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Taxes around the world are on the rise. But these rises may be a bit less obvious than in the past.

Governments are generally making fewer changes to headline corporate, personal and indirect tax rates in 2014 compared with 2013 and 2012. Instead, more are putting legislative changes in place that will adjust and expand the tax base for 2014 and beyond, often at the net expense of taxpayers.

Overall, just 10 countries of the 61 we surveyed have so far announced reductions to statutory corporate income tax (CIT) rates for 2014. Conversely, our respondents¹ expect corporate tax burdens to be higher in 16 countries, although the increase in just 3 of those (France, India and Israel) can be attributed in part to a higher statutory rate. The higher burden forecast for the others stems from changes that broaden their tax base. The most common base-broadeners seen in new legislation so far include:

- Increased tax enforcement, including more demands for disclosure and transparency, renewed focus on audit activities, and new or amended General Anti-Avoidance Rules (GAAR)
- Changes to R&D tax incentives
- Refinements to incentives designed to encourage capital investment
- Changes to withholding taxes
- Tighter transfer pricing regulations and oversight
- Limits on interest and business expense deductibility, including a growing focus on payments made to “low tax” jurisdictions
- Decreases to the statutory corporate income tax rate

¹ EY tax policy professionals in each of the 61 jurisdictions surveyed.
• Limitations to the tax treatment of losses
• Tougher controlled foreign company (CFC) rules
• More stringent thin capitalization rules

Recent findings by the Organisation for Economic Co-operation and Development (OECD) align with our survey respondents’ observations. The OECD’s latest Annual Revenue Statistics publication concluded that tax revenues in nearly all member countries had rebounded from the depth of the global economic crisis and that the tax revenue to GDP ratio in 2012 of 34.6% reached a five-year high due to some combination of real economic growth, higher tax rates in some countries and base-broadening legislation in others. Broadly speaking, our respondents report that the same overall trends are also occurring across personal and indirect taxes.

In addition to using tax as a lever for deficit reduction, we see that many countries in 2014 appear eager to take the initiative on a global effort to combat base erosion and profit shifting (BEPS), acting in advance of detailed recommendations pending this year and next by the OECD. For example:

• The Australian Government has introduced legislation requiring the Australian Taxation Office (ATO) to publicly report the gross income, taxable income and tax payable of all companies with annual income of AUD100 million or more.
• The French Government will disallow the tax deduction of interest accrued to related parties if the French taxpayer cannot justify (at the request of the French tax authority) that the lender is liable to CIT on such interest that amounts to at least 25% of the CIT that would have been due if the lender had been established in France. This new rule applies to FYs ended as of 25 September 2013.

• Mexico’s 2014 tax reform package contained a number of measures that could be described as “BEPS-inspired.” They include a measure allowing the Mexican tax authorities to apply conditions to the application of existing tax treaties, a modified provision concerning the piercing of the corporate veil for tax purposes, and a series of new rules regarding tax-related crimes through which officers in corporations and even legal and tax advisors may be found liable and subject to imprisonment.
• In the area of GAAR, Chile has announced a substance-over-form approach for 2014, while Vietnam and Greece both have a new GAAR for 2014.

It will be a challenge for companies to stay up-to-date with tax changes around the globe in 2014. All countries are trying to both expand and protect their tax base. Many are either making or planning wholesale tax reform. And at the supranational level, not only will the OECD BEPS project undoubtedly drive change, but similar activity by the European Commission will require close attention, too.

We hope this report will go some way toward helping you manage this period of change.

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Corporate income taxes: rates and burden in 2014

Our study of tax policies for 2014 indicates that, while many countries continue to lower statutory CIT rates, a greater number of countries are actually increasing the overall CIT burden by expanding the tax base. Examples of base-expanding measures are largely consistent across countries and regions and will be described in more detail in a following section.

Globally, Finland had the largest decrease (24.5% to 20%, an 18.4% decrease), while Israel had the largest increase (25% to 26.5%, a 6.0% increase) in the CIT rate.
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Russia and Saudi Arabia (both 20%) have the lowest effective CIT rate of the G20 nations, followed by the United Kingdom (21%). The UK will equal Russia’s and Saudi Arabia’s rates in 2015, when the main and small profits rates for companies will be unified at 20%. Many other countries may now see a rate of around 20% as a medium-term target.

The downward trend for rates, however, obscures the increasing corporate tax burden. In all, 16 of the 61 countries forecast an overall increase in 2014. This increase builds on findings in our 2013 policy outlook, in which 15 of 60 countries forecast an increase. In contrast, just 11 of the 61 countries project a decreasing tax burden overall for 2014, a 39% drop from 2013, when 18 of 60 countries surveyed then projected a decline.

Countries decreasing their statutory CIT rates outnumber those that are increasing them by a ratio of more than 3 to 1. Of the 61 countries surveyed, ten countries already have lowered or will lower their statutory CIT rates in 2014, while only three (France, India and Israel) have passed legislation to increase them. Chile’s recently elected President, Michelle Bachelet (who takes office in March 2014), has promised a major overhaul to the Chilean tax system, including a gradual rise in the corporate tax rate from 20% to 25% — although there are currently no specific proposals in this area.

For 2014, Israel reports the largest percentage increase in the top CIT rates (an increase from 25% to 26.5%, a 6.0% increase), while Finland reports the largest percentage decrease, with the 2014 rate reduction from 24.5% (2013) to 20% (2014) representing a decrease of 18.4%.

Japan elected to repeal a temporary surcharge on corporate tax one year earlier than planned, resulting in a statutory CIT rate of 35.64% (down from 38.01% in 2013). This reduction gives Japan the third-highest effective corporate tax rate among the G20, below the United States (39%) and France, where recent changes have increased the effective tax rate from 36.1% to 38% in 2014, albeit temporarily. It is understood that Japan’s Prime Minister, Shinzo Abe, would like to reduce the CIT rate further in future years, although he has made no specific proposals to do so.

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3 Or fourth if the taxation of foreign companies in India is taken into account; foreign companies in 2014 will pay an effective tax rate of 43.26%, including surcharge and education cess, while the ETR for domestic companies is 33.99%.

4 When the federal rate is combined with the average of state rates.

5 The initially proposed 1% tax on EBITDA (earnings before interest, taxes, depreciation and amortization) has been replaced by an increase of the temporary additional contribution to corporate income tax (CIT) from 5% to 10.7%, which applies to companies (or tax consolidated groups) with an annual turnover exceeding €250m. The increase would apply to fiscal years (FYs) ending between 31 December 2013 and 30 December 2015. The maximum CIT rate would thus amount to about 38% instead of the current 36.1%.

6 The tax burden indicated is a subjective point of view of the EY tax policy leader in each country and is based upon their view of rate increases/ decreases and/or tax base adjusting measures hitherto announced for 2014.
Tax competition in the Nordics

It is worth noting that four Nordics countries (Denmark, Finland, Norway and Sweden) appear to be actively engaged in their own round of intense tax competition. Denmark (25% to 24.5%),\(^7\) Finland (24.5% to 20%) and Norway (28% to 27%) have all recently passed corporate income tax rate reductions, while Sweden’s rate is already low at 22%. These Nordic nations also conform to the simultaneous trend of broadening the tax base; three of the four, for example, have announced new restrictions to interest/business expense deductibility in either 2013 or 2014.

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\(^7\) In 2013, a bill was adopted under which the standard corporate tax rate will gradually be reduced from 25% to 22%.
VAT and other indirect taxes

We also see many governments taking steps to expand the base of goods, services and other activities subject to indirect taxation. As in the case of corporate income taxes, this phenomenon is characterized by a dwindling volume of standard rate changes when compared with prior years. In fact, none of the 61 jurisdictions surveyed has so far announced a standard rate VAT decrease for 2014. Three countries (France, Japan and Luxembourg) report a standard rate increase (and Japan’s increase amounts to a 60% rise), while 13 of the 59 report a higher overall projected indirect tax burden as a result of base expansion via other means. Again, both the number of overall indirect tax burden increases (13 of 60)\(^8\) and decreases (3 of 60) remain consistent with 2013 data.

China is one example of a jurisdiction aiming to broaden the tax base via greater use of a VAT, although some changes in the short term may actually lower the overall indirect tax burden. China has converged VAT and Business Tax (BT), which allows for input tax credit under VAT that would not have been available under the BT system. Since the launch of the VAT pilot program in 2012, the overall tax burden has been reduced by over RMB90 billion (approximately US$15 billion) as of June 2013.\(^9\)

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\(^8\) Hong Kong does not impose VAT or GST.

After the nationwide expansion of VAT reform beginning August 2013, the tax burden was reduced by more than RMB10 billion (approximately US$1.6 billion) in the first month, with a yearly prediction of RMB120 billion (approximately US$20 billion).\(^{10}\) The Chinese government may not be too concerned with this immediate fall in revenues but instead view VAT as part of their longer term reform strategy.

**Personal income taxes**

Governments are also seeking to raise more revenue from their wealthiest citizens by broadening the base of taxation. Only two countries surveyed – Mexico and Sweden – have announced increases to top marginal rates of PIT in 2014,\(^ {11}\) while just two – Guatemala and Norway – will decrease their highest rates. Chile, meanwhile, has proposed a reduction in the top marginal rate of PIT from 40% to 35% in 2014, but the proposal has not yet passed into law.

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\(^{11}\) This statistic ignores the top marginal rate of 75% for France, which is described as a special surcharge and is borne by the employing entity.
Even while tax rates are projected to remain largely unchanged, 15 countries do anticipate an increasing tax burden for personal taxpayers (a figure identical to that of 2013), compared with 7 countries projecting a lower personal income tax burden for 2014, a dramatic fall from the 2013 results, where 16 of 60 countries anticipated a reduced burden.

**About this report**

This report is based upon the tax policy outlook for 2014 in 61 jurisdictions as perceived by EY’s tax policy professionals. Not all developments in all jurisdictions are covered by this report, which is designed to provide an illustration of the key tax policy and enforcement trends.

Tax legislation is constantly changing. This publication contains information in summary form and is therefore intended as general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global EY organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.
How countries are adjusting their corporate tax base in 2014

Our data show that there are a number of common ways in which countries are choosing to adjust their corporate tax bases in the year ahead.

That said, not all countries are moving in the same direction. As an example, many countries are using more generous R&D and other business incentives to attract foreign direct investment. Argentina, for instance, unveiled a significant update of its software promotional regime for 2014, which contains a range of tax benefits that includes tax credits, income tax reductions and tax exemptions. Australia, meanwhile, has proposed that companies with aggregate assessable income of AUD20 billion or more would no longer be eligible to access the 40% nonrefundable tax offset for R&D activities.

In Norway, the initial depreciation rate available to certain assets is increased in 2014. In Finland, though, long-term (i.e., usage time of at least 10 years) movable fixed assets must now be depreciated using straight-line depreciation, asset by asset, instead of over their economical usage time – currently 25% per year on a pooled basis. So while the types of measures identified around the world may be largely consistent, their use can be very different, depending on the particular country and its overall objectives.

Across the 61 countries surveyed (all of which levy corporate income taxes), we identified the following common measures that countries will be using in 2014 to continue to adjust the corporate tax base (shown in order of prevalence):

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>24%</td>
<td>Changes to (or focuses on) tax enforcement, including disclosure, substance requirements, GAAR</td>
</tr>
<tr>
<td>16%</td>
<td>Changes to R&amp;D incentives</td>
</tr>
<tr>
<td>13%</td>
<td>Changes to interest/business expense deductibility (including payments to low-tax jurisdictions)</td>
</tr>
<tr>
<td>12%</td>
<td>Changes to other business incentives (i.e., non-R&amp;D)</td>
</tr>
<tr>
<td>12%</td>
<td>Changes to withholding taxes</td>
</tr>
<tr>
<td>11%</td>
<td>Significant transfer pricing changes</td>
</tr>
<tr>
<td>10%</td>
<td>Decreasing the statutory CIT rate</td>
</tr>
<tr>
<td>9%</td>
<td>Changes to the tax treatment of losses</td>
</tr>
<tr>
<td>6%</td>
<td>Changes to CFC rules/thin capitalization</td>
</tr>
</tbody>
</table>

Country-by-country examples of each trend are illustrated in the following pages.
Increasing tax enforcement in 2014

Our respondents report that virtually all countries are increasing overall tax enforcement levels; this is also borne out by what our clients tell us. Of the world’s largest companies, 69% report that they have experienced an increase in the number, or aggressiveness, of tax audits in the last two years, while 58% have either created or refreshed their tax risk and controversy policies as a result of the focus on the taxes paid by multinationals.

Set out below are the known legislative and regulatory measures in this area that have either been announced or may be proposed in 2014.

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13 A survey of 771 EY clients that was open during November 2013 to January 2014; the full results of this survey will be published in EY’s 2014 Tax risk and controversy survey.
Argentina
On 7 January 2014, Argentina’s federal tax authorities (AFIP) published a new list of the countries, jurisdictions, territories and tax systems that are considered “cooperators for purposes of fiscal transparency.” These countries fall into three categories:

- Countries with which Argentina has signed double tax treaties (DTTs) or tax information exchange agreements (TIEAs)
- Countries included in the Multilateral Convention on Mutual Administrative Assistance in Tax Matters
- Countries with which Argentina has initiated negotiations to sign a TIEA or a DTT, with a broad clause for the exchange of information

Argentina’s Income Tax Law (ITL) and Tax Procedural Law (TPL) require certain tax treatments to apply to transactions performed with individuals or entities located in jurisdictions considered to be tax havens.

92% of the largest companies think that global disclosure and transparency requirements will continue to grow in the next two years.

74% of the largest companies feel that tax authorities are now challenging existing structures due to changes in the law or changes in their enforcement approach as a result of the existence of the BEPS Action plan.

89% of the largest companies are somewhat or significantly concerned about the media coverage of the taxes some companies are paying or their seemingly low effective tax rates. This is up from 60% in 2011. Conversely, just 9% say they are unconcerned now, compared to 40% in 2011.

81% of Americas-based companies have experienced greater risk or uncertainty around tax legislation or regulation in the last two years.
Increasing tax enforcement in 2014

Australia
On 29 May 2013, the Australian Government introduced a tax bill into Parliament to require the Australian Taxation Office (ATO) to publicly report, in relation to companies with annual income of AUD100 million or more, their gross income, taxable income and tax payable. The bill also includes other previously announced measures.

The public reporting applies to public and private companies, those listed on stock markets or Australian subsidiaries of global groups. The reporting will lead to significant interest from the public and analysts.

When enacted, the bill will require the ATO to disclose:

- For companies and corporate tax entities with income of AUD100 million or more reported in their income tax return: their Australian income, taxable income and tax payable, commencing with details from the 2013-14 income year.

- For companies and corporate tax entities liable to pay Minerals Resources Rent Tax (MRRT) or Petroleum Resources Rent Tax (PRRT): their MRRT or PRRT payable, commencing with details from the 2013-14 MRRT year or equivalent for PRRT purposes.

For Australian subsidiaries of global groups with a 31 December 2013 balance date (i.e., last day of the accounting year) in lieu of the 2013-14 income year, their current year income will be subject to the reporting rules.

The Explanatory Memorandum states that it is envisaged that the ATO will publish one annual report encompassing all relevant taxpayers, likely to be released several months after the date for the lodgment of the final company income tax returns for an income year. The first report is thus likely to be in late 2015.

Once the information is published, it will then be open to investment analysts, various organizations and the public at large to review that information. This reporting of tax is in addition to various global moves for additional corporate disclosures of their tax position as part of their own ongoing tax disclosure obligations. For example, the disclosure requirements by companies in the resources sector are evolving. The European Council is also considering further disclosure proposals by large companies.

Canada
The Canadian Government recently closed a consultation on measures to prevent treaty shopping; the intention of the consultation is to examine a range of possible approaches to address the practice of treaty shopping into Canada. The consultation paper consists of nine parts, and stakeholders were encouraged to respond to seven specific questions. The closing date for comments was 13 December 2013; although no specific proposals have yet arisen as a result of the consultation process, it is assumed that 2014 may see new measures in this area.

Chile
A reform package for 2014 will likely include the introduction (for the first time in Chilean legislation) of a “substance-over-form” rule. A number of other measures seek to increase collection, close loopholes and help small business to mitigate the impact of the tax reform. These measures have been proposed in broad terms only at the point this report was drafted.

China
China’s SAT has been working on GAAR implementation rules and is known to be ambitious in this area. Although no date has been set for their availability, these rules will likely be announced in 2014. China will continue to closely monitor and challenge location-specific advantages, treaty shopping and restructuring without reasonable commercial purpose.

Denmark
The Danish tax authorities are likely to continue their strong focus on collecting taxes from large international groups, including through transfer pricing adjustments, withholding taxes (beneficial ownership) and deductibility of costs.
**Dominican Republic**

The Government will continue strengthening tax compliance and enforcement of local legislation and regulations, especially in the area of taxation of cross-border transactions and multinational operations. The tax authorities will also focus on the aggressive application of already-existing penalties and sanctions.

**France**

The 2014 Finance Bill contains a range of additional measures, including, but not limited to, the requirement to provide accounting statements and consolidated accounts in case of a tax audit, the strengthening of transfer pricing rules, and the disclosure of foreign tax rulings. It should be noted that a number of additional enforcement measures were proposed in the 2014 bill but were repealed by the Constitutional Court. (See also: “Significant transfer pricing changes,” below.)

**Greece**

2014 will be the first full year under a General Anti-Avoidance Rule (GAAR) within Greek tax law. The rule, whose application scope seems rather broad, seeks to capture cases where taxpayers make use of artificial structures that have no underlying commercial substance and that have been implemented for tax avoidance purposes and generate tax advantages. In cases where the rule is deemed to apply, the 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.

**Hong Kong**

Inland Revenue (Amendment) Bill 2013, enacted on 10 July 2013, allows Hong Kong to enter into stand-alone TIEAs. Under previous provisions, the IRD was permitted only to exchange information with respect to a taxpayer with a tax authority in a jurisdiction that had concluded a comprehensive avoidance of double taxation agreement (CDTA). Hong Kong is therefore expected to strengthen its cooperation with other tax authorities in 2014.

**Hungary**

A series of changes are being made to Hungary’s advance ruling processes in 2014. Under current proposals, requesting a binding tax ruling will be subject to a duty of HUF5 million (about US$22,000) (or HUF8 million, (about US$32,000) if the ruling is urgent). For permanent binding tax rulings, the duty will be HUF8 million. In urgent cases, permanent rulings will have a duty of HUF11 million (about US$48,000), a decrease on the current duty. The authorities will introduce preliminary consultations with respect to binding tax rulings. This will provide taxpayers with legally controlled opportunities to have a consultation before initiating the request procedure for the binding tax ruling. Each consultation will be subject to a duty of HUF100,000 (about US$440). In the future, binding tax ruling requests will be one-level procedures. It will be possible to request that the court revise resolutions made in the course of these procedures. Future binding tax rulings will only be able to establish tax liabilities (or the lack of them) relating to the taxpayer that submitted the request. The administration deadline related to binding tax ruling.

**India**

2013 saw India's Ministry of Finance announce the constitution of a new Tax Administration Reform Commission under the chairmanship of Dr. Parthasarathi Shome. This commission will be active in 2014, and its terms of reference include a review of the existing mechanism of dispute resolution (both domestic and international taxation) covering time and compliance costs and recommendation of measures for strengthening these processes. It will also focus on measures needed for tax governance, including organizational structure and the use of information and communication technology and measures for widening and deepening the tax base, among other things.
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Netherlands
A Decree effective as of 1 January 2014 effectively strengthens the application of existing Dutch substance requirements. Companies must meet substance requirements to obtain an advance pricing agreement (APA) or advance tax ruling (ATR). If a company does not yet have such substance but has concrete plans to create sufficient Dutch substance in the near future, a tax ruling may also be obtained on that basis. With respect to companies that wish to conclude or have concluded an APA with the Dutch tax authorities, if such a company, or the group to which it belongs, does not have other activities in the Netherlands besides the activities required to satisfy the minimum substance requirements, the Dutch tax authorities will exchange information regarding the APA with foreign tax authorities.

Panama
The Government will continue to strengthen tax compliance and enforcement, especially in relation to regulations concerning the applicability of tax treaties. More tax treaties will continue to be negotiated in 2014.

Slovak Republic
A new binding rulings process will be available for the 2014 tax year. A ruling shall be issued upon written request of the taxpayer within a 60-day period unless further clarifications are necessary, but no later than six months from the day of filing the request. The ruling shall be binding to the tax authority and appellate body and will cost the taxpayer a variable fee of between €4,000 and €30,000 based on the value of the intended transaction.

Vietnam
For the first time, Vietnam recently introduced several General Anti-Avoidance Rules (GAAR) related to the claiming of tax treaty benefits; 2014 will be the first full year in which these rules are in place. The rules are largely in line with the current development trends of the Asia-Pacific region, and the Circular

Ireland
Finance (No.2) Act 2013 provides that certain Irish registered companies, if not resident anywhere, are to be regarded as resident in Ireland. This provision applies to all companies incorporated in Ireland from 24 October 2013. It applies to existing incorporated companies from 1 January 2015.

Luxembourg
Luxembourg will extend the current corporate governance and substance rules, operate a comprehensive transfer pricing legislation in line with international standards, as well as develop a uniform procedure with respect to advance tax clearances.

Mexico
On 11 December 2013, Mexico published its 2014 tax reform, with changes generally effective 1 January 2014. Provisions include:

- Allowing the Mexican tax authorities to apply new conditions regarding how existing tax treaties may be used in cases where the resident of the other country is a related party of a Mexican resident making a payment, and to request evidence of the double taxation that would otherwise occur if the treaty is not applied as a requisite for its application. This provision empowers the Mexico’s tax authority to override treaties.

- New rules limiting deductibility in cases of hybrid transactions or perceived abusive ones, through which the Mexican taxable base may be eroded.

- A whole new series of rules regarding tax-related crimes through which officers in corporations and legal and tax advisors may be found liable and subject to imprisonment.

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generally follows the OECD Model Treaty’s definitions of terms such as residency and beneficial ownership but also modify explanations to better reflect Vietnam’s tax policies. It includes procedures with respect to applying for treaty benefits.

In addition, the Circular contains GAAR provisions including but not limited to:

- Tax avoidance or tax abusive agreements or contracts
- A determination of a beneficial owner

The Circular is applicable to both tax residents of Vietnam and those of contracting countries. It clarifies that when a tax treaty and domestic tax laws differ, the tax treaty will prevail.

It proposes a three-year statute of limitations for a refund claim or substantiation of a tax treaty benefit application for prior years’ payments.

For the first time, the Circular introduces the principles preventing taxpayers from “abusing” tax treaty benefits by setting forth GAAR, including, but not limited to, the following items:

- The agreements or contracts are deemed to be abusive if their main purpose is to obtain treaty benefits, but no guidance is provided in the Circular on how to determine whether an agreement or contract is concluded as its main purpose (or one of the main purposes) to have abusive motive.
- The Circular provides a general “substance over form” principle for a determination of a true beneficial owner of income and provides seven different scenarios in which a claimed beneficial owner status may be disregarded.

In January 2014, Vietnam issued Circular 205, which provides rules on the applicability of tax treaty benefits and general anti-abusive provisions (GAAR). Circular 205 will become effective 6 February 2014.
Changes to business incentives in 2014 (non-R&D)

Finland
Long-term (i.e., usage time of at least 10 years) movable fixed assets will be deducted with straight-line depreciations, asset by asset, over their economical usage time (currently 25% per year on a pooled basis).

France
The Amended 2013 Finance Bill introduces a specific tax depreciation regime over five years for companies liable to CIT to encourage investment in innovative SMEs. The depreciation will apply to shares in innovative SMEs or shares or units in certain venture capital funds that were subscribed for cash by the investing company.

The depreciation will be subject to the following conditions: (i) the investing company has only a minority ownership in each target entity (i.e., less than 20% directly or indirectly, together with related parties), (ii) the investing company commits to retain the shares for at least two years and (iii) the aggregate value of qualifying shares does not exceed 1% of the investing company's total assets. In case of a sale occurring before a two-year period or, more generally, if any of the conditions of the regime fail to be satisfied, any depreciation previously deducted is recaptured at the standard CIT rate (increased by an amount of 4.8% per annum). In case of a sale after a two-year period eligible to the long-term capital gains tax regime, any gain is taxable at the standard CIT rate up to the amount of previously deducted depreciation.

A decree will provide the date of entry into force of the above incentive but, since it falls within the scope of EU State Aid regulations, it will first need to be approved by the European Commission.

Hungary
Based on loan agreements relating to tangible asset investments concluded after 31 December 2013, SMEs will be able to utilize 60% (rather than the earlier 40%) of the interest paid in the tax year in question as a corporate income tax allowance. The tax allowance cap remains unchanged at HUF6 million (about US$24,000).

India
The sunset clause for commencement of a business claiming a tax holiday in the power sector is extended from 31 March 2013 to 31 March 2014. To propel growth in the manufacturing sector, an investment-based deduction has been introduced on acquisition and installation of new assets from 1 April 2013 to 31 March 2015.

Ireland
The 2014 Budget builds on 2013’s 10-point Tax Reform Plan, introducing 25 new measures incentivizing entrepreneurship, innovation, investment and access to credit and finance, as well as providing an opportunity for small and medium enterprises to grow. The 9% reduced rate of VAT, targeted mainly at labor-intensive goods and services relating to tourism, has been somewhat successful and thus extended beyond 31 December 2013. The construction sector is directly targeted with a new home renovation incentive and an extension of the “Living in the City” Initiative.
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The Decree provides some guidance and relief to taxpayers with respect to changes in the laws that will go into effect on 1 January 2014. As part of the tax reform for 2014, new rules were included in Articles 181 and 182 of the Income Tax Law for maquiladoras. Compliance with these rules is necessary for the foreign partner of a maquiladora to benefit from a statutory exemption from creating a permanent establishment in Mexico. Without this exemption, the foreign partners for the maquiladoras must look to facts and circumstances under the applicable treaty to evaluate whether or not a permanent establishment exists.

An additional tax deduction is granted to maquiladoras that comply with the requirements for maquiladoras as established under the terms of Articles 181 and 182 of the Income Tax Law. The amount of this additional deduction is equal to the amount of the nondeductible salaries and wages established in the Income Tax Law beginning 1 January 2014. As part of the tax reform, 47% of the tax-exempt benefits paid to employees are nondeductible (53% are nondeductible if there is a reduction in the amount of the benefits paid over the prior year). This additional tax deduction equals 47% of the total amount of exempt compensation and benefits paid to employees that are related to the maquiladora operation.

A two-year transition period will be granted to certain maquiladoras to allow them time to comply with the new requirement that at least 30% of the machinery and equipment used in the maquiladora process be owned by the foreign resident and not previously owned by the Mexican entity or a resident related party.

An immediate credit is allowed for qualified VAT withheld by companies operating under qualified export programs, such as IMMEX or similar programs, as well as companies of the automotive industry. Sales of goods by a nonresident to a Mexican resident is generally subject to a VAT withholding mechanism, which, under general rules, would create a credit in the month following the withholding and payment of the tax.

Japan
On 1 October 2013, the “tax reform outline to stimulate private sector investment” was released. It contains various tax incentive measures that will be introduced in 2014, including:

- A tax incentive to promote capital expenditure on productivity-enhancing equipment
- A tax incentive to promote venture capital
- A tax incentive to promote specific corporate reorganizations
- Tax incentives to promote capital expenditure for small and medium enterprises (SMEs) extended and enhanced
- Tax incentives for increasing wages extended and enhanced

Malaysia
In the 2014 National Budget, corporate tax incentives for selected industries were announced. These include an extension of the incentive period for hotels, incentives for the implementation of the minimum wage policy and flexible work arrangements, incentives for anchor companies under the vendor development program, and R&D incentives for bioeconomy. Other corporate tax incentives include those available to companies to help support their readiness for the introduction of GST.

Mexico
The 2014 Mexico tax reform modified a number of provisions regarding the taxation of the maquiladora industry which, in general, will likely result in an increased tax burden for companies operating maquiladoras. Partially mitigating the increased tax burden though was the Presidential Decree published on 26 December 2013 by Mexico’s President Pena Nieto which granted tax incentives to the manufacturing, maquiladora and export services industry in the Official Gazette (the Decree). On 30 December 2013, Miscellaneous Resolutions for 2014 were published.
Changes to business incentives in 2014 (non-R&D)

Norway
First-year depreciation rates for certain assets, such as vehicles, machines, instruments and fixtures, have been increased from 20% to 30%.

Russia
On 30 September 2013, Russia’s President, Vladimir Putin, signed Federal Law No. 267-FZ, amending the Tax Code to provide incentives for implementing regional investment projects within the Far Eastern Federal District and certain other regions. The new law covers 13 specific locations and envisages special profits tax and mineral extraction tax (MET) rates and other tax benefits for taxpayers carrying out investment projects.

Spain
Spanish companies with a turnover lower than €10 million that reinvest a part of their annual profits in the acquisition of business assets will be entitled under certain circumstances to a tax credit of 10%. The maximum annual rate of amortization of goodwill and certain intangible property (IP) will be reduced to 1% and 2%, respectively, for fiscal years 2014 and 2015. The percentage of income to be declared for certain qualifying intellectual property rights has decreased from 50% to 40%.

Changes to R&D incentives

United States
The US research credit expired on 31 December 2013. The extension of the credit, as in years past, is currently tied up in the extenders package, which Congress is constantly discussing but had seen little movement when this report was drafted. It is expected that the credit will eventually be extended and be made retroactive to 1 January 2014 so there will be no gap in benefits. Expiration of the tax extenders will affect a company’s financial reporting, though, even if they are reinstated later this year. Accounting Standards Codification (ASC) 740 requires companies to recognize the tax accounting effects of tax law changes in the period in which new legislation is enacted. The reinstatement of an expired provision in a later period, even if retroactive, would require companies to wait until the date of enactment (the date reinstated) before factoring the effects of the legislation into their estimated annual effective tax rate calculation.

On 6 January 2014, House Ways and Means Committee Chairman Dave Camp (R-MI) said he is not focused on enacting tax extenders legislation at this time, preferring instead to address the issue as part of a tax reform package. In contrast, outgoing Senate Finance Committee Chairman Max Baucus (D-MT) reportedly said the extenders are the only tax item on his agenda before he leaves the Senate for his new post as US Ambassador to China. Offering yet another view on the issue, Orrin Hatch (R-UT), the Senate Finance Committee’s ranking member, said the committee needs time to review each tax extender to decide which provisions to renew, implying there will not be a wholesale retroactive extension of all the expired provisions.

That said, the research credit is an integral part of US tax policy, illustrated by the fact that it has been reinstated some 15 times since its introduction in 1981. The Administration’s Fiscal Year 2014 Revenue Proposals proposed making the credit permanent.

Countries using the measure to raise revenue (consolidate)

**Australia**
It has been proposed that from 1 July 2013 there will be an exclusion to the R&D Tax Incentive, whereby companies with aggregate assessable income of AUD20 billion or more would no longer be eligible to access the 40% nonrefundable tax offset. However, at the time of writing, this proposal had not yet been passed into law.

**South Korea**
Korea's revised R&D tax law was passed at the National Assembly on 31 December 2013. Under the law, 3% of the company's reserve used for future R&D (which previously could be continuously deducted for corporate income tax purposes) may no longer be deducted. In addition, the existing tax credit is reduced to 3% for large-size companies (KRW500 billion or more) and 5% for medium-size companies.

Countries using the measure to stimulate the economy

**Argentina**
An update of the software promotional regime (containing tax benefits including tax credits, income tax reduction and tax exemptions) has been recently launched. Under the regime, 70% of social security payments may be considered as a tax credit for federal taxes, and a 60% income tax reduction (resulting in an effective corporate tax rate of 14%) is available. A new Decree (Presidential Decree 1,315/2013) establishes several requirements and clarifications for companies that wish to receive the benefits.

**China**
A more favorable and beneficial tax system is expected to be announced for scientific developments and research and development, although at the time this report was drafted, no specific proposals had been announced.

**Czech Republic**
According to the new Czech tax law changes that came into force on 1 January 2014, the current R&D deduction will be increased to 110% of incremental eligible costs incurred in the tax period. External services related to R&D provided by public R&D institutions (such as universities and research institutes) may now be included in qualifying expenses, while expenses incurred during the certification of R&D results may not be included in qualifying expenses.

**France**
The Amended 2013 Finance Bill allows R&D tax credits to be assigned to securitization vehicles. Currently, these credits can either be used to offset the CIT liability of the relevant FY and the following three FYs, after which any excess is refunded to the taxpayer, or monetized by being assigned to a financial institution under the so-called “Dailly” procedure.

**Ireland**
Ireland's R&D Tax Credit regime provides for a 25% tax credit for incremental expenditure on research and development (R&D) activities over such R&D expenditure in a base year (2003). Finance Act 2012 provided that the first €100,000 of qualifying R&D expenditure would benefit from the tax credit without reference to the 2003 threshold. The amount of expenditure so allowed on a volume basis was increased to €200,000 in Finance Act 2013 and is now being increased again to €300,000 for 2014. The limit on the amount of qualifying research and development expenditure that can be outsourced to another third-party company is also being increased from 10% to 15% in 2014.

The Irish Department of Finance's review of Ireland's R&D regime was published on the same date as the Irish Budget. This review acknowledges that the Irish R&D scheme has been a significant driver for increasing R&D spend in Ireland over the past decade, that it continues to be among the best-in-class internationally, and that it remains a significant aspect of Ireland's successful formula for attracting foreign direct investment. Interestingly, the review highlights areas for improvement, most notably that the base year should be phased out when resources allow.
**Italy**

Law Decree No. 145/2013, published in the Official Gazette No. 300 on 23 December 2013, has been presented to Parliament. Under Article 3 of the Law Decree, from tax year 2014 to tax year 2016, companies investing annually at least €50,000 in R&D activities will benefit from a tax credit equal to 50% of the annual increase of R&D expenses, up to €2,500,000 per tax year.

**Netherlands**

On 9 December 2013, the Dutch Minister of Economic Affairs amended the so-called R&D Allowance (RDA). Under the amendment — which will be applicable for the calendar year 2014 — the incentive is being improved and taxpayers can now deduct an additional 60% for qualifying R&D costs and expenses, resulting in a net tax benefit of 15%. The RDA grants the taxpayer an additional deduction for R&D costs (not being labor costs) and expenses that are directly related to R&D projects. The additional deduction will lower a company’s taxable profit and thus the corporate income tax due, or increases tax losses that may be used to offset taxable profits from the previous year or the nine successive years. For 2013, the additional deduction was determined at 54% of the qualifying costs and expenses. The Dutch Minister of Economic Affairs has increased the additional deduction on R&D costs (not being labor costs) and expenses that are directly related to R&D projects. The additional deduction will lower a company’s taxable profit and thus the corporate income tax due, or increases tax losses that may be used to offset taxable profits from the previous year or the nine successive years. For 2013, the additional deduction was determined at 54% of the qualifying costs and expenses. The Dutch corporate income tax rate being 25%, this results in a net tax benefit of 15%.

**Japan**

The expiring sunset provision for additional R&D tax credits has been extended for three years to fiscal years beginning on or before 31 March 2017. In addition, the current credit that is equal to 5% of the increased R&D cost may be revised by applying a rate of increase (5% to 30%) to a cost increase, allowing a proportionate increase in a tax credit, capped at 10% of the corporate income tax liability.

**Latvia**

From 2014 onward, R&D expenses meeting eligibility requirements may be multiplied by three and deducted from the CIT taxable base if the intellectual property created remains in the ownership of the company for at least five years.

**Malaysia**

In the 2014 National Budget, corporate tax incentives for selected industries were announced. These include R&D incentives for the bioeconomy sector.

**Norway**

Deductibility of R&D costs will be increased. No further information is available at this point in time.
Changes to withholding tax regimes

**Argentina**
Argentina enacted a new 10% dividend withholding tax, enacted in September 2013, which — although currently in force — will likely have a higher impact in 2014 since it will apply for distributions made during the full year. The tax would operate as a “sole and definitive tax” and would apply to distributions made by Argentine entities to Argentine individuals, as well as to foreign shareholders. The new withholding tax is applicable in addition to the 35% corporate tax, thus increasing the effective corporate rate.

**Australia**
2014 will likely see a number of changes to withholding taxes in 2014, including:

- Improving the foreign-resident capital gains tax regime via withholding tax regime and technical amendments
- Changes to allow pension funds to access the managed investment trust withholding tax regime as intended
- Addressing tax withholdings for nonresident capital gains from 1 July 2016

**Singapore**
Singapore's 2014 budget demonstrates just how much faith the city state is putting in innovation and R&D as drivers of future prosperity. Among the highlights, Singapore’s Productivity and Innovation Credit (PIC) scheme will be extended for three years until year of assessment 2018, while under a ten year extension to tax year 2025, businesses can also continue enjoy the additional 50% tax deduction on qualifying expenditure incurred on qualifying R&D activities conducted in Singapore. Qualifying expenditure relates to expenditure attributable to R&D activities incurred on staff costs, consumables and payments made to R&D organizations and there is no cap applied on the additional 50% tax deduction.

**Spain**
The limit applicable to corporate income tax credits is removed from January 2013 for certain research and development activities. However, where this measure is taken advantage of, companies must mandatorily surrender 20% of the credit.

**Switzerland**
New tax reliefs are planned for R&D and interest income in 2014 (e.g., license box, royalty box), but there were no specific proposals at the time this report was drafted.
Colombia
On 7 October 2013, Colombia’s Ministry of Finance and Public Credit issued Decree 2193, listing the countries, jurisdictions, domains, associated states or territories that are considered tax havens for tax purposes. Taxpayers that conduct business with a company located, domiciled or resident in a tax haven and that wish to deduct income tax payments must document and show detail of the functions performed, assets used, risks assumed, and all costs and expenses incurred by the beneficiary company in the tax haven. Additionally, to constitute a cost or deduction, the taxpayer must have withheld tax (except for financial transactions registered with Colombia’s Central Bank). If the payments constitute taxable income to the beneficiary company, the applicable tax rate is 33%, regardless of the nature of the payments. In addition, a 25% tax rate will apply for taxable dividends related to portfolio investments, and the 15% rate will be applicable for interests. If the withholding tax is not made, the payment will not be deductible for corporate income tax purposes.

Costa Rica
Under current proposals (which have not yet passed into law) a single withholding tax rate of 15% for most payments abroad will be applied.

Greece
Under Greece’s new Income Tax Code, the exemption on dividends received by parent companies from their subsidiaries established in Greece and abroad has been significantly broadened. The same applies to dividend withholding tax. The definition of dividends has been broadened to include distributions of profits from any type of company, not just Public Limited Companies (SAs) and Ltds. In addition, the EU Parent Subsidiary Directive, as was re-transposed into the new Income Tax Code, is expanded to include dividends received by parent companies from their subsidiaries established in Greece (i.e. domestic profit distributions) and abroad, including third countries to the extent they are not considered non-cooperative states by Greece.

Latvia
Under an amendment enacted at the end of 2013 and in force from 1 January 2014, a withholding tax of 15% (equal to Latvia’s corporate income tax rate) is applied to outgoing payments from Latvian companies to low-tax jurisdictions. No withholding tax needs to be applied for goods supplied by low-tax countries if the goods are supplied at market prices, which the taxpayer needs to prove.

Mexico
Under Mexico’s 2014 tax reform package, which became effective on 1 January 2014, an additional 10% withholding tax on dividends paid to Mexican individuals or any foreign residents will be levied. In what is a significant change to the Mexican tax policy and system, and unlike the content of the original reform proposal, the 10% tax is a withholding tax on the shareholder and not a tax on the distributing company. This withholding tax will be imposed on distributions of dividends paid to Mexican individuals as well as to foreign residents. Therefore, dividends between Mexican-resident entities are still not subject to tax at the shareholder level.

Romania
Under amendments to Romanian tax law that took effect on 1 January 2014, dividend, interest and royalty payments between Romanian entities and EU Member States will be subject to withholding tax at the source. The current exemption on dividends received by parent companies from their subsidiaries established in Romania and abroad, including associated companies, has been significantly broadened. The same applies to dividend withholding tax.

South Africa
The South African National Treasury has delayed the implementation of the 15% withholding tax on interest until January 1, 2015.
Significant transfer pricing changes

**Australia**

Australia’s new transfer pricing rules passed Parliament in June 2013, signaling an important new chapter for multinational companies with related party dealings in Australia. The rules will have effect from the first income year commencing on or after 1 July 2013. Major changes to the transfer pricing rules include:

- Introduction of a self-assessment regime, effectively requiring public officers to sign off on the appropriateness of their transfer pricing in order to satisfy their duties as public officer, who may be liable to penalties in certain circumstances
- Penalty regime linked to documentation, whereby preparing transfer pricing documentation is not compulsory; however, failure to prepare documentation results in an entity not being able to establish a reasonably arguable position and will result in larger penalties in the event of an Australian Taxation Office (ATO) audit
- Extensive reconstruction provisions requiring taxpayers to go beyond the transactions in assessing their transfer pricing and providing the ATO with extensive powers to substitute transactions that the ATO believes better reflects arm’s-length behavior
- Provisions that effectively require a double test, where taxpayers have to assess the overall commerciality of their arrangements as well as the pricing of individual transactions

The new transfer pricing rules are designed to bring the Australian domestic regime in line with international practice through alignment with the OECD Guidelines. However, there are several areas where the rules diverge from these guidelines, established international practices and historically accepted practice by the ATO. In addition, the new rules create a significant administrative burden on taxpayers.

