at the federal level.

VAT, GST and sales taxes

- A reform of the Swiss VAT system was launched in 2014 and could enter into force as early as January 2016. Most of the proposed changes are of a technical nature. However, as a consequence of the proposed broadening of the tax base, more foreign businesses will have to register for Swiss VAT if they do business in Switzerland.
2.5 Fiscal stimulus in 2015

- Very likely
- Somewhat likely
- Neither likely or unlikely
- Somewhat unlikely
- Very unlikely

2.6 Political landscape

- Switzerland is a federal multiparty parliamentary democratic republic with the Federal Council being the head of Government. The Federal Council is a seven-member executive council that heads the federal administration, operating as a combination cabinet and collective presidency.
- Currently, five parties are represented in the Federal Council: Free Democratic Party (two members), Socialist Party (two members), Christian Democratic Party (one member), Swiss People’s Party (one member) and Conservative Democratic Party (one member).
- The largest party is the right-wing Swiss People’s Party, followed by the left-wing Socialist Party.
- The cantons, which enjoy significant autonomy (e.g., in tax matters), have similar parliamentary systems.
- The next elections will be in October 2015.

2.7 Current tax policy and tax administration leaders

**Tax policy leader**

- Minister Eveline Widmer-Schlumpf, Head of the Federal Department of Finance

**Tax administration leaders**

- Adrian Hug, Director General of the Federal Tax Administration
- 26 cantonal tax administrators

2.8 Key tax policy changes in 2014

- Switzerland and the US reached an agreement on the simplified implementation of the US Foreign Account Tax Compliance Act legislation in 2013. The agreement ensures that accounts held by US persons at Swiss financial institutions are reported either with the consent of the account holder or by administrative assistance channels through group requests. The agreement entered into force on 1 July 2014.
- In order to reflect the new international standards in exchange of information, many bilateral double tax treaties are currently being renegotiated and updated.

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- Switzerland is committed to the principle of fair tax practices between countries and welcomes initiatives that further develop this principle. Switzerland therefore actively participates in the working groups of the OECD BEPS project. Three aspects are of particular importance to Switzerland:
  1. Competition between business locations, including taxation, must still be possible.
  2. International standards must apply to all, especially to all financial centers.
  3. In addition to the tax aspects, other issues, such as direct government assistance or other incentives for companies, should be considered, as such payments and other assistance often distort competition.
- No specific legislation in relation to BEPS has been enacted at this point.

2.10 Pending tax proposals

- CIT (see above)
- VAT (see above)

2.11 Consultations opened/closed

- VAT (closed)
- Corporate tax reform (closing 31 January 2015)
- Federal act on the unilateral application of the OECD standard for information exchange (closing 5 February 2015)
- Federal law on the debtor and the paying agent principle of withholding tax (closing 31 March 2015)
- Tax-based climate and energy steering system (planned)
- International automatic exchange of information in tax matters (planned)
**EY key contact**

**Tax policy and controversy**

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yupa.wichitkraisorn@th.ey.com  
+66 2264 9090 ext 55003

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**1 | Tax rates (2014-15)**

### 1.1 Key tax rates

<table>
<thead>
<tr>
<th>Top corporate income tax (CIT) rate (national and local average, if applicable)</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20%</td>
<td>20%</td>
<td>–</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Top individual income tax rate (national and local average, if applicable)</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>35%</td>
<td>35%</td>
<td>–</td>
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</table>

<table>
<thead>
<tr>
<th>Standard value-added tax (VAT) rate</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7%</td>
<td>7%</td>
<td>–</td>
</tr>
</tbody>
</table>

---

**2 | 2015 tax policy outlook**

### 2.1 Key drivers of tax policy change

- Key drivers remain broadly consistent with 2014, although the current Government’s reform efforts are a new driver.
- The introduction of the ASEAN Economic Community (AEC) in 2015 will continue to be a driver of policy in terms of lower corporate and personal income tax rates, competitive investment privileges and waivers of import tariffs for intra-ASEAN trade in order to avoid significant tariff differences that could potentially result in smuggling and other issues.
- If the current corporate and personal income tax rates and the reduced 7% VAT rate are to be maintained, with Government spending likely to remain relatively high, it can be expected that there will be continued efforts to improve tax collection efficiency and to introduce other new taxes. As of 22 December 2014, the Revenue Department looks set to miss its revenue target in 2014, while the 2015 target is 4% higher still.

