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:

Pillar Two: Administrative Guidance Part 5

Doug McHoney (PwC's International Tax Services Global Leader) is joined by Steve Kohart, an International Tax Principal in PwC's New York City office and former advisor to the OECD's Center for Tax Policy and Administration. Doug and Steve discuss the OECD's latest administrative guidance on Pillar Two, covering key changes to transition rules, deferred tax asset adjustments, tax credits, and compliance burdens for multinational corporations.

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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

In this issue

Legislation

Belgium

Federal government agreement

On 31 January 2025, the so-called 'Arizona' coalition reached a new Belgian federal government agreement. This agreement introduces several new tax measures and legislative changes aimed at reducing the tax burden on labour, enhancing Belgium's competitiveness, and balancing the Belgian Budget. Key measures include:

Dividend Received Deduction regime (DRD)

The DRD regime allows companies to deduct (qualifying) dividends received from their taxable base in order to avoid economic double taxation. To benefit, companies must meet conditions such as the participation condition, the one-year holding condition, and the taxation condition. The federal government agreement would amend the DRD deduction into a DRD exemption, with stricter application of the participation condition (which also applies in the framework of capital gains on shares). Under the federal government agreement, the 10% threshold would remain unchanged, but the EUR 2.5 million threshold would increase to EUR 4 million, and the participation must qualify as a financial fixed asset.This change would not, however, target qualifying small and medium-sized enterprises (SMEs), but would apply to non-SMEs.

Group contribution regime

The group contribution regime, also known as the 'Belgian fiscal consolidation regime', would compensate the fiscal loss of one company with the taxable profit of another (group) company. Strict requirements regarding the ownership relation between both companies, as well as the necessary formalities must be fulfilled in due time. Based on the federal government agreement, the conditions required to benefit from the group contribution regime would be softened. In addition, indirect shareholdings, new companies, as well as companies which have not yet met the former five-year holding period requirement may benefit from the regime going forward.

Disallowed expenses

The current Belgian tax legislation regarding disallowed expenses is diverse, complex and often leads to a high administrative burden for Belgian companies. The federal government agreement would simplify this legislation by, e.g., introducing an optional and simple system which would replace the current complex rules and detailed calculations. Concrete details are not yet available, but a lump sum method to determine the disallowed expenses (as applicable in certain other neighboring countries) may be envisaged.

Tax measures to stimulate research and development as well as investments in energy, mobility and the environment

The federal government agreement introduces a number of measures aiming to create a resilient, innovative and sustainable economy which is able to compete on the global stage and which incentivizes investing in a sustainable future.

For more information see our Tax Newsflash

All of the measures require legal enactment and, hence, may be subject to changes. Additional details regarding most of these measures can be expected in the near future.