**Spain**

On 26 December 2013, the Spanish 2014 Budget Law was published in the Spanish Official Gazette. The draft bill extends the application of increased tax rates on Spanish source income obtained by non-Spanish residents with no permanent establishment in Spain. In addition, from 1st January 2014, the period for filing the July withholding and payments on account returns has been compressed and must be mandatorily filed within the first 20 days of August.

**Sweden**

A new committee has been formed and instructed to review the taxation of companies. Among other issues, the committee will examine the possibility of introducing a withholding tax on interest payments.
Costa Rica

2014 is the first full year in which transfer pricing regulations will be in force in Costa Rica. The regulations are applicable to individuals or business entities that conduct related party transactions. The key considerations of these new regulations are:

- The regulations will apply to any arrangement between associated entities involving goods, services or intangible assets.
- The regulations will apply to transactions conducted by taxpayers with related entities resident abroad and within Costa Rica.
- The new rules provide the definition of the arm’s-length principle and related parties, regulate the criteria taxpayers must follow to perform a comparability analysis, and establish the transfer pricing methodology to apply when assessing the arm’s-length principle.
- An annual transfer pricing information return and transfer pricing documentation are required for taxpayers.
- The regulations also include provisions for advance pricing agreements (APAs). Taxpayers will be able to request an APA for a three-year period.

France

As part of the surge in French initiatives to address base erosion and profit shifting (BEPS) concerns, the French authorities recently released a broad package of measures with far-reaching consequences with regard to transfer pricing and international taxation.

After the French National Assembly cleared final adoption of the 2014 Finance Bill on 19 December 2013, the Constitutional Council handed down its decision on the bill on 29 December 2013 and held several measures to be contrary to the French Constitution. The 2014 Finance Bill was officially published the next day and has now come into force as of 31 December 2013.

In addition, on 4 December 2013, the French Constitutional Council validated a new contemporaneous transfer pricing documentation “light” requirement included in the Fight Against Tax Evasion and Financial Criminality Bill adopted by French Parliament on 5 November 2013. The bill was officially published on 7 December 2013. “Light” refers to the fact that the transfer pricing documentation that will need to be lodged at the latest within six months of filing the tax return is “reduced” transfer pricing documentation as it will, notably, not include the obligation to disclose comparable studies.

Communication of the analytical and consolidated accounts in case of a tax audit

After enactment of the bill, companies in the scope of L13AA or with a turnover exceeding €152.4m (or €76.2m, depending on their business activity) will have to communicate their management accounting in case of an audit. The precise definition of the management accounting should be further clarified in future additional regulatory guidance. French holdings will also have to disclose the detail of their consolidated accounts, allowing the FTA to identify the tax provisions, for instance. These provisions are additional to Article L47A1 of the French Procedural Tax Code (FPTC), which makes mandatory, for all tax audits opened as of 1 January 2014, for taxpayers to communicate their computerized accounting (where the company is required to maintain such computerized accounting). Article L47A1 provides for a very precise formatting of the data.

Requirement to disclose foreign rulings in transfer pricing documentation

It is required for taxpayers that fall within the scope of Article L13AA of the FPTC to include, in their transfer pricing documentation, tax rulings (as defined in French tax law) obtained by all related parties from foreign tax authorities, as from the entry into force of the 2014 Finance Bill. In practice, as per the Constitutional Council, the requirement does not cover documents obtained from foreign tax administrations and that would not be available to the French taxpayer.
In case of MAP, requirement to make the payment of the additional taxes before the end of the procedure

Current French regulations provide for a postponement of the payment of taxes resulting from a French transfer pricing reassessment (L189A of FPTC) in case of opening of a mutual agreement procedure (MAP). The bill terminates this provision for MAPs opened as from 1 January 2014. It will thus no longer be possible to defer a direct cash impact following a French transfer pricing reassessment by opening a MAP.

Greece
On 31 December 2013, the General Secretary of Public Revenues of Greece decreed, in accordance with the newly introduced Tax Procedures Code, the procedures for the conclusion, amendment, revocation and annulment of an advance pricing arrangement (APA). The decree refers to the procedures of both unilateral and bilateral APAs. Applications for an APA, under the newly issued decree, can be made in relation to cross-border intercompany transactions that take place in financial years starting 1 January 2014 onward. Moreover, an APA is valid for financial years that have not elapsed by the time the APA request is filed.

Italy
On 23 December 2013, the Italian Parliament passed the budget law for 2014 (2014 Stability Law), which was published in the Official Gazette no. 302 of 27 December 2013. The 2014 Stability Law provisions should generally enter into force as of 1 January 2014. On the same day, the Italian Government issued Law Decree no. 145/2003 (Destination Italy Decree), which was published in the Official Gazette no. 300 of 23 December 2013. The Destination Italy Decree entered into force on 24 December 2013, and the Parliament has 60 days to convert it into an ordinary law.

Article 1, paragraphs 281-284, of the 2014 Stability Law provides clarifications on the application of the transfer pricing rules to the determination of the Italian regional production tax (IRAP) base for the tax years following the one in progress at 31 December 2007. According to a 2008 legislative change, the computation of the IRAP base is no longer linked to the corporate income tax (IRES) rules. Since transfer pricing rules are included in the IRES provisions (and not in the IRAP provisions) there was uncertainty as to whether such rules should still apply to IRAP. The 2014 Stability Law offers clarity by providing that transactions between resident and nonresident companies belonging to the same group must comply with the arm’s-length principle also with reference to the years following the one in progress at 31 December 2007.

With reference to any value adjustments that result from the application of transfer pricing rules for IRAP purposes, penalties provided by law do not apply. However, this benefit is limited to the tax years following the one in progress at 31 December 2007 through those for which, at the date of entry into force of the new provision, the deadline for the filing of the tax return has elapsed.

Notwithstanding the above, penalties will apply if the relevant legal measure (e.g., court decision) became final before the entry into force of the 2014 Stability Law.

The 2014 Stability Law (Article 1, paragraphs 33 and 177-178) also includes important changes for groups involved in certain online businesses. From a transfer pricing perspective, the new rules provide that entities involved in the collection of online advertisement and in related auxiliary services on behalf of foreign group companies must use profit-level indicators other than those applicable to the costs incurred in the conduct of their business. However, the 2014 Stability Law does not provide any guidance about alternative transfer pricing methods to be used. Exceptions apply to companies that reach an APA with the tax authorities by way of the International Standard Ruling procedure.
Luxembourg
On 2 December 2013, the newly composed Luxembourg Government published its coalition program, including components of its future fiscal policy. The aim of the new Government is to enhance the competitiveness of Luxembourg while respecting EU and OECD rules on taxation. The announcement describes plans for the introduction of governance/substance rules and comprehensive transfer pricing legislation, as well as plans for a uniform framework for advance tax clearances, modernization of the participation exemption and intellectual property regimes, and the introduction of a notional interest deduction. No specific proposals had been issued at the time this report was drafted.

Mexico
Under Mexico’s 2014 tax reform package, Maquiladoras that seek treaty protection and other benefits previously available for the regime (certain tax credits) are also subject to special transfer pricing rules. The reform will eliminate the ability of Mexican maquiladoras to use a conventional transfer pricing study plus a 1% return on foreign-owned assets. This will force the maquiladora to either obtain an advance pricing agreement (APA) or use the safe-harbor transfer pricing guidelines to determine taxable income in Mexico.

The safe-harbor rules require the taxpayer to report taxable income equal to the higher of 6.5% of costs, including depreciation for foreign-owned assets, or 6.9% of assets, including the foreign-owned machinery and equipment and inventory. The businesses should review and calculate the amount of this base in line with the foreign entity’s rules in the jurisdiction of residence. Since the safe harbor is not necessarily an arm’s-length amount under general transfer pricing standards, the foreign partner may have problems deducting this cost in the foreign jurisdiction.

Portugal
Under current proposals, which have not yet passed into law, the minimum shareholding level required to deem the existence of special relations, and therefore to be covered by the transfer pricing rules, would be increased to 20%. In addition, taxpayers may be able to request unilateral advance pricing agreements from the tax authorities involving entities resident in countries that have concluded a tax treaty with Portugal.

Slovak Republic
A new measure for 2014 shortens the deadline for taxpayers to present their transfer pricing (TP) documentation upon the tax authority’s request from 60 days to 15 days. In addition, the tax authority may demand TP documentation even without initiating an official audit.
The outlook for global tax policy in 2014

Changes to interest/business expense deductibility

Austria
As of 1 March 2014, interest and royalty payments to domestic and foreign affiliated corporations shall no longer be tax deductible if the income of the recipient corporation is completely or predominantly not subject to taxation or taxed at a rate of less than 15%; if the tax rate is at least 10% (but less than 15%), half of the expenses are tax deductible. If the receiving corporation is not the beneficial owner, the taxation of the beneficial owner will be relevant. An exception shall apply for payments to entities that meet the EU law privileges for risk capital measures. The focus of this new regulation is – in the light of the OECD’s current BEPS Action Plan – the avoidance of the intragroup transfer of profits via interest and royalty payments to low-tax jurisdictions or jurisdictions with a special tax regime.

Australia
On 6 November 2013, Australia’s Government announced its plans to address the extensive backlog of previous tax and superannuation policy decisions that had been announced – some as far back as 2001 – but not legislated by previous governments.

The announcement include the decision to amend three existing proposals, including removing from the thin capitalization package of changes and the proposed repeal of Section 25-90 of the ITAA 1997 Act dealing with the deductibility of certain interest expenses. The Government’s decision not to proceed with the widely criticized plans to limit interest deductions for multinational businesses by repealing Section 25-90 is a positive step because, among other things, it will avoid the resulting complexity for businesses this would have created. Instead it will “introduce a targeted anti-avoidance provision after detailed consultation with stakeholders” to “address certain conduit arrangements.” Details of this consultation had not been announced at the time this publication was drafted.

Belgium
The Belgian legislature has acted to align the rules relating to the notional interest deduction (NID) as a result of the judgment of the Court of Justice of the European Union (CJEU) of 4 July 2013 in the Argenta Spaarbank case.

The NID is a tax deduction for corporate taxpayers based on their adjusted net equity. Typical adjustments were, among others, the net assets used by a foreign permanent establishment (PE) and the net assets invested in real estate, located in countries with which Belgium has concluded a double tax treaty (DTT). According to the CJEU, the exclusion from the NID base of the net assets of the PE located in another Member State of the European Union constitutes a restriction of the freedom of establishment, as Belgian companies are dissuaded from establishing branches in other Member States.

The Belgian legislature abolished both exclusions, which generally increases the basis of the risk capital on which the rate is applied for calculating NID.

However, in order to limit the consequences from a budgetary point of view, the NID will be subject to new limitations depending on the country in which the foreign PE or the real estate is situated:

- PEs or real estate situated in a Member State of the European Economic Area of which the income is exempted in Belgium based on a DTT: the NID to be deducted in Belgium will be reduced with the NID portion relating to the net assets attributed to the PE or real estate to the extent that it is lower or equal to the positive result derived from these assets. In case the NID portion related to these assets exceeds the result derived from them, the excess can be deducted from the result in Belgium.

- PEs or real estate situated in a state outside the European Economic Area of which the income is exempted based on a DTT: the calculated NID to be deducted in Belgium will be reduced, with the NID portion relating to the net assets attributed to the PE or real estate.

These adjustments to the NID legislation enter into force as of tax year 2014 (accounting years ending between and including 31 December 2013 and 30 December 2014).
Changes to interest/business expense deductibility

Finland
The amount of deductible net interest, which will be calculated based on the adjusted taxable profit, will be reduced from 30% to 25% for 2014 onward. In addition, losses on financial assets will no longer be added back to the adjusted taxable profit. The deductibility of entertainment expenses will be abolished for 2014 (currently 50% deductible).

France
The 2014 Finance Bill introduces new rules that disallow the tax deduction of interest accrued to related parties if the French taxpayer cannot justify, at the request of the French tax authorities (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.

This new limitation on deductibility of interest specifically addresses the situation where the lender is a qualifying transparent entity or a collective investment fund. In such cases, the “subject to tax” test is carried out at the level of the owner(s) of such entity or fund. These new rules will apply in FyS ending on or after 25 September 2013.

In the course of the debates before the French National Assembly, members of the Government have mentioned that interest that is paid to a foreign low-taxed lender but subject to CIT in France as a result of French CFC legislation would satisfy the “subject to tax” test, and that this test should be considered as satisfied when a listed real estate company (Société d’Investissements Immobiliers Cotée or SIIC) receives interest that is included in its taxable income although the company is tax exempt on its core activities and may thus have an overall effective tax rate below the threshold.

Mexico
Payments made by resident companies to entities, trusts, joint ventures, investment funds or any other legal figure, the income of which is subject to what the Mexican law considers a preferential tax regime (countries in which there is no tax on the income or in which the income tax on the income received is less than 75% of what would have been the Mexican tax on the same income) will not be deductible for income tax purposes unless same are made at arms’ length values.

Payments, expenses, investments and all type of deductions in general which are taken in Mexico but also deducted in other countries by a related party, will not be deductible for income tax purposes for Mexican resident entities, unless such related party also picks up (includes for tax purpose) the income generated by the same Mexican entity.

Norway
The deductibility of intercompany interest will be limited in 2014. On 8 November 2013, the new Conservative-led Government released amendments to the 2014 National Budget, effectively supporting the proposal. On 13 December 2013, earning stripping provisions were enacted in Norway, introducing a cap of 30% of taxable EBITDA for net interest expense allocable to intercompany debt. Prior to this, Norway did not have formal thin capitalization or similar rules.

The new Government has proposed to increase the threshold for when the rules will apply from NOK3 million to NOK5 million (approximately US$830,000).
South Africa

Legislation has been enacted that limits interest deductions stemming from debt owed by South African subsidiaries to foreign parent companies (or to foreign brother-sister companies). The purpose of the legislation is to limit the loss of South African revenue caused by excessive debt between cross-border members of the same economic group. Under the legislation, interest deductions from debts of this kind generally cannot exceed 40% of the South African company’s taxable income. Interest deductions above this threshold can be carried forward to subsequent years (the prior limit was 10 years). The legislation has been expanded to cover “connected persons” (e.g., more than 50%, as opposed to more than 70% previously). It should also be noted that the South African Revenue Service is currently reviewing draft guidance pertaining to transfer pricing as applied to interest deductions. While the National Treasury media statement suggested the possibility of a safe harbor, the pending legislation does not contain a transfer pricing safe harbor of any kind, but might be contained in the revised draft guidance.

Portugal

Under current proposals, which had yet passed law when this publication was completed, the current limitation to the net financial expenses will be reduced from €3 million to €1 million, while the remaining conditions will be still applicable. In the case of group taxation, the dominant company may opt to apply the limitation on the basis of the group’s net financial expenses, and the option is required to be kept for a minimum of three years. A change of at least 50% in the ownership of the share capital or the voting rights will result in the loss of the carryforward period for unused net financial expenses balance.

Russia

Significant amendments to the profits tax treatment of interest income and expenses were enacted in Federal Law No. 420-FZ of 28 December 2013. The general limits on the deductibility of interest in Article 269 of the Russian Tax Code have been replaced with provisions relevant to controlled debts only. The new provisions include rules as to amounts to be recognized as interest income, whereas previously the relevant clauses concerned only the amounts of interest to be recognized as an expense. The thin capitalization rules in clauses 2 to 4 of this article are unchanged.

The amendments to Article 269 enter into force not earlier than one month from the date of official publication of the Law and not earlier than the first day of the next tax period. The Law was officially published on the Official Internet Portal of Legal Information (www.pravo.gov.ru) on 30 December 2013. As the tax period for profits tax is a calendar year the new wording applies from 1 January 2015. The provisions relate to interest on debt obligations, defined as credits, trade and commercial credits, loans, bank deposits, bank accounts or other borrowings, irrespective of the form in which they are arranged.
Decreasing statutory corporate income tax rates

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Changes to the tax treatment of losses

**Austria**
Until now, tax losses of foreign group members can be utilized up to the full amount of the foreign loss. Starting with the tax assessment in 2015, the utilization of losses of foreign group members shall be limited to 75% of the domestic group income. Losses exceeding this amount are included in the loss carryforwards for subsequent years.

**Japan**
Suspended net-operating-loss carryback rules applicable to large corporations will be extended for an additional two-year period.

**Latvia**
From 2014 onward, losses cannot be carried forward in a group of companies.

**Lithuania**
In 2013, tax losses from regular business activity could be carried forward for an unlimited period and could reduce up to 100% of the taxable profit for the financial year. Starting in tax year 2014, accumulated tax losses could be used to reduce only up to 70% of the taxable profit for the financial year.
Norway
It is likely that stricter rules will be implemented for calculating gain/loss from a realization of real estate in 2014, although no proposals have been issued yet.

Philippines
Businesses will be permitted to deduct losses sustained from Typhoon Haiyan, provided they are not covered by insurance and are properly documented, as prescribed by regulations.

Slovak Republic
Effective 1 January 2014, the period for which tax losses may be carried forward was reduced from seven years to four years. In addition, it is proposed that the amount that can be used in a year was capped at one-quarter of the tax losses carried forward. The new rules will also apply to losses incurred prior to 2014.

Spain
Large companies with a turnover between €20 million and €60 million in the 12 months prior to the beginning of the relevant fiscal year may offset net operating losses only up to 50% of the positive taxable base. When the company’s turnover in the prior period is greater than €60 million, the limitation is further reduced to 25% of the positive taxable base.
Changes to CFC rules/thin capitalization

Australia
2014 will see Australia tighten and improve its thin capitalization rules; this includes reducing the main safe harbor to broadly a 1.5-to-1 ratio of debt to assets (60% debt) from 1 July 2014.

Canada
On 12 December 2013, Bill C-4, Economic Action Plan 2013 Act, No. 2, received Royal Assent. Bill C-4 implemented a number of international, corporate and personal tax measures announced in the 2013-14 federal budget. These included an extension of the rules to Canadian-resident trusts and nonresident corporations and trusts that carry on business in Canada or elect to be taxed on a net income basis under section 216 of the Income Tax Act, as well as partnerships having members that are such entities.

Greece
Greece’s fiscal consolidation efforts for 2014 focus on a series of anti-avoidance provisions that were previously not included in the legal framework. In addition to the transfer pricing, thin capitalization and anti-tax-haven provisions that are amended to enhance their enforceability, new controlled foreign company (CFC) rules have been introduced to uphold the Government’s view on combating tax avoidance and evasion.

Israel
The Israeli CFC rules were introduced into tax legislation in 2003 to counteract the deferral of taxation of passive income until actual distribution to Israel. An Israeli resident that holds 10% or more of the shares of a CFC is subject to tax in Israel on a deemed dividend corresponding to its share of the undistributed passive income of the CFC (on the last day of the tax year). The CFC tests are applied for each tax year, and the CFC classification is reported on Form 150, attached to the annual tax return.

The proposed amendments were drafted in order to close some loopholes in the current legislation and to update the effective tax rate test. Proposed amendments include:

- **CFC definition**
  One of the five cumulative tests that are applied in determining whether a foreign company constitutes a CFC is the effective-tax-rate test. Under the proposed amendments, the effective-tax-rate test will be satisfied if the foreign company’s passive income is subject to an effective tax rate of not more than 15% (instead of 20% under the current regime).

- **Passive income definition**
  A new presumption has been proposed, according to which any consideration received from a sale of securities will constitute passive income (even if the sale is in the course of trade or business).

- **Deemed foreign tax credit**
  It is proposed to abolish the possibility to claim a deemed foreign tax credit, on the statutory or treaty dividend withholding tax, which would have been imposed upon actual distribution of a dividend by the CFC to the Israeli shareholder.
Quantification of income and profits

The current legislation states that where a CFC is resident in a country with which Israel has a double tax treaty, it is necessary to consider local income tax laws in order to quantify the passive income/profits. Where the foreign company is not a resident of a “treaty country,” the passive income/profits are calculated in accordance with Israeli GAAP.

With respect to treaty countries, the proposed amendments clarify that income from participations should be taken into account, even if they are exempt from tax (under a local participation exemption regime) or excluded from the foreign tax base. The amendment also stipulates that notional tax deductions that were claimed for local tax purposes should be disregarded for the quantification of the passive income.

With respect to non-treaty countries, it is proposed that the CFC's passive income be quantified based on the Israeli tax law instead of using Israeli GAAP.

New Zealand

A current proposal would apply from the beginning of the 2015–16 income year if enacted into law. The proposed changes focus on tightening the existing thin capitalization rules, which currently apply only when the New Zealand entity is owned or controlled by a single nonresident investor. The bill proposes changes to five aspects of the thin capitalization rules. The most significant change of these extends the rules so they will apply when nonresidents who appear to be acting together own 50% or more of a company. Nonresidents will be treated as acting together if they hold debt in a company in proportion to their equity, have entered into an arrangement setting out how to fund the company, or act on the instructions of another person (such as a private equity manager). The bill will also extend the rules so they apply to all trusts that have been majority settled by nonresidents, as well as all companies controlled by the trustees of such trusts. The bill will change what is known as the “110% worldwide debt test.” This test, in essence, compares the amount of debt in a company’s worldwide operations with the debt in the company’s New Zealand operations. The proposed change will mean debt that originates from shareholders will be excluded when calculating the debt level of a company’s worldwide operations. Increases in asset values following internal company reorganizations will be ignored, unless the increase in asset value would be allowed under generally accepted accounting principles in the absence of the reorganization, or if the reorganization is part of the purchase of the company by a third party.

The bill will also make a technical change to ensure that, in the outbound thin capitalization rules, individuals and trustees must generally exclude their indirect interests in offshore companies if the interest is held through a company they are associated with.

Russia

Several reform proposals are being debated in Russia in the field of tax base erosion through use of low-tax jurisdictions. These include, among others: introduction of the concept of corporate tax residency based on place of effective management, introduction of taxation of controlled foreign companies, and disclosure of information on the ultimate beneficiary of a company in order to address abuse of tax treaties.
The 2014 Outlook for tax policy covers a total of 61 countries. All countries, as well as daily EY global tax alerts can be accessed on the internet at:

ey.com/2014taxpolicyoutlook
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Japan

Tax policy and controversy leaders

Japan

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1 | Tax rates (2013-14)

1.1 Key tax rates

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2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

Following the change of government in the election of 07 September 2013, the new Treasurer, Joe Hockey, outlined that “Australia is open for business” with tax-related priorities including:

1. Cleaning up a backlog of announced but unlegislated tax changes from previous governments and focusing on stability and certainty in tax policy (more detail in section 2.9 below).

2. Increasing Australia’s debt ceiling, acknowledging the poor state of the federal budget (no return to surplus forecast for the first term of this Government, ending in 2016), and jettisoning “undeliverable expenditures promised on the ‘never-never’ and taxes which were announced to be raised with legislation that is virtually undraftable.”

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2 Ibid.
4 Ibid. Medicare levy rate will increase from 1.5 to 2 per cent of taxable income for the 2014-15 income year and later income years.
5 Worldwide VAT, GST and sales tax guide, EY, 2013.
6 Ibid.
3. Reviewing tax reform directions starting in 2014 to identify tax policies, with a white paper to be issued prior to the next election in 2016.

4. Creating a plan for growth, including infrastructure investment, that may give rise to new tax policies.

5. Debating the OECD’s BEPS action plan, although the Assistant Treasurer recognizes that “no country is an island.”

2.2 Key drivers of tax policy change

Specific areas of fiscal stimulus

- Repealing the carbon tax and the Mining Resources Rent Tax (MRRT)
- Investing in infrastructure
- Creating a new tax regime for managed investment trusts
- Delivering the last stage of the investment manager regime

Specific areas of fiscal consolidation

- Repealing various tax expenditure measures funded by the carbon tax and MRRT
- Tightening thin-capitalization safe-harbor ratios and implementing new integrity measures
- Denying R&D tax incentives for large companies with incomes of A$20 billion or more

2.3 Tax policy outlook for 2014 – summary

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2.4 Tax policy outlook for 2014 – detail

Corporate income taxes

Previously announced measures to protect the corporate tax base include:

- Tightening and improving the thin-capitalization rules to proceed as previously announced. This includes reducing the main safe harbor to broadly a 1.5:1 ratio of debt to assets (60% debt) from 1 July 2014.
- Changing the tax exemption of foreign non-portfolio dividends from 1 July 2014.
- Not proceeding with the widely criticized 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). However, the Government will “introduce a targeted anti-avoidance provision after detailed consultation with stakeholders” to “address certain conduit arrangements,” and consultation will be announced in the first quarter of 2014.
- Closing loopholes in the tax consolidation regime.
- Restricting deductions for exploration to genuine exploration activity.
- Improving the foreign-resident capital gains tax regime via withholding tax regime and technical amendments.
- Bringing into force the revised tax treaty with Switzerland.
- Closing loopholes in the Offshore Banking Unit regime.
- Denying R&D tax incentives for large companies with incomes of A$20 billion or more.

Positive changes include previously-announced:

- A new tax regime for managed investment trusts
- Investment manager regime extends 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

Taxes on wages and employment

- The Government will not proceed with a tax on investment earnings above A$100,000 per year on superannuation assets supporting retirement income streams.
- It will also not proceed with an adverse amendment to the fringe-benefits arrangements for cars.

VAT/GST/sales taxes

- Measures to restrict refunds of overpaid GST.

2.5 Political landscape

The new Coalition Government was elected in September 2013 for a three-year term. In the Senate (Upper House), Labor and the Greens have control until 30 June 2014. After that, the Government can seek the support of new senators not aligned with any of the established political parties.

A comprehensive white paper on tax reform is to be issued within two years. 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.

2.6 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 Arthur Sinodinos AO, Assistant Treasurer
- Steven Ciobo MP, Parliamentary Secretary to the Treasurer
- Senator Mathias Cormann, Minister for Finance
- Josh Frydenberg MP, Parliamentary Secretary to the Prime Minister
Tax administration leaders
- Chris Jordan AO, Tax Commissioner
- Neil Olesen, Second Commissioner (Law Design and Practice Group)
- Shane Reardon, Deputy Commissioner, Public Groups and International (PGI)
- Mark Konza, Deputy Commissioner, PGI – Corporate Tax Erosion and Acting Second Commissioner (Compliance Group)

2.7 Key tax policy changes in 2013
- Public reporting by Australian Taxation Office (ATO) of “taxes paid” by large companies: to start in 2015 reporting income and taxes of 2013–14 year
- New transfer pricing rules: stronger documentation, aligned to OECD guidance
- Monthly company tax pay-as-you-go (PAYG) installments for large companies
- Tighter GAAR
- Removal of capital gains tax (CGT) discount for foreign individuals

2.8 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan
Australia holds the G20 Presidency in 2014. Treasurer Joe Hockey has supported BEPS measures in both the G20 agenda and Australia’s own tax system.

The Assistant Treasurer has recognized the need to work in concert with other countries, saying that “no country is an island” and that multilateral initiatives are necessary.

The Government will proceed with the previous government’s announced measures, such as:
- Tightening and improving the thin-capitalization rules
- Changing tax exemption of foreign non-portfolio dividends from 1 July 2014
- Addressing tax withholdings for nonresident capital gains from 1 July 2016.

In addition, in relation to interest deductions for multinational businesses, it will introduce a targeted anti-avoidance provision to “address certain conduit arrangements.”

2.9 Pending tax proposals
In November and December 2013, the Government announced planned actions for 92 unenacted tax measures announced by previous governments. It will:
- Proceed with 34 and amend 3
- Abandon 53
- And 2 consolidation measures will be subject to a Treasury review in 2015

The company tax rate is to be cut by 1.5 percentage points to 28.5%, for all companies, from 1 July 2015. A 1.5% Paid Parental Leave Scheme levy will be imposed on companies with taxable incomes in excess of A$5 million (levied on the excess income amount) from 1 July 2015. The levy is not expected to attract franking credits.

2.10 Consultations opened/closed
- Consultation closed:
  - The Treasury scoping paper on risks to Australia’s corporate tax base arising from multinational business activities was released on 24 July 2013. While there is no clear evidence of Australia’s corporate tax base having already been eroded by BEPS activities, there are significant risks.

- Reviews completed in 2013 where a Government decision is pending include:
  - Taxing of PEs and their loans – LIBOR cap on intra-entity loans
  - PE attribution of profits – adopting the functionally separate entity approach

- Reviews started in 2013 for later reporting include:
  - 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 to undertake a post-implementation review and to identify possible tax arbitrage opportunities for report by June 2015
### Tax rates (2013–14)

#### 1.1 Key tax rates

<table>
<thead>
<tr>
<th>Tax Category</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax rate (national and local average, if applicable)</td>
<td>25%</td>
<td>25%(^1)</td>
<td>–</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>50%</td>
<td>50%(^2)</td>
<td>–</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>20%</td>
<td>20%(^3)</td>
<td>–</td>
</tr>
</tbody>
</table>

\(^1\) Art. 22 Austrian Corporate Income Tax Act.  
\(^3\) Art. 10 Austrian Value Added Tax Act.
2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

• Distributive justice: striving to minimize inequality using the tax system, especially via the taxation of assets
• Abuse of tax system
• Rehabilitation of the national budget
• Competition of the economical “Austria” (e.g., financial transaction tax (FTT), base erosion and profit shifting (BEPS)).

2.2 Fiscal consolidation vs. stimulus

Specific areas of fiscal stimulus

• Not applicable

Specific areas of fiscal consolidation

• Not applicable

2.3 Tax policy outlook for 2014 – 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>Lower</td>
<td>X</td>
<td>No change</td>
<td>Higher</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>Lower</td>
<td>X</td>
<td>No change</td>
<td>Higher</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>Lower</td>
<td>X</td>
<td>No change</td>
<td>Higher</td>
</tr>
</tbody>
</table>
2.4 Tax policy outlook for 2014 – detail

Corporate income taxes

› Group taxation
  › Goodwill amortization shall be limited for acquisitions that took place before 1 March 2014
  › The offset of foreign losses shall be limited with 75% (previously 100%) of Austrian taxable income
  › Besides corporations resident in the EU, only foreign entities resident in countries with which Austria has agreed on comprehensive administrative assistance may be included into a tax group

› Interest & royalties
  › Payments regarding interest and royalties to affiliated corporations that are resident in low-tax countries shall not be tax deductible
  › Manager salaries: annual manager salaries exceeding EUR 500,000 per individual shall no longer be tax deductible at the level of the business or the company

› Minimum corporate income tax for private limited companies: EUR 1,750 per annum (previously EUR 500)

Taxes on wages and employment

› Voluntary severance payments: Only EUR 13,590 (amount of 2014) of voluntary severance payments shall be taxed at the reduced tax rate of 6%

› Comparisons and dismissal payments: Comparisons and dismissal payments shall no longer be taxed at the reduced tax rate; they shall be subject to the “normal” tax rate

› Offset of tax loss carry forwards: Individuals shall offset tax loss carry forwards with 100% of the Austrian taxable income

VAT/GST/sales taxes

› No changes anticipated.

2.5 Political landscape

› In December 2013 the conservatives (ÖVP) and the social democrats (SPÖ) formed a “grand coalition” for the 21st legislative period of the Austrian Council. The new Government will focus on strengthening tax harmonization and tax simplification.

2.6 Current tax policy and tax administration leaders

Tax policy leader
› Minister of Finance: Michael Spindelegger

Tax administration leader
› Minister of Finance: Michael Spindelegger

2.7 Key tax policy changes in 2013

› Tax agreement between Austria and Liechtenstein for financial investments (bankable assets) and trusts (applicable from 1 January 2014).

› New Federal Fiscal Court replacing all Independent Administrative Senates and the Independent Fiscal Senate at a national level as of 1 January 2014.
2.8 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- Austria supports an international plan but has published no specific communications or legislation in relation to BEPS.

2.9 Pending tax proposals

- At the present time, the tax changes mentioned under 2.4 are pending tax proposals; they are estimated to be enacted around 1 March 2014.
- Austria will support a quick introduction of a Financial Transaction Tax (FTT). No Austrian legislation has been proposed in relation to an FTT.

2.10 Consultations opened/closed

- Please see the “Key tax policy changes in 2013” section on the previous page.
1  Tax rates (2013–14)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax rate (national and local average, if applicable)</td>
<td>33.9%</td>
<td>33.9%¹</td>
<td>–</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>50% (increased with a municipality surcharge²)</td>
<td>50% (increased with a municipality surcharge³)</td>
<td>–</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>21%</td>
<td>21%⁴</td>
<td>–</td>
</tr>
</tbody>
</table>

2  2014 tax policy outlook

2.1 Key drivers of tax policy change

The current key driver for tax policy in Belgium is the budgetary deficit, which is under significant pressure from European Union (EU) demands.

The Minister of Finance has also started an in-depth tax reform initiative (sometimes called “taxification”). At this moment, it is primarily brainstorming, but it has already led to ideas on how to simplify tax legislation that, in the future, may be transformed into legislation.

Finally, it should be underlined that 2014 is an election year in Belgium, which means that it is very unlikely that unpopular tax policy initiatives will be undertaken.

⁴ Worldwide VAT, GST and sales tax guide, EY, 2013.
2.2 Key drivers of tax policy change

Specific areas of fiscal stimulus

- Belgium is providing important tax incentives in the fields of:
  - Audiovisual investments (film industry)
  - R&D (patent box)
  - Energy-friendly investments

Specific areas of fiscal consolidation

- Not applicable

2.3 Tax policy outlook for 2014 – summary

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

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

<table>
<thead>
<tr>
<th>VAT/GST/sales tax burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
</tr>
<tr>
<td>X</td>
</tr>
<tr>
<td>No change</td>
</tr>
<tr>
<td>Higher</td>
</tr>
</tbody>
</table>
2.4 Tax policy outlook for 2014 – detail

Corporate income taxes

During the course of the past two years, effective corporate tax rates increased due to the abolishment or limitation of tax exemptions (e.g., capital gains on shares) and tax-deductible items (e.g., notional interest deduction). It is unlikely that new tax increases will be introduced in 2014, but some of the past changes may affect effective tax rates only as of 2014.

Belgium will have to answer a number of EU questions regarding dividend and interest withholding tax. Moreover, Belgium was condemned by the Court of Justice of the European Union (CJEU) for excluding foreign-based investments from the notional interest deduction.

The recently introduced fairness tax (see section 2.7) has some unintended consequences that will probably be corrected in upcoming legislation.

Taxes on wages and employment

At the end of 2013 some law changes were adopted in order to decrease the cost of employment, specifically for overtime in the restaurant sector and in the construction sector.

VAT/GST/sales taxes

No changes are expected.

2.5 Political landscape

In 2011, the different political parties of the different regions agreed to reform the political structure of the country by shifting more responsibilities (together with the financial competencies) toward the regions. This important reform will take several years to complete. Once the regions have secured these greater levels of independence to determine their fiscal policy, more differences between the regions will likely occur.

Because 2014 is an election year (and elections at the regional, national and European levels will take place at the same time), the different levels of government will likely try and avoid unpopular tax changes. If the political composition of the regional and national governments is the same, which is more likely when the elections fall together, it will be easier to come to political agreements on the concrete implementation of the political reform.

2.6 Current tax policy and tax administration leaders

Minister of Finance

› Koen Geens

Tax authority leader

› Jean-Marc Delporte
2.7 Key tax policy changes in 2013

- Limitation of notional interest deduction (lower rate and no carryforward) – the exclusion of foreign-based investments (that was challenged by the CJEU in 2013) has been replaced with an exclusion on the level of the taxable profit, which leads more or less to the same result
- Increase of dividend and interest withholding tax rate to 25% (exception for new share capital in small companies)
- Taxation of corporations on capital gains on shares (under conditions)
- Increase of withholding tax on liquidation bonus from 10% to 25% (as from 10 January 2014)
- Introduction of fairness tax of 5.15% on profits distributed by way of dividend, that, due to the notional interest deduction (NID) and deduction of carried forward losses, are not effectively taxed (as of tax year 2014)
- Increased fight against tax fraud by increasing power of investigation of tax authorities
- Introduction of “catch all” provision in nonresident taxation (in case Belgium has the taxation authority under the double tax treaty but has no particular provision to tax the revenue)

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

Belgium is certainly in favor of the BEPS Action Plan and is showing great willingness to implement the proposed measures once most members of the OECD and EU find a consensus. Both the Minister of Finance and the State Secretary for Social Security Fraud explicitly expressed their preferences for an automatic exchange of information. At this moment, no legislative initiative has been taken as Belgium awaits common OECD/EU positions on BEPS.

2.9 Pending tax proposals

- None.

2.10 Consultations opened/closed

- None.
## Tax policy

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### Tax rates (2013-14)

#### 1.1 Key tax rates

<table>
<thead>
<tr>
<th>Tax rate description</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top federal general corporate income tax rate</td>
<td>15%(^1)</td>
<td>15%(^3)</td>
<td>—</td>
</tr>
<tr>
<td>Provincial income tax rates vary by province</td>
<td>10% to 16%(^2)</td>
<td>10% to 16%(^4)</td>
<td>—</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>39% to 50%(^5)</td>
<td>39% to 50%(^6)</td>
<td>—</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>5% to 15%(^7)</td>
<td>5% to 15%(^8)</td>
<td>—</td>
</tr>
</tbody>
</table>

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\(^2\) Ibid.  
\(^3\) Ibid.  
\(^7\) The rate varies by province. VAT, GST and Sales Tax Guide, EY, 2013.  
\(^8\) The rate varies by province. VAT, GST and Sales Tax Guide, EY, 2013.
2014 tax policy outlook

2.1 Key drivers of tax policy change

• Since taking office in 2006, the present Government has focused on jobs and economic growth and ensuring that Canada's economic advantage today will translate into the long-term prosperity of tomorrow.

• To help keep taxes low and enhance the integrity of the tax system, the 2013 federal budget proposed a number of measures to:
  - Close tax loopholes
  - Address aggressive tax planning
  - Clarify tax rules
  - Reduce international aggressive tax avoidance
  - Combat international tax evasion
  - Clarify tax rules
  - Reduce international aggressive tax avoidance
  - Combat international tax evasion

The Government is committed to a balanced budget in fiscal year 2015 and is projecting a CAD3.7 billion budgetary surplus in fiscal 2015–16.

Eliminating the deficit will ensure that the federal debt-to-GDP (gross domestic product) ratio will fall to low, pre-recession levels by 2017–18 and that Canada’s total Government net debt-to-GDP ratio remains the lowest in the Group of Seven (G-7).

On 13 November 2013, Standard & Poor’s reaffirmed the Federal Government’s AAA credit rating.

2.2 Fiscal consolidation vs. stimulus

Specific areas of fiscal stimulus

• Competitive tax system
  - By reducing the federal general corporate income tax rate to 15% from 22.12% in 2007, eliminating federal capital tax and providing incentives to the provinces to eliminate their capital tax.

• Manufacturing and processing sector
  - The 50% tax depreciation (CCA) rate was extended for eligible assets acquired in 2014 and 2015. The half-year rule will apply, such that a full write-off may be claimed over three taxation years.

• Responsible fiscal management
  - By reducing program spending, paying down the debt and targeting tax loopholes, the Government is preserving its “low-tax” plan and seeking to maintain a reputation for responsible fiscal management.

Specific areas of fiscal consolidation

• Thin-capitalization rules
  - Thin-capitalization rules are extended to all trusts and nonresident corporations that conduct business in Canada, as well as partnerships having members that are such entities.

• Loss-trading transactions
  - New measures tighten up the acquisition of control (AOC) provisions related to corporations and extend the AOC rules to trusts.

• Synthetic dispositions
  - A financial arrangement with respect to a property that eliminates all or substantially all of the taxpayer’s risk for loss or opportunity for gain will be deemed to result in a disposition of the property at the time of entering into the arrangement, regardless of the form of the arrangement.

• Character conversion transactions
  - Certain financial arrangements that are designed to “convert” income-like economic returns into capital gains, through the use of derivative contracts, will be taxed as ordinary income.

• Foreign reporting requirements
  - These extend the normal reassessment period for a taxation year of a taxpayer by three years if the taxpayer has failed to report income from a specified foreign property on his or her annual income tax return and failed to properly file the Foreign Income Verification Statement (Form T1135).
2.3 Tax policy outlook for 2014 – summary

Corporate income tax burden

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

(No change)

(Moderate increase in federal/provincial effective tax rate for corporations having permanent establishments in British Columbia and New Brunswick)

Personal income tax burden

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

(Increase in the maximum personal marginal tax rate for residents of British Columbia and New Brunswick)

VAT/GST/sales tax burden

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

(Nova Scotia to lower the provincial component of Harmonized Sales Tax (HST) from 10% to 9% effective 1 July 2013)

2.4 Tax policy outlook for 2014 – detail

Corporate income taxes

- Statutory corporate income tax rates are not expected to change. The Government continues its ongoing review of transfer pricing practices, taxation of foreign affiliates, interest expense deductibility and tax deferral arrangements.