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1 Revenue Department website (www.rd.go.th/publish/6044.0.html).
2 Revenue Department website (www.rd.go.th/publish/6045.0.html).
3 Revenue Department website (www.rd.go.th/publish/6043.0.html).
- Continued sluggish economic growth maintains pressure on the Revenue Department to improve collection and widen the tax base.
- New transfer pricing regulations in most other major ASEAN nations are increasing the pressure on the Revenue Department to enhance its own practices.
- Under the current Government, future efforts to bridge income disparities may include tax-based measures, such as inheritance and property taxes, and could have an impact on the alignment of tax incentives.
- The need for Thailand to move away from general manufacturing to activities that add value remains, and continuing the realignment of tax incentives to target them at such activities, clusters and areas can be expected.

2.2 Fiscal consolidation vs. stimulus

- Headline CIT rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Interest deductibility
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Hybrid mismatches
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Treatment of losses
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Capital gains tax
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- VAT, goods and services tax (GST) or sales tax rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- VAT, GST or sales tax base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Controlled foreign companies
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Thin capitalization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Transfer pricing changes
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- R&D incentives
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Other business incentives – including depreciation/amortization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Changes to tax enforcement approach
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
### Top marginal personal income tax (PIT) rate
- Change proposed or known for 2015
- Additional change possible or somewhat likely in 2015
- Lower burden in 2015
- Same burden in 2015
- Higher burden in 2015

### PIT base
- Change proposed or known for 2015
- Additional change possible or somewhat likely in 2015
- Lower burden in 2015
- Same burden in 2015
- Higher burden in 2015

#### 2.3 Tax policy outlook for 2015 – summary

**Corporate income tax burden**

- Lower: X
- No change: No change
- Higher: Higher

**Personal income tax burden**

- Lower: X
- No change: No change
- Higher: Higher

**VAT/GST/sales tax burden**

- Lower: X
- No change: No change
- Higher: Higher
2.4 Tax policy outlook for 2015 – detail

- Policymakers continue to view land and property taxes as a way to raise more income and, at the same time, help reduce income disparity. A draft land and buildings tax bill is expected to have been tabled for Cabinet approval by the end of 2014.

- Transfer pricing is another area where the Government and the Revenue Department may look to boost revenue collection, with medium-to-large-sized taxpayers already being targeted more often than in the past, and transfer pricing regulatory changes are possible to likely to align Thailand's transfer pricing with other ASEAN nations.

- The Government is keen to keep the current 7% VAT rate in place as it hopes to promote the domestic economy, even though this rate is relatively low compared to other countries in the region. Moreover, any VAT rate increase will lead directly to an increased cost of living, which will seriously affect the popularity of the Government.

- The currently in-place reductions in CIT to 20% and top rate of PIT to 35% are temporary (for one more year), and so, in a time of need or crisis, the Government has the option to revert to the higher rates either temporarily or permanently. In current circumstances, this is not considered likely.

2.5 Fiscal stimulus in 2015

- Very likely
- Somewhat likely
- Neither likely or unlikely
- Somewhat unlikely
- Very unlikely

2.6 Political landscape

- Thailand is currently stable. However, there is still a risk of political instability returning as the military leadership that took over administration of the country in May 2014 prepares a new constitution and seeks to organize elections that are targeted for late 2015, and which will be held under new rules.

- The military leadership has assigned responsibility for political reform to a 250-seat National Reform Council (NRC), established in October 2014, and a new constitution is being written.

- The reforms proposed by the NRC and the military are likely to include a focus on the issue of income disparity, and tax may be used as one of the tools to help achieve this.

- The NRC is also likely looking at revisions of trade laws in a bid to decrease monopoly and create mechanisms that could increase farmers' bargaining power.

2.7 Current tax policy and tax administration leaders

Tax policy leaders

- Sommai Pasi, Minister of Finance
- Krisda Chinavicharana, Director of Fiscal Policy Office

Tax administration leaders

- Prasong Poontaneat, Director General of Revenue Department
- Tippawan Chutiman, Director of Bureau of Large Business Tax Administration
- Hirunya Suchinai, Acting Secretary General of the Board of Investment
- Somchai Sajapongse, Director-General of Customs Department
- Somchai Poolsawasdhi, Director of Excise Department

Thailand
2.8 Key tax policy changes in 2014

- The Cabinet approved a draft of Thailand's first inheritance tax bill in November. Under this bill, the tax will be 10% on estates valued at over THB50 million (approximately US$1.5 million) and 5% on gifts transferred to heirs before the principal's death. Provided it passes deliberation by the National Legislative Assembly, it should be codified in the second half of 2015.

