International Tax News

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Welcome

Our monthly publication offers updates and analysis on international tax developments around the world, authored by specialists in PwC's global international tax network. We hope you find this publication helpful. For more international tax-related content, please visit:

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Cross Border Tax Talks

Doug McHoney, PwC ITS Global Leader, hosts PwC specialists who share insights on issues and developments in the OECD, EU, US and other jurisdictions. Listen to the latest:

Itai Grinberg: The Pillar Two origin story (part 2)

Doug McHoney (PwC's International Tax Services Global Leader) is joined by Professor Itai Grinberg, a faculty member at Georgetown University Law Center and a former Deputy Assistant Secretary at the US Treasury Department during the Biden administration. In that role, Itai served as the United States' lead negotiator for the global corporate minimum tax initiative. Doug and Itai discuss the behind-the-scenes history of Pillar Two from the US perspective, exploring its policy rationale, global negotiations, and shifting political dynamics.

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Doug McHoney, PwC's Global International Tax Services Leader shares some of the highlights from the latest edition of International Tax News

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Cyprus

Cyprus tax reform project update

An update on the Cyprus tax reform project was given recently at Cyprus's Presidential Palace. The President of the Republic, the Minister of Finance, and members of the University of Cyprus Economics Research Centre, which is assisting the government in the project, each presented at the event. The presentation noted that the project needs more work before it can be finalized. The expected timeline to finalize the project extends to late 2025 and expected enactment is 1 January 2026. Once the project is finalized, the legislative process will begin. This will include the Cyprus Parliament's voting to approve the legislation. Some of the proposals below may not be included in the final tax reform, or they could be revised before being enacted into law.

Note that one of the proposals would increase the CIT statutory rate from the current 12.5% to 15%. Beyond the anticipated statutory tax rate increase, the new law will retain the Cyprus corporate tax base as is and importantly all of its deductions, exemptions and other attributes, namely:

- Foreign branch profits exemption (with election to disapply such),
- Unilateral FTCs on any foreign withholding taxes,
- Notional Interest Deduction (NID) – up to 80% of otherwise computed taxable income,
- Modified nexus IP Box – up to 80% of qualifying net taxable income (granted concurrently with NID),
- No recapture / clawback of previously claimed annual tax amortization on disposals of intangibles,
- Dividend participation exemption with no percentage holding or holding period requirements,
- Unconditional tax exemption on gains on disposals of shares and other 'corporate titles' (e.g., bonds, debentures, options on titles),
- Tax neutrality on FX,
- No withholding taxes on dividends, interest and (most) royalties paid abroad at all times (except where paid to EU-Blacklisted jurisdictions).

Further, Cyprus's Pillar Twp implementation, which includes a Cyprus Domestic Minimum Top-Up Tax (DMTT) effective practically in 2025 is not in any way impacted.

For more information see PwC's Tax Insight.

Companies should evaluate the proposals and their potential impact. They should also review and adjust financial strategies to align with any new tax rates and incentives.

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Legislation

India

Abolition of equalisation levy related to consideration from online advertisements

Under the Finance Act, 2016, consideration received by a non-resident (who does not have a permanent establishment in India) from online advertisement services, digital advertising space, or any other facility or service for the purpose of online advertisement was subject to an equalisation levy at a 6% rate.

The Finance Act, 2025, has abolished applicability of the 6% equalisation levy on the consideration received for the above-mentioned services effective 1 April 2025. Consequently, the exemption provided to such income in the hands of the recipient has also been removed.

The Indian Government has removed the equalisation levy, also known as digital tax, with the aim to simplify tax laws and reduce the burden on digital advertisement consumers and platforms.

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Legislation

India

Central Board of Direct Taxes expands scope of safe harbour rules

The Central Board of Direct Taxes (CBDT) recently announced certain amendments to the safe harbour rules for transfer pricing. With these amendments, the CBDT has increased the monetary threshold limit for availing safe harbour for certain international transactions, expanded the scope of definition of core auto components, and extended the applicability of the safe harbour rules to financial years 2024–25 and 2025–26.

These amendments are effective from 25 March 2025.

For more information see our Tax Insights.

While presenting Union Budget 2025, the Finance Minister of India had announced the government's intention to expand the scope of the current safe harbour rules to reduce litigation and provide certainty in international taxation. The latest amendments to increase the monetary threshold for certain transactions could encourage a larger section of taxpayers to opt for the safe harbour provisions.