Taxes on wages and employment

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

VAT/GST/sales taxes

- Efforts to have remaining provinces harmonize with the federal system are ongoing, as is a review of the treatment of financial services.

2.5 Political landscape

- The next federal election is tentatively scheduled for 19 October 2015.
- On 7 November 2013, the Finance Minister launched the 2014 budget consultations, stating: “Our Government’s priority is to create jobs and opportunities for Canadians by protecting the economy and keeping taxes low. In the midst of a fragile and uncertain global economy, our Government remains squarely focused on creating jobs and securing economic growth, which includes balancing the budget in 2015.”
2.6 Current tax policy and tax administration leaders

**Tax policy leaders**
- Stephen Harper, Prime Minister
- Jim Flaherty, 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**
- Michael Horgan, Deputy Minister, Department of Finance
- Andrew Treusch, Commissioner and Chief Executive Officer, Canada Revenue Agency
- Bill Jones, Deputy Commissioner, Canada Revenue Agency
- Anne-Marie Lévesque, Assistant Commissioner, Appeals Branch, Canada Revenue Agency
- Richard Montroy, Acting Assistant Commissioner, Compliance Programs Branch, Canada Revenue Agency
- Brian McCauley, Assistant Commissioner, Legislative Policy and Regulatory Affairs Branch, Canada Revenue Agency

2.7 Key tax policy changes in 2013

**2013 federal budget**
- Bill C-4, Economic Action Plan 2013 Act, No. 2 (second reading 29 October 2013):
  - Loss-trading transactions: expansion of the acquisition of control (AOC) measures related to corporations and extension of the AOC rules to trusts
  - Synthetic dispositions: measures targeting certain financial arrangements that seek to defer tax or obtain other tax benefits by allowing a taxpayer to economically dispose of property while continuing to own it for income tax purposes
  - Character conversion transactions: measures targeting certain financial arrangements designed to convert income-like economic returns into capital gains through the use of derivative contracts
  - Thin-capitalization rules: extension of the rules to Canadian-resident trusts and nonresident corporations and trusts that carry on business in Canada or elect to be taxed on a net-income basis under section 216 of the Income Tax Act, as well as partnerships having members that are such entities

- 21 December 2012 tax technical changes: including anti-deferral rules for corporate partnerships, the section 55 anti-avoidance rules with respect to capital gains stripping, the wind-up rules, the CCA principal business exception for purposes of the rental property, leasing property and specified energy property rules, and the treatment of guarantee fees under the transfer pricing rules
- Bill C-60, Economic Action Plan 2013 Act, No. 1 (enacted 26 June 2013)
  - Tax depreciation (CCA) for manufacturing and processing (M&P) equipment: extension of 50% accelerated allowance on M&P machinery and equipment to eligible assets acquired in 2014 and 2015, and extension of the Class 29 election for M&P equipment that would otherwise be included in Class 43.1 or 43.2
- Bill C-48, Technical Tax Amendments Act, 2012 (enacted 26 June 2013)
  - Offshore investment fund property and nonresident trusts: expands the exemption for commercial trusts and creates a new nonresident trust regime where there are both Canadian and non-Canadian contributors to the trust
  - Foreign affiliates – surplus rules and other technical amendments: consequential changes to the Income Tax Regulations that flow from 2007 and 2009 amendments to the foreign affiliate provisions and various other amendments related to partnerships, foreign accrual property losses, restructuring of section 5905 of the regulations, the winding-up bump rules, the “fill-the-hole” rule, permanent establishments, the nontaxable portion of gains from dispositions of eligible capital property, foreign tax consolidation, and foreign oil and gas levies
- Foreign affiliates – reorganizations and distributions and other technical amendments: these primarily relate to sales and reorganizations of, and distributions from, foreign affiliates. The amendments include new hybrid surplus rules and upstream loan rules, as well as other changes related to reorganizations involving foreign affiliates; return of capital; a new anti-avoidance rule that reclassifies certain amounts from exempt to taxable surplus; foreign affiliate stop-loss rules; foreign accrual property income (FAPI) capital losses; safe income; surplus entitlement percentage; absorptive mergers; immigration of foreign affiliates to Canada; FAPI computation for insurance businesses and the fresh-start FAPI rules; and various amendments to the computation of income, gains and losses (including specific amendments regarding foreign-exchange gains and losses).
2.8 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- Canada is unlikely to be the first country to initiate any significant BEPS-related national changes, but it is also unlikely to take any action that could be seen as detracting from these initiatives. As part of the 2013 Economic Action Plan, the Government announced the repeal of the international banking center exemption regime with one stated reason being that such centers resemble the preferential tax regimes in some tax havens. Canada has also enacted tighter thin-capitalization rules and enacted “foreign affiliate dumping” (FAD) rules to counter base erosion of Canadian corporations controlled by foreign corporations.

- 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.

2.9 Pending tax proposals

- Foreign affiliate dumping (FAD) rules: The 16 August 2013 draft legislative proposals are revisions to the rules that were first announced as part of the 2012 federal budget. In most cases, the proposals are retroactive to the 29 March 2012 federal budget date.

- 12 July 2013 technical amendments: These draft legislative proposals apply mainly to investments in foreign affiliates. They include outstanding comfort letters, other relieving measures and some tightening of the foreign affiliate provisions.

- Canadian-based banks with foreign affiliates: On 27 November 2012, draft legislative proposals were released for consultation relating to the “base erosion” rules to alleviate the tax cost of using excess liquidity of their foreign affiliates in their Canadian operations and to ensure that certain securities transactions undertaken in the course of a bank’s business of facilitating trades for arm’s length customers are not inappropriately caught by the base erosion rules.
2.10 Consultations opened/closed

**Open**

- Treaty shopping: the intention of this consultation process is to examine a range of possible approaches to address the practice of treaty shopping into Canada. The consultation paper consists of nine parts, and stakeholders are encouraged to respond to seven specific questions. The closing date for comments was 13 December 2013.

**Closed**

- Life Insurance Policy Exemption Test: a review of criteria established almost 30 years ago to determine whether an insurance policy is an exempt policy. The closing date for comments was 6 November 2013.

- Foreign affiliate dumping (FAD) rules: revisions to the FAD rules that were enacted on 14 December 2012. The closing date for comments was 15 October 2013.

- Foreign affiliate and other technical amendments: including calculation of foreign accrual property income (FAPI), interaction of foreign affiliates with partnerships and hybrids, residence of international shipping corporations. The closing date for comments was 13 September 2013.
1 | Tax rates (2013-14)

1.1 Key tax rates

<table>
<thead>
<tr>
<th>Tax type</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax rate (national and local average, if applicable)</td>
<td>20%&lt;sup&gt;1&lt;/sup&gt;</td>
<td>20%&lt;sup&gt;2&lt;/sup&gt;</td>
<td>—</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>40%&lt;sup&gt;3&lt;/sup&gt;</td>
<td>40%&lt;sup&gt;4&lt;/sup&gt;</td>
<td>—</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>19%&lt;sup&gt;5&lt;/sup&gt;</td>
<td>19%&lt;sup&gt;6&lt;/sup&gt;</td>
<td>—</td>
</tr>
</tbody>
</table>

2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

- Michelle Bachelet, the recently elected President (taking office in March 2014), has promised a major overhaul to the Chilean tax system, including a gradual raise in the corporate tax rate from 20% to 25% and the also-gradual overhaul of the “retained profits registry” system (FUT), which allowed shareholders to defer personal taxation.
- Increasing tax total collection to fund social spending is seen as a priority.
- Tax competitiveness is not a driver, except in some particular niches, such as capital markets.
- Tax consolidation is becoming more important.

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<sup>1</sup> 2013 Worldwide corporate tax guide, EY.
<sup>2</sup> Ibid.
<sup>3</sup> 2013-14 Worldwide personal tax guide, EY.
<sup>4</sup> Ibid.
<sup>5</sup> 2013 VAT, GST and sales tax guide, EY.
<sup>6</sup> Ibid.
Loopholes are being targeted and closed in recent changes to the law, with more critical changes to be expected in the tax reform announced by the new Government.

2.2 Fiscal consolidation vs. stimulus

Specific areas of fiscal stimulus

- Capital gains for operations made in the stock exchange exempt of corporate taxation (with requirements)
- Transaction on Treasury securities exempt of corporate taxation (with requirements)
- Tax credits for families’ education expenses.
- Tax cuts for individuals (except higher-tier taxpayers)
- Lower stamp tax rates (but with the possibility to increase them again during the next government)

Specific areas of fiscal consolidation

- Increased corporate tax rate (not yet in law) expected to increase again during the next government
- Strict and long-reaching indirect transfer rules
- Penalties for disallowed corporate expenses benefiting individuals
- Higher taxes on Tobacco
- Specific taxes on the consumer sale of oil derivatives (fuel)

2.3 Tax policy outlook for 2014 – summary

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate income tax burden</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Personal income tax burden</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VAT/GST/sales tax burden</td>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2.4 Tax policy outlook for 2014 – detail

Corporate income taxes

- The newly elected Government has committed to gradually increasing (over a four-year period) the statutory corporate tax rate from 20% to 25%, as well as to introducing substantial changes to the retained profits registry system (FUT), which allowed shareholders to defer personal taxation until profits were effectively distributed.
- The special regime for foreign investors (Decree Law N° 600) has also been proposed to be repealed. Decree Law N° 600 is a contract that provides for tax stability for investments higher than USD5m for those foreign investors who decide to enter into this agreement with the Chilean Government. This agreement also grants free access to foreign currency.
- Furthermore, the reform would include the introduction for the first time in Chilean legislation of a “substance-over-form rule.”
- A number of other measures seek to increase collection, close loopholes and help small businesses to mitigate the impact of the tax reform. These measures have been proposed in broad terms only.

Taxes on wages and employment

- In relation to the increase in corporate taxation, tax rates on wages and employment have been proposed to be lowered, including reducing the top rate of 40% to 35%.

VAT/GST/sales taxes

- No VAT reforms or rate changes are expected.

2.5 Political landscape

- The political and social landscape of 2011 to 2013 was characterized by the many public protests faced by the outgoing government of President Piñera, despite the undisputedly healthy numbers of Chile’s economy.
- Protests were driven by several subjects including the distribution of income, regional development and, above all, education, all of which drove the opposition candidate (supported by an electoral coalition ranging from the Christian Democrat Party to the Communist Party) to commit to several structural changes, mainly: (a) a new constitution and electoral reform, (b) tax reform and (c) education reform.
- Michelle Bachelet (who was President from 2006 to 2010) was elected with over 60% of the vote (albeit with an unprecedented level of abstention), while her coalition (Nueva Mayoría) obtained a clear majority in Congress.
- Therefore, it is highly expected that the above-mentioned tax reform will indeed be introduced to Congress for discussion during Ms. Bachelet’s tenure.
- Taxes will certainly be at the core of public discussion throughout 2014.
2.6 Current tax policy and tax administration leaders

**Tax policy leaders**
- Felipe Larraín, Minister of Finance
- Alberto Arenas, Chief Economic Advisor to Ms. Bachelet, believed by many to be the next Minister of Finance
- Miguel Zamora, Tax Advisor of the Minister of Finance (drafted the 2012 tax reform)
- Ricardo Escobar, former IRS Commissioner

**Tax administration leader**
- Alejandro Burr, IRS Commissioner

2.7 Key tax policy changes in 2013

- After 2012’s tax reform, no major tax policy changes were made during 2013.
- However, in 2013, the new specialized tax courts, accompanied by a new procedure, entered into effect in Santiago. (The system was implemented gradually in other regions, Santiago being the last.)
- A bill was also introduced to Congress (where discussion is still pending) to address several matters, including the intensification of electronic invoicing, modifications to the foreign tax credit system (the introduction to carry forward unused tax credits), and other minor issues.

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

- The OECD action plan on BEPS has not been part of public debate outside academic and specialized circles.
- The Chilean Government has not made a formal statement on the issue.

2.9 Pending tax proposals

- A bill was introduced to Congress in 2013 (discussion still pending) to address several matters, such as intensification of electronic invoicing, modifications to the foreign tax credit system (basically, the introduction of the ability to carry forward unused tax credits), and the lowering of the stamp tax rate.

2.10 Consultations opened/closed

- None; Chilean legislation in general does not contemplate formal consultation processes.
### 1.1 Key tax rates

<table>
<thead>
<tr>
<th>Tax rate description</th>
<th>2013</th>
<th>2014</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>45%(^3)</td>
<td>45%(^4)</td>
<td>–</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>17%(^5)</td>
<td>17%(^6)</td>
<td>–</td>
</tr>
</tbody>
</table>

\(^1\) 2013 Worldwide corporate tax guide, EY.
\(^2\) 2013 Worldwide corporate tax guide, EY.
\(^3\) 2013-2014 Worldwide personal tax guide, EY.
\(^4\) 2013-2014 Worldwide personal tax guide, EY.
\(^5\) 2013 Worldwide VAT, GST and Sales tax guide, EY.
\(^6\) The Interim Regulations of the People’s Republic of China on Value-added Tax (effective as of 1 January 1994) provides VAT rates of 17%, 13% and 0% (for specific exported goods). The 17% rate applies to most taxable goods. Additionally, new rates of 11% and 6% have been introduced for certain industries as part of the pilot program of the indirect tax reform since 1 January 2012 (in Shanghai first and selected areas later). The 11% rate applies to the transportation services industry, and 6% applies to most of the modern service industry. The reform has been gradually rolling out nationally.

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2.1 Key drivers of tax policy change

**Macro economy**
- The Third Plenary Session of the 18th Community Party of China Central Committee (Third Plenum) was closed on 12 November 2013. The Third Plenum announced the broad policy plan of China’s Government for the next decade. This is seen as a key test of President Xi Jinping’s commitment to economic reform.
- The Third Plenum stated the general objective of this Government is to improve and develop socialism with Chinese characteristics and progress the modernization of the country’s governance system and economic capabilities.
- Key areas of the plan include:
  - Markets to play a decisive role in resource allocation
  - Continued dominance of State-Owned Enterprises (SOEs)
  - Reforming the finance sector and tax system
  - Free trade zones expanded and restricted industries opened up
  - Narrowing the rural-urban divide
  - Establishing a State Security Committee
  - Strengthening judicial independence
  - Environmental protection
- The CCCPC reiterated that progressive and sustainable economic growth along with a more harmonious society will be its main targets. The planned rate of GDP growth was set at 7.5% till 2020 (year-over-year basis), which may be observed as the leadership's platform for a more sustainable pace of expansion after years of double-digit growth.
- It was reported that the CCCPC will drive GDP growth through a second wave of urbanization, migrating China from a manufacturing-focused economy to a consumption and service economy. China will also encourage outbound investment by domestic enterprises.

**Domestic investment policies**
- The Third plenum plans for more stable and transparent foreign investment policies. Similar to the pilot policies in the Shanghai free trade zone, a Pre-establishment National Treatment (PENT) mechanism would be gradually introduced for foreign investment. The PENT aims to provide equal treatment for foreign investors during establishment, acquisition and expansion as that of domestic enterprises. A "Negative List" would also be adopted to lay out foreign invested activities to which national treatment does not apply, e.g., restricted and prohibited industries. The Government plans to gradually open the following sectors to foreign investment:
  - Finance industry
  - Cultural industry
  - Medical services
  - Nursery and senior care services
  - Architectural designing services
  - Accounting and audit services
  - Trading and logistics services
  - E-commerce

**Tax perspective**
- The Third Plenum approved plans to expand free trade zones based on the current pilot free trade zone program in Shanghai. Planned reforms of the tax system include a gradual increase in direct taxes. It further highlights reform of the following taxes:
  - **Value-added Tax (VAT):**
    - Further promoting VAT reform to replace Business Tax (BT)
    - Simplifying tax rates
  - **Consumption Tax (CT):**
    - Adjusting taxable scope: Add products related to high energy consumption, high pollution and certain luxuries into CT to the taxable scope.
    - Adjusting taxable level
    - Adjusting tax rate

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Individual Income Tax (IIT):
- Gradually establish comprehensive and classification IIT system
  
Other taxes:
- Expedite the formulation of the Real Estate Tax law
- Promote resource tax reform
- Change environmental protection fee to environmental protection tax
  
The tax landscape on the whole is predicted to be relatively balanced. To support the national policy, it is expected that the State Administration of Taxation (SAT) will continue in 2014 and beyond to facilitate China’s tax reforms, including:
- VAT reform on selected industries, which was first launched in Shanghai in 2012 and has been gradually expanded. The latest addition was the railway and postal industry with effect from 1 January 2014. This reform may be expanded to all industries in the future.
- Individual income tax reforms
- Potential property tax reforms
- Resource/carbon tax reforms
  
In July 2013, the SAT emphasized in its nationwide administrators meeting that its focus will be to protect China’s interest in the global tax environment and to resolve international tax matters involving China. The SAT reiterated its focus on China’s intentional taxation administration, including:
- Determining China-sourced income
- Improving implementation rules for GAAR and nonresidents taxation administration
- Servicing and administering China outbound investments and
- Participating in the international tax community (including the OECD BEPS Action Plan)  

2.2 Fiscal consolidation vs. stimulus

Specific areas of fiscal stimulus
- China’s overall focus is to support both inbound and outbound investments in the areas encouraged by the State.
- Geographical incentives:
  - Tax and other policy incentives to enterprises in the western areas of China, Qianhai, Pingtan, Hengqin and the Shanghai free trade zone
- Industrial incentives:
  - High-tech, transportation, power, hydro, postal and TV broadcasting
  - Others:
    - More preferential tax measures will be implemented to encourage the growth of small and micro businesses to boost employment.

Specific areas of fiscal consolidation
- Carbon trading/tax
  - Control pollution and resource exploration. Resources tax reform was introduced in 2011, and China is actively pursuing carbon-trading pilot programs to potentially introduce a carbon tax in the near future.

10 综合与分类相结合的个人所得税制
12 Ibid.
13 “State Administration of Taxation recently held the tax system to strengthen international tax management work conference,” SAT, www.chinatax.gov.cn/n2735/n2834/n2835/c148772/content.html, 29 July 2013.
Individual income tax (IIT)
Individual income tax reform has been discussed, but there have been no announcements.

Property tax
The property tax pilot program was introduced in 2011 in Shanghai and Chongqing. China will continue to explore measures nationwide to cool down the overheated property market in China, particularly in eastern China.18

2.3 Tax policy outlook for 2014 – summary

The overall indirect tax burden will likely be lowered because China has converged VAT and Business Tax (BT), which allows for input tax credit under the VAT scheme that would not have been 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 RMB90 billion (approximately US$15 billion) as of June 2013.19 After the nationwide expansion of VAT reform beginning August 2013, the tax burden was reduced by more than RMB10 billion (approximately US$1.6 billion) in the first month, with a yearly prediction of RMB120 billion (approximately US$20 billion).20


2.4 Tax policy outlook for 2014 – detail

**General**
- A balanced tax policy will be the main focus for 2014 for tax administrators. China is looking for stable growth in tax revenue, without letting tax revenue drive tax policy. The Ministry of Finance (MOF) released the tax revenue figures for the three quarters of 2013, showing growth of 7.9% over the year-ago period.\(^{21}\) The MOF stated on its website that the lower growth is partially because of structural reform to the tax system.

**Corporate income taxes**

**Western region and the new Silk Road**
- In September 2013, the leader proposed the idea of a new Silk Road to Middle Asia.\(^ {22}\) It is expected that further specific tax measures will be implemented.
- Preferential tax arrangements are involved, including reduced CIT rate of 15% for qualified industries.\(^ {23}\)

**Shanghai pilot free trade zone**\(^ {24}\)
- Tax and other incentives for the Shanghai free trade zone.\(^ {25}\)
  Currently only a general plan is available, and more detailed implementation rules are expected to be released.

**Scientific developments**
- A more favorable and beneficial tax system is expected to be in place for developments in science and research and development.

**GAAR**
- The SAT has been working on GAAR implementation rules and is ambitious in this area. Location-specific advantages, treaty shopping and restructuring without reasonable commercial purpose will be closely monitored and challenged in China.

**Taxes on wages and employment**
- Measures to strengthen the tax reporting, collection and administration on “high-income individuals,” especially on expatriate employees, include:
  - More self-examination or tax audits by local tax bureaus targeting companies with foreign nationals working in China
  - More special audits, such as in the area of examining tax-efficient benefits programs for expatriate employees
  - More input required into background information of expatriate employees on return filing to enhance the tax administration

**Launch of the value-added tax (VAT) pilot arrangements on nationwide basis**\(^ {26}\)
- New VAT pilot policies announced in December 2013 included the following changes that reveal the Government’s efforts to standardize and upgrade the tax system and reduce taxpayers’ burdens:
  - The scope of VAT taxable services has been expanded to cover railway and postal services.
  - Preferential tax policies have been enhanced.

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\(^{23}\) As part of the China’s push to stimulate the development growth of the western region, National Development and Reform Commission (NDRC) issued the 2012 western region development report and 2013 work arrangement on 8 August 2013; Caishui [2011] No. 58.


2.5 Political landscape

- With the once-in-a-decade change in leaders taking place in November 2012, the stage is now set for the new leaders to focus on stability and economic reform with quality and efficiency to achieve progressive sustainable growth.

- The Third Plenary Session of 18th CCCPC was held from 9–12 November 2013. The Decision which was published after the Third Plenum and seen as a landmark policy document provides a detailed roadmap for China’s further development. The Decision amounted to a blueprint for reform and proposed a variety of experiments in the face of a number of major challenges China currently faces, including faltering economy, a widening wealth gap and deteriorating environment.27

- China’s leaders focus on growth has continued to drive urbanization with the rate reaching 52.57% in 2012.28 Significant investments in infrastructure, housing, education and medical supports are required in order to support this structural change in China’s economy.

2.6 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 laws and regulations, including 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, which is a ministry-level department directly under the State Council, is the highest tax administration authority in China. SAT oversees 12 functional departments and the auditing bureau.29

- Wang Jun is the new Commissioner General of the SAT appointed in the NPC in March 2013.

2.7 Key tax policy changes in 2013

**Withholding tax – update on beneficial ownership (BO) interpretation**

- Circular Shuizonghan 165, a ruling regarding BO assessment for Hong Kong tax residents, has been announced, reiterating the focus of “totality of facts” during the assessing process in order to access reduced withholding taxes under a treaty.31

**CIT – R&D super deduction incentive: circular on qualified research and development expenses eligible for super deduction**

- Resident enterprises have been granted the ability to deduct 150% of qualified R&D expenses for CIT purposes since the CIT law was enacted in 2008. The qualified categories were expanded by Circular Caishui [2013] No. 70, effective from 1 January 2013.33

**Secondment – the permanent establishment (PE) risk**

- In April 2013, the SAT issued an announcement to address the PE assessment under a cross-border secondment arrangement. It emphasized that the “risk and responsibility” analysis should be the key assessment factor and set forth five negative factors that may trigger a PE presence in China. The party who actually bears the risk and responsibilities of the secondees would be the key to determine the PE issue.34

**Advance pricing agreement (APA) – 2012 report**

- In August 2013, China published its 2012 APA report covering 2005 to 2012. China signed 85 APA agreements, 56 of which were unilateral and 29 of which were bilateral. Of all signed APAs, 85% relate to manufacturing.

- The ongoing shift from unilateral to bilateral APAs is a noticeable trend.

- The report reflects the SAT’s commitment to increasing its resources in transfer pricing to allow taxpayers to enter into APAs.

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30 Shuizonghan [2013] No. 165.

31 Shuizonghan [2013] No. 165; “Hubei and other provinces on the mainland and Hong Kong tax arrangement execution terms involving the beneficial owner of the dividends opinions on handling cases,” SAT, http://www.chinatax.gov.cn/n8136506/n8136593/n8137537/n8138502/12312849.html, 12 April 2013.


33 Issued in September 2013.


Double tax agreements (DTAs)\textsuperscript{36}
\begin{itemize}
\item As of January 2014, China has signed 101 DTAs (including the Double Tax Arrangement with Hong Kong and Macau). The new China-UK protocol entered into force on December 13, 2013 and effective in respect of China for profit, income and capital gains arising in any tax year beginning on or after January 1, 2014.\textsuperscript{37}
\item Four DTAs are in the process of renegotiation: Japan, Canada, Germany and Russia. China has also started negotiations for a new DTA with Chile.
\end{itemize}

Tax information exchange agreements (TIEAs) development\textsuperscript{38}
\begin{itemize}
\item By the end of 2013, China has signed nine TIEAs: Bahamas, British Virgin Islands, Isle of Man, Jersey, Guernsey, Bermuda, Argentina, Cayman Islands and San Marino. Its expected that China will further expand its TIEA network.
\end{itemize}

The mutual agreement procedures (MAPs)
\begin{itemize}
\item The implementation measures for the MAP of the DTA were announced in September 2013 and took effect on 1 November 2013.\textsuperscript{39} This measure aims to provide a standardized and efficient MAP process.
\end{itemize}

2.8 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan
\begin{itemize}
\item China signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters on 27 August 2013 which will facilitate international cooperation among tax authorities to improve their ability to tackle tax evasion and avoidance.\textsuperscript{40}
\item China is not an OECD member; however, as a G20 member, China supports BEPS and its action plans.\textsuperscript{41} Among the 15 action plans, the SAT maybe be more actively involved in:
\begin{itemize}
\item Addressing the tax challenges of the digital economy
\item Neutralizing the effects of hybrid mismatch arrangements
\item Strengthening CFC rules
\item Limiting base erosion via interest deductions and other financial payments
\item Countering harmful tax practices more effectively, taking into account transparency and substance
\item Preventing treaty abuse
\item Preventing the artificial avoidance of PE status
\item Addressing transfer-pricing-related action plans
\end{itemize}
\item China is sending representatives to all of the 15 BEPS Action Plan Task Forces.
\end{itemize}

\textsuperscript{37} Subject to ratifications: the Netherlands Protocol, Switzerland Protocol as well as new DTAs with Ecuador, Uganda and Botswana. About the new China-UK protocol: http://www.chinatax.gov.cn/n6669073/n6669103/n11810674/files/n12253413.pdf
2.9 Pending tax proposals

**General anti-avoidance rules (GAAR)**
- Detailed GAAR implementation rules are currently being internally reviewed and the SAT may also consider introducing an independent panel or committee review for GAAR cases.
- The supplementary to Guoshuihan [2009] No. 698 that is being drafted is expected to include provision of safe harbor rules for internal reorganizations. The draft is still subject to the SAT’s internal review process.

**Transfer pricing**
- In a separate chapter on China’s transfer pricing practices in the United Nations Transfer Pricing Manual, China has indicated it will use location-specific advantage concepts to interpret arm’s length principles:
  - Location savings
  - Market premiums
  - Exit charges (business conversion)
- We expect more guidance to be released by the SAT in the future.

**Partnership tax law**
- The SAT has been drafting taxation rules for partnerships.

**Carbon tax**
- To meet the commitment of promoting a “greener” environment stated in 12th Five-Year Plan, seven carbon trading pilot programs have been introduced in China. The NDRC considers that the pilot programs, together with international experience, will help the Government to discover whether China should have a carbon tax or carbon trading or both.

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2.10 Consultations opened/closed
- Not applicable.

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42 The submission has been included the draft text of the Transfer Pricing Practical Manual for Developing Countries released by the United Nations in October 2012 (www.un.org/esa/ffd/tax/eighthsession/index.htm).
## Tax rates (2013-14)

### 1.1 Key tax rates

<table>
<thead>
<tr>
<th>Top corporate income tax rate (national and local average, if applicable)</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>19%</td>
<td>19%&lt;sup&gt;1&lt;/sup&gt;</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>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic tax rate of 15% applied on a “super-gross salary” (i.e., including social security and health insurance paid by the employer), leading to an effective tax rate of approximately 20%</td>
<td>21%</td>
<td>21%&lt;sup&gt;4&lt;/sup&gt;</td>
<td>–</td>
</tr>
<tr>
<td>Solidarity surcharge of 7% for employment/business income exceeding approximately €48,000 per year&lt;sup&gt;2&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Standard value-added tax (VAT) rate</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>21%</td>
<td>21%&lt;sup&gt;4&lt;/sup&gt;</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

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2.1 Key drivers of tax policy change

- Key drivers will vary depending on the post-election negotiations among the political parties and on who would form the new government.
- Generally, the prevailing driver is fiscal consolidation and resource collection to finance important reforms (in particular a pension reform).
- Other drivers include:
  - More intensive combat against tax fraud and tax evasion
  - 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 Key drivers of tax policy change

Specific areas of fiscal stimulus

- Although the key concern is currently around fiscal consolidation, certain tax instruments are maintained and planned to stimulate the economy, primarily the following:
  - Investment incentives to support, in particular, manufacturing production and technology centers (provided in various forms such as corporate income tax relief for 10 years, job creation grants, grants for training and retraining of employees, and cash grants on capital expenditures for strategic investments)
  - Double deduction of research and development costs from tax base
  - Grants for student jobs

Specific areas of fiscal consolidation

- Fiscal consolidation is a prevailing trend running through all areas of current fiscal policy. Also, certain steps effectively increasing a tax burden have been introduced recently (effective as of 2013), for example:
  - An increase in VAT rates (standard rate from 20% to 21%, reduced rate from 14% to 15%)
  - Introduction of a “solidarity surcharge” of 7% for employment/business income exceeding approximately €48,000 per year
  - Abolition of the maximum cap for health insurance contribution, which is currently withheld at the rate of 13.5%
2.3 Tax policy outlook for 2014 – 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>X</td>
<td>Higher</td>
</tr>
<tr>
<td>VAT/GST/sales tax burden</td>
<td>Lower</td>
<td>X</td>
<td>Higher</td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2014 – detail

Corporate income taxes

Extensive corporate and personal income tax reform reflecting the recodification of the Civil Code and Act on Corporations (primarily new civil law terminology and definitions as well as newly introduced civil law features, e.g., trusts).

The main changes of the approved Income Tax Law amendments for 2014 are as follows:

- Higher research and development (R&D) incentive in the form of an improved R&D credit including a year-on-year increase in R&D costs eligible for a 210% deduction (currently a 200% deduction regardless of year-on-year increase) and also the broadening of the types of costs qualifying for R&D credit; external services related to R&D provided by public R&D institutions (universities and research institutes) may now be included in qualifying expenses, while expenses on certification of R&D results may not be included in qualifying expenses.
- Higher allowance for qualifying gifts with a deduction of up to 10% of the tax base (increase from 5%).
- Income of individuals from the sale of securities will be exempt if the holding period exceeds three years instead of the current six months (with exceptions).
- Corporate income tax for investment funds remains at 5% and withholding tax on dividends from investment funds remains at 15% (before any potential reductions), contrary to previous drafts which proposed a complete overhaul of the investment funds taxation.
- The previously discussed and anticipated broad extension of the dividend withholding tax exemption was not approved. The current dividend participation exemption rules remain basically intact.

Taxes on wages and employment

- The current six-month test for the exemption of income earned by an individual from the sale of securities will be replaced by a three-year term. Income from the sale of securities and from shares allotted to a unit trust certificate during the abolition of a unit trust will be exempt if such income does not exceed CZK100,000 (approximately €400,000) in total.

VAT/GST/sales taxes

- Changes related to the recodification of the Civil Code and Act on Corporation, mostly terminology
- New Real Estate Transfer Tax Act: comprehensive amendments effective from 2014
- Abolition of the Inheritance and Gift Tax Act
2.5 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 law and initiates the legislative process.

During 2013, the Parliament was dissolved, and in October 2013, early elections took place, during which no party gained a majority and could be named a clear winner. Negotiations regarding a possible coalition took place in December 2013 and an agreement was reached on the formation of a three-party coalition government, heralding a center-left government in power.

Amendment of tax law related to extensive recodification containing key changes and proposal of the new Real Estate Transfer Tax Act was approved by the newly elected Parliament.

2.6 Current tax policy and tax administration leaders

**Tax policy leaders** (interim government — will likely be changed once coalition negotiations are finalized)
- Jiří Rusnok, Prime Minister
- Jan Fischer, Minister of Finance
- Ladislav Mincic, Deputy Minister of Finance – Taxes and Customs

**Tax administration leader**
- Jan Kníze, General Director – General Financial Directorate

2.7 Key tax policy changes in 2013

- Withholding tax was increased from 15% to 35% on the income sourced in the Czech Republic by tax nonresidents from countries outside the European Union/European Economic Area that have not concluded a tax treaty with the Czech Republic (the application may be potentially wider in practice as the 35% withholding tax could also apply if the Czech income payer is unable to prove the tax residency status of the respective beneficial income owner). This affected almost all types of income subject to withholding tax (e.g., dividends, capital gains, interest and royalties).

- There was an overall reorganization of tax administration on local levels with an aim to enhance the functionality of tax audits and specialized tax audit activities.

- There is a solidarity surcharge of 7% for employment/business income exceeding approximately €48,000 per year, effective temporarily for the years 2013 to 2015.

- The health insurance contribution maximum cap for the years 2013 to 2015 (this affects employees, employers and entrepreneurs) was abolished. The total health insurance rate is 13.5%.

- Pension reform: the new law introducing the second pillar (retirement savings) and the modified third pillar (pension savings) came into force as of 1 January 2013 (the first pillar is a state pension system that remains unchanged). The new second pillar has the character of a capital funded pillar carried out by special collective investment companies (pension funds). The participation in the second pillar is voluntary with an opt-out clause.

- The reduced VAT rate was increased from 14% to 15%, and the standard VAT rate has increased from 20% to 21% for years 2013 to 2015 (harmonization of both rates at 17.5% is expected as of 1 January 2016).

- The real estate transfer tax has increased from 3% to 4%.

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

- The OECD BEPS Action Plan is subject to continuous review and discussions. Due to the election in October 2013, further developments will likely depend on the post-election situation.

2.9 Pending tax proposals

- A new tax law introducing important changes was approved. No pending tax proposals.

2.10 Consultations opened/closed

- Not applicable
1 | Tax rates (2013-14)

1.1 Key tax rates

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>25% (including local income taxes)</td>
<td>24.5% (including local income taxes)</td>
<td>-2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Top individual income tax rate (national and local average, if applicable)</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>56.5% (including local income taxes)</td>
<td>56.5% (including local income taxes)</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Standard value-added tax (VAT) rate</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>25%</td>
<td>25%</td>
<td>-</td>
</tr>
</tbody>
</table>

2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

- Some focus is on fiscal consolidation but more focus is currently on increasing employment and economic growth.
- The competitiveness of Danish businesses is increasing.
- Focus has been put on collecting revenues from large international groups through, in particular, transfer pricing adjustments and withholding taxes.
2.2 Key drivers of tax policy change

Specific areas of fiscal stimulus
- Corporate tax rate

Specific areas of fiscal consolidation
- Not applicable

2.3 Tax policy outlook for 2014 – 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 2014 – detail

Corporate income taxes

- Standard corporate tax rate lowered to 24.5% in 2014
- Strong focus on collecting taxes from large international groups, including through transfer pricing adjustments, withholding taxes (beneficial ownership) and deductibility of costs

Taxes on wages and employment

- No known changes.

VAT/GST/sales taxes

- No known changes.

2.5 Political landscape

Since 3 October 2011, the Danish Government has consisted of the Social Democrats, Social Liberals and Socialist People’s Party. From a tax policy perspective, the political parties in the current Government have historically been opposed to lowering taxes. However, in 2012, the Government passed a number of tax cuts for individuals in an attempt to stimulate the economy. The next election is expected in 2015.

2.6 Current tax policy and tax administration leaders

Tax policy leaders

- Helle Thorning-Schmidt, Prime Minister
- Bjarne Corydon, Minister of Finance
- Holger K. Nielsen, Minister of Taxation

Tax administration leader

- Jens Brøchner, Head of the Danish Tax Administration

2.7 Key tax policy changes in 2013

- A bill was adopted under which the standard corporate tax rate will gradually be reduced from 25% to 22%.
- Capital gains tax on shares was abolished for companies (with very few exceptions).
2.8 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- The Danish Tax Ministry has not made a public statement regarding the OECD BEPS Action Plan.
- No new legislation has been proposed in relation to BEPS. Much of what is proposed under BEPS has already been implemented in Denmark.

2.9 Pending tax proposals

- Proposal regarding tax-exempt restructurings with companies resident in the European Economic Community (EEC)
- Proposal regarding exit taxation in connection with transfer of assets to EU/EEC countries
- Proposal regarding harmonization of hydrocarbon taxation
- Proposal regarding collection of taxes
- Proposal regarding pension taxes
- Proposal regarding extended collaboration with the United States in connection with international taxation.

2.10 Consultations opened/closed

- Public consultations are held for every proposal.
1.1 Key tax rates

<table>
<thead>
<tr>
<th>Top corporate income tax rate (national and local average, if applicable)</th>
<th>24.5%</th>
<th>20%¹</th>
<th>-18.4%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>31.75%</td>
<td>31.75%</td>
<td>-</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>24%</td>
<td>25%</td>
<td>-</td>
</tr>
</tbody>
</table>

2. 2014 tax policy outlook

2.1 Key drivers of tax policy change

- Balancing the Finnish budget and Finland’s public economy
- Growing concerns regarding the competitiveness of Finland and the Finnish tax system

¹ No government bill has been enacted at the time of publication.
2.2 Key drivers of tax policy change

Specific areas of fiscal stimulus

- Corporate taxation, specifically the headline CIT rate

Specific areas of fiscal consolidation

- Indirect taxes such as energy taxes, soft drink tax, tobacco tax and alcohol tax

2.3 Tax policy outlook for 2014 – summary

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

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

<table>
<thead>
<tr>
<th>VAT/GST/sales tax burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower X No change Higher</td>
</tr>
</tbody>
</table>
2.4 Tax policy outlook for 2014 – detail

Corporate income taxes

- The statutory corporate income tax rate will be 20% in 2014, a reduction of 4.5 percentage points from the 2013 rate.
- New restrictions on interest deductibility in relation to corporate taxation are effective 1 January 2013, but applicable from tax year 2014.
- Long-term (i.e., usage time of at least 10 years) movable fixed assets will be deducted with straight-line depreciations, asset by asset, over their economical usage time (currently 25% per year on a pooled basis).
- The deductibility of entertainment expenses will be abolished (currently 50% deductible).
- Dividends received by a non-listed company from a listed company will be fully taxable (at this time only 75% of this kind of dividends are taxable), unless the recipient of the dividend owns at least 10% of the dividend payer. Dividends received on the shares belonging to the investment assets of financial institutions are, in the main, fully taxable.
- A windfall tax will be adopted (real estate type of tax) on plants used to create nuclear or hydro power.

Taxes on wages and employment

- Capital income taxation: dividend income received from publicly listed companies, 85% will be considered as taxable capital income in the taxation of private individuals instead of the present 70%. Dividends received from other than publicly listed companies will be taxed such that 25% of the dividend amount corresponding to an annual return of 8% calculated on the mathematical value of the share is taxable capital income, up to a maximum limit of €150,000. Of dividend income above this limit, 85% will be considered taxable capital income. With respect to the portion exceeding an annual rate of return calculated on the mathematical value of the share, 75% of the dividend will be considered as taxable earned income.
- The threshold for the higher capital income tax rate of 32% will be reduced from €50,000 to €40,000 (ordinary rate: 30%).

VAT/GST/Sales taxes

- No known changes.

2.5 Political landscape

- There have been no elections during 2013, and the European Parliament elections, which will take place in May 2014, are likely to have little or no direct influence on Finnish tax policy.
- On 29 August 2013, the government adopted a structural policy program geared to boost growth conditions and reduce the sustainability gap. However, the implementation of the program will still need significant work as the political views of the parties vary, even though everyone agrees that Finland does need structural reform in order to boost growth and create more jobs. Reform logistics are still under negotiation.
2.6 Current tax policy and tax administration leaders

**Tax policy leaders**
- Jyrki Katainen, Prime Minister
- Jutta Urpilainen, Minister of Finance
- Martti Hetemäki, Secretary of State
- Tuomas Saarenheimo, Under-Secretary of State
- Lasse Arvela, Director General, Ministry of Finance (Tax Department)
- Kimmo Sasi, Chairman, Parliament Finance Committee

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

2.7 Key tax policy changes in 2013

- New restrictions to interest deductibility in corporate taxation (effective 1 January 2013 but applicable from tax year 2014)
- New temporary R&D deduction in corporate taxation 2013-14

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

- There have been no public statements, consultations or legislation in relation to BEPS.

2.9 Pending tax proposals

- Most of the tax proposals for 2014 were still pending Parliament approval at the time of publication of this document.
- All of the tax law proposals mentioned above are planned to come into effect from 1 January 2014.