- A draft land and buildings tax is being prepared, although it is unlikely to be effective before 2016.

- The Cabinet has approved a law to reduce tax evasion by independent professionals, partnerships and bodies of persons, which plugs loopholes whereby members of bodies of persons were not required to include their share of the body's income in their personal income tax reporting and partners could deduct certain expenses as a lump sum, even if no actual expenses were incurred. The changes may be effective for the 2015 tax year.

- The Board of Investment (BOI), which is the authority promoting investment in Thailand and grants tax and non-tax incentives, launched a new policy in December 2014. Effective from 1 January 2015, the BOI will promote outbound as well as inbound investment, and it will propose incentives for inbound investments that are more industry-based than location-based, in order to promote new regional industry clusters. As a result, the number of activities eligible for promotion will be reduced by about 50. Priority activities will be given the maximum eight-year CIT exemption, and these include biotechnology, research and development, production of electricity or steam power from refuse-derived fuel (RDF), microelectronics design, embedded system design and embedded software development. For outbound investment, the BOI will act as a facilitator, cooperating with and informing companies making outbound investments.

- The Government has also proposed a policy to promote Thailand as an international trading center for the Asia-Pacific region. The Thai Revenue Department is in the process of drafting tax incentives for International Headquarters (IHQ), while the IHQ has already replaced Regional Operating Headquarters (ROH) activity in the BOI eligible activity list.

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- Thailand is not an OECD country; therefore, OECD guidelines or action plans have no impact on the Thai tax authority's interpretations and positions.

- The Thai tax authority generally refers to domestic tax laws and relevant tax treaties to determine Thai tax treatment of cross-border transactions. Where the tax authority believes a multinational company may have attempted to erode the Thai tax base or to shift profits out of Thailand, it is likely to question or challenge the business purpose and commerciality of the structure/transaction; this may lead to a dispute or trigger a tax audit.

- There is one newly signed tax treaty with Estonia, which became effective on 1 January 2014.
2.10 Pending tax proposals

- An inheritance tax bill was approved in principle by the Cabinet on 18 November 2014 and is in the process of being drafted. It is expected to become effective in 2015 or 2016. The inheritance tax will be levied on those who receive assets worth more than THB50 million from a deceased person, with this threshold being the net amount after deducting debts incurred by the deceased. The maximum proposed tax rate is 10%, with the minimum rate yet to be determined by the National Legislative Assembly.

- A gift tax was approved in principle by the Cabinet in November, and the Thai Revenue Department is in the process of amending the Revenue Code accordingly. Under the new regulation, taxpayers are required to deduct and remit a 5% gift tax on transfers of immovable assets to a legitimate child without consideration, to the extent that the deemed income from the transfer exceeds THB10 million (approximately US$150,000).

- The Revenue Department is planning to propose an amendment to the Revenue Code concerning transfer pricing in 2015, aiming to provide greater clarity regarding the transfer pricing documentation that must be in place when a tax return is filed, and relevant enforcement of these requirements.

- The Revenue Department is in the process of drafting tax incentives for the IHQ. These are expected to be enacted by January 2015 and to cut the rate of CIT to 10%, provide tax exemptions for dividends received from overseas affiliates and capital gains derived from disposals of holdings overseas affiliates, and apply a flat 15% PIT rate for expatriates working for the IHQ in Thailand.

2.11 Consultations opened/closed

- Not applicable
1 | Tax rates (2014-15)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax (CIT) rate (national and local average, if applicable)</td>
<td>21%</td>
<td>20%</td>
<td>~4.8%</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>45%</td>
<td>45%</td>
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<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>20%</td>
<td>20%</td>
<td>–</td>
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</tbody>
</table>

2 | 2015 tax policy outlook

2.1 Key drivers of tax policy change

- The message of “Britain is open for business” is reflected in the continued reduction in the headline CIT rate and in the increase in incentives for innovation (Patent Box and R&D tax credits).
- Tackling tax avoidance continues to be a strong focus.
- There is a continued focus on the need to repay government debt arising from the global financial crisis.
- The upcoming UK election on 7 May 2015 is a major driver of policy discussions.
2.2 Fiscal consolidation vs. stimulus