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Legislation

Indonesia

Indonesia officially implements Pillar Two GloBE Rules

On 31 December 2024, Indonesia issued a domestic regulation to implement the Top-up Tax mechanism under the GloBE rules in Indonesia on 31 December 2024. The regulation is designed to align with the OECD GloBE Rules, which are aimed at implementing a global minimum tax of 15% for Multinational Enterprise (MNE) operating in low-tax jurisdictions. There are three charging mechanisms of Top-up Tax adopted by Indonesia, namely the Income Inclusion Rule (IIR), the Undertaxed Profit Rule (UTPR), and the Domestic Minimum Top-up Tax (DMTT). The rule applies in Indonesia to fiscal years starting on or after 1 January 2025 for the IIR and DMTT, and for fiscal years starting on or after 1 January 2026 for the UTPR.

For more information see our PwC Tax Flash.

While the first OECD GloBE Information Return (GIR) and Notification is due within 18 months (15 months for subsequent years), the Indonesian QDMTT, IIR and UTPR return is due within 18 months following the financial year end (16 months for following years). Related payments must be made within the year following the GloBE fiscal year (e.g. by 31 December 2026 for GloBE fiscal years ending on 31 December 2025). The OECD published details and XML schema on 15 January 2025. The Indonesian Directorate General of Taxes (DGT) has been mandated to stipulate provisions regarding the forms, filing procedures, payment, reporting for GIR, ATRs (GloBE, DMTT, and UTPR), and NINAotification.

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Legislation

Japan

Japan passes 2025 tax reform

The Japanese Government approved the 2025 tax reform proposals on 27 December 2024. The bills were passed by the ordinary session of the Japanese National Diet and enacted on 31 March 2025, effective 1 April 2025.

This tax reform included the enactment of additional provisions covering BEPS Pillar Two as Japan aligns its domestic law with the OECD's Model Rules. An Undertaxed Profits Rule (UTPR) and a Qualified Domestic Minimum Top-up Tax (QDMTT) were established and will apply to fiscal years beginning on or after 1 April 2026.

The Income Inclusion Rule (IIR) was previously introduced under the 2023 tax reform in Japan and applied to fiscal years beginning on or after 1 April 2024. The IIR was also revised to align in several areas with guidance published by the OECD.

Separately, the special corporation tax to strengthen defence capabilities will apply for fiscal years beginning on or after 1 April 2026, as part of the 2025 tax reform. The tax is calculated by multiplying the base corporate tax amount less the basic deduction of JPY 5 million by a 4% tax rate. The following is the general summary of the effective statutory tax rates in the case of corporations operating in Tokyo (without consideration of size-based enterprise tax) after the special corporation tax will be effective:

- 31.52% (currently 30.62%) for a corporation subject to size-based enterprise tax
- 35.43% (currently 34.59%) for a corporation not subject to size-based enterprise tax
- 26.52% (currently 25.59%) for a non-resident corporation without a PE in Japan

For more information see our Japan Tax Update.

In line with the OECD's GloBE rules, the Japanese Government has introduced the UTPR and QDMTT as part of the 2025 tax reform. They will apply to fiscal years beginning on or after 1 April 2026. Also, taxpayers will be required to review their current tax accounting and compliance processes, such as the special corporation tax to strengthen defence capabilities etc. Taxpayers are advised to consult with their tax advisors for further details of the 2025 tax reform.

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Administrative

Luxembourg

Luxembourg Accounting Board issues new guidance on Pillar Two

On 24 March 2025 the Luxembourg Accounting Board (CNC) issued updated guidance (Q&A CNC 25/035) on Pillar Two for companies preparing their accounts under Lux GAAP. The new Q&A generally applies to financial years preceding the transition year, as well as to financial years beginning from the transition year. Q&A CNC 25/035 provides Lux GAAP accounting guidance prior to the application of the rules to a group, as well as from the transition year (first year for application of the full rules) and the following years. Prior to the application of the Pillar Two rules, if the application of the rules for a group is probable (for the next financial year), disclosures are optional and depend on management willingness, whereas if the application is deemed certain (for the next financial year), the CNC strongly recommends disclosing information in the financial statements. Regarding the information to provide, the CNC recommends disclosing information known or that can be reasonably estimated at the closing date, as well as:

- qualitative information, including how the Luxembourg company or group is expected to be impacted by the rules and the main countries where the Luxembourg company or group could be exposed to taxes arising from the Pillar Two law;
- quantitative information, such as an indication of the portion of profits that would likely be subject to taxes arising from Pillar Two, the average effective tax rate applicable to these profits, as well as an indication of how the Pillar Two law, if it already applied, would impact the overall tax burden.