2.10 Consultations opened/closed

- The Working Group for Developing Business Taxation set up by the Ministry of Finance finished its work in June 2013. The memorandum of the Working Group was circulated for consultation. The Working Group proposed changes to, for example, group taxation, loss offsetting and company tax residence.
1 | Tax rates (2013–14)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax rate (national and local average, if applicable)</td>
<td>36.1% Including 5% surtax for tax years 2012 and 2013</td>
<td>38% Including 10.7% surtax for tax years 2013 and 2014</td>
<td>+5.3%</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>45% 53%, including social security taxes (CSG/CRDS)</td>
<td>36.1% 53%, including social security taxes (CSG/CRDS)</td>
<td>-</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>19.6%</td>
<td>20%</td>
<td>+2%</td>
</tr>
</tbody>
</table>

2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

- France is striving to meet the European requirements regarding the public budget deficit. For 2014, the Government would like to lower the level of the budget deficit from 4.1% to 3.6% of the gross domestic product (GDP). In addition, the Government is targeting a 3% deficit for 2015.

- For fiscal year 2014 the Government intends to raise €3 billion on corporate taxpayers and €12 billion on individual taxpayers by closing loopholes, implementing new taxes and increasing some taxes.

- The Government implemented various measures to boost employment: increasing the tax credit for competitiveness and employment from 4% (for wages paid in 2013, tax benefit in 2014) to 6% (for wages paid in 2014, tax benefit in 2015), supporting payments to employers hiring young workers.
To compensate for the tax increase on individuals, especially through the repeal of tax loopholes, the Government decided to maintain some tax deductions that it initially intended to close and decided to index personal income tax brackets on the cost of living in order to stimulate the purchasing power of low-income households (the rise of the minimum tax threshold allows the exemption of these individuals from the individual income tax).

### 2.2 Key drivers of tax policy change

#### Specific areas of fiscal stimulus

- Research and development incentives

#### Specific areas of fiscal consolidation

- Headline CIT rate
- Standard VAT rate

### 2.3 Tax policy outlook for 2014 – summary

#### Corporate income tax burden

- Lower: No change
- Higher: X

#### Personal income tax burden

- Lower: No change
- Higher: X

#### VAT/GST/sales tax burden

- Lower: No change
- Higher: X
2.4 Tax policy outlook for 2014 – detail

Corporate income taxes

On 19 November 2013, the French National Assembly adopted the draft 2014 Finance Bill. Final enactment occurred in late December 2013. The French National Assembly, in line with recent debates and several public reports, has introduced several amendments to the version initially proposed by the French Government on 25 September 2013, notably to strengthen anti-tax evasion rules and transfer pricing documentation requirements.

In addition, on 13 November 2013, the French Government tabled the draft Amended 2013 Finance Bill with the French National Assembly. This draft includes the simplification of several tax procedures, specific measures for listed real estate companies as well as a new tax incentive for the investment in innovative Small and Medium Enterprises (SMEs). Final enactment also occurred in December 2013.

It should be noted, however, that on 29 December 2013, the French Constitutional Court rendered its decisions on the provisions of the 2014 Finance Bill and the draft 2013 Amended Finance Bill that certain members of Parliament had asked it to censor. The French Constitutional Court struck down some of the provisions, mainly on the grounds of their disproportionate nature or their lack of clarity. They include:¹

- The widening of the scope of the general anti abuse rule from “exclusively” to “mainly tax driven” transactions: The Court found this to leave too much room for interpretation by the tax authorities, considering the significant penalties applicable under the general anti abuse procedure.
- The mandatory disclosure of tax planning schemes: The definition of “tax planning scheme” was considered not to be precise enough given the restrictions to the freedom of enterprise and the significant penalties it entailed.
- The increase of penalties for the failure to comply with transfer pricing documentation requirements from 5% of the transfer pricing reassessment to 0.5% of the turnover: The turnover based penalty was considered to be out of proportion with the sanctioned behavior.
- The shift of the burden of proof to the taxpayer in the case of business restructuring: It was ruled that both the “transfer of functions and risks” triggering the reversal of the burden of proof, and the “profits that should have been made in the future” on which the reassessment would be based, were insufficiently defined, and that certain references in the provision were inconsistent.

Proposed 1% tax on EBITDA replaced by increase of the temporary additional contribution to CIT

The initially proposed 1% tax on EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is replaced by an increase of the temporary additional contribution to Corporate Income Tax (CIT) from 5% to 10.7%, that applies to companies (or tax consolidated groups) with an annual turnover exceeding €250m. The increase would apply to Fiscal Years (FYs) ending between 31 December 2013 and 30 December 2015. The maximum CIT rate would thus amount to circa 38% instead of the current 36.1%.

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

The French National Assembly voted the French Government’s proposal to disallow the tax deduction of interest accrued to related parties if the French taxpayer cannot justify, at the request of the French Tax Authorities (FTA), that the lender is liable to CIT on such interest that amounts to at least 25% of the CIT which would have been due, had the lender been established in France. An amendment was introduced in order to address the case where the lender is a qualifying transparent entity or a collective investment fund. These new rules would apply in FYs ending on or after 25 September 2013. The French National Assembly rejected a number of amendments purporting to introduce a safe harbor clause for lenders established in EU member States or postpone the entry into force of the new rules.

In addition, the 2014 Draft Finance Bill contains a range of additional measures, including, but not limited to:

- Requirement to provide accounting statements and consolidated accounts in case of tax audit
- Strengthening of transfer pricing rules and disclosure of foreign tax rulings (but specific penalties have been repealed by the Constitutional Court)

France

Full information on these measures can be accessed at:


In a speech on 14th January 2014, French President François Hollande promised a €30bn payroll tax cut for French companies. At the time this document was prepared, no legislative proposals were available.

Taxes on wages and employment

- For the first time in two years, the progressive individual income tax scale will be revalued at 0.8% and the amount of the tax rebate (“décote”) will increase from €480 to €508.
- The gains realized as from 1997 within savings instruments will be subject to 15.5% social security taxes. This measure will apply to chargeable events occurring on or after 26 September 2013. According to its initial version, the measure should concern the gains derived from shared savings plans, unit-linked life insurance contracts, employee savings plans and home savings plans. However, the Government has finally introduced an amendment in order to limit the scope of this provision only to the unit-linked life insurance contracts.
- The benefit from employer support of a portion of contributions for compulsory collective agreements supplementary health are subject to the standard progressive rate of individual income tax.
- The Finance Bill for 2014 maintains the taxation of the capital gains on transferable securities at the progressive rate of individual income tax after application from 1 January 2013 of an allowance for a holding period:
  - Standard allowance: 50% (2-8 years) and 65% (less than 8 years)
  - Specific allowance for entrepreneurs: 50% (2-4 years), 65% (4-8 years) and 85% (less than 8 years)

Exceptional solidarity surtax on remunerations exceeding €1m

- On 19 November 2013, the French National Assembly adopted the French Government's proposal introducing an “exceptional solidarity tax” of 50% borne by companies on the portion of remuneration granted to an employee or director that exceeds €1 million.
- Remuneration taken into account is, in principle, deductible for CIT purposes, including wages, pension payments or stock options. Specific computation rules would apply for pension payments and stock options. The tax would only apply to remunerations granted in civil years 2013 and 2014, and would be capped at 5% of the turnover of the civil year. The employer will be required to file a specific return and pay the tax by 30 April of the following year.
- An amendment was introduced in order to deny the tax deductibility of such exceptional solidarity surtax for the computation of the temporary additional contribution to CIT (see above section).

VAT/GST/sales taxes

- The Standard value-added tax (VAT) rate is increased from 19.6% to 20% in 2014
- The reduced VAT rate of 5.5% is maintained (against 5% as expected by the Third Amending Finance Bill for 2012).
- An emergency procedure has been set up to allow the state to introduce a temporary measure of reverse charge for VAT to prevent the risk of massive fraud.

2.5 Political landscape

The year 2014 is an important year for the Government as it will be subject for the first time since its formation to the vote of the electoral body during municipal, European and senatorial elections, held in March, May and September 2014 respectively.

According to recent polls, the Socialist Party is likely to lose several municipalities. Because of this, recent changes have been decided in the draft of the Finance Bill for 2014 (e.g., repeal of the reduction of the VAT reduced rate from 5.5% to 5% in order to fund some tax loopholes, repeal of the increase of social contributions on saving instruments).

This vote of sanction will influence the senatorial elections of September 2014, during which 174 of the 348 senators will change because senators are elected primarily by municipal councilor delegates.

Regarding the European elections, according to recent polls, 24% of French people intend to vote for the far-right party (Front National). This intention to vote is part of the general movement of “Euro-skepticism” triggered in Member States as a result of the economic crisis and the disapproval of the austerity policy led by the European institutions.
2.6 Current tax policy and tax administration leaders

- François Hollande, President of the Republic
- Jean-Marc Ayrault, Prime Minister
- Pierre Moscovici, Minister of Economy and Finance
- Bernard Cazeneuve, Minister of Budget and Public Accounts
- Gilles Carrez, UMP, President of the Financial Commission, National Assembly
- Philippe Marini, UMP, President of the Financial Commission, Senate:
  - Christian Eckert, Socialist party, Rapporteur of the Financial Commission, National Assembly
  - François Marc, Socialist party, Rapporteur of the Financial Commission, Senate
  - Bruno Bezard, Head of the Public Finance General Department
  - Olivier Bourges, Deputy of the Head of the Public Finances General Department in charge of Tax
  - Véronique Bied-Charreton, Head of the Tax Legislation Directorate

2.7 Key tax policy changes in 2013

**Corporate taxation**

- A tax credit was introduced for competitiveness and employment equal to 4% of 2013 gross wages paid by the companies not exceeding 2.5 times the French minimum wage paid during the calendar year.
- The new general interest deduction limitation regime is based on the net financial expenses incurred during a fiscal year. Thus, only 85% of the net financial interest incurred in fiscal years 2012 and 2013 was deductible (should a threshold of €3 million of net financial expenses be exceeded). As from fiscal year 2014, only 75% of the net financial interest will be deductible.
- The taxable portion increased from 10% to 12% under the participation exemption regime on capital gains.
- The cap on utilization of net operating loss (NOLs) carry forwards reduced to 50% (down from 60%) of the taxable income of the fiscal year exceeding €1 million.

**Individual taxation**

- A new marginal income tax rate of 45% applies on the portion of annual income over €150,000 for a single taxpayer.
- Capital gains realized from 1 January 2013 are taxed at the standard progressive rate of individual income tax.
- Dividends are taxed at the standard progressive rate of individual income tax after application of the 40% allowance.
2.8 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- France actively supports the OECD BEPS Action Plan.
- The present Financial Bill is founded on the work of the OECD concerning the neutralization of hybrid arrangements to prohibit the deduction of interest in the borrowing company when they have not been subject to a minimum taxation at the level of the lending company and with the reinforcement of transfer pricing documentation obligations (see section above).
- In addition, France participates in the joint discussions initiated at the international level for the taxation of the digital economy (Action No. 1 BEPS Action Plan). With the United States, it co-chairs the OECD working group dedicated to this subject.

2.9 Pending tax proposals

- None

2.10 Consultations opened/closed

- Public consultation concerning the tax credit for competitiveness and employment closed 19 February 2013.
- Public consultation concerning the general interest deduction cap closed 26 April 2013.
- Several consultations within the frame of the “tax overhaul” launched by Prime Minister as from January, 2014.
### Tax rates (2013-14)

#### 1.1 Key tax rates

<table>
<thead>
<tr>
<th>Top corporate income tax rate (national and local average, if applicable)</th>
<th>Top federal (national) corporate tax rate: 15%(^1) (plus solidarity surcharge of 5.5%(^2))</th>
<th>Top federal (national) corporate tax rate: 15%(^4) (plus solidarity surcharge of 5.5%(^5))</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A (local) trade tax: between 7% and 17.5%(^3)</td>
<td>A (local) trade tax: between 7% and 17.5%(^6)</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>Total average: 29.83%</td>
<td>Total average: 29.83%</td>
<td>–</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Top individual income tax rate (national and local average, if applicable)</th>
<th>45%(^7) (plus solidarity surcharge of 5.5%(^8) for a total 47.48%)</th>
<th>45%(^9) (plus solidarity surcharge of 5.5%(^10) for a total 47.48%)</th>
<th>–</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>19%(^11) (reduced rate of 7%(^12) applies in many areas)</td>
<td>19%(^13) (reduced rate of 7%(^14) applies in many areas)</td>
<td>–</td>
</tr>
</tbody>
</table>

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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. 23 para. 1 KStG (Corporation tax act).
5. Sec. 4 SolzG (Solidarity surcharge act).
6. Sec. 11 and sec. 16 GewStG (Trade tax act).
7. Sec. 32a para. 1 EStG (personal income tax act).
8. Sec. 4 SolzG (Solidarity surcharge act).
9. Sec. 32a para. 1 EStG (personal income tax act).
10. Sec. 4 SolzG (Solidarity surcharge act).
11. Sec. 12 para 1 UStG (VAT act).
12. Sec. 12 para 2 UStG (VAT act).
13. Sec. 12 para 1 UStG (VAT act).
2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

Following the federal elections in September 2013, Angela Merkel had to form a new coalition as her former coalition partner the liberal democrats (FDP) failed to achieve the minimum voter support of 5% (5% threshold). Her new coalition partner, the Social Democrats, ran an election campaign in favor of higher public investments and public expenditures. To finance higher public expenditures, the Social Democrats were willing to increase taxes, if necessary. In contrast, the conservatives have repeatedly stated that they do not support tax increases. The opposing approaches of both coalition partners resulted in a tax policy agenda of the new coalition which includes neither tax cuts nor tax increases. The formal coalition agreement contains no “big bang” reforms and mainly aims toward improvements in electronic tax compliance procedures including self-assessment in the first instance for corporations.

Also noteworthy are announced changes in investment funds taxation and with respect to the taxation of capital gains. Additionally, the new Government plans to improve general conditions and taxation of venture capital in order to strengthen Germany’s international competitiveness.

The coalition also supports a broad Financial Transaction Tax, as did the former government, and also highlights its support for the OECD BEPS project. Some national measures against BEPS may be implemented in advance of the OECD time frame if necessary.

It should be noted that a coalition agreement is mainly a domestically relevant document. It describes the general political agenda for the next four years given the political and economic circumstances of 2013. It is not very detailed, although it comprises 185 pages covering all policy areas. The coalition will adjust its political agenda, if political or economic circumstances change.

In 2019 an important agreement between the federal level and the states (the so-called “solidarity pact”) on how tax revenue is shared and how East German states are supported will expire. The federal level and the states will start to negotiate a follow-up agreement in the current legislative period. Such an agreement could result in tax reforms, including, potentially, more rights for the states to impose their own taxes. Currently, it is not clear if the final follow-up agreement will be contracted in the present (federal) legislative period or in the following period as of 2017.

2.2 Key drivers of tax policy change

Specific areas of fiscal stimulus

- There are no specific areas of fiscal consolidation or stimulus via the tax system.

Specific areas of fiscal consolidation

- There are no specific areas of fiscal consolidation or stimulus via the tax system.
2.3 Tax policy outlook for 2014 — summary

Corporate income tax burden

- Lower: No change
- Higher

Personal income tax burden

- Lower: No change
- Higher

VAT/GST/sales tax burden

- Lower: No change
- Higher

2.4 Tax policy outlook for 2014 — detail

Corporate income taxes

- Major reforms to corporate taxation are not expected in the short to medium term as such plans are not part of the coalition agreement.
- Concerning tax compliance procedures, the coalition plans to implement self-assessment for corporations, but this project will probably need more than four years to be implemented.
- There is a slight upward trend concerning locally set trade tax rates.

Taxes on wages and employment

- Major reforms to personal taxation are not expected in the short to medium term as such plans are not part of the coalition agreement.
- It is likely that the Federal Constitutional Court will decide that specific business-friendly tax allowances in the inheritance tax act are against German law. Therefore, there is a need for a tax law amendment in this regard. The new coalition has committed itself to a business-friendly adjustment if required by the constitutional court.
Germany

VAT/GST/Sales taxes

- 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 enforce a reform or the states and the federal level proactively agree on a reform. Several proposals have been in discussion for the past two years. The outcome will likely lead to higher taxes. The federal coalition has called the states to agree on a reform model.

- While the coalition has not announced changes in energy taxation, it has announced a reform of the renewable energy levy. Currently, the levy is imposed on private and business electricity bills. Energy-intensive industry is (partly) exempted. This exemption has been criticized by the European Commission as illegal state aid, as well as many German politicians, because it increases the share of the overall burden to be imposed on private households. It is planned to present a draft bill by the end of March 2014 and to finish the legislative process by summer 2014. The coalition will take into account the need to maintain international competitiveness of German companies.

- There are plans to introduce a car toll similar to the system in Austria or Switzerland (vignette). A draft bill is expected this year. German car owners will (partly) be reimbursed, for example by lower car tax. How to implement such a system in an EU law compliant way is currently heavily discussed.

2.5 Political landscape

In the 2013 federal elections, Angela Merkel's conservatives achieved their best result in 20 years. But as this success was accompanied by drastic losses by their former coalition partner, the Liberal Democrats, the Chancellor had to form a “grand coalition” with the Social Democrats instead.

In the next two years there will be only a few elections at the state level in Germany (Saxony, Thuringia and Brandenburg in 2014, Hamburg and Bremen in 2015). Currently the grand coalition has a strong position at the state level, but no majority of seats at the Federal Council. Therefore, cooperation with states in which particularly the Green Party is part of the state government and their support will be necessary to pass most tax bills. The Federal Council is the representation of the states and it has to confirm all federal bills on corporate income tax, personal income tax, trade tax, VAT and most other taxes. However, in the light of its rather modest tax reform agenda the coalition should be able to achieve state confirmation for most of its tax bills.
2.6 Current tax policy and tax administration leaders

**Tax policy leaders**
- Dr. Angela Merkel (CDU), Chancellor
- Peter Altmeier (CDU), Head of the Chancellery
- Dr. Wolfgang Schäuble (CDU), Federal Minister of Finance
- Sigmar Gabriel (SPD), Federal Minister of Economics and Energy and SPD party chairman
- Ralph Brinkhaus (CDU), Deputy Chairman of the CDU/CSU parliamentary group
- Carsten Schneider (SPD), Deputy Chairman of the SPD parliamentary group
- 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
- 16 heads of tax departments at the state level

2.7 Key tax policy changes in 2013

**Tax Reform Act 2012:**
- Reform of the tax treatment of travel expenses
- Increase of the loss carryback limit to €1 million
- Introduction of certain simplifications and reliefs into the current German consolidated tax group concept (“Organschaft”)

Act to implement the EU information exchange and administrative cooperation directive and further tax regulations:
- The Authorized OECD Approach on the attribution of profits to a permanent establishment in German tax law (CFC Code) is implemented.
- Implementation of the 2009 EU information exchange and administrative cooperation directive means automatic information exchange will start as of 1 January 2015 for periods beginning on 1 January 2014.
- Real Estate Transfer Tax (RETT) blocker structures (Anti RETT Blocker Act) are eliminated.
- Extension of RETT group transaction exception
- Hybrid instruments: dividend distributions or other payments from equity instruments will no longer qualify for the German dividend exemption if such payments are tax deductible in the jurisdiction of the issuer. The new rule applies to all payments received in the first fiscal year of the recipient that begins after 31 December 2013 (i.e., 2014 if the recipient is a calendar year taxpayer).

Tax exemption for portfolio dividends was abolished to implement European Court of Justice decision C-284/09. Full taxation of portfolio dividends (equity share holding below 10%) received after 28 February 2013 was implemented for corporate shareholders. The current tax exemption for capital gains from equity shareholdings remained unchanged but the new coalition has announced their reconsideration of this decision. For individuals holding their equity shareholding as business assets, the existing partial exemption method remains unchanged.
In November 2013 the AIFM tax adaption act passed parliament and was confirmed by the Federal Council (states). It mainly aims at adapting the German investment fund tax regime to the implementation of the EU AIFM financial market regulation Directive in German law in early 2013. Additionally, further tax issues were added to the bill during the legislative process, such as the implementation of a new investment vehicle to facilitate pension pooling and rules against the use of specific built-in losses.

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

Germany has supported the OECD BEPS initiative since its inception, and the new Government coalition is strongly committed to the BEPS project.

So far there have not been any domestic legislative initiatives in relation to BEPS. Prior to the OECD BEPS project, Germany had already proactively implemented strong regulations to hinder base erosion and profit shifting strategies, including strict CFC rules, exit taxation rules and the interest barrier. In addition (and in advance of a European Commission initiative to change the Parent -Subsidiary Directive), a unilateral regulation to hinder hybrid mismatch arrangements was implemented in 2013. Germany now only grants a tax exemption for inbound dividend payments if the other state does not allow a tax deduction for the same payment (so called correspondence taxation regime).

Regarding the Country-by-Country-Reporting discussion which is part of the BEPS action point 13, the German Ministry of Finance supports a disclosure of information only toward the finance authorities and not in the public domain.

2.9 Pending tax proposals

- Stricter requirements for voluntary self-disclosure to tax authorities to avoid penalty.

2.10 Consultations opened/closed

Parliamentary public hearings in 2013:
- Implementation of EU information exchange and administrative cooperation directive

Public hearings by Federal Finance Ministry in 2013:
- Regulation on the Profit Attribution to Permanent Establishments
- VAT entry certificates for intra-EU supply
1 | Tax rates (2013–14)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax rate</td>
<td>26%</td>
<td>26%1</td>
<td>–</td>
</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>42%</td>
<td>42%2</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>23%</td>
<td>23%3</td>
<td>–</td>
</tr>
</tbody>
</table>

2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

- A major tax reform has started in Greece with the introduction of a contemporary Income Tax Code (ITC).
- This new revenue-neutral ITC is part of the Government’s effort to overhaul the Greek fiscal system towards enhancing transparency and combating tax avoidance and evasion.
- Nonetheless, the new law aims to introduce simpler and more straightforward tax rules to establish a more equal distribution of the cost of austerity and a stable public financing source and to enhance clarity and legal certainty among taxpayers and the tax authorities.

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1. Article 58 of Law 4172/2013, the new Income Tax Code applicable as of 1 January 2014.
2. Article 15 of Law 4172/2013, the new Income Tax Code applicable as of 1 January 2014.
2.2 Key drivers of tax policy change

Specific areas of fiscal stimulus

The Government has learned from fiscal consolidation. By adopting the new ITC, a new Transactions Tax Reporting Code and a Tax Procedures Code, the Government aims to shift from austerity toward growth as required in order to restart the economy, regain trust for investments, and enhance clarity and legal certainty among taxpayers and the tax authorities.

Specific areas of fiscal consolidation

The fiscal consolidation effort focuses on a series of anti-avoidance provisions that were previously not included in the legal framework. In addition to the transfer pricing, thin capitalization and anti-tax haven provisions that are amended to enhance their enforceability, new controlled foreign company (CFC) rules have been introduced to uphold the Government’s view on combating tax avoidance and evasion.

2.3 Tax policy outlook for 2014 – 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 2014 – detail

Corporate income taxes

According to the new ITC, the following changes are introduced:

- The general principles and rules are aligned with European Union (EU) and international standards.
- No amendment to statutory tax rates
- Tax residence is defined with clarity for legal entities, including the cases of legal entities that are effectively managed in Greece.
- Subject to certain general conditions, all business expenses are deductible, with the exemption of only certain specifically enumerated expenses. It is stressed that particularly strict conditions apply for the deductibility of loan interest expenses (interest capping rules of 25% on EBITDA, replacing a three to one debt-to-equity ratio – said rate will be 60% for 2014 and will be gradually reduced to 25% as of 1st January 2017).
- A general method of taxing capital gains is introduced (regarding shares, equities, bonds, derivatives) whereby individual's income taxation is imposed at a rate of 15%. Exemptions should apply for foreign individuals and legal entities.
- The exemption on dividends received by parent companies from their subsidiaries established in Greece and abroad is significantly broadened – the same applies to dividend withholding tax.
- Novel provisions have been introduced regarding business restructurings, according to the standards of the respective European Merger Directive.
- A variety of rules have been introduced in relation to the combating of tax avoidance, such as the provisions on controlled foreign companies.

Taxes on wages and employment

- Four new categories of income are introduced for individuals, each one triggering a different tax treatment (i.e., the concept of total income no longer applies):
  - Income derived from employment and pensions
  - Income derived from business activities
  - Capital income (e.g., dividends, interest)
  - Capital gains income (e.g., sale of real estate property, shares bonds)

VAT/GST/sales taxes

- By virtue of L. 4172/2013, use/sales from cafes, patisseries, restaurants and other similar enterprises is subject to the reduced VAT rate. The use of entertainment clubs and the provision of alcoholic beverages are subject to the ordinary VAT rate.

2.5 Political landscape

The Greek parliament approved a budget plan on December filled with over 3 billion euros of austerity measures designed to help the country emerge from a six-year recession this year.

Specifically, the Greek government expects growth of 0.6 percent in 2014 and hopes to secure more leeway on its debts to the European Union and the International Monetary Fund.

The Government’s executives are in constant negotiations with the troika (European Union-International Monetary Fund-European Central Bank (EU-IMF-ECB)) to try and secure a positive review and thus avoid further fiscal consolidation measures. Nonetheless, the Government and Greece’s creditors disagree with the extent of fiscal measures needed for the country to achieve these projections.
2.6 Current tax policy and tax administration leaders

- Yannis Stournaras, Minister of Finance

2.7 Key tax policy changes in 2013

- Law 4174/2013, the Code of Tax Procedures, attempts to integrate into a single legislative framework all the provisions that are included in separate laws, such as Law 2238/1994 and Law 2859/2000 (VAT Code), and that refer to the audit and collection procedures of the respective taxes.

- In addition to the introduction of Law 4172/2013, the new Income Tax Code, the reformed tax framework will be supplemented with the adoption of a new incentives law framework, which will reflect the shift from austerity toward growth as required in order to reboot the economy. Further simplifications of the Transactions Tax Reporting Code (Law 4093/2012) have been officially announced and are thus expected.

- Moreover, Law 4223/2013 published in the Government Gazette on 31.12.2013, apart from considerably amending Law 4172/2013, also concerns the doubled property tax surcharge that was imposed in 2011 by then-finance minister Evangelos Venizelos which by virtue of the latter is now folded into a single unified property tax scheme on the insistence of the country’s international lenders.

- These laws should be considered only indicative as there are constant changes in tax legislation to align further with International Monetary Fund and EU suggestions.

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

- N/A

2.9 Pending tax proposals

- A new draft bill concerning real estate tax is expected to be submitted shortly for voting in the Greek Parliament.

- The doubled property tax surcharge that was imposed in 2011 by then-finance minister Evangelos Venizelos will be folded into a single unified property tax scheme on the insistence of the country’s international lenders.

2.10 Consultations opened/closed

- Given that the new tax legislation constitutes major reform in the Greek tax system, a special committee was established on 22 August 2013, comprising experienced staff of the Ministry of Finance, in order to codify the new legislation and draft necessary amendments, additions and interpretative guidelines. It is expected that the committee will issue the expected interpretative guidelines by the end of January 2014; however, this proposed deadline may be extended.

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4 The Minister of Finance has been an advisor to the Finance Ministry and Greece’s Central Bank. He also has been a consultant to previous Socialist governments, including that of Prime Minister Costas Simitis, under whom Greece’s entry into the Eurozone was secured.
1.1 Key tax rates

<table>
<thead>
<tr>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax rate (national and local average, if applicable)</td>
<td>16.5%¹</td>
<td>16.5%²</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>17%³</td>
<td>17%</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>Not applicable</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

² Ibid.
2.1 Key drivers of tax policy change

- Hong Kong’s challenges abound and are related to economic growth, commerce and trading, public finance, financial services, land and development, including the threat of inflation and the risk of an asset price bubble arising from excessive global liquidity.\(^4\)

- Hong Kong strives to maintain a simple and low tax regime\(^5\) to maintain Hong Kong’s overall competitiveness, and policymakers have been very cautious when considering tax deductions or relief proposals of any kind. One-off measures, including tax reductions, increases in allowance, waivers of government fees and subsidy grants, have been introduced to try to ease the burden and pressure on both enterprises and individuals.

- To strengthen Hong Kong’s position as an international financial, investment and commercial hub, Hong Kong strives to:
  - Continue expanding its network of comprehensive double taxation agreements (CDTAs) and enter into more tax information exchange agreements (TIEAs)
  - Extend the profits tax exemption for offshore funds to include transactions in private companies that are incorporated or registered outside Hong Kong and do not hold any Hong Kong property or carry out any business in Hong Kong (see Section 2.9).
  - Reduce the profits tax on the offshore insurance business of captive insurance business (see Section 2.9)

2.2 Key drivers of tax policy change

Specific areas of fiscal stimulus

- The Hong Kong Government has proposed a profits tax exemption for offshore funds to include transactions in private companies that are incorporated or registered outside Hong Kong and do not hold any Hong Kong property or carry out any business in Hong Kong (see Section 2.9).
- The Hong Kong Government has also proposed allowing offshore insurance business of captive insurance companies to be taxed at 50% of the normal profits tax rate (see Section 2.9).
- Following the introduction of the Special Stamp Duty (SSD) in 2010 and the Buyer’s Stamp Duty (BSD) in 2012, the Hong Kong Government would amend the Stamp Duty Ordinance to adjust the rates of ad valorem stamp duty (AVD) to further curb speculative activities in the properties market (see Section 2.7).

Specific areas of fiscal consolidation

- Not applicable

\(^4\) Pages 1 and 6 of the 2013–14 Budget, speech by the Financial Secretary, the Hon. John C. Tsang, moving the Second Reading of the Appropriation Bill 2013, Wednesday, 27 February 2013.

\(^5\) Pages 7, 16 and 59 of the 2013–14 Budget, speech by the Financial Secretary, the Hon. John C. Tsang, moving the Second Reading of the Appropriation Bill 2013, Wednesday, 27 February 2013.
2.3 Tax policy outlook for 2014 – summary

Corporate income tax burden

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

In the 2013–14 Budget, the Financial Secretary proposed reducing profits tax for the year of assessment 2012/13. Most likely there will also be similar relief measures in the 2014-15 Budget.

Personal income tax burden

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

In the 2013/14 Budget, the Financial Secretary proposed reducing the salaries tax and tax under personal assessment, increasing the child allowance, and raising the deduction ceiling for self-education expenses for the year of assessment 2012/13. The Financial Secretary is expected to propose similar measures for the year of assessment 2013/14 to relieve the tax burden of individuals, particularly those in the middle class.

VAT/GST/sales tax burden

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

There is no VAT/GST/sales tax in Hong Kong. However, Hong Kong imposes custom duty for four types of commodities: liquors, tobacco, hydrocarbon oil and methyl alcohol.

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2.4 Tax policy outlook for 2014 — detail

Corporate income taxes

To maintain Hong Kong’s competitiveness, a simple and low-tax regime remains unchanged. The corporate income tax rate will likely remain at 16.5% for corporations and 15% for unincorporated business (e.g., sole proprietorship and partnership) for 2013/14.

Taxes on wages and employment

The 2013–14 Budget introduced a one-off reduction of the salaries tax, as well as an increase in child allowances and the deduction ceiling for self-education expenses for the year of assessment 2012/13. The salaries tax regime remains unchanged for 2013/14, retaining the same rates and bands as 2012/13.

VAT/GST/Sales taxes

Not applicable

2.5 Political landscape

Leung Chun-ying, GBM, GBS, JP, the Chief Executive of Hong Kong, assumed office on 1 July 2012. In his manifesto, he said that Hong Kong’s advantage from its simple and low-tax system is being eroded due to intense competition from surrounding areas in terms of talent, taxation, efficiency, and software and hardware facilities.\(^8\)

He reinforced the importance of “maintaining a low-tax approach to Hong Kong’s fiscal policy, following the principle of keeping expenditure within the limits of revenue and striving to achieve a fiscal balance in accordance with the provision of the Basic Law.”\(^9\)

Hong Kong District Council, Legislative Council and Chief Executive elections will be held in 2015, 2016 and 2017, respectively. In the absence of elections in 2014, it is expected that Hong Kong will continue to maintain the existing simple and low-tax regime for 2014.

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2.6 Current tax policy and tax administration leaders

Tax policy leaders

- John Tsang Chun-wah, GBM, JP, Financial Secretary
- Prof. K.C. Chan, GBS, JP, Secretary for Financial Services and the Treasury

Administration of tax law

- Hong Kong tax law is administered by the Hong Kong Inland Revenue Department (IRD) under the leadership of the Commissioner of Inland Revenue.
- From time to time, the IRD issues Department Interpretation and Practice Notes (DIPN)\(^10\) to explain how the IRD would interpret the legislation and enforce the law in practice. Moreover, the CIR also published advance ruling cases\(^11\) to share its view of common issues.

Tax administration leaders

- Wong Kuen-fai, JP, Commissioner of Inland Revenue
- Tam Tai-pang, JP, Deputy Commissioner of Inland Revenue (Operations)
- Chiu Kwok-kit, JP, Deputy Commissioner of Inland Revenue (Technical)

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2.7 Key tax policy changes in 2013

Ad valorem stamp duty (AVD)

On 22 February 2013, the Financial Secretary announced that the Government would amend the Stamp Duty Ordinance to adjust the AVD rates and to advance the charging of AVD on non-residential property transactions from the conveyance on sale to the agreement for sale. Any residential property (except that acquired by a Hong Kong permanent resident who does not own any other residential property in Hong Kong at the time of acquisition) and non-residential property acquired on or after 23 February 2013, either by an individual or a company, will be subject to the new rates of AVD upon the enactment of the relevant legislation.\(^{12}\)

After the above adjustment, the maximum AVD rate rises from 4.25% to 8.5%. The new AVD rate is set out below:

<table>
<thead>
<tr>
<th>Amount or value of the consideration</th>
<th>New AVD rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exceeds (HKD)</td>
<td>Does not exceed (HKD)</td>
</tr>
<tr>
<td>2,000,000</td>
<td>1.5%</td>
</tr>
<tr>
<td>2,000,000</td>
<td>2,176,470</td>
</tr>
<tr>
<td>2,176,470</td>
<td>3,000,000</td>
</tr>
<tr>
<td>2,000,000</td>
<td>3,290,330</td>
</tr>
<tr>
<td>2,176,470</td>
<td>4,000,000</td>
</tr>
<tr>
<td>3,000,000</td>
<td>4,428,580</td>
</tr>
<tr>
<td>3,290,330</td>
<td>6,000,000</td>
</tr>
<tr>
<td>4,000,000</td>
<td>6,720,000</td>
</tr>
<tr>
<td>4,428,580</td>
<td>20,000,000</td>
</tr>
<tr>
<td>6,000,000</td>
<td>21,739,130</td>
</tr>
<tr>
<td>6,720,000</td>
<td>8.5%</td>
</tr>
<tr>
<td>20,000,000</td>
<td>8.5%</td>
</tr>
</tbody>
</table>

New law enacted to level the playing field for Islamic bonds

The Inland Revenue and Stamp Duty Legislation (Alternative Bond Schemes) (Amendment) Ordinance 2013 was enacted on 19 July 2013 to help develop the Islamic bond market in Hong Kong.

Briefly, the amendments add new parts to the Inland Revenue Ordinance (IRO) and the Stamp Duty Ordinance (SDO) that, if applicable to the specified alternative bond scheme, will treat the bond arrangement and investment arrangement as debt arrangements for the purposes of the IRO and SDO and apply comparable tax treatments accordingly.

Nice Cheer case – a landmark in determining non-taxability of an unrealized gain

On 12 November 2013, the Court of Final Appeal (CFA) upheld the decision of the Court of Appeal (CA) and the Court of First Instance (CFI) that the unrealized gains on valuation of trading securities derived by Nice Cheer Investment Ltd. are non-taxable on the grounds that no act of disposition had happened to earn the gain.

Tax information exchange agreement (TIEA) entered into between Hong Kong and its counterparts

Inland Revenue (Amendment) Bill 2013, enacted on 10 July 2013, allows Hong Kong to enter into stand-alone TIEAs. Under the previous provisions of the IRO, the IRD was permitted only to exchange information with respect to a taxpayer with a tax authority in a jurisdiction that had concluded a comprehensive avoidance of double taxation agreement (CDTA).

Network of Comprehensive Double Tax Agreements (CDTAs)

During January through December 2013, Hong Kong signed new CDTAs with Italy, Guernsey and Qatar. Hong Kong has also signed a new protocol with Vietnam in January 2014.

As of 15 January 2014, Hong Kong has signed 29 CDTAs with other countries; 2 of them are pending ratification (Guernsey and Qatar). There are 14 CDTAs under negotiation.

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

- As Hong Kong is not a member of OECD and has its own unique tax law and treaty rules governing the taxation of cross-border income, it is unlikely that the Action Plan will have a significant impact on the Hong Kong tax system in the short term.

- However, as Hong Kong has signed various CDTAs and passed the Inland Revenue (Amendment) Bill (as outlined above), Hong Kong is expected to strengthen its cooperation with other tax authorities for tax information exchange and tax administration.

2.9 Pending tax proposals

Proposed extension of profits tax exemption for offshore funds to transactions in certain private companies

In the Profits Tax Exemption for Offshore Fund Ordinance introduced in 2006, specified transactions are limited to transactions in securities, other than shares in a private company.

To attract more private equity funds to domicile in Hong Kong, the Financial Secretary has proposed in the 2013–14 Budget to extend the profits tax exemption for offshore funds to include transactions in private companies that are incorporated or registered outside Hong Kong and do not hold any Hong Kong properties or carry out any business in Hong Kong.13

In November 2013, Financial Services Development Council has submitted a report to the Hong Kong Government, suggesting the above profits tax exemption.14

Proposed reduction of profits tax rate for offshore insurance companies of captive insurance business

Many large enterprises in Asia prefer to run their own captive insurance companies to insure against their business risks.15 To attract more enterprises to form captive insurance companies in Hong Kong, the Financial Secretary has proposed in the 2013-14 Budget to reduce the profits tax rate on the offshore insurance business of captive insurance companies to 50% of the normal corporate rate.

The legislative bill implementing the above proposal, the Inland Revenue (No. 3) (Amendment) Bill 2013, was gazetted on 27 December 2013 and presented to the Legislative Council for first reading on 8 January 2014.

2.10 Consultations opened/closed

Consultation on tax breaks for purchase of health insurance

Regarding the voluntary Health Protection Scheme, the Food and Health Bureau is formulating recommendations in light of the consultant’s advice, overseas experience and local situation. The Government will consult the public later this year on specific implementation proposals, including exploring the provision of tax breaks to encourage people to purchase health insurance.16

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13 Page 17 of the 2013–14 Budget, speech by the Financial Secretary, the Hon. John C. Tsang, moving the Second Reading of the Appropriation Bill 2013, Wednesday, 27 February 2013.


15 Page 18 of the 2013-14 Budget, speech by the Financial Secretary, the Hon. John C. Tsang moving the Second Reading of the Appropriation Bill 2013, Wednesday, 27 February 2013.

1 | Tax rates (2013–14)

1.1 Key tax rates

<table>
<thead>
<tr>
<th>Top corporate income tax rate (national and local average, if applicable)</th>
<th>19(^1)</th>
<th>19(^2)</th>
<th>–</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>16(^3)</td>
<td>16(^4)</td>
<td>–</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>27(^5)</td>
<td>27(^6)</td>
<td>–</td>
</tr>
</tbody>
</table>

2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

- Shifting to consumption taxation
- Supporting domestic small and medium enterprises (SMEs) by introducing simplified taxes and small tax rates
- Focusing on the taxation of certain sectors (e.g., banking, energy, telecom) to decrease the state debt
- Whitening the economy
- Increasing tax audits

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1 Section 19 of the Act LXXXI of 1996 on Corporate Income Tax and Dividend Tax.
2 Section 19 of the Act LXXXI of 1996 on Corporate Income Tax and Dividend Tax.
3 Section 8 of the Act CXVII of 1995 on Personal Income Tax.
4 Section 8 of the Act CXVII of 1995 on Personal Income Tax.
5 Section 82 (1) of the Act CXXVII of 2007 on Value Added Tax.
6 Section 82 (1) of the Act CXXVII of 2007 on Value Added Tax.
2.2 Key drivers of tax policy change

Specific areas of fiscal stimulus

- Supporting SMEs

Specific areas of fiscal consolidation

- Increased taxation on certain sectors (e.g., banking, energy, telecom).

2.3 Tax policy outlook for 2014 – summary

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

Hungary
2.4 Tax policy outlook for 2014 – detail

Corporate income taxes

Amendments to the corporate income tax base

- Taxpayers will have the opportunity to decrease their pretax profit by the direct costs of R&D activities carried out by their Hungarian related enterprises (within the scope of their own activities) if certain conditions are met.

- Rules on reported participation will also change. The 30% rate that provides the entitlement to report participation will decrease to 10%, and the 60-day deadline by which the acquisition of participation must be reported will be increased to 75 days.

- SMEs will also be able to decrease their corporate income tax bases by up to HUF 30 million in relation to purchasing the utilization rights of software products.

- Investment activities will not substantiate the actual economic presence of controlled foreign companies.