- Headline CIT rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Interest deductibility
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Hybrid mismatches
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Treatment of losses
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Capital gains tax
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- VAT, goods and services tax (GST) or sales tax rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- VAT, GST or sales tax base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015

- Controlled foreign companies
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Higher burden in 2015
2.3 Tax policy outlook for 2015 – summary

Corporate income tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
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<tbody>
<tr>
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Personal income tax burden

<table>
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<tr>
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<th>Higher</th>
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</table>

VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
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<tbody>
<tr>
<td></td>
<td>X</td>
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</tbody>
</table>

2.4 Tax policy outlook for 2015 – detail

Corporate income taxes

- A further CIT reduction to 20% is effective 1 April 2015. The Labour Party (the largest opposition party) proposes to reverse this if they subsequently get into power, but with retrospective effect.
- There will be a continued focus on “collecting what is owed” and tackling aggressive tax avoidance.
- The Government has announced it will consult on changes to its Patent Box once the OECD Forum on Harmful Tax Practices has completed its work, following the publication on 11 November 2014 of a joint proposal by the UK and German governments on a new modified nexus approach.
- The Labour Party proposes to explore proposals to redress the systematic bias in favor of debt finance and ways of improving the targeting of R&D tax credits. It also proposes to draw up a roadmap for capital allowances.

Taxes on wages and employment

- The Labour Party proposes introducing a lower 10% starting rate of income tax and restoring the 50% tax rate for those earning over £150,000. It also proposes limiting the top rate of pension tax relief to 20% and a levying of a one-off bankers’ bonus tax.
- The Liberal Democrat Party proposes increasing the personal allowance to £12,500 and limiting tax relief on pensions to a pension pot of £1m.
- The Conservative Party also proposes increasing the personal allowance to £12,500 and also raising the basic rate upper threshold to £50,000 over the next Parliament session.

VAT, GST and sales taxes

- The place of supply rules change effective 1 January 2015 for intra-EU business-to-consumer suppliers of telecommunications, broadcasting and electronic services.
2.5 Fiscal stimulus in 2015

- Very likely
- Somewhat likely
- Neither likely or unlikely
- Somewhat unlikely
- Very unlikely

2.6 Political landscape

- A general election will be held during May 2015.
- There is a public focus on the “fair tax” debate and tax transparency to the tax authority.
- Scotland voted to remain part of the UK in the referendum on independence in September 2014. Subsequently, Lord Smith's Commission on Scotland set out proposals for the devolution of income tax rates and thresholds but not for the devolution of corporation tax.
- The Chancellor has confirmed that the Government would devolve corporation tax setting powers to Northern Ireland provided that the Northern Ireland executive can show that it can manage the financial implications. This, alongside UK stamp duty changes, will prompt calls for more reform in Scotland.
- Devolution of tax powers for Wales (including devolution of business rates) is also being pursued.

2.7 Current tax policy and tax administration leaders

**Tax policy leaders**

- George Osborne, Chancellor of the Exchequer
- Danny Alexander, Chief Secretary to the Treasury
- David Gauke, Financial Secretary to the Treasury
- Priti Patel, Exchequer Secretary to the Treasury
- Andrea Leadsom, Economic Secretary to the Treasury
- Indra Morris, Director General, Tax and Welfare at HM Treasury

**Tax administration leaders**

- Lin Homer, Chief Executive and Permanent Secretary at HM Revenue & Customs
- Edward Troup, Tax Assurance Commissioner and Second Permanent Secretary at HM Revenue & Customs