Q&A CNC 25/035 further mentions that it is not allowed to record deferred tax assets in standalone Lux GAAP accounts but confirms the possibility for companies to provide in their annual accounts any additional information in the notes to the accounts that may contribute to the objective of a true and fair view as required by the Luxembourg accounting law. Deferred tax assets can be disclosed in the notes to the annual accounts, allowing better traceability per company.

Beginning with the transition year, companies within the scope of the Pillar Two law are no longer in the stage of assessing the potential impact but rather should determine and account for the actual impact of the rules. Q&A CNC 25/035 mentions that it is not necessary to provide a qualitative and quantitative assessment on the exposure to the rules (such analysis being recommended in the year prior to the transition year).

Based on the general accounting principles, a distinction is made whether additional taxes due for the Pillar Two rules are (a) non-material/non-existent or (b) are of a significant nature:

a. if they are non-material or non-existent, no additional information is required in the notes to the annual or consolidated accounts. If, however, the administrative or management bodies consider this information relevant for users of the accounts in line with the principle of true and fair view, additional information can be provided in the notes to the accounts.
b. if they are significant, additional information must be provided in the notes. The nature and extent of this information are determined by the administrative or management bodies to achieve the objective of a true and fair view.

Additionally, to maintain traceability of information and provide a true and fair view, Q&A CNC 25/035 recommends that companies that have previously disclosed deferred tax assets in the notes to their annual or consolidated accounts should track information related to deferred taxes, specifically to reflect the utilization or increase of tax attributes.

See our PwC Tax Alert for more information.

Groups that are subject to the Pillar Two rules are expected to consider the updated accounting guidance for the finalization of Lux GAAP standalone and group accounts. Specifically, tax attributes or temporary differences that are not recorded or disclosed as deferred tax assets in the group financial statements are recommended to be disclosed in the notes to the Lux GAAP standalone accounts.

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Tax Treaty

China

Tax Treaty between China and Italy enters into force

China and Italy signed a tax treaty on 23 March 2019. In March 2025, STA Public Notice [2025] No.6 was issued to announce that the tax treaty entered into force on 19 February 2025, and will apply to taxes withheld at source on or after 1 January 2026, and other income taxes for any tax year beginning on or after 1 January 2026. The key points of China-Italy tax treaty include：

- The time threshold for constituting a Construction permanent establishment (PE) increases from 6 months to 12 months. The time threshold for constituting a Service PE is changed from 6 months to 183 days within any twelve-month period.
- Withholding tax (WHT) rates on dividends: 5% for corporates that hold directly at least 25% shares of the company paying the dividends and 10% for all other cases;
- WHT rates on interest: 8% for interest paid to a financial institution on a loan with a term of at least three years for the financing of investment projects and 10% for all other cases;
- WHT rates on royalties: 5% for royalties relating to use of, or the right to use industrial, commercial, or scientific equipment and 10% for all other cases;
- Capital gains arising from the transfer of property-rich company shares and shares that represent a participation of at least 25% in a company in the source state may be taxed in the source state. In other cases of share transfers, the taxing right lies with the residence state..
- The ‘principle purpose test’ provision in article 24 to deny the granting of treaty benefit if the main purpose or one of the purposes of putting in place any arrangement is to take advantage of the treaty benefit.

Clauses within the China-Italy tax treaty are relatively relaxed compared to the treaty concluded in 1986, especially in terms of WHT rates for dividends, certain royalties and PE constitution. The tax treaty may attract more investment into Italy, benefitting the investors in both countries. In addition, the mutual agreement procedures further strengthens efforts to combat tax evasion.

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Glossary

Acronym	Definition
ATAD	anti-tax avoidance directive
BEPS	Base erosion and profit shifting
CFC	controlled foreign corporation
CIT	corporate income tax
CTA	Cyprus Tax Authority
DAC6	EU Council Directive 2018/822/EU on cross-border tax arrangements
DST	digital services tax
DTT	double tax treaty
ETR	effective tax rate
EU	European Union
MNE	Multinational enterprise
NID	notionial interest deduction
PE	permanent establishment
OECD	Organisation for Economic Co-operation and Development
R&D	Research & Development
SBT	same business test
SiBT	similar business test
VAT	value added tax
WHT	withholding tax

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