- Taxpayers qualifying as tax residents as a result of transferring their place of management will have the opportunity to determine depreciation based on the market value of assets effective on the date on which resident status is obtained, instead of the acquisition value of the assets (which is the general rule).

- Foreign persons that sell Hungarian real properties will create a permanent establishment for corporate income tax purposes.

- As of 1 January 2014, for companies that own real estate, the book value of assets recorded on the balance sheet date must be taken into account when reviewing whether the value of real estate located in Hungary exceeds 75% of the total value of assets recorded in the financial statements (instead of the market value of the assets on the balance sheet date).

- In the event of mergers, the negative tax base generated by the merging company in the tax year in which the merger takes place can first be deducted by the legal successor from the pre-tax profit it realized in the tax year which includes the day of the merger.

Development tax allowance

- Providing support to film productions and to performing arts organizations: an obligation to pay supplementary support will also be introduced. Utilizing the tax allowance is conditional on the taxpayer paying the supplementary support to the entitled organization in the tax year in which the ‘basic’ support was provided. The amount of supplementary support shall be at least 75% of the ‘basic’ support and calculated with the corporate income tax rate.

Corporate income tax allowance available to SMEs

- Based on loan agreements relating to tangible asset investments concluded after 31 December 2013, SMEs will be able to utilize 60% (rather than the earlier 40%) of the interest paid in the tax year in question as a corporate income tax allowance. The tax allowance cap remains unchanged at HUF 6 million.

The corporate income tax base of foundations (including public foundations), associations and public bodies

- Foundations (including public foundations), associations and public bodies will not be able to apply the beneficial provisions on establishing their corporate income tax base in the tax year in which they primarily qualify as economic-entrepreneurial organizations based on the act governing the operation of foundations.

Top-up obligation

- If taxpayers failed to pay at least 90% of the expected tax liabilities when fulfilling their top-up obligation due to foreign exchange differences for reasons out of their control, they will not become liable to a 20% default penalty in this respect.

Sectoral levy on financial enterprises

- Financial enterprises exclusively engaged in group financing will not qualify as financial enterprises and thus will not be subject to the sectoral levy.

Credit institution contribution

- Based on the proposed amendment of the act on credit institutions and financial enterprises, if a credit institution transfers its general risk provisions or a part of it to its retained earnings, it will become subject to a one-time tax liability of 19% of the amount accounted for as the decrease of general risk provisions (on the balance sheet date of 31 December 2013).

- In 2013, credit institutions are subject to a one-time contribution liability of 19% on amounts accounted for as the decrease of general risk provisions in relation to converting the stock of risk provisions specified in the legislation to capital items. The contribution must be reported and settled by 10 March 2014.
Sectoral levy on energy suppliers (Robin Hood tax)
- As of 2014, companies subject to the sectoral levy on energy suppliers (Robin Hood tax) will have to pay tax advances.
- The procedure and frequency of tax advance payments will correspond to the rule specified in the Act on Corporate Income Tax.

Taxes on public utility cables
- The tax allowance available for entities that own telecommunication cables will increase.
- No tax will be payable on up to a total cable length of 200 kilometers. Between 200 and 350 kilometers, 30% of the tax liability will be payable and on between 350 and 500 kilometers 75% of the tax liability will be payable. The total tax liability will have to be paid on cable exceeding 500 kilometers.

Local taxes
- The new legislation does not contain material amendments on determining the local business tax base, however as of 2014 rules on tax base allocation – in terms of calculating local business tax liabilities – will change for companies that provide telecommunication services.
- There are some smaller clarifications relating to land tax and building tax. Among other things, land not exceeding one hectare will no longer be subject to land tax.

Binding tax ruling requests
- Under the new legislation, requesting a binding tax ruling will be subject to a duty of HUF 5 million (or HUF 8 million if the ruling is urgent). For permanent binding tax rulings, the duty will be HUF 8 million. In urgent cases, permanent rulings will have a duty of HUF 11 million, a decrease on the current duty.
- The authorities will introduce preliminary consultations with respect to binding tax rulings. This will provide taxpayers with legally controlled opportunities to have a consultation before initiating the binding tax ruling request procedure. Each consultation will be subject to a duty of HUF 100,000.
- In the future, binding tax ruling requests will be one-level procedures. It will be possible to request that resolutions made in the course of these procedures be revised by the court.
- Future binding tax rulings will only be able to establish tax liabilities (or the lack of them) relating to the taxpayer that submitted the request.
- The administration deadline related to binding tax ruling requests will be increased by 15 days, from 60 to 75 days.

Taxes on wages and employment
- Foreign persons that do not qualify as disbursers under Hungarian legislation will also be able to provide tax-free promotional benefits.
- Credit institutions will no longer have to pay public dues under the title interest rate discount provided that they do not charge interest on the credit/loan in order to restore the liquidity of an insolvent individual. This provision is not applicable to credits/loans provided to dependent parties, such as employees.
- Returnable, transferable vouchers will not be able to be provided as non-wage benefits or certain specified benefits, whether they are tax-free or subject to tax liabilities.
- For personal income tax purposes, Hungarian companies that participate in the provision of income between a foreign parent company and the employees will be obliged to act as disbursers if they hold the data required for the fulfillment of tax liabilities. Until now, this was optional.
- The group of receivables that financial institutions can waive tax-free to independent parties will be extended to any receivables – provided the waiver takes place in compliance with the principle of equal treatment – for parties in the same situation.

Personal income tax – Employee securities plans
- As of 2014, employee securities plans will no longer have to be registered with the Hungarian Tax Authority.
- Based on the new rules, it will become easier to start such programs, since the condition that at least 10% of a company's employees must participate will be cancelled.
- The new rules on starting employee securities plans will also apply to the Hungarian branches and representative offices of foreign enterprises if they intend to start and organize plans.
- Employers will still be able to provide employees with securities free of tax up to the annual amount of HUF 1 million and subject to a three-year vesting period.
Conversion rules for personal income tax purposes

- Regarding personal income taxes, rules on conversion to Hungarian Forints (HUF) will be significantly simplified. As of 2014, employers will be required to apply the exchange rate of the 15th day of the month preceding the month in which the compensation is provided. Private individuals will be required to apply the exchange rate effective on the 15th day of the last month of the quarter in question (when paying quarterly tax advances) or on the 15th day of the last month of the tax year (when paying annual tax liabilities).

- In respect to capital income, another significant simplification is that instead of various exchange rates effective on the dates of acquisitions or expenses, the exchange rate of 15 December will have to be applied when converting income received or expenses incurred in foreign currencies into HUF.

Taxation of insurance schemes

- The definition of non-term insurance (i.e., that does not have an investment aspect) will change. This insurance type will only cover insurance policies from which no pecuniary value can be withdrawn without a claim being made. Insurance types on which the fees paid (and the related yield) restrict the insurance company's payments will not qualify as non-term insurance in the future.

- For permanent life insurance, no tax liability will be triggered if the insurance agreement is significantly changed or if the insured party is replaced. Therefore, tax on other income will only be payable when money is actually withdrawn.

Family tax allowance under personal income tax

- Individuals who have social security coverage but are not able to utilize the entire amount of the family tax allowance (as their salary does not reach the necessary level) will be able to deduct an amount corresponding to 16% of their unutilized personal income tax allowance from their 7% health care contribution liability and 10% pension contribution liability (in this order). Utilizing the family tax allowance will not decrease individuals' entitlement to social security services.

- Under the procedural rules proposed with respect to utilizing the family tax allowance, employers and disbursers that are obliged to determine tax advances will first deduct the amount indicated on the tax advance declaration from the personal income tax base. Then, if such deduction does not provide full coverage in order to utilize the family (tax base) allowance, the individual's contribution liabilities can be decreased by 16% of the remaining allowance.

Sport related personal income tax exemptions to be extended

- With the amendment of the Act on Personal Income Tax, services provided at sporting events (competitions or matches) organized at sporting facilities will be exempt, including catering provided at such events. Disbursers are entitled to the said exemption in respect of services rendered not only at their own facilities, but also at rented facilities, so long as they are related to a sporting event.

- Sports services provided by a disburser through the use of its own sporting facilities will also be exempt. No tax liability will arise, for instance, if a company permits its employees to use its own football pitch at a nil or reduced consideration. The new exemption will enter into force as of 1 January 2014.

Social security contributions of foreign employees

- Employees that are third-country nationals, that qualify as foreign individuals and that are on assignments of more than two years will be able to be exempted from Hungarian social security contribution liabilities if their assignment period is extended to more than two years for unexpected reasons, provided this extension is realized after the first year of the assignment period, and that the employee reports the extension to the tax authority.

- As a result of the previous transitional rules being amended, until 2015, third-country assignees may be exempted from social security contribution liabilities while employed in Hungary. This is because the two-year period can be calculated from 1 January 2013, meaning that the social security contribution liability will arise on 1 January 2015 at the earliest.

Tax allowance that can be utilized from the social contribution tax

- Companies operating in free entrepreneurial zones will also be eligible for the social contribution tax allowance if the beneficiary employees in question have a registered place of abode that for the past six months has been:

  - In the free entrepreneurial zone in which the employer is located,
  - In a free entrepreneurial zone within a maximum of 20 km from the zone in which the employer's registered seat is located.

- Companies will also be eligible if the employee lives in the same micro region as the free entrepreneurial zone in which his or her employer is located.
**Social contribution tax base**

- The definition of base salary will change for the purpose of determining the tax base in respect of foreign assignments. Base salary shall mean the monthly average sum of salaries actually accounted for and paid in the year preceding the employee’s assignment, based on his or her employment agreement, directly depending on the employee’s performance and hours worked, and based on the employee’s base salary or the salary scheme applied, with the base salary as defined for statistical accounting purposes. If no such information is available, base salary shall mean the base salary agreed for the month in question.

- When establishing the social contribution tax base, the income that forms the basis of the tax base will also have to be taken into account even if it is paid after the termination of the legal relationship that forms the basis of the social contribution tax liability. This kind of income shall be considered paid on the date on which the legal relationship was terminated.

**VAT/GST/sales taxes**

**Periodic settlement for VAT purposes**

- In relation to transactions recorded in periodic settlements, the last day of the period in question will qualify as the date of supply. Currently, the date of supply is the due date on which consideration is paid. However, for public utility service agreements specified in the Act on Civil Code, the date of supply will not change but will remain the date on which the consideration is due.

- Within the period specified by the legislation, taxable persons are obliged to adjust the input VAT related to tangible assets used within their company if the ratio of use of the assets in question changes. The new legislation also prescribes that intellectual property rights must be treated in the same way that tangible assets are treated.

- New provisions will be first applicable to intellectual property rights acquired after the date on which the provisions come into force.

- Unlike the current edition of the law, provisions relating to the subsequent correction of payable and deductible taxes will be regulated in the same section.

- In the future, receipts may also be issued electronically.

- Regarding the exempt exportation of goods, supplies of goods which exit the territory of the Community after more than 90 days but within 360 days of the supply can also be exempted provided that other conditions stipulated by the law are met.

**Excise duty**

- Excise duty-related amendments are partly aimed at simplifying administration and decreasing the burdens on business entities. Therefore, among other things, tax warehouses will no longer be obliged to keep customer registers.

- Sanctions will become stricter in order to reduce abuses: if the collateral is not increased, it will be possible to suspend the licenses of tax warehouse operators and registered traders for 30 days, and the penalty amount that will be able to be imposed in the event of tobacco related infringements will significantly increase.

**Green tax**

- The rules on reusable packaging will include a new opportunity. Entities that rent out reusable packaging within a rental system will not be subject to any green tax liabilities on renting out reusable packaging. To qualify for this opportunity, the entities in question must operate a closed computer system through which product history can be tracked. If an entity intends to apply the rental system, the environmental protection authority will provide the license upon request.

- Introducing the legal institution of green tax warehouses will lift a significant burden.

- Green taxable products will be able to be stored or manufactured without any green tax being paid. Green tax liabilities will be triggered only upon the final use or when products are released for domestic circulation.

**Stamp duty exemption and liability**

- Waiving dividends will not be subject to gift tax.

- In the future, Hungarian companies shall be considered companies holding real estate located in Hungary if they are business entities on whose balance sheet the value of real properties exceeds 75% of the book value of assets recorded on the balance sheet date. Currently, this qualification depends on the condition that the principal activity of the acquired company must be real estate development, letting, management or trading.

- Pursuant to the new legislation, preferred exchanges of shares, preferential transformations, preferred transfers of assets (in certain cases), and the transfers of real properties and participations between related parties will not be exempt from stamp duty liabilities if the acquirer’s registered seat or tax residence is located in a state in which the corporate income tax rate (or the equivalent tax rate) is less than 10%, or where the income realized from selling participations is not subject to a minimum corporate income tax (or equivalent tax) liability of 10%.

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**Hungary**
The outlook for global tax policy in 2014

Hungary

• Real properties and vehicles acquired within the framework of closed-end financial leasing agreements will be subject to transfer tax liabilities considering that the transfer of ownership rights results from the leasing agreement.

The tax base of controlled real estate investment companies

• The definition of companies holding real estate has been amended. For the purposes of transfer tax liabilities, the company’s principal activity will not be significant when acquiring participation in companies holding real estate located in Hungary.

• The amendment of the act on controlled real estate investment companies is designed to facilitate the establishment of such companies. Among other things, controlled real estate investment companies will have the opportunity to own more than 10% of the shares of business entities engaged in organizing building projects as their principal activity. In this respect, profits realized on the alienation of shares exceeding the 10% shareholding in business entities engaged in organizing building projects as their main activity are not exempt from corporate income tax liabilities.

2.5 Political landscape

• In April 2010, the FIDESZ political party won the election and gained a two-thirds supermajority in the Parliament, which should provide a stable decision-making and governing power; however, numerous demonstrations have taken place due to recent austerity measures.

• The parliamentary opposition is highly divided.

• A new election will be held on 6 April of 2014.

2.6 Current tax policy and tax administration leaders

Current tax policy leaders

• Mihály Varga, Minister for National Economy

• Zoltan Pankuci, Deputy State Secretary (Ministry for National Economy) responsible for tax matters

Current tax administration leaders

• Dr. Ildikó Vida, President of National Tax and Customs Office (NAV)

• Dr. Árpád Varga, NAV, Deputy President of the Head Office

• Dr. Katalin Somos, NAV, Head of General Directorate for Largest Taxpayers and Tax Matters

• Ms. Csillag Dezsőné, NAV, Deputy President for Tax Investigation

• Ms. Dávidné Moór, NAV, Head of the Directorate of Largest Tax Matters

2.7 Key tax policy changes in 2013

Corporate income tax-related changes

• If the pretax profit of the company or its tax base, whichever is higher, fails to reach the income (profit) minimum, the taxpayer has the option to either make a statement on the cost structure in its tax return or apply the income minimum as the tax base and pay the tax on that amount.

• Up to HUF 50 million, or three times the amount of a taxpayer’s own costs of basic research, applied research and experimental research carried out – based on a written agreement – in cooperation with public research centers or corporate research centers directly or indirectly owned by the state, is deductible from the corporate income tax base.

• When calculating the daily average value of liabilities for the tax year for thin capitalization purposes, trade receivables and trade payables may not be taken into account.

• The definition of a controlled foreign company is extended. Accordingly, if a given company has a zero or negative profit and tax base and if the foreign state in question applies multiple tax rates, the lowest rate has to reach 10%.
Hungary

**Tax losses carried forward**
- Upon a de-merger, the surviving entity (the legal successor) will be permitted to utilize the tax losses determined based on its participation in the de-merger balance sheet.
- Regarding acquisitions, if the taxpayer in question is dissolved without succession within two tax years of the acquisition, the activity criterion for carrying forward losses will not have to be met.

**Development tax allowance**
- Free entrepreneurial zones: a Government decree details the rules on the establishment and operation of free entrepreneurial zones and on the application of allowances.
- The training fund contribution base can be decreased by new employees’ gross salaries (capped at HUF 100,000 per month, per employee) in the first two years of employment, during which the taxpayer utilizes the tax allowance of free entrepreneurial zones from the social contribution tax liability.
- Settlements can qualify as free entrepreneurial zones for five years with five-year extensions available.
- In relation to tax allowances of the conditions of performance art aid for supporting performance art associations, the fact that supporters are not entitled to receive anything from the associations in return for granting support will also be specified in the legislation.
- Supplementary sport development aid: in relation to tax allowances on supporting spectator team sports, supplementary sport development aid will be introduced in the 2013–14 support period. Within the framework of sponsorship or aid contracts, supporters will have to pay this aid – at least 75% of the amount indicated in the support certificate multiplied by the 10% or 19% tax rate – in the tax year in which the support was granted and to the specific national spectator team sport association in question.

**Sectoral taxes-related changes**
- A new tax will be levied on the public utility network, and public utility lines will be the object of the tax. Public utility lines, telecommunication lines, public areas, proprietors and operators are among the terms defined in the new act.
- The tax rate applicable to every meter started will be HUF 125.
- As of 2013, the income tax rate on energy suppliers will be 31%.
- The income tax on energy suppliers may be decreased by the amount of the mining duty, capped at HUF 1.5 billion.
- For enterprises, the telecom tax increased from HUF 2 to HUF 3 per minute of a call. The monthly cap will increase from HUF 2,500 to HUF 5,000 for each individual phone number. The tax liability on phone calls started and messages sent from individuals’ phone numbers will not change. The monthly cap remained at HUF 700 per individual.
- The scope of the snack tax was extended and tax rates were increased.

**Financial transaction tax-related changes**
- The tax liability on cash transactions such as ATM cash withdrawals was increased from 0.3% to 0.6%, and the HUF 6,000 cap was removed.
- On bank transactions (bank transfers between bank accounts) the tax liability increased from 0.2% to 0.3%, and the HUF 6,000 cap remained in force.
Local business tax-related changes
- As of 2013, deduction brackets will apply when deducting the aggregate amount of cost of goods sold and intermediated services from net sales revenues. This limitation does not affect the deductibility of other items such as material costs.
- Owners of freight vehicles may decrease their local business tax liabilities by 7.5% of the e-road toll that they have paid in the tax year in question. The amendment also specifies that taxable persons may decrease their tax liabilities on their registered seat or permanent establishment by the part of e-road toll that qualifies as a decreasing item in proportion to its tax base to be allocated between the settlements in which it has sites based on the respective provisions of the Act on Local Taxes (i.e., tax liabilities can be decreased in proportion to the allocated tax base).

Transfer tax-related changes
- One of most important tax law amendments that came into effect in 2013 was the substantial simplification of the transfer tax system, with respect to inheritance tax, gift tax and onerous transfer tax.

Inheritance tax- and gift tax-related changes
- Properties acquired based on home savings agreements were exempted from inheritance and gift tax liabilities.

Personal income tax-related changes
- As well as some smaller modifications, there were two significant amendments to the Act on Personal Income Tax, which came into effect on 1 January 2013. These are, namely, the abolition of super-grossing and the transformation of the personal income tax treatment with respect to insurance policies.

Flat tax rate and the abolition of super-grossing
- As of 2013, the personal income tax rate in Hungary is a flat rate of 16%. The general rules on personal income tax advances changed as a result of the abolition of the tax base adjustment.

Social security contributions-related changes
- The most important change to social security contributions was the removal of the cap on employee pension contributions.
- Another amendment to the Act on Contributions is that in 2013, the health service liability amount to be paid by uninsured individuals was increased at the rate of inflation from HUF 6,390 to HUF 6,660 per month.

Health tax contribution-related changes
- According to the new rules, the health tax rate on non-wage benefits payable by disbursers was increased to 14%.
- Individuals with registered addresses in Hungary or disbursers (if income taxes must be paid by the disbursers under the Act on Personal Income Tax) are now subject to a 6% health tax liability on the interest income established as the tax base and on deposit yields realized from long-term investments, if the long-term investment agreement is terminated before the last day of the three-year deposit period.

Social contribution tax-related changes
- Two new types of tax allowance were introduced to promote the creation of jobs. One of these relates to companies that are eligible for the development tax allowance while the other helps domestic companies with R&D activities.
- As of 1 July 2013, the conditions of utilizing tax allowance on the social contribution tax in free entrepreneurial zones have become more favorable. Companies no longer have to be entitled to utilize development tax credit under the Act on Corporate Income Tax and Dividend Tax (i.e., now they do not have to implement high-value investments in free entrepreneurial zones).
- On new employees, the allowance is 27% of the (gross) salary capped at 27% of HUF 100,000 in the first two years of employment and 14.5% in the third year of employment.
VAT-related changes

- As of 1 January 2013, the threshold for individual VAT exemption was raised from HUF 5 million to HUF 6 million. Other conditions required for the option of individual exemption will remain unchanged.

- As of 1 January 2013, business transfers (i.e., transfer as a going concern transactions) were VAT-exempt provided that certain conjunctive conditions prescribed by the Act on VAT are met.

- Supplies of passenger cars were exempted from tax liabilities if any input VAT was charged on the passenger cars prior to the supply, but the input VAT on passenger cars was not deductible due to a deduction ban.

- As of 2013, one of the most important changes for taxpayers was the introduction of a new requirement to provide data, i.e., the domestic VAT summary reports.

- The requirement of reporting pertains to both product sellers/service providers and buyers/service recipients if the amount of the VAT indicated on the invoice reaches or exceeds the HUF 2 million threshold. The threshold specifically relates to the VAT amount, not the entire transactional amount that is the basis for issuing the invoice.

Excise duty-related changes

- As of 1 January 2013, the excise duty on alcoholic products was raised by 10%, and the tax on cigarettes and smoking tobacco was increased by 5% to 10%.

- The excise duty on liquefied petroleum gas fuel was increased in two increments from 1 January 2013 and 1 May 2013.

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

- There is no specific public statement, consultation or legislation in connection with the OECD BEPS Action Plan.

2.9 Pending tax proposals

- Not applicable

2.10 Consultations opened/closed

- Not applicable
### Tax rates (2013-14)

#### 1.1 Key tax rates

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<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
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<tbody>
<tr>
<td><strong>Top corporate income tax rate</strong> (national and local average, if applicable)</td>
<td>Domestic companies: 32.445%, incl. surcharge &amp; CESS</td>
<td>Domestic companies: regular tax of 33.99% including surcharge and education CESS</td>
<td>Domestic companies: +4.8%</td>
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<td>Foreign companies: 42.024%</td>
<td>(32.445% where the total income is more than INR10 million and up to INR 100 million; 30.9% where the total income is equal to or less than INR10 million)</td>
<td>Foreign companies: +2.9%</td>
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<td><strong>Top individual income tax rate</strong> (national and local average, if applicable)</td>
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<td>30%²</td>
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<td><strong>Standard value-added tax (VAT) rate</strong></td>
<td>Central VAT levied on manufactured goods - 12%</td>
<td>Central VAT levied on manufactured goods: 12%</td>
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<td></td>
<td>State VAT on sale and purchase of goods - 12 to 14%</td>
<td>State VAT on sale and purchase of goods: 12.5 to 15%</td>
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1. EY India Budget Plus 2013.
2. EY India Budget Plus 2013.
2.1 Key drivers of tax policy change

- Reviving economic growth and investment
- Curbing inflation
- Taming the fiscal and current account deficits
- Greater efficiency in tax administration
- Elections in 2014 to drive pro-public measures

2.2 Fiscal consolidation vs. stimulus

Specific areas of fiscal stimulus

- The sunset clause for commencement of a business claiming a tax holiday in the power sector is extended from 31 March 2013 to 31 March 2014.
- To propel growth in the manufacturing sector, an investment-based deduction has been introduced on acquisition and installation of new assets from 1 April 2013 to 31 March 2015.

Specific areas of fiscal consolidation

- A surcharge of 10% on personal income tax is applicable on income exceeding INR10 million only for FY 2013-14.
- A surcharge increased to 10% and 5% (from 5% and 2% respectively) for domestic and foreign companies respectively, where income exceeds INR100 million.
- A surcharge on profits distributed to shareholders and income distributed to unit holders is increased from 5% to 10%.
- A tax of 20% has been introduced on distributed income on buyback of shares by an unlisted domestic company.
- A 10% import duty on gold has been imposed.
- Diesel prices are being increased by INR0.50 per month to reduce oil subsidy.

2.3 Tax policy outlook for 2014 — summary

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2.4 Tax policy outlook for 2014 – detail

Corporate income taxes

- GAAR provisions are postponed till AY 2016.
- The Finance Minister aims to introduce the Direct Taxes Code Bill in the forthcoming Session of the Parliament in February, 2014, if he is able to get the Cabinet approval for the purpose. However, the Bill is unlikely to be passed in this Session of the Parliament.
- No major changes are expected in the existing tax rates / base in the next eight to nine months due to the nearing general elections.

Taxes on wages and employment

- The Government is looking at generating additional revenues from enhanced personal income taxes on higher earners. However, upcoming elections may hold back these proposals.
- No changes in social security taxes are expected.

VAT/GST/sales taxes

- The Central/Federal Government is likely to maintain the Central Excise Duty (CENVAT) and service tax rate at 12%.
- Given the lack of consensus between the Centre and the States on the GST, the Constitution (Amendment) Bill for implementation of goods and services tax (GST) unlikely to be tabled in the Parliament in the current term of the government.
- Introduction of GST is likely to be postponed till 2015, after the general elections are held in 2014.

2.5 Political landscape

- Five states held elections in November to December 2013, including major states such as Delhi, Rajasthan, Madhya Pradesh and Chhattisgarh. In Delhi, the ruling Congress Party has been replaced by the 'Aam Aadmi Party' (with support from the minority Congress). The new political party is strongly focused on anti-corruption and governance and is emerging as an important National party.
- The Bharatiya Janata Party (BJP) continues to be the ruling party in Madhya Pradesh and Chhattisgarh. It also defeated Congress in Rajasthan and formed the government.
- In 2014, the states of Andhra Pradesh, Arunachal Pradesh, Haryana, Maharashtra, Odisha and Sikkim will also have their elections.

2.6 Current tax policy and tax administration leaders

Tax policy leaders

- Mr. P Chidambaram, Finance Minister
- Dr. Arvind Mayaram, Secretary, Department of Economic Affairs, Ministry of Finance
- Mr. Sumit Bose, Revenue Secretary, Ministry of Finance
- Dr. Parthasarathi Shome, Adviser to Finance Minister

Tax administration leaders

- Ms. Sudha Sharma, Chairperson, Central Board of Direct Taxes
- Ms. Praveen Mahajan, Chairperson, Central Board of Excise and Customs

2.7 Key tax policy changes in 2013

- The Ministry of Finance issued circulars to bring clarity on the transfer pricing issues relating to development centers in India and conditions for identifying development centers engaged as contract R&D service providers with insignificant risk. Finance Act 2013 introduced lower withholding tax on interest payments to a FII or a qualified foreign investor on rupee denominated Government securities or corporate bonds from. The withholding tax rate was 20% on such payments. This rate is reduced to 5%. The concessional withholding tax will be effective from 1 June 2013 to 31 May 2015. The Parliamentary Standing Committee on Finance on Goods and Services Tax has endorsed the implementation of GST. It recommended that the GST should have low tax rates, a comprehensive base with no exclusions, a proper input tax credit system to ensure minimal cascading, and it should subsume all taxes for facilitating the free flow of goods and services.
- The Ministry of Finance announced the constitution of Tax Administration Reforms Commission under the Chairmanship of Dr. Parthasarathi Shome. The terms of reference of the Commission include a review of the existing mechanism of dispute resolution (both domestic and international taxation), covering time and compliance cost and recommend measures for strengthening the same. It would also
The outlook for global tax policy in 2014

focus on measures needed for tax governance including organizational structure and the use of information and communication technology and measures for widening and deepening the taxpayers’ base, among others.

- The safe harbor rules have been notified (published) for provision of software development services and IT enabled services other than contract R&D, knowledge processes outsourcing services other than contract R&D, specified contract R&D services wholly or partly relating to software development, contract R&D services wholly or partly relating to generic pharmaceutical drugs and manufacture and export of core and non-core auto components

- GAAR Rules have been notified. The rules carve out exceptions for FIIs that have not taken the treaty benefit and for nonresident investors in FIIs. The rules provide that GAAR applies to all tax benefits obtained on or after 1 April 2015 irrespective of the date of arrangement. However, income from transfer of investments made before 30 August 2010 is protected from GAAR impact. The rules also clarify that where a part of an arrangement is tainted, the tax consequences would be limited to the tainted part only.

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

- India is strongly committed to the OECD’s BEPS Action Plan and is participating actively in focus group discussions on the 15-point Action Plan.

- Source based taxation continues to be the focus of India’s tax policy. India has tried to be consistent with the international thinking (for example, by adopting the arm’s-length principle for allocation of profits between multinational enterprises). In certain areas there are important differences, but these should not hamper India’s engagement with the OECD.

- In the area of transfer pricing, India has generally been of the view that the rules should be improved in order to put more emphasis on value creation in highly integrated groups, tackling the use of intangibles, risks, capital and other high-risk transactions to shift profits.

- The Indian tax administration’s focus would be in ensuring that profits associated with the transfer and use of intangibles are appropriately allocated in accordance with, rather than divorced from, value creation.

2.9 Pending tax proposals

- Constitution (Amendment) Bill for introduction of Goods and Services Tax

- The Finance Minister aims to introduce the Direct Taxes Code Bill in the forthcoming Session of the Parliament in February, 2014, if he is able to get the Cabinet approval for the purpose. However, the Bill is unlikely to be passed in this Session of the Parliament.

- Given the eluding consensus between the Centre and the States on the GST, the Constitution (Amendment) Bill for implementation of goods and services tax (GST) unlikely to be tabled in the Parliament in the current term of the government

2.10 Consultations opened/closed

- The Government constituted a forum on Tax Issues and Tax Disputes under the chairmanship of Dr. Parthasarathi Shome, Adviser to the Finance Minister. The objective was to hold consultations with industry associations on the non-legislative issues that are sources of disputes due to lack of clarity.

- The Government issued draft safe harbor rules for public consultations. The rules were later finalized after incorporating the stakeholders’ views.
1 | Tax rates (2013-14)

1.1 Key tax rates

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<td>12.5%</td>
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<tr>
<td>Top individual income tax rate</td>
<td>48%</td>
<td>48%</td>
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<tr>
<td>Standard value-added tax (VAT)</td>
<td>23%</td>
<td>23%</td>
<td>–</td>
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</table>

2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

- Since 2010 the key driver of tax policy change in Ireland was the successful completion the European Union (EU)/International Monetary Fund (IMF) Programme of Financial Support for Ireland. On 15 December 2013 Ireland exited this Programme without a pre-arranged backstop. In accordance with Fund Policy, Ireland now enters a period of Post Programme Monitoring (PPM).

- Fiscal policy in Ireland is set within the boundaries of both the Stability and Growth Pact (the Pact) and the Treaty on Stability, Co-ordination and Governance (TSCG). 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 2014 was presented to the Irish Parliament on 15 October 2013. It is anticipated that Budget 2014 will be the penultimate step in bringing Ireland’s deficit below the 3% of gross domestic product target in 2015.

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1 Section 21 Taxes Consolidation Act 1997.
2 Section 15 Taxes Consolidation Act 1997 (income tax rate) and Section 531AN Taxes Consolidation Act 1997 (Universal Social Charge).
3 Section 46 Value-Added Consolidation Act 2010.
In 2014, Ireland will be funding itself from the markets and will not be reliant on external funding arrangements. In this regard, the budget measures seek to reassure markets and support the emerging economic recovery.

The Budget 2014 package provides for a fiscal adjustment of €2.5 billion. An increase in tax revenues of €1.2 billion is required (€700 million coming from new measures and €500 million coming from measures already announced in Budget 2013) to fund both the deficit target and the Jobs Initiative.

2.2 Key drivers of tax policy change

Specific areas of fiscal stimulus

- Budget 2013 announced the 10 Point Tax Reform Plan, and Budget 2014 builds on this, introducing 25 new measures incentivizing entrepreneurship, innovation, investment, access to credit and finance and providing an opportunity for small and medium enterprises to grow.
- The 9% reduced rate of VAT, targeted mainly at labor-intensive goods and services relating to tourism, has been somewhat successful and thus extended beyond 31 December 2013.

Specific areas of fiscal consolidation

- Budget 2014 announced measures to raise €1.2 billion in revenue (€700 million coming from new measures and €500 million from measures announced in Budget 2013), including:
  - Broadening of personal tax income base
  - A value-based residential property tax
  - Reductions in general tax allowances and reliefs
  - An increase in excise duties
  - An increase in deposit interest retention tax and exit tax rates
  - Social expenditure reductions

2.3 Tax policy outlook for 2014 – summary

<table>
<thead>
<tr>
<th>Corporate income tax burden</th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
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<tbody>
<tr>
<td>Personal income tax burden</td>
<td>Lower</td>
<td>No change</td>
<td>X</td>
</tr>
<tr>
<td>VAT/GST/sales tax burden</td>
<td>Lower</td>
<td>No change</td>
<td>X</td>
</tr>
</tbody>
</table>
2.4 Tax policy outlook for 2014 – 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 2014.
- Finance (No.2) Act 2013 was signed into law on 18 December 2013. Corporate income tax provisions include:
  - Research and development (R&D) regime enhanced: Ireland’s R&D Tax Credit regime provides for a 25% tax credit for incremental expenditure on certain R&D activities over such expenditure in a base year (2003). Finance Act 2012 provided that the first €100,000 of qualifying R&D expenditure would benefit from the tax credit without reference to the 2003 threshold. The amount of expenditure so allowed on a volume basis was increased to €200,000 in Finance Act 2013 and is now being increased again to €300,000 for 2014. The limit on the amount of qualifying research and development expenditure that can be outsourced to another company is also being increased from 10% to 15% in 2014. 
  - Although not specifically included in the 2014 budget, one of the most important pieces of information is that the intention to remove Ireland’s base year at some point in the future still stands.
  - Enhanced double tax relief for leasing companies applies for accounting periods commencing on or after 1 January 2014.
  - Deposit Interest Retention Tax (DIRT) – increase in DIRT rates to 41% applies to payments of deposit interest and payments from life assurance policies and investment funds made on or after 1 January 2014.

Taxes on wages and employment

- There are no increases in personal income tax rates, social insurance contribution rates or the universal social charge.
- There will be a broadening of the tax base for individual taxpayers, including tightening of allowances and targeting of reliefs.

VAT/GST/sales taxes

- The headline VAT rate remains at 23%.
- The 9% targeted (broadly tourism sector) VAT rate has been extended beyond 31 December 2013.
- The air travel tax has been reduced to zero.
- Excise duty has increased on tobacco and alcohol products.

2.5 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.

2.6 Current tax policy and tax administration leaders

Tax policy leaders

- Michael Noonan, Minister for Finance
- Brendan Howlin, Minister for Public Expenditure and Reform
- John Moran, Secretary General Department of Finance
- Derek Moran, Assistant Secretary, Department of Finance – Fiscal Policy Division

Tax administration leaders

- Josephine Feehily, Chairman of Irish Revenue Commissioners
- Liam Irwin, Revenue Commissioner
- Niall Cody, Revenue Commissioner

2.7 Key tax policy changes in 2013

- Stateless companies legislation: Finance (No.2) Act 2013 provides that certain Irish registered companies, if not resident anywhere, are to be regarded as resident in Ireland. This provision applies to all companies incorporated in Ireland from 24 October 2013. It applies to existing incorporated companies from 1 January 2015.
- Research and development (R&D): the volume basis de minimis amount was increased from €100,000 to €200,000, and there is improvement in “key employee” provisions.
The outlook for global tax policy in 2014

Ireland

- **Intangible asset regime**: the clawback period for capital allowances purposes has been reduced from 10 years to 5 years in respect of specified intangible assets sold or ceasing to be used for the trade.

- **Foreign tax credit on dividends**: an additional foreign credit (AFC) is available where a dividend is received from a country resident in the European Economic Area (except Liechtenstein). The AFC tops up the normal tax credits (if any) to an amount that represents the dividend taxed at the lower of the Irish and foreign statutory rates (subject to conditions).

- **Start-up operations**: the three year start-up relief for companies has been enhanced, enabling carryforward of any unused relief beyond the initial three years for use in subsequent years.

- **Real estate investment trusts (REITs)**: Finance Act 2013 measures facilitate the establishment of Irish REIT structures, providing for an exemption from corporation tax on net rental profits and on capital gains from a REIT’s property rental business.

- **Taxation of venture funds**: The taxation regime has been improved for the profits of certain venture funds.

- **Aviation services facilities**: a seven-year accelerated capital allowance scheme has been introduced for expenditure on the construction or refurbishment of certain buildings or structures used in connection with the maintenance, dismantling, repair or overhaul of commercial aircraft.

- **Local property tax (LPT)**: an LPT charged on all residential properties in the state came into effect in 2013.

- **Property incentive**: the Living City Initiative provides tax incentives for works performed to refurbish certain residential and retail buildings in specified cities in Ireland.

- **Capital tax rates**: Capital tax rates have been increased, and thresholds have been decreased.

- **Dealing in or developing land**: changes have been made to the income tax rules that apply to certain individuals who are engaged in or deemed to be engaged in a trade of dealing or developing land.

- **Employment and Investment Incentive**: this scheme is extended to 2020.

- **Foreign Earnings Deduction**: relief is extended beyond Brazil, Russia, India, China and South Africa (BRICS countries) to include specified African countries.

- **Pensions**: there is limited pre-retirement access to additional voluntary contributions.

- **Self-assessment**: New self-assessment provisions have been introduced.

- **Start your own business initiative**: Exemption from income tax (max €40K) for qualifying individuals who set up an incorporated business from 23 October 2013 and before 31 December 2016.

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

- On 15 October 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 EU initiatives, including the OECD’s BEPS project. The document states: “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.”

- This document also signaled the legislation now included in Finance (No.2) Act 2013 that seeks to prevent “stateless” companies avoiding a charge to Irish corporation tax on their profits.

2.9 Pending tax proposals

- Investment in film relief: move away from principle of relief for investors in films to system whereby tax credit is made available for producer company (accelerated to 1 January 2015).

- The EU/IMF Programme of Financial Support included the reform and restructuring of the provision of water services. On 1 January 2014 responsibility for the supply of water transferred from Local Authorities to Irish Water. The transfer of water services assets and liabilities to Irish Water will happen on a phased basis. Domestic water charges will commence from 1 October 2014, with households receiving their first bills from January 2015.
2.10 Consultations opened/closed

**Reform of the appeal system for tax matters: submissions due 16 January 2014**
Consultation on proposed amendments to the appeal system for tax matters. The proposed amendments include:

- Structure of Appeal Commissioners
- Establishment and operation of the Appeal Commissioners
- Appointment of Appeal Commissioners
- Determinations of the Appeal Commissioners
- Appeal Commissioners jurisdiction
- Payment of taxes
- Appeals from the Appeals Commissioners

**Pay and file: closed 8 November 2013**
The consultation document details that changes are required to be made to the pay and file dates for income tax purposes in order to provide increased certainty around the annual tax take. Currently, the income tax pay and file date is 31 October. These changes are required as a result of the move to an earlier mid-October budget date (previously early December). This is as a result of adoption of the “Two-Pack,” which provides for a common budgetary timeline for all EU Member States.

The consultation seeks opinions on:

- Possible options for self-assessed income tax
  - Move pay and file date to 30 June
  - Move pay and file to September
  - Move pay and file to September and allow taxpayers to mandate from state payments
- Options other taxes
  - Capital gains tax: January to July gains payment in September
  - August to November gains payment in December
  - December gains payment in January
- Capital Acquisitions Tax – leave as is as it has been changed three times in last three years

It is anticipated that the Minister of Finance’s decision in this regard will be reflected in an amendment at the committee stage of the Finance Bill, scheduled for 26–28 November.

**Tax implications of appointing receivers: closed 16 August 2013**
In 2012, the Department of Finance conducted a consultation on the direct and indirect tax implications of appointing a receiver. In July 2013 the Revenue published a paper with proposals and draft legislation in relation to the direct tax treatment of receiverships.

The consultation requested opinion on:

- The certainty provided as to tax and filing obligations
- Whether the approach deals satisfactorily with lenders’ concerns about re-enforcing their security
- Whether the approach will mitigate the risk of dysfunctional behavior of borrowers
- Whether compliance and administration costs will be kept to a minimum
- Whether the one-size-fits-all receipts and payments approach is logical
- Whether the refund provision is sufficient enough to address concerns

**Foreign Account Tax Compliance Act (FATCA) consultation: closed 31 May 2013**
The legislation to implement the Intergovernmental Agreement with the United States to Improve International Tax Compliance and Implement FATCA was contained in Finance Act 2013, and accompanying regulations and guidelines were published in draft form.