2.8 Key tax policy changes in 2014

- The Finance Act 2014 received Royal Assent on 17 July 2014 and legislated for the following tax changes:
  - Increasing the tax-free personal allowance to £10,000 in 2014–15
  - Introducing a new, transferable tax allowance for married couples and civil partners from 2015–16 where neither partner is a higher or additional rate taxpayer and one partner has not used up his or her full allowance
  - Reducing the starting rate of income tax on savings from 10% to 0%
  - Measures related to giving individuals greater choice about how they access defined contribution pensions savings from April 2015
  - Increasing the annual investment allowance to £500,000 until 31 December 2015, giving 99.8% of all businesses (4.9 million firms) 100% up-front relief on their qualifying investments in plant and machinery
  - Increasing the payable R&D tax credit to 14.5% for loss-making small and medium-sized enterprises (SMEs)
  - Enabling HMRC to issue a “Notice to Pay” to taxpayers for tax in dispute
  - Extending the annual tax on enveloped dwellings (ATED) and associated measures to reduce incentives for residential properties to be held as investments in corporate “envelopes” and left unoccupied
  - Tackling the avoidance of employment taxes, by taking action to prevent employment intermediaries from disguising employment as false self-employment
2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- A diverted profits tax (DPT) is to be introduced to address certain forms of base erosion and profit shifting. This will apply where a company conducts significant activity in the UK but shifts profit overseas through aggressive arrangements. The new tax is intended to apply from 1 April 2015 at a penalty rate of 25% on profits diverted. DPT is intended to apply to large multinational enterprises with business activities in the UK who enter into “contrived” arrangements to divert profits from the UK by avoiding a UK taxable permanent establishment (PE) and/or by other contrived arrangements between connected entities.

- A consultation document was issued in relation to the implementation of OECD recommendations for addressing hybrid mismatch arrangements. The proposals largely follow the OECD recommendations and consider further those areas where it was identified by the OECD that further work is required e.g., regulatory capital. The new rules are proposed to apply to payments made from 1 January 2017, but no grandfathering provisions are proposed.

- The UK also made a statement on 20 September 2014 announcing that it was the first of 44 countries to formally commit to implementing the new country-by-country reporting template. The UK had initiated the country-by-country reporting template during its G8 Presidency in 2013, calling on the OECD to develop the template as part of its project to strengthen international standards on BEPS.

2.10 Pending tax proposals

- The Chancellor’s Autumn Statement on 3 December 2014 contained many tax policy announcements. These will generally be legislated in the Finance Bill 2015:
  - Reform of Stamp Duty Land Tax
  - Increase in the tax-free personal allowance
  - Corporation tax – bank loss relief restriction
  - Diverted profits tax
  - Corporation tax relief restriction on self-incorporation
  - Business rates – cap increase at 2% in 2015-16
  - Employer Social Security – abolish for apprentices under 25
  - Business rates – small business relief extension and retail discount
  - Enveloped dwellings – increase charge for properties over £2m
  - Air passenger duty – exempting children
  - Non-domiciles – increase remittance basis charge
  - Oil and gas – 2pp cut to supplementary charge
  - Income tax – restricting salary sacrifice and expenses
  - Investment managers’ disguised fee income
  - Corporation tax – accounting treatment of credit losses
  - Stamp duty on shares – schemes of arrangement
  - Corporation tax – anti-hybrids changes and country by country reporting
  - Special purpose share schemes
  - Disclosure of tax avoidance schemes regime changes
  - Peer-to-peer lenders – relaxing the withholding tax regime
  - R&D tax relief – changes to qualifying expenditure
  - R&D tax relief – increase large firms and SME credit

United Kingdom
2.11 Consultations opened/closed

- Multiple consultations are in progress, including:
  - Tackling aggressive tax planning: implementing the agreed G20-OECD approach for addressing hybrid mismatch arrangements
  - Implementing a capital gains tax charge on nonresidents
  - Individual savings accounts qualifying investments: consultation on including peer-to-peer loans
  - Travel and subsistence review
  - Minimum excise tax for tobacco
  - Restricting nonresidents' entitlement to the UK personal allowance
  - Tax-free childcare: consultation on childcare account provision
  - Theatre tax relief
  - Maximizing economic recovery: consultation on a cluster area allowance
  - Freedom and choice in pensions
  - Stamp Duty Land Tax rules for property investment funds
  - New employee shareholding vehicle
  - Social investment tax relief: enlarging the scheme
  - Tax-advantaged venture capital schemes: ensuring continued support for small and growing businesses
  - Employee benefits and expenses: trivial benefits exemption
  - Employee benefits and expenses: abolition of the £8,500 threshold for lower paid employment and form P9D
  - Employee benefits and expenses: exemption for paid or reimbursed expenses
  - Remuneration practices: call for evidence
  - Employee benefits and expenses: real-time collection of tax on benefits in kind and expenses through voluntary payrolling
  - Tax-free childcare
  - Gift aid and digital giving
  - A bank levy banding approach
  - Tackling marketed tax avoidance
  - Venture capital trusts share buy-backs
  - Raising the stakes on tax avoidance
1 | Tax rates (2014-15)

1.1 Key tax rates

<table>
<thead>
<tr>
<th>Tax rate</th>
<th>2014</th>
<th>2015</th>
<th>Percentage change</th>
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<tbody>
<tr>
<td>Top corporate income tax (CIT) rate</td>
<td>39%</td>
<td>39%</td>
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<tr>
<td>(national and local average, if applicable)</td>
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<tr>
<td>Top individual income tax rate</td>
<td>39.6%</td>
<td>39.6%</td>
<td>–</td>
</tr>
<tr>
<td>(national and local average, if applicable)</td>
<td></td>
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</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>0%</td>
<td>0%</td>
<td>–</td>
</tr>
</tbody>
</table>

2 | 2015 tax policy outlook

2.1 Key drivers of tax policy change

- A gradual economic recovery continues, with stronger growth of gross domestic product (GDP) and lower unemployment rates. These factors have led to short-term improvements in the federal deficit, which is projected to remain below 3% of GDP through 2018. These trends have lessened the perceived urgency of using tax policy to address fiscal shortfalls.

- Longer term, the deficit is expected to increase and debt growth is expected to outpace GDP growth, driven by higher government spending and an aging population.

---

1 The top federal marginal rate is 35%, but many US states and municipalities also levy their own corporate income taxes, with rates ranging from 0% to 12%, as well as other types of business taxes determined on other bases, such as net worth or gross receipts. For US federal income tax purposes, an alternative minimum tax is imposed. 2014 Worldwide Corporate Tax Guide, EY, 2014.

2 In addition to the federal rate, US state and municipal individual income tax rates apply, ranging from 0% to 13.3%. Additionally, a federal net investment income tax went into effect on 1 January 2013. The 3.8% tax applies to certain net investment income of individuals, estates and trusts that have income over statutory threshold amounts.

3 However, many state and local governments impose sales taxes, with rates varying from 0% to 10.25%. It is estimated that there are about 7,600 separate sales tax rate jurisdictions in the United States.

There is a desire to reform the US tax system to increase US competitiveness relative to some of its trading partners that have lower corporate income tax rates and territorial tax systems. However, ideological differences have hindered efforts to advance such debate. Republicans will control the legislative agenda in 2015, and those who lead the tax-writing committees support tax reform. Possible compromise with President Obama could occur in areas as both parties see opportunities for economic growth, including via business tax reform. However, overcoming the political hurdles to craft the details of such legislation will be challenging.

An increased focus on the taxes multinational companies pay and where they pay them is also shaping US tax policy. Policymakers and the media have also focused on “inversions,” in which a parent company of a US corporate group reincorporates in a non-US jurisdiction. The US Treasury Department announced that it is drafting detailed regulations designed to reduce the tax benefits of such transactions, and legislative proposals have also been announced and introduced, though not enacted.

Globally, the US has taken a lead role in the OECD’s Base Erosion and Profit Shifting (BEPS) project. While the US is active in all aspects of the BEPS project, US officials have been particularly vocal on several of the actions, among them those related to the digital economy, taxation of controlled foreign companies (CFCs) and country-by-country reporting.

2.2 Fiscal consolidation vs. stimulus

- Headline CIT rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015

- Interest deductibility
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015

- Hybrid mismatches
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015

- Treatment of losses
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
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  - Same burden in 2015
  - Increased burden in 2015

- Capital gains tax
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015

- VAT, GST or sales tax rate
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015

- VAT, GST or sales tax base
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015

- Controlled foreign companies (CFCs)
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015

- Thin capitalization
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015

- Transfer pricing changes
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015

- R&D incentives
  - Change proposed or known for 2015
  - Additional change possible or somewhat likely in 2015
  - Lower burden in 2015
  - Same burden in 2015
  - Increased burden in 2015

United States
2.3 Tax policy outlook for 2015 – summary

<table>
<thead>
<tr>
<th>Corporate income tax burden</th>
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</thead>
<tbody>
<tr>
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<th>Personal income tax burden</th>
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<th>VAT/GST/sales tax burden</th>
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<td>No change</td>
</tr>
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<td>X</td>
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</tr>
</tbody>
</table>

(Varies from state to state)
2.4 Tax policy outlook for 2015 – detail

Corporate income taxes

Tax reform

▶ Tax reform. The chairmen of the congressional tax-writing committees, Rep. Paul Ryan of Wisconsin and Sen. Orrin Hatch of Utah, support comprehensive tax reform (covering both businesses and individuals) that lowers tax rates and broadens the tax base. The Obama Administration supports business tax reform that would be revenue neutral in the long-run (combining revenue raising provisions with incentives that cost money). While far apart in the details, President Obama and congressional tax leaders agree business tax reform should be a priority this year.