The Revenue sought observations and comments on the following draft documents:

- FATCA Notes on implementation
- FATCA Draft financial accounting reports reporting regulations
Review of R&D Tax Credit: closed 29 March 2013
The terms of reference outlined in the consultation document included:
- Establish the economic rationale for incentivizing investment in R&D
- Identify the exchequer cost and level of adoption of the R&D tax credit
- Assess the impacts of the R&D tax credit on the following:
  - The amount of business expenditure on R&D
  - Indigenous investment and foreign direct investment (FDI) in Ireland (both new and existing)
  - Large company and small to midsize enterprise activity
  - Mobile R&D investments (both new and existing)
  - Levels of deadweight and additionality
- Consider whether the design and structure of R&D credit is optimum by analyzing:
  - The incremental approach to eligible expenditure (i.e., the use of 2003 as a base year for the assessment of incremental expenditure)
  - Possible overlaps with other tax provisions
  - The level of allowable expenditure that can be outsourced
  - Aspects of the eligibility criteria (whether the regime is too wide or too narrow in scope in respect of allowable activities)
  - The interaction and alignment of the tax credit with R&D grants
  - The administrative burden of the regime
- International competitiveness of R&D, offering a comparison of Ireland's offering to that of competitor jurisdictions for mobile (R&D-based) FDI

Taxation of micro enterprises – reduction in compliance costs: closed 28 February 2013
Comments sought on:
- Simplification for micro businesses in Ireland
- How a simplified regime would work
- An appropriate threshold and desirable flexibility around the margins
- Whether a micro business should be given the choice of opting in or out of a simplified regime
- Transitional arrangements that would be needed
- How revenue neutrality can be achieved
- Change management
**1.1 Key tax rates**

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<th></th>
<th>2013</th>
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<th>Percentage change</th>
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<td>(national and local average, if applicable)</td>
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<tr>
<td>Standard value-added tax</td>
<td>22%</td>
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<td>(VAT) rate</td>
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1 **EY Worldwide Corporate Tax Guide**, March 2013. The legislative disposal for corporate income tax is Article 77 of the Presidential Decree, 22 December 1986, n. 917 in force in 2014 while the disposal for regional tax is Article 16 of the Legislative Decree, 15 December 1997, n. 446 in force in 2014. 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 (new thresholds are applicable from 2014, being the surcharge for FY 2011-2013 equal to 10.5%, increasing the total tax rate up to 38%, and applied to oil, gas and energy companies with revenues exceeding €10 million and taxable income exceeding €1 million. For further references, see below par. 2.7.). Only for FY 2013 is a corporate tax surcharge of 8.5% is applicable to banks and financial companies. A regional tax on productive activities (imposta regionale su 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**, September 2013. The legislative disposal for individual tax is Article 11 of the Presidential Decree, 22 December 1986, n. 917 in force in 2014. The rate includes an additional regional tax ranging from 0.7% to 2.03% 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.

2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

The Government is striving to stimulate economic growth, keeping the deficit under control by:

- Reducing taxation on labor costs
- Increasing tax competitiveness
- Reducing some public costs (e.g., health, public administration, education)
- Fighting against tax evasion and aggressive tax planning

2.2 Key drivers of tax policy change

Specific areas of fiscal stimulus

- Deduction of notional yield of new equity
- Deduction of new employees cost for IRAP purposes
- New rules for the bad debt deduction
- New rules for the deduction of leasing instalments

Specific areas of fiscal consolidation

- Increase in VAT rates
- Replacement of municipal tax on real estate (IMU) with a new real estate tax (TASI)

2.3 Tax policy outlook for 2014 – summary

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<th>Corporate income tax burden</th>
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<td>No change</td>
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</table>
2.4 Tax policy outlook for 2014 – detail

Corporate income taxes

On 23 December 2013, the Italian Parliament passed the budget law for 2014 (2014 Stability Law), which was published on 27 December 2014 in the Italian Official Gazette. The 2014 Stability Law (Law no. 147/2013) provisions contain the main following changes to Italian corporate tax legislation, which impact the 2013 and 2014 tax years:

- Introduction of a one-off asset step-up option through the payment of a substitute tax amounting to 16% for amortizable/depreciable assets and 12% for non-amortizable/depreciable assets. A corresponding equity reserve shall be created and could be freely distributed following the payment of a 10% substitute tax
- Increase of the notional interest deduction (ACE) on new equity from the current 3% deduction to 4% for 2014, 4.5% for 2015 and 4.75% for 2016
- Reintroduction of the participation step-up through the payment of a substitute tax amounting to 16%
- Additional €15,000 deduction of new employees cost for IRAP purposes applicable to each newly hired person under a permanent contract. The deduction is limited to the year of hiring and the following two years
- 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
- Deductibility for IRES purposes of the Municipal Tax on real estate property (IMU) paid on business real estate
- Reduction of the period related to the deduction of leasing instalments for CIT purposes
- Application of Transfer Pricing rules also for IRAP purposes
- Introduction of special provisions for Digital Economy companies (so called Web Tax)

Other relevant tax updates

- On 23 December, 2013, the Italian Government issued Law Decree no. 145/2013, that shall be converted into ordinary law by the Italian Parliament within 60 days. The main tax provisions contained in such Decree are the following:
  - Extension of the scope of the International Standard ruling
  - Tax credit for R&D activities
  - Substitute tax regime related to medium and long term loans

- In addition, starting from 1 January 2014, it is also worth noting that:
  - the tax regime concerning the Registration Tax and the Mortgage and Cadastral Taxes applied to real estate transfers has been modified
  - the tax credit compensation threshold has been increased up to € 700,000

Taxes on wages and employment

- No changes anticipated.

VAT/GST/sales taxes

- From 1 January 2014, the VAT rate applied to purchases of food and beverages from automatic vending machines has been increased from 4% to 10%.

2.5 Political landscape

The current political Government is led by Enrico Letta and is supported by a wide coalition including conservative and progressive parties. This is the result of the political elections that took place in February 2013, during which none of the coalition won with a clear majority. The Next Italian general election will be held before or during 2018.

2.6 Current tax policy and tax administration leaders

- Enrico Letta, Prime Minister
- Fabrizio Saccomanni, Minister of Economy
- Attilio Befera, Head of the Italian Revenue Agency

2.7 Key tax policy changes in 2013

The main tax updates related to FY 2013, are summarized as follows:

- On 24 September 2013, the Italian Revenue Agency (Italian Revenue) issued Circular Letter no. 31 (Circular), which contains important clarifications with respect to the tax treatment of prior years’ accounting errors. The Revenue explained the procedures through which a taxpayer may or

shall amend under certain conditions the taxable base of one or more fiscal years that were incorrectly determined as a result of accrual mistakes in prior years’ financials. Among other things, this procedure represents an opportunity for taxpayers to deduct costs that were not deducted in the year of accrual.

• On 1 August 2013 the Italian Revenue Agency issued Circular Letter no. 26/2013, providing clarifications on the bad debt regime.

• Starting from 1 October 2013, the VAT rate was increased to 22%. The increase was originally expected from 1 July 2013, based on Law December 24th 2012, n. 228 (Legge di Stabilità 2013).

• The financial transaction tax was introduced on 1 March 2013 for equity transactions and on 1 July 2013 for equity derivatives. The tax applies at a rate of 0.20% (0.22% for fiscal year 2013), reduced to 0.10% (0.12% for fiscal year 2013) if the transfer occurs in a regulated market. For derivatives based on shares or other equity financial instruments, the FTT applies on a flat basis with a maximum of €200.

• The Robin Hood Tax – originally imposed at a rate of 6.5% and subsequently increased to 10.5% for the period 2011 to 2013 – applies to Italian resident companies operating in specific energy sectors with (i) revenues over €10 million and (ii) taxable income over €1 million. The law decree 69/2013 has modified the original threshold providing for the application of the Robin Hood Tax to energy entities with revenues over €3 million and taxable income over €300,000.

• On 12 August 2013, the Government issued a decree implementing new rules on the income tax treatment of the migration of Italian companies. The decree provides that, as an alternative to an immediate levy, Italian companies shifting their tax residence to the European Union or other qualifying countries may elect to defer exit taxation to the moment of actual realization or to pay the tax due through 10 annual installments. Both elections require the release of a proportioned guarantee. Revenue should issue specific guidance on the formalities concerning the execution of the elections and the other fulfillments.

• On June 2013, the Italian Revenue announced the launch of a pilot project for a cooperative compliance program aimed at implementing a transparent and truthful relationship framework between tax authorities and large business taxpayers. The deadline to file the application to join the pilot expired at the end of July.

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

No public statement, consultation or legislation in relation to OECD BEPS Action plan has been published or enacted to date, but the guidelines provided to the Italian Revenue’s tax audit teams in 2013 did refer specifically to focusing on those transactions listed in the BEPS Action Plan.6

2.9 Pending tax proposals

In addition to the 2014 Stability Law (see 2.4), a delegated law aimed to review the fiscal system was approved by one of the Chambers of Deputies in September and is now under examination at the Senate. The draft provides:

• 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 the 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 the cross-border transactions: tax residence, blacklist costs, taxation of permanent establishment)

2.10 Consultations opened/closed

• Not applicable

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## Tax rates (2013-14)

### 1.1 Key tax rates

<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
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<tbody>
<tr>
<td>Top corporate income tax rate (national and local average, if applicable)</td>
<td>38.01%</td>
<td>35.64%&lt;sup&gt;1&lt;/sup&gt; (including local corporate taxes)</td>
<td>-6.2%</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>40%</td>
<td>40% (10%, plus additional local individual income tax rate)</td>
<td>-</td>
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<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>5%</td>
<td>8%&lt;sup&gt;2&lt;/sup&gt; (from 1 April 2014)</td>
<td>+60%</td>
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<sup>1</sup> The Government has repealed the 10% special reconstruction surtax a year early and the effective corporate tax rate (Tokyo area, including local taxes) will be reduced from 38.01% to 35.64% for taxable years beginning on or after 1 April 2014.

<sup>2</sup> On 1 October 2013, the Government formally decided to increase the rate of consumption tax from the current 5% to 8% from 1 April 2014.

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**Tax policy and controversy**

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**Content provision date**

4 November 2013
2014 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 aimed at achieving average growth of 3% (2% in real terms) over the next 10 years. These policies are intended to reverse deflation trends within the Japanese economy which have continued for many years.
- In addition, the policies aim to reduce the large national deficit in order to achieve fiscal health and cope with an aging population and low future birthrate.
- Japanese tax policy is determined by considering a combination of the goals of stimulating the economy (tax decrease measures) and achieving fiscal health (tax increase measures).

2.2 Fiscal consolidation vs. stimulus

Specific areas of fiscal stimulus
- Corporate/business sector

Specific areas of fiscal consolidation
- Individual tax area

2.3 Tax policy outlook for 2014 – summary

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</table>
2.4 Tax policy outlook for 2014 – detail

Corporate income taxes

- Reduction of effective corporate tax rate: The Government has repealed the 10% special corporate reconstruction surtax a year early. The effective corporate tax rate (Tokyo area, including local taxes) will be reduced from 38.01% to 35.64% for taxable years beginning on or after 1 April 2014.
- Suspended net operating loss carry back rules applicable to large corporations will be extended for an additional two-year period.
- Introduction of various tax incentive measures that stimulate private sector investment: On 1 October 2013, “Tax reform outline to stimulate private sector investment” was released. Various tax measures will be introduced in 2014, including:
  - A tax incentive to promote capital expenditure on productivity-enhancing equipment
  - A tax incentive to promote venture capital
  - A tax incentive to promote specific corporate reorganization
- International taxation: The basic principle of taxation on nonresidents/foreign corporations will be changed from the current “force of attraction principle” to an “attributable income principle” that is in line with the Authorized OECD Approach by amending the current tax law to reflect this change. This tax reform will be applied to corporations for taxable years beginning on or after 1 April 2016.
- An indirect service transaction with a related party through an unrelated party will be included in the scope of the transfer pricing regime.

Taxes on wages and employment (personal income tax)

- The reduced tax rate (10%) on dividends and capital gain income derived from listed stocks will be abolished at the end of 2013. From 2014, the original tax rate will become applicable.
- Also, in order to retain the incentive for individuals to make investments in stocks and shares, a Japanese individual savings account will be introduced in January 2014.

VAT/GST/sales taxes

- The consumption tax rate (federal plus local) will be raised from 5% to 8% on 1 April 2014.

2.5 Political landscape

- In July 2013, the Liberal Democratic Party won the upper house election. It reinforced the Abe government’s political position. Under favorable economic conditions and a high approval rating, Abe announced the consumption tax hike on 1 April 2014 as scheduled.
- Abe’s leadership on tax policy will continue for some time because a national election is not expected.

2.6 Current tax policy and tax administration leaders

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

Tax administration leader
- Mitsutaka Inagaki, Commissioner of the National Tax Agency
2.7 Key tax policy changes in 2013

- Corporate income taxes: New tax incentives which support Abe’s growth strategy were introduced and some existing tax incentives were extended and enhanced. These included:
  - A new tax regime to promote domestic capital investment
  - A new tax credit regime for corporations which increase employees’ salaries and wages
  - Expansion of the R&D credit regime.

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

- In July 2013, the Minister of Finance announced that the Government strongly supports the OECD BEPS Action Plan. In addition, the Government’s tax advisory committee has just started a series of discussions about BEPS.
- There is some concern that excessive policies/measures derived from BEPS discussion may affect the international business operations of Japanese corporations.

2.9 Pending tax proposals

- Consumption tax (VAT): It is scheduled that the further tax rate raise (from 8% to 10%) will be implemented on 1 October 2015 if the economic conditions are appropriate at that time.
- The treatment of in-bound e-commerce is now being discussed from a consumption tax perspective. Currently, such transactions are not subject to Japan’s consumption tax.

2.10 Consultations opened/closed

- A new Government tax advisory committee was established and started discussions in June 2013. This committee will deliver official reports related to various tax issues during the course of the next three years.
- In October 2013, the committee set up two small discussion groups. The agenda of one group is “international taxation,” which includes BEPS, the attribution income principle and cross-border e-commerce. The agenda of the group focuses on the “Identification Number Regime” that is scheduled to be introduced in 2016.
1. Tax rates (2013-14)

1.1 Key tax rates

<table>
<thead>
<tr>
<th>Top corporate income tax rate (national and local average, if applicable)</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>24.2% (including local income taxes)</td>
<td>24.2% (including local income taxes)</td>
<td>–</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Top individual income tax rate (national and local average, if applicable)</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>41.8% (including local income taxes)</td>
<td>41.8% (including local income taxes)</td>
<td>–</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Standard value-added tax (VAT) rate</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10%</td>
<td>10%</td>
<td>–</td>
</tr>
</tbody>
</table>

2. 2014 tax policy outlook

2.1 Key drivers of tax policy change

- The proposal for revised tax laws was passed at the National Assembly on 1 January 2014. Major changes in the laws can be grouped into the following three categories:
  - Supporting national priorities: increase growth potential and support small and medium enterprises, transform into a creative economy and promote venture capital, support 70% employment, and foster culture and art.
  - Prioritizing the people: Provide increased social security (i.e., earned income tax credit and child tax credit), support the agricultural and fishery industries as well as small self-employed businesses, support the working class, and rewrite the tax code in an easy-to-understand manner that can be easily understood by non-professionals.
  - Increasing tax neutrality and broadening the tax base: income tax credit calculation method to be changed and applied to taxes owed instead of income, restructure the tax incentive system, broaden the tax base, and legitimize the shadow economy.
2.2 Key drivers of tax policy change

Specific areas of fiscal stimulus
- Small and medium-sized companies
- Culture and art industry
- Agricultural and fishery industries

Specific areas of fiscal consolidation
- Large companies
- Individuals

2.3 Tax policy outlook for 2014 – summary

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

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

<table>
<thead>
<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 2014 – detail

Corporate income taxes

- Under the revised laws, many corporate income tax incentives have been terminated in order to help fill a shortfall in tax revenues. Under the revised laws, 3% of a company’s reserve used as future R&D (which previously could continuously deducted for corporate income tax purposes) may no longer be deducted. In addition, the existing tax credit is reduced to 3% for large sized companies (KRW 500 billion or more) and 5% for medium sized companies.
- In addition, the alternative minimum tax rate will increase from 16% to 17%.

Taxes on wages and employment

- 41.8% of maximum individual income tax rate bracket has decreased from KRW 300 million to KRW 150 million. Also, revised individual income tax laws including (i) lowering ceilings for various items of itemized tax deduction amounts, (ii) providing tax credits for certain items instead of current tax deductions and (iii) increasing individual income tax rates for middle-income taxpayers.

VAT/GST/sales taxes

- No major changes have been proposed.

2.5 Political landscape

- Geun-Hye Park was elected President of Korea in late 2012, and the proposed tax law changes announced in August 2013 reflect her policies as promised during the election campaign and government transition periods.

2.6 Current tax policy and tax administration leaders

Tax policy leader
- Deputy Prime Minister Oh-Seok Hyun, Ministry of Strategy and Finance

Tax administration leader
- Commissioner Duk-Joong Kim, National Tax Service

2.7 Key tax policy changes in 2013

- Corporate income tax laws were revised to:
  - Comply with the implementation of K-IFRS such as allowance for bad debt and inventory valuation
  - Comply with the revision on commercial laws, partnership taxation and tax-free merger requirements
  - Supplement regulations related to consolidated income tax calculations and filings
- From an international tax perspective, a new committee has been formed to review the fair pricing of international transactions. Also, reporting requirements for foreign financial accounts have been introduced; this reporting is required if the sum of all foreign accounts exceed KRW1 billion.
2.8 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- The Korean Government takes the BEPS agenda seriously as it sees some domestic and foreign entities paying a lesser amount of taxes than should have been 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 its 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 an informal discussion with the Ministry of Strategy and Finance (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. 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.

2.9 Pending tax proposals

- There are no pending tax proposal as of 8 January 2014.

2.10 Consultations opened/closed

- There are no open public consultations as of 8 January 2014.

- The following two public consultations were closed in 2013:
  - Mid-to long term tax policy development
  - Revision in corporate and individual income tax laws
1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax rate (national and local average, if applicable)</td>
<td>15%</td>
<td>15%¹</td>
<td>–</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>15%</td>
<td>15%²</td>
<td>–</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>21%</td>
<td>21%³</td>
<td>–</td>
</tr>
</tbody>
</table>

¹ This is the standard rate of profit tax. Reduced rates (0% or 5%) apply to small, agricultural, social or nonprofit companies and to companies registered and operating in free-economic zones that satisfy certain conditions.

² This is the standard rate of personal income tax. A reduced rate of 5% applies for certain individual activities. Starting 2014, a 15% rate applies to income from distributed profits (previously 20%).

³ This is the standard rate of VAT. Reduced rates (0%, 5% or 9%) apply for certain goods and services.

2.1 Key drivers of tax policy change

- The need to obtain more revenue to finance public spending and to reduce the budget deficit
- The need to minimize inequality through the tax system
- The desire to attract more investment

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2.2 Key drivers of tax policy change

Specific areas of fiscal stimulus

- Investment project relief on corporate income tax: the government stipulates businesses investments by allowing (under certain conditions) an entity to reduce its taxable profit up to 50% by the amount of expenses incurred in the acquisition of fixed assets used in an “investment project.”

Specific areas of fiscal consolidation

- No particular sectors or tax types are facing fiscal consolidation through the Lithuanian tax system.

2.3 Tax policy outlook for 2014 – 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>Mixed</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 2014 – detail

Corporate income taxes
- Recent political discussions and debates on introducing progressive income tax rates suggested increasing the standard corporate income tax rate up to 20%. However, the Government is not expected to increase the corporate income tax rate at least in the upcoming year.
- Also, it is anticipated to limit tax loss carryforwards (please refer to Section 2.9).

Taxes on wages and employment
- No major changes planned in 2014.

VAT/GST/Sales taxes
- No major changes planned in 2014.

2.5 Political landscape
- Elections for Seimas (the Lithuanian parliament, which holds the supreme legislative power) were held in October 2012. The majority is currently held by the coalition, mainly led by Social Democrats and headed by Prime Minister Algirdas Butkevičius.
- The current Government continuously underlines the urgency to increase the tax burden, especially for corporations and higher income residents and to minimize inequality through the tax system.
- Also, the presidential election will be held in May 2014, but it should not influence tax policy in Lithuania.

2.6 Current tax policy and tax administration leaders

Tax policy leaders
- Algirdas Butkevičius, Prime Minister
- Rimantas Šadžius, Minister of Finance

Tax administration leader
- Modestas Kaseliauskas, Director of the State Tax Inspectorate

2.7 Key tax policy changes in 2013

- In 2013, the top rate for real estate tax was increased from 1% to 3%.
- Investment project relief on corporate income tax was extended until 2018. Under certain conditions, the relief allows an entity to reduce its taxable profit up to 50% by the amount of expenses incurred in the acquisition of fixed assets used in an “investment project.”
- Personal income tax reform changes, effective 2014, include the following:
  - Interest income from long-term loans will be subject to tax (previously tax exempt).
  - Interest income exceeding LTL10,000 (approximately €3,000) from securities and deposits will be subject to tax (previously subject to tax exemptions, e.g., interest income from long-term securities exceeding 366 days was tax exempt). Transitional provisions provide tax exemption for interest income received from deposits and securities acquired before 2014.
  - Income from the sale of securities exceeding LTL10,000 (approximately €3,000) will be subject to taxation (previously subject to tax exemptions, e.g., income from the sale of securities acquired before 1999 was tax exempt).
  - Income received from distributed profits will be subject to a 15% tax (previously 20%).
  - Changes in the pension accumulation system: commencing 2014, individuals who have voluntarily decided to participate in the second pillar contribution program will receive an additional contribution to their individual account in a pension fund (in 2014–15, 1% of the national average salary) from the Government.
  - VAT changes, effective next year, include the following:
    - A reduced VAT rate of 9% is extended for heating energy.
    - There is an indefinite extension of the reduced VAT rate of 5% for compensated pharmaceuticals and medical aid devices.
2.8 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- There has not been an official statement made by Lithuania on BEPS. However, Lithuania has officially applied to become an OECD member, expected 2015.

2.9 Pending tax proposals

- The proposal to limit tax loss carryforwards: currently, tax losses (from regular business activity) may be carried forward for an unlimited period and may reduce up to 100% of the taxable profit for the financial year. Under the pending proposal, starting 2014, accumulated tax losses could be used to reduce only up to 70% of the taxable profit for the financial year.

- Another pending proposal intends to broaden the real estate tax base for individuals starting from 1 January 2015. Currently, an annual real estate tax of 1% is imposed on individuals with a net property worth over LTL1 million (approximately €300,000). It is proposed to levy the tax on the individual’s net property worth over LTL750,000 (approximately €217,000).

- Also, it is intended to extend the real estate tax base by including unused and unfinished (construction in progress) property. If approved, these changes would take effect in 2014.

2.10 Consultations opened/closed

- In general, all pending tax proposals are open for public consultation.
1 | Tax rates (2013-14)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax 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>Expected to increase to 17%</td>
<td>– (No draft law had been submitted to Parliament at the time this document was prepared)</td>
</tr>
</tbody>
</table>

2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

- Reinforcing tax revenues
- Achieving sustainable economic development and growth
- Developing competitiveness of Luxembourg, especially in regard to headquarters of multinationals

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1 Article 174 of the Law of 4 December 1967 on income tax, as amended, and the Law of 21 December 2012 draft law No. 6497. 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 those exceed income of EUR\(15,000\). A CIT rate of 20% (plus surcharges) will be applicable on taxable income up to EUR\(15,000\). As of January 2013, all Luxembourg resident entities in corporate form and liable to CIT are subject to a minimum tax regime. Article 174 of the Law of 4 December 1967 on income tax, as amended, and the Law of 21 December 2012 draft law No. 6497.


4 Article 6 of the Law of 30 June 1976 on creation of an employment fund, as amended.
2.2 Fiscal consolidation vs. stimulus

Specific areas of fiscal stimulus

- General investment tax credit: A tax credit of 12% is granted for additional investments in qualifying assets. A 7% credit is granted for qualifying new investments up to €150,000 and a 2% credit is granted for investments over that amount. These rates are increased to 8% and 4%, respectively if investments are made to create jobs for disabled persons or for certain investments intended to protect the environment.
- The above credits reduce corporate income tax and both may be carried forward for 10 years.
- Tax credits for:
  - Professional training
  - Hiring of unemployed persons
  - Audiovisual or venture capital investments.

- Additional measures have been announced by the new government, including:
  - Introduction of a tax and legal framework for treasury activities (cash-pooling)
  - A new mechanism allowing the deferral of taxation of profits for small- and medium-sized companies
  - Introduction of notional interest (deemed interest expense on equity)
  - Election for separate taxation by spouses.

Specific areas of fiscal consolidation

- The following measures were announced on 2 December 2013 by the new government in its coalition program:
  - Extension of existing governance and substance rules
  - Comprehensive transfer pricing legislation
  - Uniform frame for advance tax clearances
  - Reinforcement of tax collection
  - Enhanced fight against tax fraud
  - Introduction of a regulation of authorization and supervision for the tax advisory profession

2.3 Tax policy outlook for 2014 – 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>

Although it is not foreseen to increase the personal income tax rate, the new government has announced a major tax reform that will presumably lead to an increase of the tax burden, mainly due to the review of personal allowances and lump-sum deductions. Whilst the tax reform is anticipated for 2015, it is not excluded that some changes may already be introduced in the course of 2014.
2.4 Tax policy outlook for 2014 — detail

Corporate income taxes

- Corporate income tax rates should remain unchanged in 2014. However, in order to further develop Luxembourg as a prime location, especially for corporate head-quarters, it is envisaged that Luxembourg will modernize the so-called participation exemption regime, referring to the tax rules applicable to income from intellectual property, as well as formalizing the use of functional currencies for tax purposes. A further announced action point is the introduction of a tax and legal framework for treasury activities (cash-pooling).

Taxes on wages and employment

- No increase of personal incomes tax rates have been announced, but the government intends to review the existing progression and tax rates applicable to individuals as well as the various personal allowances.

VAT /GST /sales taxes

- VAT rates will likely be increased to 17% in order to compensate for the future loss of VAT revenues derived from e-commerce activities, but the coalition government has made a commitment to keep the standard rate of VAT (currently 15%) the lowest within the European Union. No draft law had been submitted to Parliament at the time this document was prepared.

2.5 Political landscape

- As a result of elections that were held in October 2013, the new government will be composed of three parties, being the DP, LSAP and Déi Gréng. The CSV, the party of previous Prime Minister Jean-Claude Juncker, is not part of the new government.

2.6 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)

2.7 Key tax policy changes in 2013

Corporate income taxes

- Introduction of a general minimum tax for all taxpayers subject to corporate income tax (except certain holding companies; see next paragraph). The tax ranges from EUR 500 to EUR 20,000 (plus contribution to the employment fund), depending on the balance-sheet total as of the closing date of the financial year.
- Increase of the minimum corporate income tax from EUR 1,500 to EUR 3,000 for companies whose sum of fixed financial assets, transferable securities, cash and receivables owed to affiliated companies exceeds 90% of their balance-sheet total. This minimum tax will apply even if the company’s activities do not require a business license or the approval of a supervisory authority.
- Decrease of the additional investment tax credit from 13% to 12% and from 3% to 2% for the global investment tax credit.
- Introduction of a new special limited partnership (Société en Commandite Special) that is based on the UK limited partnership.
- Modification of “tainting theory,” i.e., the theory according to which a tax transparent entity is deemed to realize commercial profit (thus triggering the levy of municipal business tax) because of the corporate form of its partners. In March 2013, the Luxembourg Parliament voted in a law transposing the Directive 2011/16/EU on administrative cooperation in the field of taxation.

Personal income taxes

- Addition of a new maximum income tax rate of 40% applicable to annual income exceeding EUR 100,000
- Increase of the contribution to the employment fund from 4% (or 6%) to 7% (or 9%), depending on income.
- Introduction of a special tax regime for carried interest accrued to AIFMs as compensation for the management of the AIF.

2.8 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.
The Luxembourg Government has clearly stated its willingness to contribute to discussions on BEPS and has supported the declaration on BEPS adopted in May 2013.

According to the Minister of Finance, tax optimization schemes leading to double non-taxation are not normal and a fair taxation based on international rules taking into account the jurisprudence of the European Court of Justice is to be supported.

Double taxation is as condemnable as double non-taxation. It is unquestionable that companies must pay tax, but in this debate, Luxembourg advocates for an effective taxation, i.e., a fair taxation that does not call into question the advantages of cross-border activities and that allows to further encourage the concept of multinational companies. For the time being, no legislation or consultation has been launched by the Luxembourg Government in this respect.

Over the last 18 to 24 months and independently from BEPS, one could observe an increasing awareness around aggressive tax planning by all the 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.

The BEPS agenda does certainly constitute a challenge for Luxembourg and will imply changes to the Luxembourg tax legislation or the interpretation of such legislation. However, all parties seem confident that BEPS will not put an end to cross-border activities altogether, but rather change the way such activities will be carried out.

2.9 Pending tax proposals

According to an announcement of the Luxembourg Government in April 2013, it has been decided to introduce, on 1 January 2015 and within the scope of the 2003 EU Savings Directive, the 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 should 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.

The fiscal regime for payments made to residents of third countries will remain unchanged and ruled by bilateral non-double taxation agreements between Luxembourg and these countries.

Furthermore, a draft law has been submitted to Parliament aiming at transposing into Luxembourg law article 8 of the Council Directive 2011/16/EU dated 15 February 2011 on administrative cooperation in the field of taxation and hence introducing the automatic and mandatory exchange of information for three specific categories of income, being income from employment, directors’ fees and pensions.

2.10 Consultations opened/closed

Not applicable.

Luxembourg
1 | Tax rates (2013-14)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</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>26%(^3)</td>
<td>26%(^4)</td>
<td>–</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>Sales tax: 25%</td>
<td>Sales tax: 25%</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>Service tax: 6%(^5)</td>
<td>Service tax: 6%(^6)</td>
<td>–</td>
</tr>
</tbody>
</table>

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1. 2013 Worldwide corporate tax guide, EY.
2. It is proposed in the 2014 National Budget on 25 October 2013 that, effective from year of assessment (YA) 2016, the corporate tax rate will be reduced from 25% to 24% (Worldwide corporate tax guide, EY, 2013).
3. 2013-2014 Worldwide personal tax guide, EY.
4. As proposed in 2014 National Budget, effective from YA 2015, the top individual tax rate will be reduced from a current maximum of 26% for chargeable income exceeding RM100,000 to 25% for chargeable income exceeding RM400,000 (2013-2014 Worldwide personal tax guide, EY).
5. 2013 Worldwide VAT, GST and sales tax guide, EY.
6. The implementation of GST was proposed in the 2014 National Budget to replace the current sales tax (5%, 10% and specific rates) and service tax (6%). The proposed GST rate is 6% to be effective from 1 April 2015 (2013 Worldwide VAT, GST and sales tax guide, EY).
2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

- 12 National Key Economic Areas have been identified as economic sectors that will drive income levels over the next ten years to achieve a developed-nation status by 2020. Tax policy changes are expected to target these economic sectors (e.g., financial services).

- Fiscal consolidation toward achieving a balanced budget is a key driver. One of the measures to achieve this is the implementation of a broad-based consumption taxation system through the introduction of Goods and Services Tax (GST), effective 1 April 2015, whereby the tax-paying population can be widened.

- To remain competitive from a tax perspective, corporate and individual tax rates will be reduced upon the introduction of GST, streamlining tax incentives and improving tax administration through tighter enforcement.

2.2 Fiscal consolidation vs. stimulus

Specific areas of fiscal stimulus

- The focus of the 2014 National Budget announcement is on improving the well-being of the citizens, prioritizing infrastructure projects by focusing on those with high multiplier effects to support economic growth, strengthening small and medium enterprises, intensifying efforts to encourage research and development (R&D), ensuring quality in the education system and expanding internet access.

Specific areas of fiscal consolidation

- Moving from an income-based taxation system to a broad-based, comprehensive and fairer taxation system by introducing GST, effective 1 April 2015, to have a sustainable revenue source. In tandem with the GST, individual and corporate tax rates will be reduced from the 2015 and 2016 years of assessment, respectively.

2.3 Tax policy outlook for 2014 – summary

<table>
<thead>
<tr>
<th></th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate income tax burden</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal income tax burden</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VAT/GST/sales tax burden</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2.4 Tax policy outlook for 2014 – detail

Corporate income taxes

- The corporate tax rate remains the same in 2014. With the introduction of GST on 1 April 2015, the 2014 National Budget proposed that the corporate tax rate will be reduced, effective from year of assessment (YA) 2016, and cooperative income tax rates will be reduced, effective YA 2015.
- In 2014, higher tax revenue is expected through a step-up of enforcement activities. Besides the normal tax audits and tax investigations, focus will be placed on transfer pricing audits.
- Besides instituting criminal charges for tax offenses under the provisions of the Income Tax Act 1967, tax authorities are also carrying out criminal investigations on tax evaders under the Anti-Money Laundering and Anti-Terrorism Act of 2001 in collaboration with other Government agencies. Previously, the tax authorities only took civil action against tax offenders.
- In the 2014 National Budget, corporate tax incentives for selected industries were announced. These include an extension of the incentive period for hotels, incentives for the implementation of the minimum wage policy and flexible work arrangements, incentives for anchor companies under the vendor development program, and R&D incentives for bioeconomy. Other corporate tax incentives include those available to companies to help support their readiness for GST.

Taxes on wages and employment

- With the introduction of GST on 1 April 2015, a review of the tax structure for individuals was proposed, effective YA 2015.
- Effective YA 2014, employees whose total income tax is equivalent to the amount of the monthly tax deductions (MTDs) made by their employers can elect not to submit tax returns (i.e., the MTDs will be their final tax, upon meeting certain conditions).

VAT/GST/sales taxes

- With GST being implemented on 1 April 2015, companies will be preparing for GST during 2014. A number of tax incentives were announced, such as accelerated capital allowances for cost of purchasing ICT equipment and software and double deduction for GST training expenses. In addition, training grants and financial assistance to SMEs for the purchase of accounting software will be provided. To ensure a smooth implementation of GST in 2015, a GST Monitoring Committee will be established to be chaired by the Second Finance Minister, with members from Government agencies and representatives from the industries and NGOs.

2.5 Political landscape

In the general elections held in May 2013, the ruling party was returned to power, so no major tax policy change is 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 and developed nation.

2.6 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
2.7 Key tax policy changes in 2013

- No change in individual tax rates. In the recent 2014 National Budget announcements, as a tax relief measure for the middle-income group, a special tax relief is proposed for taxpayers with a monthly income of RM8,000 received in 2013. The measure will result in tax savings of up to RM480 for each taxpayer for YA 2013.

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

- The BEPS Action Plan is receiving senior-level attention. A committee has been set in the Inland Revenue Board (IRB) to work on the plan. The committee is currently studying the Action Plan to see how Malaysia can best implement some of the proposed actions.

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

2.9 Pending tax proposals


2.10 Consultations opened/closed

- Consultative talks on the 2014 budget commenced in July 2013 and closed around August 2013; the budget was announced on 25 October 2013.
1 | Tax rates (2013-14)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
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<tr>
<td>Top corporate income tax rate</td>
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<td>applicable)</td>
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2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

- Standardization of Mexican tax policy to align more closely with OECD norms
- Strengthening public revenues in order to meet the needs of the population (pension for all Mexicans over 65 and new employment insurance scheme)
- Elimination of special tax treatments to improve efficiency of tax collection
- Tax consolidation is substituted with a similar scheme called “tax integration”
- Royalty tax on mining activities

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1. 2013 Worldwide corporate tax guide, EY.
2. Article 9 of the Mexican Income Tax Law (hereafter referred as “MITL”).
3. 2013 Worldwide corporate tax guide, EY.
4. Article 152, MITL.
5. 2013 VAT GST Sales tax guide, EY.
6. Article 1, VATL.
Additional tax on nonproductive mines

Excise tax for high-calorie foods and an excise tax for all sugared beverages (tax rate of MXN1 per liter) to reduce obesity

Excise tax on sale or import of fossil fuels and pesticides

2.2 Fiscal consolidation vs. stimulus

Specific areas of fiscal stimulus

Film and theater industry

This stimulus is a non-accruable tax credit for income tax purposes.

Prior to 2014, it was only applicable to companies that support the production of national films. From 2014 on, it will also be applicable to the distribution of said films and theater production.

Science and technology

Federal Government, through the National Council for Science and Technology (“CONACYT”) establishes programs in order to support through the reimbursement of certain expenses and investments companies that perform activities of investigation, technological development and innovation.

Land carrier

This stimulus is applicable to taxpayers exclusively engaged to private and public land carrier that use the Toll Roads National Network (tax credit up to 50% of toll expenses).

Specific areas of fiscal consolidation

The tax consolidation regime has been eliminated.

A new optional regime for large groups has been established (régimen de integración).

This new optional regime requires 80% ownership and will not be available to, among others, entities that perform maquila transactions or entities that have tax losses that were generated before the requirements to opt for the new regime were met.

2.3 Tax policy outlook for 2014 – summary

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<thead>
<tr>
<th>Corporate income tax burden</th>
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<td>Lower</td>
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<tr>
<th>VAT/GST/sales tax burden</th>
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<td>Lower</td>
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</table>
2.4 Tax policy outlook for 2014 — detail

Income taxes

- Scheduled reductions in the corporate income tax rate in 2014 and 2015 have been eliminated, leaving the current 30% statutory income tax rate in place.
- An additional 10% withholding tax on dividends paid to Mexican individuals or any foreign residents will be levied.
- Interest, royalties and technical assistance payments to a foreign entity that controls or is controlled by the taxpayer will not be 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 will be nondeductible if the same payment is considered as a deduction by another related party resident in Mexico or abroad.
- Limitations on the deductibility of payroll-related expenses are established with respect to benefits that are not taxable to employees.
- Treaty administrative requirements will be changed.
- The calculation of foreign tax credits will be changed.
- The tax consolidation regime will be eliminated.
- A new optional regime for large groups will be established and is similar to the consolidation regime.
- The ability to make an immediate deduction will be eliminated.
- The definition of maquila transactions will be incorporated within the text of the MITL. To benefit from income tax provisions for maquiladoras, including the exemption from a permanent establishment (PE), 100% of the entity’s revenue must come exclusively from maquila transactions.
- The rules for financial institutions to create and deduct a general reserve are eliminated.
- Special regimes (SIBRAS) have been eliminated.
- The simplified regime is eliminated and replaced with a special regime for taxpayers that are exclusively engaged in agriculture, livestock, forestry or fisheries activities (where they will be taxed on a cash flow basis).

Taxes on wages and employment

- The marginal tax rates for individuals according to their annual income are: 30% up to MX$750,000.00; 32% above MX$750,000.00; 34% above MX$1,000,000.00; and a maximum rate of 35% above MX$3,000,000.00.
- An additional 10% withholding tax on dividends paid to Mexican individuals or any foreign residents will be levied (as above).
- The current exemption for individuals and nonresidents on gains from the sales of publicly traded shares will be eliminated.

VAT

- The VAT rate of 11% for the border zone is eliminated and a standard 16% rate will apply to all geographic zones.
- In 2014, VAT will apply to certain previously exempt or 0% items, including pets, pet food, chewing gum and other processed foods.
- The VAT rate of 16% will be applicable to temporary imports at the time the temporary import pedimento is filled. VAT paid upon importation may be recovered through a credit or refund. To avoid the resulting negative cash flow implications, companies may obtain a certification from the Tax Administration Service that will be valid for one year and must be renewed 30 days prior to its expiration date. Alternatively, companies may guarantee the VAT payments on their temporary imports through a bond issue by an authorized institution. The obligation to pay VAT upon the temporary importation of goods will become effective one year after the Tax Administration Service publishes the rules of the certification process and the tax credit mechanism.
- The VAT exemption on sales of temporarily imported goods between non-Mexican residents and Mexican residents (i.e., maquiladoras) is eliminated. Such sales will be subject to VAT at the 16% rate.

Federal tax code

- Filing a tax report (dictamen fiscal) will be an option for certain taxpayers.
- Taxpayers are required to provide information electronically each month to the tax authorities.
- A tax electronic mailbox (buzón tributario) has been created.
- Electronic reviews may be performed by sending pre-assessments through the tax inbox (i.e., via email).
The outlook for global tax policy in 2014

- It is possible to enter into a final settlement with the tax authorities (acuerdo conclusivo) before the PRODECON (taxpayers protection agency).
- Tax secrecy rules have been modified to allow the tax authorities to publish the names of certain taxpayers (e.g., those that committed a crime resulting in a final judgment and those that have obtained a tax credit amnesty).

Others
- Elimination of cash deposit tax
- Royalty tax on mining activities (the tax is based on earnings before interest, depreciation and amortization – except exploration and prospecting investments – and taxes at a rate of 7.5%)  
- Tax or right on the gross value of sales of gold, silver and platinum of 0.5%
- Additional tax or right on nonproductive mines
- Excise tax for all sugared beverages (tax rate of MXN1 per liter)
- Excise tax for high-calorie foods
- Excise tax on sale or import of fossil fuels and pesticides

2.5 Political landscape
- On 2 December 2012, President Enrique Peña Nieto signed the Pact for Mexico Agreement (Pacto por México) with the three major political parties (PAN, PRD and PRI). This agreement is a 10-point economic plan that includes, among other measures, the approval of a comprehensive energy and tax reform.
- The tax reform seeks to expand the revenue base by attempting to formalize Mexico’s informal sector and by better regulating local taxation. It also aims to eliminate the subsidies, fiscal stimulus and special tax treatments that benefit some taxpayers, in order to make tax collection more efficient.
- The approval of this reform is crucial to the rest of the agreement, as most of the other reforms depend on its feasibility.
- On 31 October 2013, the Mexican Congress approved the tax reform. It will enter into force on January 2014.