▶ The Administration’s FY 2016 budget, released 2 February 2015, like prior budgets, contains a reserve fund for business tax reform. While many of the provisions are carryover items, meaning they have been included in past budgets, the Administration included some new proposals that are generating discussion. Among them are a proposed one-time 14% transition tax on untaxed foreign earnings of US companies, and a proposed minimum 19% tax on US companies’ foreign earnings going forward. Under the Administration’s proposal, the revenue from the one-time transition tax would be devoted to infrastructure investments.

▶ The FY 2016 budget also reflects a focus on tax proposals to support “middle-class economics.” It contains proposals that would raise the top capital gains and dividend tax rates, impose a new fee on certain financial institutions, and increase taxes on high-income taxpayers. Revenue from these changes would then be used toward tax policies intended to help the middle class.

▶ While the budget reflects the policy priorities of the Administration, it is important to note that it is not a legislative proposal. Legislation would still need to be enacted through the legislative process for these policies to come into effect. And as many of these proposals have received a cool reception from congressional Republicans, it remains to be seen whether these provisions could gain traction in the current Congress.

▶ Meanwhile, Senate Finance Committee Chairman Hatch and ranking committee Democrat Ron Wyden (D-OR) recently formed five bipartisan tax reform working groups to explore different policy areas, with the intent of introducing and considering a tax reform bill this year. Sen. Hatch has said tax reform is necessary and should encourage job creation and economic growth, make the tax system more internationally competitive, and lower rates. Finance Committee Democrats also outlined their tax reform principles, which include increased progressivity and a narrowing of the disparity between the taxation of capital and wage income. For his part, House Ways and Means Committee Chairman Ryan has said Republican control of the Senate would lead to “a very bold effort” on tax reform. Chairman Ryan has also said he planned to put tax reform on a fast track in his committee. However, political differences regarding the scope of tax reform and the revenue parameters of such legislation may delay action.

Tax extenders

▶ Over 50 individual and business tax provisions expired at the end of 2013. These include major corporate items such as the research and development (R&D) tax credit. As one of its last acts of 2014, Congress extended virtually all of these provisions, but only through 2014. Lawmakers are expected to revisit these issues in 2015.

Taxes on wages and employment

▶ Under the Affordable Care Act (ACA), beginning in 2015, “large employers” are subject to excise taxes, which are generally imposed if the employer does not offer a certain level of health care coverage to its full-time employees, and those employees purchase coverage through a health insurance exchange and receive a premium tax credit. Also effective in 2015 (for filing in 2015), employers are required to meet new and expansive health insurance information reporting requirements.

▶ The US Supreme Court’s 2013 decision in Windsor holding that the federal definition of “married” extends to a same-gender couple has resulted in numerous states overturning their bans on same-gender marriage. The result has been significant and rapidly changing disparity in the state tax treatment of benefits an employer provides to a same-gender spouse. The Supreme Court in January said it would rule on two questions later this year – whether the Fourteenth Amendment requires states to license marriages between same-gender couples, and whether it requires states to recognize same-gender marriages licensed and performed in other states, and the Court’s ruling could have further implications in this area.

▶ The U.S. Department of Labor and numerous states have increased their focus on whether employers are improperly treating their workers as independent contractors rather than employees for tax purposes. The courts showed a tendency in 2014 to find in favor of treating workers as employees. These events are challenging employers to review the status of their independent contractors.
The outlook for global tax policy in 2015

Congress may take a renewed interest in paring down the number of tax-favored fringe benefits available to employees. Focus may also turn to addressing impending solvency issues in the Social Security, Disability and Medicare insurance trust funds, which may change how much social insurance tax employers and employees pay in the future.

Tax refund fraud involving false Forms W-2 has caused some states to accelerate the employer Form W-2 filing deadline. Congress may push for fraud prevention measures at the federal level.

VAT, GST and sales taxes

Many states have been actively considering tax changes and reform, but the type of reform varies greatly by state. In 2015, states will likely continue to look to decrease both their corporate and individual income tax rates, as well as state-level taxes on wages and employment.

To pay for these reductions, states have increasingly been expanding their sales and use tax rates, as well as their sales tax bases, to include various services that had not previously been subject to sales tax. Notably, there is a growing movement among the states to extend their sales taxes to remote Internet sales (despite US Supreme Court rulings requiring a taxpayer’s physical presence to require collection of such taxes). A group of retailers and other businesses is working with Congress on legislation to grant state and local governments the authority to collect sales taxes on remote transactions. Lawmakers will continue to work on such legislation when the next Congress convenes in January.

Overall, the trend seen in recent years of states moving from income-based taxes to consumption-based taxes is likely to continue.

2.6 Political landscape

The Republican party regained control of the Senate in the November 2014 midterm elections, but its majority is short of the 60 Senate votes needed to overcome a filibuster, and short of the two-thirds majority needed in each chamber to overrule a presidential veto. Therefore, bipartisan cooperation will still be needed to advance significant tax legislation, including tax reform.

Gridlock could continue, leading to battles over spending cuts tied to raising the US debt limit and possible Republican attempts to use the so-called “budget reconciliation” process to attempt to repeal the ACA or push tax reform forward.

2015 could also see greater bipartisan negotiation, with Republicans focusing on their priorities (such as reducing government regulation and enacting energy measures) and President Obama, mindful of his legacy, open to compromise on issues, such as international trade agreements and business tax reform.

Republican control of Congress has reinvigorated the tax reform debate, although this does not necessarily mean tax reform will be enacted in the short term.

The many moving parts contribute to a complex political dynamic; while Republicans have generally supported comprehensive tax reform, the Obama Administration has increasingly focused on business-only tax reform and proposals intended to provide relief or pay for changes to bolster the middle class.

2.7 Current tax policy and tax administration leaders

Tax policy leaders

Barack Obama, President
Jack Lew, Treasury Secretary
Mark Mazur, Treasury Assistant Secretary (Tax Policy)
Rep. Paul Ryan (R-WI), Chairman, House Ways and Means Committee
Rep. Sander Levin (D-MI), Ranking Member, House Ways and Means Committee
2.8 Key tax policy changes in 2014

No major tax policy changes were enacted in the months leading up to the November 2014 midterm elections. In December, Congress retroactively reinstated most of the tax extender provisions, but only through the end of 2014.

2.9 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

The US has taken a lead role in the OECD BEPS project from its first formulation. The U.S. Treasury is a member of the project’s governing body.

While the US is active in all aspects of the BEPS project, US officials have been particularly vocal on several of the actions. For example, the US had argued against any attempt to develop special tax rules for the digital economy, instead advocating that digital economy-related BEPS issues be addressed through the remaining items of the Action Plan.

Moreover, the US did not support mandating inclusion of the “principal purpose test” as an element of measures to prevent treaty abuse. The documents released by the OECD in September 2014 reflected these positions. The US also is very engaged in discussions related to CFC rules (Action 3), interest deductibility (Action 4) and country-by-country reporting (Action 13).

Concern regarding the potential for base erosion has been a focus of ongoing discussions about US international tax reform. Several focus areas of the BEPS project also are addressed in legislative proposals in Congress and in the Administration’s budget proposal, including the digital economy (Action 1), hybrids (Action 2), CFCs (Action 3), interest deductibility (Action 4) and treaty abuse (Action 6).

In June 2014, then-Senate Finance Committee Ranking Member Orrin Hatch (R-UT) and then-House Ways and Means Committee Chairman Dave Camp (R-MI) released a joint statement5 regarding the OECD BEPS project expressing concern that the project is “now being used as a way for other countries to simply increase taxes on American taxpayers.” The statement offered support for the U.S. Treasury Department in representing American businesses and workers in the BEPS negotiations and expressed the view that the best way for the US to address BEPS is to enact comprehensive tax reform to lower the US corporate tax rate and modernize the US international tax system in order to allow American companies to be more competitive.

2.10 Pending tax proposals

Not applicable

2.11 Consultations opened/closed

Not applicable

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5 http://www.finance.senate.gov/newsroom/ranking/release/?id=7bf08951-9a3e-4a05-afa8-361832ad4c03.
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Our global tax controversy network will help you address your global tax controversy, enforcement and disclosure needs. In addition, support for pre-filing controversy management can help you properly and consistently file returns and prepare relevant backup documentation. Our professionals leverage the network’s collective knowledge of how tax authorities operate and increasingly work together to help resolve controversy and pre-filing controversy issues.

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