2.6 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
- José Isabel Trejo Reyes, Chairman of the Finance and Public Credit Commission, Chamber of Deputies
- José Francisco Yunes Zorrilla, Chairman of the Finance and Public Credit Commission, Senate

Tax administration leaders
- Aristóteles Núñez Sánchez, Head of the Tax Administration Service (SAT)
- Oscar Molina Chie, Head of the Large Taxpayers Division

2.7 Key tax policy changes in 2013
- Major tax reform described in Section 2.4.

2.8 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan
- The tax reform attempts to address issues identified in the Base Erosion and Profit Shifting (BEPS) Action Plan, making interests, royalties and technical assistance payments to a foreign entity that controls or is controlled by the taxpayer not 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.7

2.9 Pending tax proposals
- N/A

2.10 Consultations opened/closed
- N/A

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7 Section XXXI of the Article 28, MITL.
## 1. Tax rates (2013-14)

### 1.1 Key tax rates

<table>
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<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
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<tbody>
<tr>
<td>Top corporate income tax rate (national and local average, if applicable)</td>
<td>25%³</td>
<td>25%⁴</td>
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</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>52%³</td>
<td>52%⁴</td>
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</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>21%⁵</td>
<td>21%⁶</td>
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### 2. 2014 tax policy outlook

#### 2.1 Key drivers of tax policy change

- As in previous years, an important tax policy driver for the Dutch Government is the need to generate more revenues and reduce spending, as well as to continue to comply with agreements made at the European Union (EU) level.

- In addition, and as outlined in the Tax Plan 2014 that was published on 17 September 2013, the Dutch Government is still trying to tackle tax fraud and simplify the Dutch tax system.

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1 2013 Worldwide corporate tax guide, EY.
2 Ibid.
3 2013-2014 Worldwide personal tax guide, EY.
4 Ibid.
5 2013 VAT GST Sales tax guide, EY.
6 Ibid.
2.2 Fiscal consolidation vs. stimulus

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

Specific areas of 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.

2.3 Tax policy outlook for 2014 – summary

<table>
<thead>
<tr>
<th></th>
<th>Corporate income tax burden</th>
<th>Personal income tax burden</th>
<th>VAT/GST/sales tax burden</th>
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<td>X</td>
<td>X</td>
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</table>
2.4 Tax policy outlook for 2014 — detail

Corporate income taxes

- No particular lowering of corporate income tax rates or broadening of the corporate tax base is expected. However, one element of Tax Plan 2014 is intended to make it easier for certain investment institutions to operate, for instance without losing their exempt status for Dutch corporate income tax purposes.

Taxes on wages and employment

- There have been some developments with respect to taxes on wages and employment. As an example, the size of the first tax bracket of the Dutch personal income tax rate for income derived from employment and business income, which is also referred to as “Box 1 income,” will be reduced as of fiscal year 2014. In addition, the personal income tax rate for income derived from shares forming part of a substantial shareholding (5% or more), also referred to as “Box 2 income,” will be reduced from 25% to 22%.

- Besides this, the general tax allowance for Box 1 income will be increased and the working persons’ tax credit, a credit to which all taxpayers with income derived from employment (Box 1 income) are entitled, will also be increased, effective from 1 January 2014, but not for higher income levels (starting at approximately €110,000).

VAT/GST/sales taxes

- No major changes are expected.

2.5 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 law 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.

2.6 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**

- Mr. Frans Weekers, State Secretary of Finance

- Mrs. Angelique Berg, Director-General Fiscal Affairs on the Dutch Ministry of Finance

- Mr. Edwin Visser, Deputy Director-General Fiscal Affairs on the Dutch Ministry of Finance

- Mr. Theo Poolen, Deputy Director-General Tax Authorities on the Dutch Ministry of Finance
2.7 Key tax policy changes in 2013

• No significant policy changes occurred in 2013, in the sense the rather unique and new situation of a minority coalition was already in place in 2012.

2.8 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 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 to be effective and fair. Also, the level playing field between (smaller and larger) countries has to be taken into account, according to the Government.

2.9 Pending tax proposals

• Law proposal to approve the tax treaty between The Netherlands and China as concluded on May 31, 2013

• Law 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).

2.10 Consultations opened/closed

• No consultations open at this time or closed in 2013.
### 1 Tax rates (2013-14)

#### 1.1 Key tax rates

<table>
<thead>
<tr>
<th>Top corporate income tax rate (national and local average, if applicable)</th>
<th>2013</th>
<th>2014</th>
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<th>2014</th>
<th>Percentage change</th>
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<th>Standard value-added tax (VAT) rate</th>
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<th>2014</th>
<th>Percentage change</th>
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<tbody>
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<td>15%&lt;sup&gt;6&lt;/sup&gt;</td>
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</tr>
</tbody>
</table>

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<sup>1</sup> 2013 Worldwide corporate tax guide, EY.

<sup>2</sup> Schedule 1, Income Tax Act 2007.

<sup>3</sup> 2013-2014 Worldwide personal tax guide, EY.


<sup>5</sup> 2013 VAT GST Sales tax guide, EY.

2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

- The Government remains committed to returning to fiscal surplus by the 2014-15 year.

2.2 Fiscal consolidation vs. stimulus

Specific areas of fiscal stimulus

- The tax system is generally not used in New Zealand to deliver stimulus.

Specific areas of fiscal consolidation

- Other than narrow “corrective” taxes where there are perceived externalities (tobacco and alcohol consumption), New Zealand does not generally use the tax system to discourage behavior or investment decisions.

2.3 Tax policy outlook for 2014 – summary

<table>
<thead>
<tr>
<th>Corporate income tax burden</th>
<th>Lower</th>
<th>No change</th>
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<tr>
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<th>Lower</th>
<th>No change</th>
<th>Higher</th>
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</table>
2.4 Tax policy outlook for 2014 — detail

Corporate income taxes

- The Government remains committed to its philosophy of broad-based and low-rate taxes (i.e., minimizing rates through avoiding concessions or preferences in the tax system).

Taxes on wages and employment

- No changes are anticipated in 2014.

VAT/GST/sales taxes

- Low-value imports are being reviewed in light of perceptions of “unfair” competition to New Zealand retailers from offshore internet retailers. Currently there is no GST payable on imports of less than NZD400.

2.5 Political landscape

- The current coalition Government, led by the right-of-center National Party, remains stable. There will be a general election at the end of 2014, with current polling indicating a very close contest between the National Party and a center-left Labour-Greens coalition (which is campaigning on increased taxes on high-income earners, introducing a capital gains tax and exempting certain goods from GST).

2.6 Current tax policy and tax administration leaders

Tax policy leader
- Struan Little, Deputy Commissioner, Policy and Strategy

Tax administration leader
- Naomi Ferguson, Commissioner of Inland Revenue

2.7 Key tax policy changes in 2013

- Tightening the rules for deducting costs of assets such as holiday homes, boats and aircraft that are used by the owner, both privately and to earn income
- Changing the GST rules, including introducing a registration system that would allow GST refunds for certain nonresident businesses with some restrictions
- Making lease inducement payments and lease surrender payments taxable income for the recipient and tax-deductible expenditure for the payer
- Taxing foreign superannuation schemes held by New Zealand residents under a new regime (removing them from the foreign-investment-fund regime and making them taxable on repatriation to New Zealand)
2.8 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- A Government report released 15 August 2013 confirmed New Zealand's commitment to the OECD program and noted that BEPS initiatives will remain a key focus of policy officials’ work program. This report outlines a number of projects that could be included in the work program to strengthen the country's ability to combat profit shifting by multinationals and other investors, focusing on:
  - Preventing multinationals from shifting profits out of New Zealand using related-party debt
  - Removing tax advantages from certain investment vehicles and ensuring effective taxation of offshore investments
  - Ensuring tax rules keep pace with changes in the global economy, including examining options for collecting GST on online shopping

2.9 Pending tax proposals

- Proposed changes to tighten thin-capitalization rules (which currently apply only when the New Zealand entity is owned or controlled by a single nonresident investor).

2.10 Consultations opened/closed

- Under public consultation:
  - Possible cash-out of losses from research and development expenditure
  - Review of the treatment of offshore branches of New Zealand companies
  - Simplification of tax rules for closely held companies
1 | Tax rates (2013–14)

1.1 Key tax rates

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<tbody>
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<td>-</td>
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2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

- Welfare: tax policy should be designed for general and equitable prosperity.
- High employment: tax policy should increase sustainable employment through increased participation in the labor market and by promoting employees’ efforts through increased education and skills.
- Environment: tax policy should contribute to capture negative and public health aspects in the price formation in different markets.
- Economy: tax policy should stimulate economic growth.
2.2 Fiscal consolidation vs. stimulus

Specific areas of fiscal stimulus
- Reduced tax on business income
- Changes in research and development (R&D) deduction
- Increased threshold for wealth tax
- Increased threshold for gifts and inheritance tax

Specific areas of fiscal consolidation
- Limitation of intercompany interest deductibility

2.3 Tax policy outlook for 2014 – summary

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<th>Corporate income tax burden</th>
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</table>
2.4 Tax policy outlook for 2014 — detail

Corporate income taxes
The 2014 National Budget:
- The deductibility of intercompany interest will be limited in fiscal year 2014. The new Government has proposed to increase the threshold for when the rules will apply from NOK 3 million to NOK 5 million (approximately US$ 830,000).
- Requirements are softened for the provision of security upon exit from the Norwegian tax jurisdiction.
- Tax rates for companies are reduced from 28% to 27% in 2014. A similar tax reduction will be introduced for self-employed persons and for partners in controlled foreign corporations and businesses assessed as a partnership.
- Deductibility of R&D costs are increased.
- Initial depreciation of certain assets are increased.

Taxes on wages and employment
The 2014 National Budget:
- The threshold for wealth tax is increased.
- Valuation of real estate for wealth tax purposes is increased, except for valuation of a person’s primary residence.
- The inheritance tax is abolished with effect from 1 January 2014.
- Thresholds for income tax receive minor adjustments.

VAT/GST/sales taxes
The 2014 National Budget:
- VAT rules will be simplified for the voluntary registration in the VAT register with regard to the letting of commercial property (ongoing work).
- In addition to the simplified VAT rules mentioned above, the rules on the option for VAT for the leasing of commercial property will be reviewed (ongoing work).
- VAT neutrality will be introduced for the state (ongoing work).
- Reverse charge VAT on gold with effect from 1 January 2014.
- Lease of electric cars exempt from VAT (zero-rate) (effect date and conditions TBC — on going work)

2.5 Political landscape
- For the past eight years, Norway has been governed by left-wing parties in a red-green coalition consisting of the Labour Party, the Socialist Left Party and the Centre Party.
- The Norwegian parliamentary election held on 9 September 2013, however, was won by the right-wing parties, resulting in a “blue-blue” coalition consisting of the Conservative Party and the Progress Party. Originally, the two right-wing parties, the Liberal Party and the Christian Democratic Party, were part of the negotiations when forming the coalition, but they eventually decided to support the blue-blue coalition without participating in the Government themselves.
- The governing parties, especially the Progress Party, said during the election that in certain areas they want to lower the tax rates and increase the thresholds for taxes. The promises are in many areas beyond the adjustments already proposed in the 2014 National Budget from the former government.
2.6 Current tax policy and tax administration leaders

Tax policy leader
- Siv Jensen

Tax administration leader
- Hans Christian Holte

2.7 Key tax policy changes in 2013

- Adjustment of the rules for interception of deductibility of losses on receivable from closely related companies
- Changes in the tax exemption method for life insurance companies and pension companies
- Tax-free conversion from a Norwegian-registered foreign company to a limited liability company
- Repeal of tax liability for income from extraction of petroleum abroad and intersected deductibility of expenses and loss from the same business
- Increase of valuation of real estate for wealth tax purposes, except for valuation of a person's primary residence
- Allowance of the valuation of real estate for wealth tax purposes as a basis for calculating municipality property tax
- Minor adjustments in thresholds for income tax and wealth tax
- Elimination of joint and individual liability for VAT representatives with businesses from countries that Norway has agreements with regarding the exchange of information and collection of VAT.

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

- As proposed in the 2014 National Budget, deductibility of intercompany interest is limited with effect from 1 January 2014.
- No further public statement has been made by the Ministry of Finance with regard to BEPS.

2.9 Pending tax proposals

- The Ministry of Finance has submitted a proposal containing additional rules (administrative regulation) on the deductibility of intercompany limitation, as referenced in section 2.4. The proposal applies for provision of security by surety by a related company too an independent company.

2.10 Consultations opened/closed

- There are currently no known open public consultations. A few public consultations have been closed during 2013, and the result of these is reflected in the 2014 National Budget.
## 1 Tax rates (2013-14)

### 1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</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>—³</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>25%⁴</td>
<td>25%⁵</td>
<td>—</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>7%⁶</td>
<td>7%⁷</td>
<td>—</td>
</tr>
</tbody>
</table>

¹ A special rate of 27.5% is applicable for legal entities engaged in electric power generation, telecommunications services, insurance and reinsurance, financial, cement manufacturing, gambling, and mining, as well as persons engaged in banking in Panama (2013 Worldwide corporate tax guide, EY).

² As of 2014, a general income tax rate of 25% will be applicable for special activities (previously a 27.5% tax rate applied to special activities) (Article 699 of the Panamanian Fiscal Code).

³ Although there is no change in the general rate, the special rate has been decreased by 9.09%.

⁴ 2013-14 Worldwide personal tax guide, EY.

⁵ Article 699, Panamanian Fiscal Code.

⁶ 2013 Worldwide VAT, GST and sales tax guide, EY.

⁷ Article 1057-V, Paragraph 6, Panamanian Fiscal Code.
### 2014 tax policy outlook

#### 2.1 Key drivers of tax policy change

- Focus on foreign investment to increase revenues to fund Government investment expansion
- Alignment with international taxation standards by enacting transfer pricing regulations and concluding tax information exchange agreements.

#### 2.2 Fiscal consolidation vs. stimulus

**Specific areas of fiscal stimulus**

- International services
- Energy
- Logistics and international transport
- Agro and industrial sector

**Specific areas of fiscal consolidation**

- The tax authorities continue to work on improving the tax system and updating fiscal rules to meet international standards, through issuing custody regimes for bearer shares, taxing indirect transfers of immovable property, using substance over form rules to determine tax residence, and implementing transfer pricing rules.

#### 2.3 Tax policy outlook for 2014 – summary

<table>
<thead>
<tr>
<th>Corporate income tax burden</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Lower &amp; Higher</td>
<td>Mixed</td>
</tr>
</tbody>
</table>

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

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

Panama
2.4 Tax policy outlook for 2014 — detail

Corporate income taxes
- The Government will continue to strengthen tax compliance and enforcement, especially in relation to regulations concerning the applicability of tax treaties.
- More tax treaties are to be negotiated with more countries.
- As noted below, a law was passed (but later repealed) in late 2013 which would have introduced a worldwide taxation regime to Panama; the reaction of the Government and especially of the President of Panama and the Minister of Economic and Finance, seems to indicate that the shift to a worldwide income tax system is not expected to be part of coming changes in tax policy of the current Government.

Taxes on wages and employment
- No changes are expected to taxes on wages and employment for 2014.

VAT/GST/sales taxes
- No changes are expected to VAT rates in 2014.

2.5 Political landscape
- The elections for the new President of Panama will be held in May 2014. However, no immediate changes are anticipated in 2014 due to the elections.

2.6 Current tax policy and tax administration leaders

Current Tax policy leader
- Ricardo Martinelli, President of the Republic of Panama
- Frank George de Lima, Minister of Economy and Finance

Current Tax administration leader
- Luis Cucalon, Administrator of the National Authority of Public Revenue
2.7 Key tax policy changes in 2013

- On 30 December 2013, a new law was approved and published in Panama's Official Gazette and was effective the following day. The newly enacted law amended Section 694 of the Panamanian Tax Code, adopting a taxation system based on worldwide income and abandoning Panama's traditional territorial taxation model.

- Just a few days later on January 2, 2014 an extraordinary Cabinet Council was called to authorize the Ministry of Finance to propose to the National Assembly a Bill to repeal the changes. The National Assembly approved this Bill during its third debate on January 10, 2014, and the first Law of 2014 was enacted to restore the territorial principle with retroactive effect to December 30, 2013.

- On 27 November 2013, Law Nº 110, introducing a 1% tax on with-recourse financial factoring agreements in Panama, was published in the Official Gazette. This new law, which modifies Section 2 of Law Nº 4 of 1994, is in effect as of 28 November 2013. The 1% tax is to be applied over the total amount of the invoice assigned to the factor. Certain transactions are exempt from the above-mentioned withholding tax.

- A law was enacted to create the National Authority of Public Revenues (ANIP), replacing the Department of Revenue (Dirección General de Ingresos, DGI), the previous tax authorities. This was an executive initiative to give full independence to the administration in charge of tax affairs. Congress adopted a law on 6 September 2013 approving a tax amnesty program. The amnesty period began on 7 September 2013 and ends on 7 December 2013. The program is available for tax years up to 2011, and it applies to taxpayers that did not correctly report their income for income tax purposes and taxpayers with outstanding tax debts.

- A custody regime for bearer shares was approved by law (August 2013) and enters into force in two years. There is a transition period of three years for bearer shares issued prior to the law's entry into force in 2015 that will not have to be immobilized until 2018. Custodians must provide the identification information of the owners of the shares when required by the competent authority (e.g., the tax authorities for tax purposes).

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

- There is no public statement or any information regarding Panama's position in relation to BEPS.

2.9 Pending tax proposals

- There are no pending tax proposals.

2.10 Consultations opened/closed

- The President enacted the law creating the National Authority of Public Revenues (ANIP) to replace the DGI. This was an executive initiative to give the tax administration full independence in tax affairs.

- The Congress adopted a law that grants taxpayers the opportunity to participate in a tax amnesty program with ANIP.

- The proposal to immobilize bearer shares under custody of a custodian was approved by law.
1 | Tax rates (2013–14)

1.1 Key tax rates

<table>
<thead>
<tr>
<th>Tax rate</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax rate (national and local average, if applicable)</td>
<td>19%(^1)</td>
<td>19%</td>
<td>–</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>Progressive two-tiered scale: 18 and 32%(^2)</td>
<td>Progressive two-tiered scale: 18 and 32%</td>
<td>–</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>23%(^3)</td>
<td>23%</td>
<td>–</td>
</tr>
</tbody>
</table>

2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

- Poland is 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 partnership limited by shares (spółka komandytowo-akcyjna) that have commonly been used for tax optimization purposes.

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\(^1\) 2013 Worldwide corporate tax guide, EY.
\(^2\) 2013-2014 Worldwide personal tax guide, EY.
\(^3\) 2013 VAT GST Sales tax guide, EY.
2.2 Key drivers of tax policy change

Specific areas of fiscal stimulus

- Further to the Government’s recent announcements, Poland will continue investments in infrastructure, including roads, rail, energy projects and power generation. It is expected that investments in these areas will be fiscally stimulated.

- Additionally, as the basis of the Polish economy lies in small and medium enterprises, the Government is trying to facilitate their businesses by decreasing fiscal impediments.

Specific areas of fiscal consolidation

- As indicated above, Poland is subject to the EDP. Generally, Poland is obliged to decrease the budget deficit below 3% of GDP; thus, any tax reforms must not lead to decreased tax revenues.

- Apart from this general approach, there is no specific area that is currently subject to fiscal consolidation in Poland.

- In addition, select sectors (e.g., producers of fuels and steel products) recently struggled with unfair competition achieved by means of tax evasion. To counteract VAT frauds and in order to maintain a level playing field in these sectors, a Polish legislator implemented an anti-fraud VAT package. These amendments are perceived as a major stimulus for further development of the steel and fuel industries.

2.3 Tax policy outlook for 2014 – summary

<table>
<thead>
<tr>
<th>Corporate income tax burden</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
<td>No change</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 2014 – detail

Corporate income taxes

There are no proposed changes to statutory CIT rates in 2014. Changes to CIT rules regarding taxation of partnerships limited by shares (spółka komandytowo-akcyjna) may impact certain taxpayers and such impacts should be investigated.

- Introduction of a one-off asset step-up through the payment of a substitute tax amounting to 16% for amortizable/depreciable assets and 12% for non-amortizable/depreciable assets
- Increase of the notional interest deduction (ACE) on new equity from the current 3% deduction to 4% for 2014, 4.5% for 2015 and 4.75% for 2016
- Reintroduction of the participation step-up through the payment of a substitute tax amounting to 16%
- Additional deductions of new employees cost for IRAP purposes
- Special bad debt provisions for banks and insurance companies

Taxes on wages and employment

- The few minor changes to personal income tax compliance should have no significant impact on the employment opportunities in Poland.
- The Polish court recently challenged personal income tax equalization (employer-employee); however, no legislative changes are expected.

VAT/GST/Sales taxes

- As of 1 January 2014, major amendments to VAT rules came into force in Poland. These changes, however, are of a technical character, requiring IT systems adjustments. Generally, they should not impact business in Poland.

2.5 Political landscape

The following statutory elections in Poland are scheduled in the near future:

- EU Parliament elections will be held in May 2014.
- Local community elections will be held in September 2014.
- Polish Parliament elections will be held in 2015.
- Presidential elections will be held in 2015.

2.6 Current tax policy and tax administration leaders

Tax policy leaders

- Donald Tusk, Prime Minister
- Mateusz Szczurek, Minister of Finance

Tax administration leaders

- Mateusz Szczurek, Minister of Finance

2.7 Key tax policy changes in 2013

- 2013 saw no major changes to direct taxes.
- An anti-VAT fraud package was implemented in Poland as of 1 October 2013. This applies to “fragile” sectors, i.e., steel products and fuel.
- Apart from the above, there were no major changes in the Polish Government's tax policy.
2.8 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- Poland is not yet engaged in the public debate on BEPS Action Plan.

2.9 Pending tax proposals

- Not applicable

2.10 Consultations opened/closed

**Currently open**
- Consultations on amendments to the Corporate Income Tax Act, including limitation of possibilities for advanced tax planning (in case of partnership limited by shares)

**Completed in 2013**
- Consultations on amendments to the Excise Duty Act, including:
  - New rules related to taxation of natural gas and its equivalents
  - Consultations on anti-VAT fraud package

**Expected in 2014**
- Consultations on widening the scope of tax on extraction of certain minerals (focus on shale gas)
- Consultations on amendments to the Excise Duty Act (focus on electricity)
Stay up to date with developments in Russia by accessing EY’s global tax alert library at www.ey.com/taxalerts.

1 | Tax rates (2013-14)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax rate (national and local average, if applicable)</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 state budget. The state percentage 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 state budget. The state percentage can be reduced to the minimum of 13.5% in certain regions for certain categories of taxpayers.</td>
<td>–</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>Personal income tax rates: general rate of 13% for Russian residents, 35% tax on gifts, 30% for non-Russian residents, and 9% tax on dividends and participation income received</td>
<td>Personal income tax rates: general rate of 13% for Russian residents, 35% tax on gifts, 30% for non-Russian residents, and 9% tax on dividends and participation income received</td>
<td>–</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</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, auxiliary services to international transportation</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, auxiliary services to international transportation</td>
<td>–</td>
</tr>
</tbody>
</table>

1 The Tax Code of Russian Federation with amendments as of July 2013.
2 The Tax Code of Russian Federation with amendments as of July 2013.
3 The Tax Code of Russian Federation with amendments as of July 2013.
2 2014 tax policy outlook

2.1 Key drivers of tax policy change

- The Government has approved the main tax policy trends proposed by the Ministry of Finance for 2014 to 2016 tax accounting periods. The trends remain the same as in previous periods and focus on the creation of an efficient and stable tax system to help ensure fiscal sustainability. No changes in the tax structure or introduction of new taxes are expected.

- The main goals for 2014 to 2016 are to continue supporting investments and to encourage innovations. At the same time, tax policy is being adjusted to keep the tax burden stable by improving the quality of tax administration.

- Tax policies will be also focus on improvement of the taxation of financial instruments and mitigation of tax evasion mechanisms through the use of low-tax jurisdictions.

2.2 Fiscal consolidation vs. stimulus

Specific areas of fiscal stimulus

- Further support of investment and development of human resources through the following:
  - Provision of numerous tax exemptions and benefits for individuals
  - Simplification of procedures to obtain such benefits
  - Development of tax conditions for different types of investments performed by individuals

- Creation of the favorable tax conditions for investment activity in certain areas through the following:
  - 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)
  - Improvement of taxation concerning the extraction of natural resources

Specific areas of fiscal consolidation

- The development of benefits provided by the tax legislation will be continued at the regional and local levels through:
  - Provisions of benefits with respect to clarification of profit tax base concerning trade activity
  - Simplification of tax accounting and further alignment of tax principals to the accounting
2.4 Tax policy outlook for 2014 — detail

Corporate income taxes

- No significant changes with respect to income tax are expected in 2014 and statutory CIT rates will remain the same. The main trends in this area are focused on:
  - Introduction of clarifications concerning recognition of expenses for trading companies
  - Lower profit tax rates for “investment project participants”
- Significant amendments to the profits tax treatment of interest income and expenses were enacted in Federal Law No. 420-FZ of 28 December 2013. The general limits on the deductibility of interest in Article 269 of the Russian Tax Code have been replaced with provisions relevant to controlled debts only. The new provisions include rules as to amounts to be recognized as interest income, whereas previously the relevant clauses concerned only the amounts of interest to be recognized as an expense. The thin capitalization rules in clauses 2 to 4 of this article are unchanged.

Taxes on wages and employment

- The amendments to Article 269 enter into force not earlier than one month from the date of official publication of the Law and not earlier than the first day of the next tax period. The Law was officially published on the Official Internet Portal of Legal Information (www.pravo.gov.ru) on 30 December 2013. As the tax period for profits tax is a calendar year the new wording applies from 1 January 2015. The provisions relate to interest on debt obligations, defined as credits, trade and commercial credits, loans, bank deposits, bank accounts or other borrowings, irrespective of the form in which they are arranged.

- No significant changes with respect to personal income tax are expected in 2014. The main trends in this area are focused on:
  - Provision of additional personal income tax benefits in line with social programs
  - Systematization of income exempt from taxation
  - Development of tax conditions for different types of investments performed by individuals
The outlook for global tax policy in 2014

2.5 Political landscape

- The last presidential election was held in 2012, and the president of the Russian Federation is Vladimir Putin. The next presidential election will be held in 2018. No important elections affecting trends with respect to tax policy are expected.
- No significant changes in the political landscape are expected in 2014.

2.6 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

2.7 Key tax policy changes in 2013

- It is common in Russia to introduce changes to the Tax Code and legislative acts, and calendar year 2013 was no exception.
- The following technical amendments were introduced in 2013:
  - Clarification of the procedure for determining income and expenses in the calculation of the tax base for income tax purposes
  - Prolongation of the 0% rate of income tax for agricultural producers
  - Clarification (specification) of the list concerning VAT-exempt operations, including food products and securities
  - Introduction of procedural amendments concerning execution of in-house tax audits and tax administration that provide for the opportunity to request a significant amount of primary documents
  - Numerous clarifications concerning application of established transfer pricing rules issued by the Ministry of Finance

VAT/GST/sales taxes

- No significant changes with respect to VAT are expected in 2014. The Government is planning on:
  - Further improvement of the current tax system
  - Creation of favorable conditions for investment activities
  - Development of mineral extraction tax through use of more flexible rates and special regimes of taxation
  - Improvement of the quality of tax administration
  - Improvement of real estate taxation
  - Transfer pricing law implementation, rules and tax administration will be continuing to develop.

The structure of the tax administration

- Federal Tax Service
- Regional offices of the Federal Tax Service
- Regional tax authorities
- Local tax authorities

Tax administration leaders of the Federal Tax Service
- Mikhail Mishustin, Minister and Head of the Federal Tax Service (in charge of eight deputies who coordinate and monitor the activity of 13 existing department, each managed by a director)
- Svetlana Andrushenko, Deputy Minister of the Control Department
- Sergei Arakelov, Deputy Minister of the Law and Pretrial Audit Departments

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

- Provisions of BEPS are in line with the Russian tax policy’s routine development, 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:
  - Draft of legislation concerning tax audits: in accordance with the plan, the foreign tax authorities may participate in tax audits performed by the Russian tax authorities
  - Federal law defining the “beneficial owner” concept: introduction of CFC rules and avoidance of aggressive tax planning arrangements foreseen as the main trends of development established in “The Main Directions of Russian Tax Policy for 2014 and Planning for 2015-2016”
  - The list of the offshore jurisdictions: obligatory tax policy control in relation to transactions with residents of offshore countries and restrictions to applying a 0% tax rate on dividends payable to the residents of such jurisdictions

Key 2013 tax administration initiatives include the following:

- There were significant improvements made in the mandatory appeal procedure for all tax audits, including a cassation appeal procedure to the Federal Tax Service. The time frame to file an appeal against the decision of the tax authorities was increased. The new approach to established appeal procedures covers all actions or inactions of the tax authorities.

- Electronic interaction (services) between tax authorities and taxpayers have been developed.

- The main trend in the 2013 tax policy is related to further development of the “horizontal monitoring” concept, which is planned to be the platform for mutual trust and cooperation between the Russian Federal Tax Service and taxpayers.
2.10 Consultations opened/closed

- One of the initiatives reviewed by the Government relates to criminal procedures for tax crimes.
- A draft federal law exists which reviews the procedure for the initiation of criminal cases concerning tax crimes.
- The established procedure provides for the possibility of initiation of a criminal investigation based on the tax audit materials submitted by the tax authorities. The draft 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 the respective legislation.
- The proposed initiative is still under discussion.
- Another initiative reviewed by the Government and Ministry of Finance relates to the development of monitoring and assessment of the efficiency of tax benefits. This initiative is under discussion.

2.9 Pending tax proposals

- A number of amendments will come into force in 2014:
  - A new federal law “Concerning property tax and procedures of determining of tax base” will come into force from 1 January 2014. The tax base in respect of certain property will be determined by their cadastral value.
  - Increasing coefficients have been introduced to calculate transport tax obligations for expensive cars.
  - The main amendments concerning mandatory appeal procedures against any acts of tax authorities will come into force in 2014. New concepts of pre-trial and court appeal procedures were introduced in the Tax Code.
  - The new federal law “Concerning tax control measures” will provide the tax authorities the right to demand from taxpayers not only information about the transaction, but also specific documents outside of tax audits.
  - Excise duty will increase on tobacco and alcohol products.
1 | Tax rates (2013-14)

1.1 Key tax rates

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<td>17%(^1)</td>
<td>17%(^2)</td>
<td>–</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>20%(^3)</td>
<td>20%(^4)</td>
<td>–</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>7%(^5)</td>
<td>7%(^6)</td>
<td>–</td>
</tr>
</tbody>
</table>

2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

- Sustain a fair and progressive fiscal system
- Continue the push to restructure the Singapore economy in an attempt to increase Singapore's productivity by 2% to 3% per year over the next decade
- Provide more help for businesses so they can restructure to upgrade productivity and achieve quality growth
- Build an inclusive society that improves all lives, focusing especially on health care and cost of living for low-income Singaporeans

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1. 2013 Worldwide corporate tax guide, EY.
2. Ibid.
3. 2013-14 Worldwide personal tax guide, EY.
4. Ibid.
5. 2013 Worldwide VAT, GST and sales tax guide, EY.
6. Ibid.
## 2.2 Key drivers of tax policy change

### Specific areas of fiscal stimulus/consolidation

- The Singapore Government will continue to push ahead with restructuring the country's economy, as it has for the past three years. The focus will likely be on areas to help businesses, particularly small and medium enterprises, with the costs of restructuring and with changes to their businesses 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.
- 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 attract foreign investments.

## 2.3 Tax policy outlook for 2014 – summary

<table>
<thead>
<tr>
<th>Corporate income tax burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Personal income tax burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>VAT/GST/sales tax burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
</tr>
</tbody>
</table>
2.4 Tax policy outlook for 2014 – detail

**Corporate income taxes**
- Singapore's 2014 Budget Statement will be delivered on 21 February 2014.

**Taxes on wages and employment**
- As above.

**VAT/GST/Sales taxes**
- As above.

2.5 Political landscape

- The ruling People's Action Party (PAP) continues to be the single dominant party in Parliament, notwithstanding the increased representation of opposition parties.
- Consequently, tax policy should remain stable and consistent.

2.6 Current tax policy and tax administration leaders

**Tax policy leaders**
- BG 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 leader**
- Dr. Tan Kim Siew, Commissioner of Inland Revenue

2.7 Key tax policy changes in 2013

Singapore's Minister for Finance delivered the 2013 budget for the financial year 1 April 2013 to 31 March 2014 in Parliament on 25 February 2013. Some key measures include:

- **Three-year transition support package**
  - The budget provided for a 30% corporate income tax rebate capped at SGD30,000 per year of assessment (YA). The rebate will be granted to companies from YA 2013 to YA 2015.
  - In addition, the wage credit regime (WCR) was introduced, under which the Singapore Government will co-fund 40% of wage increases for Singaporean employees earning up to a gross monthly wage of SGD4,000 (approximately US$3,200) from 2013 to 2015.

- **Enhancing the tax regime to help businesses improve productivity**
  - To help businesses, especially small and medium enterprises, the qualifying activities under “acquisition of IP” was enhanced to include IP in-licensing for YA 2013 to YA 2015. The cost of IP acquisition and in-licensing of IPs will be eligible for an allowance/deduction of 400% of the qualifying expenditure under the productivity and innovation credit (PIC) regime, up to a combined cap of SGD400,000 per YA. Similarly, the cost of IP acquisition and in-licensing of IPs will qualify for a cash payout under PIC (up to SGD60,000 per YA), subject to conditions.

- **Enhancing Singapore's attractiveness as a global financial center**
  - The financial sector incentive (FSI) regime comprises 12 separate awards that grant concessionary tax rates of 5%, 10% and 12% on income from qualifying financial activities. To continue the growth of financial sector activities in Singapore, the FSI regime (excluding the FSI-Islamic finance award) will be extended up to 31 December 2018.
2.8 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- In his speech at the G20 Summit on 5 September 2013, the Prime Minister indicated that profits made by companies should be rightfully taxed in jurisdictions where substantive economic activities take place. As such, it is likely that the Singapore Government will review its tax policy and tax enforcement in the light of the BEPS Action Plan and fine-tune its tax policy to incorporate the relevant changes.

- Singapore has already taken steps to strengthen its framework for international cooperation to combat cross-border tax offenses and increase the number of exchange of information (EOI) sharing agreements before the BEPS Action Plan was released. This can be seen in 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.

2.9 Pending tax proposals

- Tax changes proposed in the 2013 budget (as highlighted in Section 2.7) will likely be passed as law by the end of 2013.

2.10 Consultations opened/closed

- There is one open public consultation with the Ministry of Finance as at 31 October 2013:

- Draft Companies Act (Amendment) Bill of 2013 - Part 2

- Public consultations with the Ministry of Finance/Inland Revenue Authority of Singapore that were closed as of 31 October 2013 include:

- Draft Income Tax (Amendment) Bill of 2013
- Draft Amendments to the Income Tax Act to Incorporate Changes to Exchange of Information Regime
- Draft Property Tax (Amendment) Bill of 2013
- Draft Companies Act (Amendment) Bill of 2013
- Draft Goods and Services Tax (Amendment) Bill of 2013
- Public Consultation on How Parent Relief Should be Allowed
1 Tax rates (2013-14)

1.1 Key tax rates

<table>
<thead>
<tr>
<th>Top corporate income tax rate (national and local average, if applicable)</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>23%¹</td>
<td>22%²</td>
<td>-4.3%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Top individual income tax rate (national and local average, if applicable)</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>19%/25% on portion of gross income exceeding €3,311 per month³</td>
<td>19%/25% on portion of gross income exceeding €3,370 per month⁴</td>
<td>No change</td>
</tr>
</tbody>
</table>

| Standard value-added tax (VAT) rate | 20%⁵ | 20%⁶ | No change |

2 2014 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 – main driver
- Fight against tax fraud and tax evasion
- Goal to keep public finance deficit below 3% of gross domestic product
- Increase of state income
- Minimization of inequality in tax system

¹ 2013 Worldwide corporate tax guide, EY.
² Effective 1 January 2014.
³ Act No. 595/2003 Coll. on Income Tax, as later amended; Section 15 lit. a) points 1 and 2, respectively.
⁴ Act No. 595/2003 Coll. on Income Tax, as later amended; Section 15 lit. a) points 1 and 2, respectively.
⁵ Act No. 222/2004 Coll. on Value Added Tax, as later amended; Section 27 (1) in connection with Section 85j (1).
⁶ Ibid.
2.2 Key drivers of tax policy change

Specific areas of fiscal stimulus

- The statutory rate of CIT has been reduced from 23% to 22%, effective 1 January 2014.
- Investment aid
  - The maximum investment aid for the acquisition of tangible fixed assets and intangible assets is limited to €10 million for an investment project in the field of manufacturing.
  - An investment project must lead to creation of new job positions in order to qualify for investment aid.
  - The maximum intensity was recently reduced for all forms of investment aid.
  - Certain forms of investment aid will not be available for districts of Slovakia with lower unemployment rates.
  - Provision of repeated investment aid is only in the form of a tax relief.
- Tax holidays
- Social security contributions cuts
  - For employers hiring long-term unemployed applicants
  - Applicable to both employer and employee portion

Specific areas of fiscal consolidation

- The introduced changes below present a set of major consolidation instruments.
- Please also refer to Section 2.4 below.
  - Special levy (levy on legal entities operating in regulated industry sectors (approximately 4.2% of the annual accounting profit))
  - Bank levy (bank tax on private deposits)
- Taxes on wages and employment
  - Increase of the personal income tax rate from 19% to 25% (applies to gross income exceeding €3,370 per month)
  - Increase of maximum assessment base for social security and health insurance contributions
  - Introduction of the annual social security reconciliation (potentially affecting the income exceeding the monthly maximum assessment base)
- VAT/GST/sales taxes
  - Guarantee to be paid upon the registration and obligatory deregistration of uncooperative VAT payers or VAT runners
  - Limiting the input VAT deduction for foreign companies
  - Tightened rules for applying an exemption for intra-community supplies of goods
  - Changed rules for joint and several liability for unpaid VAT at the previous level
  - Stricter invoicing rules

Slovakia
2.3 Tax policy outlook for 2014 – 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>Lower</td>
<td>X</td>
<td>No change</td>
<td>Higher</td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2014 – detail

Corporate income taxes

- Statutory CIT rate reduction
  - Effective 1 January 2014, the CIT rate was reduced from 23% to 22%.
- Tax loss carryforward
  - Effective 1 January 2014, the period for which tax losses may be carried forward was reduced from seven to four years. In addition, the amount that can be used in a year is capped at one-quarter of the tax losses carried forward. The new rules will also apply to losses incurred prior to 2014.
- Stricter transfer pricing deadlines and enforcement
  - The amendment also shortened the deadline for taxpayers to present their transfer pricing (TP) documentation upon the tax authority’s request from 60 to 15 days. In addition, the tax authority may demand TP documentation even without initiating an official audit.
- Service permanent establishment (PE)
  - A new tax law reintroduces the concept of a service PE into Slovak tax legislation. In line with the new rules, a service PE arises in cases of the provision of services (including consultancy and management services) by a nonresident taxpayer or through its employees in Slovakia, where the activities are carried out during a period or periods exceeding six months in total, in any consecutive 12-month period.

- Capital gain exemption on share transfers
- In connection with the taxation of income from the transfer of shares between two nonresidents, the income shall not be taxable in cases where both the transferor and the transferee are tax resident in the EU.
- Electronic communication with the tax authority
- Necessary for a VAT payer
- Also applies to a representative of the VAT payer and a tax advisor and legal counsel representing a taxpayer
- Effective as of 1 January 2014
- Binding rulings of the Financial Directorate
  - Shall be issued upon written request of the taxpayer within a 60-day period unless further clarifications are necessary, but no later than six months from the day of filing the request
  - Shall be binding to the tax authority and appellate body
  - Will cost the taxpayer a variable fee between €4,000 and €30,000 based on the value of the intended transaction
  - Effective as of 1 September 2014
- Tax license
  - The Ministry of Finance introduced tax licenses for companies: a minimal duty, which will apply to companies incurring tax losses. The tax licenses shall apply only to companies and not to self-employed persons. The actual amount of the tax license ranges from EUR 480 to EUR 2880 depending on certain criteria such as turnover or status of a company as a VAT payer.
Taxes on wages and employment

- No major changes are anticipated in 2014.

- Dividends
  - Increased health insurance contributions for dividends distributed from profits generated in accounting periods beginning on or after 1 January 2013
  - Dividends will be subject to a 14% health insurance contribution

VAT/GST/sales taxes

- Detailed VAT ledger
  - The Detailed VAT ledger presents a new tool to fight against fraud in the area of VAT.
  - VAT ledger reporting should provide tax administrators with a detailed overview of the business transactions of the taxpayer.
  - VAT payers must submit a detailed VAT ledger along with the VAT return. The obligation arises for each VAT period, except when zero returns are filed or re-exports of imported goods are made.
  - The VAT ledger should contain information about each issued and received invoice.
    - Items to be declared for each invoice include, for example, VAT identification numbers, document number, (reference to original invoice number in case of adjustment invoice), relevant dates and transaction values and amount of deducted VAT. For certain goods subject to domestic reverse-charge, items to be declared include their type, volume and a reference to the customs Harmonized System tariff code.
    - The information must be compiled by the VAT payer electronically, in the XML format, and filed by means of the electronic filing portal provided by the Slovak Financial Directorate.
    - Failure to provide full information will trigger sanctions, which might be as high as €10,000 for a single omission, and, in cases of repeated non-compliance, as high as €100,000.

2.5 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

2.6 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

2.7 Key tax policy changes in 2013

- Corporate income taxes
  - Increase in the statutory CIT rate from 19% to 23%

- Taxes on wages and employment
  - Increase of the top rate of personal income tax rate from 19% to 25% (applies to gross income exceeding €3,311 per month)

- VAT/GST/Sales taxes
  - Detailed VAT Ledger requirements

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

- We are not aware of any published document or official statement concerning BEPS in Slovakia or any consultations or legislative initiatives in this regard.

2.9 Pending tax proposals

- None known

2.10 Consultations opened/closed

- None known
### South Africa

#### Tax policy

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+27 82 455 5597

### Tax controversy

Christel Brits  
christel.brits@za.ey.com  
+27 11 502 0100

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### Tax rates (2013-14)

#### 1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax rate</td>
<td>28%</td>
<td>28%</td>
<td>–</td>
</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>40%</td>
<td>40%</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>14%</td>
<td>14%</td>
<td>–</td>
</tr>
</tbody>
</table>

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1. 2013 Worldwide corporate tax guide, EY.  
2. Ibid.  
3. 2013-14 Worldwide personal tax guide, EY.  
4. Ibid.  
5. Although there has been no change in the top individual income tax rate, pressure exists to increase the rate to 42% or 45%.  
6. 2013 VAT, GST and sales tax guide, EY.  
7. Ibid.  
8. Although there has been no change in the VAT rate, pressure exists to increase the rate to cover health care reform.
2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

• Pressure is building to raise taxes to cover annual deficits. At the present time, this pressure is translating into increased enforcement, but pressure also exists to increase the top rate of PIT to 42% or 45%.
• Environmental concerns have raised the carbon tax as a key issue.
• VAT and personal income taxes may have to increase to cover health care reform.

2.2 Fiscal consolidation vs. stimulus

Specific areas of fiscal stimulus

• Special economic zone incentives
• Energy efficiency incentives

Specific areas of fiscal consolidation

• Interest from excessive debt
• Cross-border withholding taxes as a backup measure for transfer pricing

2.3 Tax policy outlook for 2014 – summary

<table>
<thead>
<tr>
<th>Corporate income tax burden</th>
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<tbody>
<tr>
<td>Lower</td>
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<table>
<thead>
<tr>
<th>Personal income tax burden</th>
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<td>Lower</td>
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<table>
<thead>
<tr>
<th>VAT/GST/sales tax burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
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</tbody>
</table>
2.4 Tax policy outlook for 2014 — detail

Corporate income taxes

- Trend upward: Corporate taxes will increase via increased enforcement, broadening the tax base and possibly indirect taxes (e.g., carbon taxes).
- The Minister of Finance announced in his 2013 Budget Speech that a tax policy review was to be undertaken under the chairmanship of Judge Denise Davis (who was himself a member of the Katz Commission). While it is unclear if the Davis review will be as comprehensive as that undertaken by earlier Margo and Katz Commissions, it is hoped that this will be the case. There have been significant tax changes since the Katz Commission, many of them seemingly ad hoc, and it is to be welcomed that a holistic study will be undertaken to align those recent developments and to consider international best practice in regard thereto. Output from the Davis Commission is expected during the course of 2014.

Taxes on wages and employment

- Trend upward: personal income taxes on higher rate taxpayers will probably increase through higher rates plus reduced deductions for savings.

VAT/GST/sales taxes

- Trend upward: the VAT rate may increase to cover health care reform, increased enforcement and loophole closing.

2.5 Political landscape

- The elections will generally have no bearing on the tax system, except possibly for symbolic issues such as a windfall tax on mining (on top of current royalties).

2.6 Current tax policy and tax administration leaders

Tax policy leader

- Pravin Gordhan, Minister of Finance

Tax administration leader

- Ivan Pillay, Acting Commissioner for the South African Revenue Service

2.7 Key tax policy changes in 2013

- Rules have tightened against excessive interest (cross-border and acquisition debt).
2.8 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- South Africa has enacted most domestic reforms in advance of BEPS.
- South Africa will probably support the BEPS initiatives at a treaty and multilateral level (e.g., per country reporting, a treaty GAAR).

2.9 Pending tax proposals

- Carbon tax: with the aim to reduce greenhouse gas emissions by 34% by 2020, the Government has proposed a carbon tax regime. If implemented, the earliest date for the implementation will be 2015.

2.10 Consultations opened/closed

- The Davis tax reform commission has kept an open door policy.
- The carbon tax has its own consultation process, but the executive seems set on enacting the tax regardless.
- The annual tax amendments have a consultation process, but this process is shrinking.
1 | Tax rates (2013–14)

### 1.1 Key tax rates

<table>
<thead>
<tr>
<th>Top corporate income tax rate (national and local average, if applicable)</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>30(^1)</td>
<td>30(^2)</td>
<td>No change</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Top individual income tax rate (national and local average, if applicable)</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Top:</strong> 56(^3) (Andalucía, Asturias and Cataluña)</td>
<td></td>
<td></td>
<td>N/A</td>
</tr>
<tr>
<td>Intermediate: 53.59%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Minimum:</strong> The regions with the lowest top rates are Madrid and Cantabria. Both with 51.9%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Top:** Andalucía, Asturias and Cataluña continue with the highest individual tax rate for 2014 (56%).

**Minimum:** The region with the lowest top rates is Madrid with 51.5%.

In addition, regions as Madrid, Galicia, Cantabria and Extremadura have already approved (through the corresponding local rules) decreases in minimum individual income tax rates. (i.e.: 23.95% for Madrid, 24.25% for Galicia, 23.75% for Cantabria and 24% for Extremadura)

<table>
<thead>
<tr>
<th>Standard value-added tax (VAT) rate</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>21(^4)</td>
<td>21(^5)</td>
<td>No change</td>
<td></td>
</tr>
</tbody>
</table>

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\(^1\) Worldwide corporate tax guide, EY, 2013.

\(^2\) Ibid.


\(^4\) 2013 VAT GST Sales tax guide, EY.

\(^5\) Ibid.
2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

- Since 2011, the Government has increased both personal income tax and VAT rates in a bid to reduce Spain's deficit.
- From 2014, some regions will be decreasing the top level of personal income tax rates by 1% (Madrid, Galicia, Cantabria and Extremadura). Currently, the regions receive 50% of the total collection of this tax.
- A tax reform package that will affect corporate and personal income taxes will be adopted in 2014, entering into force in 2015. Its main highlights have not been revealed yet. Excise duties could be increased to balance a direct taxes reduction. VAT will likely not be increased; however, the scope of reduced rates will be revisited.

2.2 Fiscal consolidation vs. stimulus

Specific areas of fiscal stimulus

- Law 14/2013 on support for and the internationalization of entrepreneurs was published in Spain's Official Gazette on 28 September 2013. A cash accounting system for small and medium enterprises has entered into force in 2014.
- A law containing environmental tax measures was published on 30 October 2013.
- Through Ministerial Order HAP/2215/2013, published on 26 November, certain formal aspects are modified regarding the Spanish Value Added Tax.
- The State General Budget Law for 2014 was officially published on 26 December 2013.
- Ministerial Order HAP/2206/2013 establishes for 2014 the regime for objective assessment in relation with the Personal Income Tax and the simplified regime for VAT.
- Royal Decree 960/2013 modifies the CIT and Personal Income Tax Regulations in order to be updated with the legal modifications performed during the year 2013.

Specific areas of fiscal consolidation

- A new Independent Fiscal Responsibility Authority was created (through the Organic Law 6/2013) on November 2013 in order to ensure that Spain complies with its fiscal rules.
- During 2014 there will be a tax reform package which will presumably affect the fiscal consolidation. There are no specific proposals at this time.

2.3 Tax policy outlook for 2014 – summary

<table>
<thead>
<tr>
<th>Corporate income tax burden</th>
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<tbody>
<tr>
<td>Lower</td>
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<table>
<thead>
<tr>
<th>Personal income tax burden</th>
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<tr>
<td>Lower</td>
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<table>
<thead>
<tr>
<th>VAT/GST/sales tax burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
</tr>
</tbody>
</table>
Corporate income taxes

- The limit applicable to corporate income tax credits is removed from January 2013 for certain research and development activities.
- The percentage of income to be declared for certain qualifying intellectual property rights has decreased from 50% to 40%.
- Spanish companies with a turnover of less than €10 million that reinvest a part of their annual profits in the acquisition of business assets will be entitled under certain circumstances to a tax credit of 10%.
- The maximum annual rate of amortization of goodwill and certain intangible property (IP) will be reduced to 1% and 2%, respectively for fiscal years 2014 and 2015.
- For fiscal years 2014 and 2015, large companies with a turnover between €20 million and €60 million in the 12 months prior to the beginning of the relevant fiscal year may only offset net operating losses up to a maximum amount of 50% of the positive taxable base. When the company’s turnover in the prior period is greater than €60 million, the limitation is further reduced to 25% of the positive taxable base.
- The mandatory minimum interim payment that applies to entities with a turnover above €20 million in the 12 months prior to the beginning of the relevant fiscal year may only offset net operating losses up to a maximum amount of 50% of the positive taxable base. When the company’s turnover in the prior period is greater than €60 million, the limitation is further reduced to 25% of the positive taxable base.
- On 26 December 2013, the Spanish 2014 Budget Law was published in the Spanish Official Gazette. Among many other measures, the draft bill extends the application of increased tax rates on Spanish source income obtained by non-Spanish residents with no permanent establishment in Spain and modifies the Spanish exit tax rules in order to adapt them to the case law of the European Court of Justice. The increase in tax rates was established for years 2012 and 2013; the 2014 Budget Law extends its application to 2014. The tax rates (in the absence of an applicable tax treaty with reduced rates or of other tax benefits) applicable to these taxpayers in 2014 will be as follows:
  - The general tax rate will continue to be 24.75% (the rate was formerly 24%).
  - The tax rate on dividends and interest will be fixed at 21% (originally 19%).
  - Capital gains will continue to be taxed at 21% (previously taxed at a 19% rate).
  - The 21% branch remittance tax applicable to profits repatriated to the foreign head office by Spanish permanent establishments (PE) will remain in force.
- It is expected that the original lower rates will again be applicable as from 1 January 2015, but year-end legislation will need to be monitored.
- Spanish exit tax rules were recently found to be in breach of EU Law by the European Court of Justice (ECJ). The Decision held that a migration to another EU member territory should not be subject to immediate taxation, as taxation should be deferred until a triggering event occurs. The 2014 Budget Law amends the Spanish exit tax rules in order to adapt them to the ECJ Decision. Under the new wording, the exit tax as a consequence of (i) the transfer of the tax residence of a Spanish company to another EU Member State, or (ii) the transfer of assets allocated to a Spanish PE to another EU Member State, may be deferred up until the assets are transferred to a third party, although such deferral is subject to the taxpayer posting a guarantee with the tax authorities covering the deferred tax. In addition, interest will accrue throughout the period during which the tax is deferred. This new provision applies retroactively to transactions occurring from 1 January 2013 onwards.
Withholding and payments on account
- From 1st January 2014, the period for filing the July withholding and payments on account returns must be mandatorily filed within the 20 first days of August.

Value Added Tax
- Spanish VAT law has been amended regarding services which are located in Canarias, Ceuta and Melilla but are effectively used in the VAT Spanish territory. Such services, from 2014 onwards will be subject to Spanish VAT.
- The special period for filing July VAT returns is now suppressed and therefore (effective January 2014) the July VAT returns should be filed during the first 20 days of August.
- The accrual rules regarding the beginning of transport in the Member State of origin are now suppressed.

Taxes on wages and unemployment
- As noted, the minimum marginal personal income tax rate has been slightly decreased in some regions, including Madrid, Extremadura, Cantabria and Galicia.

VAT/GST/sales taxes
- The VAT invoicing regulation has been modified with effect from 1 January 2014. This modification introduces the “cash accounting regime,” which generally allows taxpayers who satisfy certain conditions to postpone making remittance of VAT to the Spanish tax authorities until customers pay for the goods or services.
- A new tax is levied on consumption of fluorinated greenhouse gases.

2.7 Key tax policy changes in 2013
- In relation to corporate income taxes, with effect from January 2013 the deduction applicable for free depreciation was limited to 30%.
- With respect to VAT, the new invoicing regulation transposing the Invoicing Directive became applicable during 2013.
- Regarding personal income taxes, the deduction for house acquisition has been suppressed. Since 2012, goods located in foreign countries must be declared by tax residents through the Tax Form 720.

2.8 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan
- The Ministry of Finance has made public the decision of Spain to support the OECD Action Plans. No specific plan or legislation had been published for Spain at the time this document was published.

2.9 Pending tax proposals
- The pronouncement of the European Court of Justice related to the Tax on Minority Sales of Certain Hydrocarbons, which is pending.

2.10 Consultations opened/closed
- Not applicable

2.5 Political landscape
- European Parliamentary elections will occur in May 2014; there are no political changes planned until the Spanish General Elections in late 2015.

2.6 Current tax policy and tax administration leaders
- Mariano Rajoy, President
- Cristóbal Montoro, Minister of Finance and Public Administration
Sweden

1 | Tax rates (2013-14)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax rate (national and local average, if applicable)</td>
<td>22%</td>
<td>22%</td>
<td>0%</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>58%</td>
<td>60%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>25%</td>
<td>25%</td>
<td>0%</td>
</tr>
</tbody>
</table>

2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

- The five key drivers for Sweden’s tax policy changes are:
  - Good conditions for lasting high employment. The tax rules will help to increase sustainable employment by increased participation in the labor market and through increased education and skills of those already working.
  - Good conditions for business and investment. Tax rules should provide good conditions for investments in Sweden through attraction of foreign firm locations and investment in Sweden and increased investments from companies already operating in Sweden. In addition, good conditions should also apply to the Swedish companies’ investments abroad.
  - General and fairly distributed welfare. Tax policy should be designed so that the goal of general and equitable prosperity is ensured.

Stay up to date with developments in Sweden by accessing EY’s global tax alert library at www.ey.com/taxalerts.
2.2 Fiscal consolidation vs. stimulus

Specific areas of fiscal stimulus

- There are no specific stimulus measures in place.

Specific areas of fiscal consolidation

- New interest limitation rules (effective as of 1 January 2013) are in many situations preventing deductions relating to group internal debt.

2.3 Tax policy outlook for 2014 – summary

<table>
<thead>
<tr>
<th></th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate income tax burden</td>
<td>X</td>
<td>No change</td>
<td></td>
</tr>
<tr>
<td>Personal income tax burden</td>
<td></td>
<td>X</td>
<td>Higher</td>
</tr>
<tr>
<td>VAT/GST/sales tax burden</td>
<td>X</td>
<td>No change</td>
<td>Higher</td>
</tr>
</tbody>
</table>
2.4 Tax policy outlook for 2014 – detail

Corporate income taxes

- No major changes are expected in 2014. A committee has been appointed by the Government to review the corporate income tax system and will present proposals for new legislation during 2014. However, no legislation is expected to be passed by Parliament during 2014 on the basis of the committee’s proposals.

Taxes on wages and employment

- The flat rate tax for non-residents has been reduced.

VAT/GST/sales taxes

- There are no known proposals for changes to VAT rates for 2014.
- The main change for 2014 is a simplification in the system of optional taxation for the letting of real estate. The application will partly be replaced by a system where optional taxation is achieved via invoicing with VAT.

2.5 Political landscape

- The election in September 2014 may lead to a new government.

2.6 Current tax policy and tax administration leaders

- Anders Borg, Minister of Finance
- Ingemar Hansson, Director of Swedish Tax Agency

2.7 Key tax policy changes in 2013

- The most significant change is the introduction of tightened interest limitation rules. The new interest limitation rules constitute a considerable tightening of the current rules. It should be noted that, in principle, all interest payments to related companies will fall under the main rule disallowing deductions. Accordingly, all companies with internal loans – whether they relate to leveraged companies or, for example, cash pooling arrangements – will have to demonstrate that at least one of the exemptions applies. The limitation of the business reasons exemption to European Economic Area and treaty states means that interest payments to related companies in tax havens will not be deductible. The bill did not contain any grandfathering rules, meaning that the new rules apply to interest accruing as of 1 January 2013 regardless of when the debt was created.

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

- There is a working group within the Ministry of Finance regarding the BEPS Action Plan. However, there has not been any public output from the group. The Swedish government and tax administration consider BEPS to be a serious problem, and Sweden participates in the work within the OECD.
2.9 Pending tax proposals

> Several important changes to the corporate income tax system may be proposed, although there are currently no specific proposals:

> A committee has been formed and instructed to review the taxation of companies. The aim is to establish taxation designed to foster entrepreneurship, investment and employment. The committee shall include and analyze the impact of the tax changes that may be relevant in a world of global competition. The committee should have completed the final report on 1 November 2013. The completion date has, however, been postponed to 16 June 2014. Please notice that it is possible that the completion date will be postponed further.

> The committee will study ways to reduce the taxation of venture capital in the corporate sector and make conditions more similar to equity financing and debt financing. The committee shall also propose changes to protect the Swedish corporate tax base in an increasingly globalized world.

> The committee should, as far as possible, seek to take forward proposals to broaden the corporate tax base to fund a reduction in the taxes paid by the corporate sector. To improve the tax neutrality between equity and borrowed capital and to broaden the corporate tax base, the committee should look at how limiting the ability to make interest deductions and creating measures to strengthen equity can help increase the resilience of businesses and the stability of tax.

> The committee must also examine the possibility of introducing a withholding tax on interest payments and develop proposals for rules on this.

> Furthermore, the rules on group contributions (tax consolidation) and the need for rules on transfers below fair market value (tax rules facilitating tax neutral restructurings) shall be evaluated, and if deemed appropriate, suggestions for changes shall be made.

2.10 Consultations opened/closed

> Not applicable
### Switzerland

#### Tax policy

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#### Tax controversy

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+41 58 286 6491

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### 1. Tax rates (2013-14)

#### 1.1 Key tax rates

<table>
<thead>
<tr>
<th>Top corporate income tax rate (national and local average, if applicable)</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>The maximum effective federal tax rate was 7.8%. Additional cantonal and communal taxes range from 12% to 30%.</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Top individual income tax rate (national and local average, if applicable)</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>The federal (national) rate is 11.5%. The cantonal/communal rates are not yet known for 2014 but there should be little change. The federal and the cantonal/communal taxes have to be added up.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Standard value-added tax (VAT) rate</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>8%</td>
<td>8%¹</td>
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</table>

¹ 2013 Worldwide VAT, GST and sales tax guide, EY.
2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

- Switzerland’s GDP is expected to grow by 2.3% in 2014. The unemployment rate is estimated to remain at a low 3.2%. The governmental budget projects a slight deficit.
- The biggest risk for the Swiss economy is continued uncertainty around economic development in the Eurozone.
- The Swiss Government is determined to maintain a strong fiscal position internationally, necessitating continuous improvement of the fiscal system.
- Continuing international pressure for extensive exchange of information in tax matters as well as pressure from the European Union (EU) regarding certain tax privileges are key factors for tax policy change in Switzerland.

2.2 Fiscal consolidation vs. stimulus

Specific areas of fiscal stimulus
- Long-term initiative to decrease taxation on labor and capital and increase taxation of (energy) consumption.

Specific areas of fiscal consolidation
- After some years of generally decreasing (corporate) tax rates, the trend has moved toward a consolidation in all areas of tax.

2.3 Tax policy outlook for 2014 — summary

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

<table>
<thead>
<tr>
<th>VAT/GST/sales tax burden</th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
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<tbody>
<tr>
<td></td>
<td>Lower</td>
<td>X</td>
<td></td>
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</tbody>
</table>
2.4 Tax policy outlook for 2014 – detail

Corporate income taxes

- As a result of political pressure from the EU, 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 handled equally for tax purposes in order to satisfy EU calls for an end to what is known as “ring-fencing.”
- The Government is expected to present a draft proposal in 2014. It is not expected that law changes will be enacted immediately.

Exchange of information

- Switzerland and the United States reached an agreement on the simplified implementation of the US tax legislation FATCA 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 will enter into force on 1 July 2014, unless a referendum leads to a popular vote before that date. Valuation of real estate for wealth tax purposes is increased, except for valuation of a person’s primary residence.

Taxes on wages and employment

- Restriction of lump-sum taxation of wealthy foreigners will be enacted as of 2016 because this tax model is increasingly perceived as unfair and under international pressure. There is also pressure from some quarters to completely abolish lump-sum taxation.

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 for occasional gifts per year and donations. Spouses or registered partners shall be exempt from tax.
- The popular vote could happen in 2014 or 2015. Today there is no inheritance or gift tax at the federal level.

VAT/GST/sales taxes

- No changes expected

2.5 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.
2.6 Current tax policy and tax administration leaders

**Tax policy leader**
- Eveline Widmer-Schlumpf, Head of Federal Department of Finance

**Tax administration leaders**
- Adrian Hug, Director General of the Federal Tax Administration
- 26 cantonal tax administrators

2.7 Key tax policy changes in 2013

- A new law on the taxation of employee shares and options came into effect on 1 January 2013. As a new rule, employee options not listed at the stock exchange or that are blocked will be taxed when they are exercised instead of when they are granted.

2.8 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:
  - Competition between business locations, including taxation, must still be possible.
  - International standards must apply to all, especially to all financial centers.
  - 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.

2.9 Pending tax proposals

- None

2.10 Consultations opened/closed

- In 2013-14, public consultations are expected on reforms of personal income tax (taxation at source), VAT (minor technical changes) and corporate income tax (review of taxation privileges and tax rates).
The outlook for global tax policy in 2014

1 | Tax rates (2013-14)

1.1 Key tax rates

<table>
<thead>
<tr>
<th>Top corporate income tax rate (national and local average, if applicable)</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<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>Standard value-added tax (VAT) rate</td>
<td>20%</td>
<td>20%</td>
<td>–</td>
</tr>
</tbody>
</table>

2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

- Message of "Britain is Open for Business" has been reflected in the reduction in headline rate of Corporation Tax and incentives for innovation (patent box and R&D tax credits)
- Strong focus on tackling tax avoidance, ensuring taxpayers “pay what’s due”
- Continued focus on need to repay debts arising from global financial crisis
- UK election 7 May 2015 will increasingly dominate policy discussions

Stay up to date with developments in the United Kingdom by accessing EY’s global tax alert library at www.ey.com/taxalerts.
2.2 Fiscal consolidation vs. stimulus

Specific areas of fiscal stimulus
- Incentives for innovation
- Sector-specific incentives such as for the computer gaming industry
- Increase of the personal allowance (nil band for individuals earning less than £100,000 per annum.) to £10,000
- Elimination of employer social security contributions for workers aged under 21 years old
- Cancellation of the 2013 and 2014 fuel duty increases

Specific areas of fiscal consolidation
- Fiscal consolidation is 20% tax increases and 80% spending cuts.
- The bulk of the cuts on departmental spending are still to come.
- Key fiscal consolidation will come through benefits reform.

2.3 Tax policy outlook for 2014 – 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>No change</td>
<td>Higher</td>
<td></td>
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</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>No change</td>
<td>Higher</td>
<td></td>
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</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>No change</td>
<td>Higher</td>
<td></td>
</tr>
</tbody>
</table>
2.4 Tax policy outlook for 2014 – detail

Corporate income taxes

- Further CT reduction to 21% on 1 April 2014, with a further reduction to 20% on 1 April 2015.
- Focus on collection of what is owed and tackling aggressive tax avoidance
- Focus likely to shift away from CT headline rate toward targeted incentives or other taxes affecting business
- Review of international tax system as implemented in the UK (aligned with OECD's Base Erosion and Profit Shifting (BEPS) Action Plan project)

Taxes on wages and employment

- £2,000 off Social Security bill – Employment Allowance
- Reduction of the lifetime and annual allowance for pension contributions

VAT/GST/sales taxes

- OECD suggested broadening the VAT base by getting rid of zero rates but unlikely to occur given changes abandoned in 2012
- Legislation to change the place of supply rules for intra-EU business-to-consumer suppliers of telecommunications, broadcasting and electronic services.
- Moving of gambling taxes onto place of consumption

2.5 Political landscape

- General elections in May 2015
- Increasing ability of devolved governments to set tax rates (within agreed parameters)
- Scottish independence referendum in September 2014 – this has spurred much discussion regarding the role and level of tax in Scotland in the case of independence or further devolution of taxing powers, particularly the role and level of tax receipts from the North Sea oil and gas sector.
- A focus on “fair tax” debate; transparency to the tax authority.
- The increase in energy bills has led to scrutiny of the tax on the energy sector. The Government has signaled a review of environmental levies included within energy bills.

2.6 Current tax policy and tax administration leaders

Tax policy leaders

- George Osborne – Chancellor of the Exchequer
- Danny Alexander – Chief Secretary to the Treasury
- Sajid Javid – Financial Secretary to the Treasury
- David Gauke – Exchequer Secretary to the Treasury
- Nicky Morgan – 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
- Edward Troup – Tax Assurance Commissioner and Second Permanent Secretary at HM Revenue & Customs

2.7 Key tax policy changes in 2013

- Budget 2013 introduced various measures to support growth, promote investment and spur job creation. These included:
  - Reduction of the corporate tax rate, with the reduction to 20% by April 2015
  - Increase in the bank levy to 0.142%
  - Reduction of the additional rate of personal tax from 50% to 45%
  - Increase in the personal tax allowance
  - Introduction of tax-free childcare scheme for working families
  - Introduction of Employment Allowance for employers in the form of reduction of national insurance contributions
  - An increase in alcohol and tobacco duty rates
  - Pensions reform to reduce allowances
  - Announcement of support for the visual effects industry via tax reliefs for the animation, high-end television and video game industries
  - Introduction of contracts guaranteeing tax relief for costs of decommissioning oil and gas infrastructure
2.8 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- UK is chairing Transfer Pricing work
- Likely to see increased sophistication of HMRC in assessing global tax risk
- UK believes it is already in line with many of the provisions
- UK used its presidency of the G8 to drive a “transparency” (to the tax authority) agenda, which is reflected in Action 13
- Committed to enhanced information-sharing – including exchange of rulings

2.9 Pending tax proposals

- The draft Finance Bill 2014 has been published and is under consultation.

2.10 Consultations opened/closed

- Multiple consultations, including:
  - REITs for institutional investors
  - Extension of film tax relief to visual effects industry
  - NIC application to self-employed entertainers
  - Partnership reform
  - Community amateur sports clubs
  - Tackling use of intermediaries to avoid employment taxes
  - Unapproved share schemes
  - Strengthening the code of practice on taxation for banks
  - Tax exemption for employer expenditure on health-related interventions
  - Inheritance tax – simplifying charges on trusts
  - Revised Disclosure of Tax Avoidance Schemes regulations
  - Modernizing taxation of corporate debt and derivatives
  - Improving HMRC’s collection of debts
  - Social investment tax relief
  - A fiscal incentive regime for shale gas
  - Reform of gift aid (charitable giving)
  - Sharing and publishing data for public benefit
  - Bank levy review
  - Supporting the employee ownership sector
  - VAT retail export scheme
  - Withdrawing interest relief on loans to purchase life annuities
  - Raising the stakes on tax avoidance
  - Simplifying NIC for the self-employed
  - Transposing CRD IV (transparency) requirements into domestic law
  - Draft guidance on employment income hallmark in disclosure of tax avoidance schemes (DoTAS) (informal)
The outlook for global tax policy in 2014

United States

1 | Tax rates (2013-14)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax rate (national and local average, if applicable)</td>
<td>39%¹</td>
<td>31%²</td>
<td>No change</td>
</tr>
<tr>
<td>Top individual income tax rate (national and local average, if applicable)</td>
<td>39.6%³</td>
<td>39.6%⁴</td>
<td>No change</td>
</tr>
<tr>
<td>Standard value-added tax (VAT) rate</td>
<td>0%⁵</td>
<td>0%⁶</td>
<td>No change</td>
</tr>
</tbody>
</table>

2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

- A gradual economic recovery and other recent changes to tax and spending policies have caused the US deficit to shrink in the near term. In 2013, the deficit was roughly 4% of gross domestic product, down from 10% in 2009 and its smallest size since 2008.⁷ Large projected future US debt and federal deficit levels, however, continue to drive long-term tax and fiscal policy.

- A partisan atmosphere and legislative focus on fiscal matters have slowed larger tax reform efforts. At the end of September 2013, Congress was unable to agree on legislation to continue to fund Government programs, leading to a 16-day Government shutdown. Congress ultimately passed legislation to reopen and fund the Government in the short term, and to suspend the debt ceiling through early

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² The rate includes both federal rate and average of state rates (0% to 12%).

³ The American Taxpayer Relief Act of 2012. In addition to the federal rate, state rates are applicable ranging from 0% to 12.3%. In the case of California, the top marginal rate of 12.3% is exclusive of the mental health tax of 1% on taxable income over $1 million.

⁴ In addition to the federal rate, state rates are applicable ranging from 0% to 12.3%.

⁵ However, many state and local governments impose sales taxes.

⁶ Ibid.

⁷ “The 2013 Long-Term Budget Outlook,” Congressional Budget Office (CBO), September 2013.
February 2014. In mid-December 2013, Congress passed a small-scale, two-year budget deal to replace a portion of the “sequester” savings mandated under the Budget Control Act of 2011 with $85 billion in other mandatory savings and non-tax revenue. Tax increases were not included in the budget legislation, which would also reduce the deficit by $20 billion to $23 billion over two years. Even with this budget agreement, the major tax and spending policy differences that led to the standoff remain.

Chairmen of both the Senate’s and the House of Representatives’ tax-writing committees have pledged to push forward on large-scale corporate tax reform that would lower corporate tax rates and broaden the tax base by removing targeted tax provisions, with a goal of improving the competitiveness of the US corporate tax system. However, the focus on other policy issues has slowed momentum on tax reform.

The growing attention being paid to the tax affairs of multinational companies, both internationally and within the United States, and the Organisation for Economic Co-operation and Development’s Action Plan on tax base erosion and profit shifting, have increased the focus on international tax reform.

In the long term, policymakers would like to curb the growth of federal entitlement programs such as Medicare and Social Security. However, this issue is politically sensitive due to the different perspectives of the two political parties on federal spending priorities.

2.2 Key drivers of tax policy change

Specific areas of fiscal stimulus

• At the state level, governments are generally trying to lower their corporate and individual income tax rates to make their states more attractive to businesses and to provide relief to individuals.

Specific areas of fiscal consolidation

• One of the drivers of the tax reform debate in the United States is a concern about federal spending priorities, and specifically the rapid growth of mandatory spending on entitlement programs, such as Social Security and Medicare. To date there has been little consensus on how best to balance these spending and tax priorities.

2.3 Tax policy outlook for 2014 – summary

Corporate income tax burden

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

<table>
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<tr>
<th>Lower</th>
<th>No change</th>
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VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>Mixed</th>
<th>Higher</th>
</tr>
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</table>

(Varies from state to state).
2.4 Tax policy outlook for 2014 – detail

Corporate income taxes

- Tax reform. Key members of both political parties favor business tax reform that broadens the tax base and lowers rates. In late February, House Ways and Means Committee Chairman Dave Camp (D-MI) released a long-awaited and comprehensive tax reform discussion draft that aims to lower tax rates while broadening the tax base significantly on both the individual and corporate side. While the plan is not expected to be enacted this year, it will likely become a starting point for ongoing discussion and illustrates the trade-offs necessary to achieve significant tax rate reduction without adding to the budget deficit. The plan would reduce the statutory corporate tax rate to 25% and establish two individual tax rates of 10% and 25%, with a 10% surtax that would apply to annual income exceeding $450,000 for joint filers. It would repeal many business and individual tax expenditures and would levy a quarterly 3.5-basis-point tax on large financial institutions. It would also move the United States toward a territorial international tax system with a 95% dividend exemption on active foreign earnings. According to a revenue analysis by the Joint Committee on Taxation, the provisions affecting individuals would reduce taxes by $588 billion over 10 years, while the provisions affecting businesses would raise $521 billion over 10 years. In November and December, former Senate Finance Committee Chairman Max Baucus released and requested public feedback on four draft legislative proposals for tax reform, one on international business taxation, another on cost recovery and accounting, a third on tax administration and a fourth on energy tax provisions. However, outstanding fiscal issues and the contentious political environment make it difficult to predict the degree to which Congress will be able to address tax reform in the near term. This uncertainty is compounded by leadership changes for both Senate and House tax-writing committees. Chairman Baucus has since been named ambassador to China and has been replaced as Finance Chairman by Sen. Ron Wyden (D-OR), while Ways and Means Committee Chairman Camp will have to step down in 2015 because he faces a term limit on his chairmanship.

- Tax extenders. A group of individual and business tax provisions expired at the end of 2013. In recent years, these provisions have been allowed to expire and then were retroactively extended. The prospects for their retroactive extension, however, have been complicated by the tax reform debate. Senate tax policy leaders have pledged to carefully weigh the cost and benefit of each tax provision and expenditure to determine whether it could be justified under a reformed system with lower tax rates.

- International tax issues. House Ways and Means Committee Chairman Dave Camp proposed moving the United States to a territorial international tax regime, and one of the key challenges of such a shift – how to address potential tax base erosion and profit shifting (BEPS) – has since received attention, both within and outside the United States.

Taxes on wages and employment

- Under the Affordable Care Act, “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. In July, the Administration provided employers with transition relief from the excise tax, which now will not be imposed until 2015. The Administration also postponed the mandatory reporting requirements, granting employers and health insurance issuers additional time before they must begin reporting information about their health care coverage to the Internal Revenue Service.

- The US Supreme Court has agreed to consider a case, U.S. v Quality Stores, Inc., that will determine whether Federal Insurance Contribution Act (FICA) tax is due on severance pay that qualifies as supplemental unemployment benefits.

- The Senate Finance Committee, as part of its tax reform discussions, is examining whether tax-favored fringe benefits such as health and medical plans and equity compensation should be included in taxable wages under a reformed tax system.

- Some states have adopted legislation bringing financial consequences to employers that do not respond fully and in a timely way to unemployment insurance notices.

VAT/GST/sales taxes

- Many states have been actively considering tax changes and reform, but the type of reform varies greatly by state. In 2014, states will likely continue to consider some type of tax reform, and will look to decrease their corporate and individual income tax rates, while expanding their sales and use tax base to include various services to pay for these reductions.

2.5 Political landscape

- A divided Congress has led to gridlock on significant legislative issues. This deadlock and the upcoming midterm elections will shape the debate around the important fiscal issues Congress faces. Major issues on the agenda include continued funding of the Federal Government, addressing the federal debt, and reforming the US tax system.
Control of the House of Representatives is unlikely to change for the next election. However, current House Republican members may face intraparty challenges, which will make reaching a compromise with House Democrats or the President more challenging. As the 2014 elections draw nearer, the debate over tax reform may become further complicated by election-year political considerations.

As of this writing, 21 Democrats and 14 Republicans in the Senate are up for re-election or retiring. Additionally, the Senate has lost many veteran members in recent years, with 45 new senators having taken office since 1 January 2009.

2.6 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. David Camp (R-MI), Chairman, House Ways and Means Committee
- Rep. Sander Levin (D-MI), Ranking Member, House Ways and Means Committee
- Sen. Max Baucus (D-MT), Chairman, Senate Finance Committee*
- Sen. Orrin Hatch (R-UT), Ranking Member, Senate Finance Committee
- Thomas Barthold, Chief of Staff, Congressional Joint Committee on Taxation

**Tax administration leaders**
- John Koskinen, Internal Revenue Service (IRS) Commissioner
- Paul DeNard, IRS Large Business and International Acting Commissioner

*Baucus, who had planned to retire in 2014, was nominated to be the next ambassador to China. Sen. Ron Wyden (D-OR) is expected to replace him as Senate Finance Committee chairman.

2.7 Key tax policy changes in 2013

The legislation:
- Seamlessly extended a host of expired individual, business and energy tax provisions through the end of 2013
- Permanently extended the 2001/2003 tax cuts for single filers with annual incomes up to US$400,000 (US$450,000 for joint filers)
- Permanently patched the alternative minimum tax (AMT)
- Increased the top capital gains and dividend tax rates to 20% for taxpayers above the US$400,000-US$450,000 threshold
- Permanently extended the US$5 million per-person estate tax exemption (indexed for inflation at US$5.25 million for 2013) and increased the top tax rate to 40%
- Reinstituted the personal exemption phase-out and overall limit on itemized deductions for single filers with incomes over US$250,000 (US$300,000 for joint filers)

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

Along with other leaders of the G8, the Obama Administration has supported the OECD BEPS effort, with U.S. Treasury Secretary Jack Lew saying it would help address the issue of so-called “stateless” income.

In addition to pledging to work with other nations to stop profit shifting and increase information sharing, the United States in June released its own National Action Plan on Preventing the Misuse of Companies and Legal Arrangements, which “promises to assist law enforcement and tax authorities in understanding who actually owns and controls legal entities (i.e., their beneficial owners) and assist cross-border investigations.”

2.9 Pending tax proposals

Not applicable

2.10 Consultations opened/closed

Not applicable
## Tax policy and controversy

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### Tax rates (2013–14)

#### 1.1 Key tax rates

<table>
<thead>
<tr>
<th>Top corporate income tax rate (national and local average, if applicable)</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>34%</td>
<td>34%</td>
<td>–</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Top individual income tax rate (national and local average, if applicable)</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>34%</td>
<td>34%</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Standard value-added tax (VAT) rate</th>
<th>2013</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>12%</td>
<td>12%</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

2 | 2014 tax policy outlook

2.1 Key drivers of tax policy change

- Increased tax collection is likely to compensate for fiscal deficit.
- Due to “emergency powers” to legislate on economic matters which have been granted to the President, there are possibilities that companies will see limiting profit margins.
- Audits are currently carried out by different governmental offices in order to verify and adjust companies’ profit margins, as well as other tax obligations. It is expected that tax audits will continue during 2014.

2.2 Fiscal consolidation vs. stimulus

Specific areas of fiscal stimulus
- None are expected for 2014.

Specific areas of fiscal consolidation
- None are expected for 2014.

2.3 Tax policy outlook for 2014 – summary

<table>
<thead>
<tr>
<th>Corporate income tax burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Personal income tax burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>VAT/GST/sales tax burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
</tr>
</tbody>
</table>
2.4 Tax policy outlook for 2014 – detail

Corporate income taxes

▷ No official information on changes has been announced by the Venezuelan Government. However, an increase in corporate income tax rates, from the current 34% to 35%, is expected during 2014.

Taxes on wages and employment

▷ No information on changes has been announced by the Venezuelan Government.

VAT/GST/sales taxes

▷ No information on changes has been announced by the Venezuelan Government.

2.5 Political landscape

▷ After President Hugo Rafael Chávez Frias passed away, presidential elections took place on 14 April 2013. Nicolás Maduro will take over the presidency until 2019.

▷ Maduro's Government has been controlling product prices. It is anticipated that the government will continue to assert control.

2.6 Current tax policy and tax administration leaders

Tax policy leader

▷ Nicolás Maduro, President

Tax administration leader

▷ Jose David Cabello Rondon, superintendent of SENIAT (Venezuelan tax administration)

2.7 Key tax policy changes in 2013

▷ The tax administration (SENIAT) has been progressively migrating its mechanisms to file a tax return and to issue a taxpayer ID (RIF) to an electronic platform through its website. Natural persons and legal entities are required to file annual income tax returns through SENIAT’s website. The inheritance statement must also be filed through the website.
2.8 Country position on OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- The Venezuelan tax administration has not issued any official position on OECD Base Erosion and Profit Shifting Action Plan. Venezuela is not part of the OECD.

2.9 Pending tax proposals

- No tax reforms were made in 2013.

- It is expected that any reform, if made, will increase tax collections either by raising the current tax rates (for corporate income taxes and VAT) or by limiting deductions and/or exemptions for income taxes and VAT.

- It is also expected that the Venezuelan Government will establish a new special contribution for cultural developments, although there have been no official announcements.

2.10 Consultations opened/closed

- None
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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 will help you properly and consistently file returns and prepare relevant back-up 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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