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Legislation

Canada

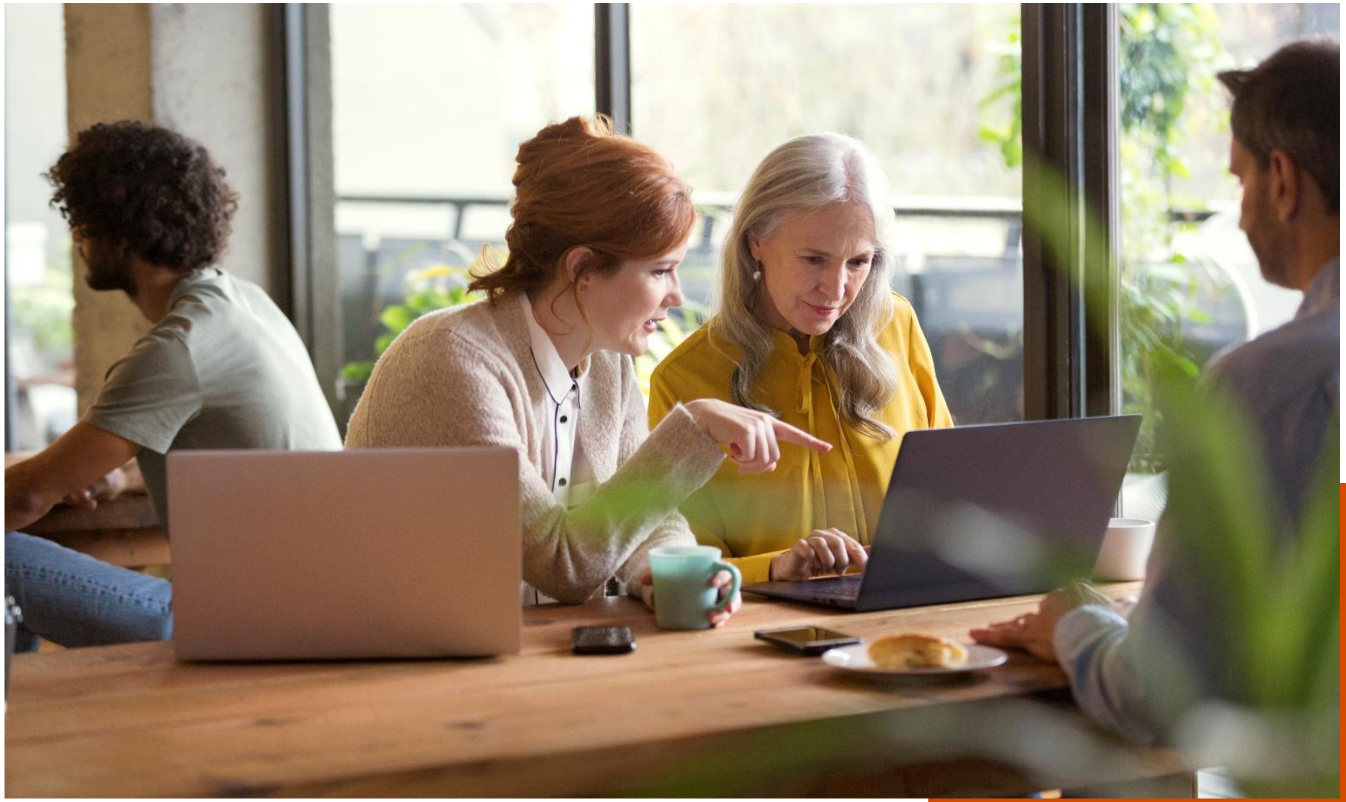
Finance releases draft legislation to increase the capital gains inclusion rate

On 31 January 2025, the Department of Finance announced that it will defer the effective date, from 25 June 2024 to 1 January 2026, of the 2024 federal budget proposal that increases the capital gains inclusion rate from ½ to ⅔. This proposal had been included in a Notice of Ways and Means Motion (NWMM) that was brought before Parliament on 23 September 2024, and was being administered by the Canada Revenue Agency (CRA) based on this NWMM.

The CRA then announced that it will revert to administering the existing capital gains inclusion rate of ½. The CRA also stated that it will "grant relief in respect of late-filing penalties and arrears interest until 2 June 2025, for impacted T1 Individual filers and until 1 May 2025, for impacted T3 Trust filers to provide additional time for taxpayers reporting capital dispositions to meet their tax filing obligations." The CRA will coordinate corrective reassessments for corporations that have filed their T2 returns reporting capital gains using the proposed ⅔ inclusion rate.

For more information see our Tax insight.

Although not entirely clear from the announcements, it appears that the deferred effective date is intended to apply in respect of all the proposed changes related to the increased capital gains inclusion rate, including the taxation of employee stock option benefits, allowable business investment losses and foreign affiliates. In contrast, the effective dates for certain other proposed measures intended to benefit taxpayers, including the increased lifetime capital gains exemption and the new Canadian Entrepreneurs' Incentive, are not being deferred.



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Legislation

Cyprus

Extension of the application of the debt restructuring provisions

On 31 December 2024 amendments to the provisions of seven Cyprus tax laws were published in the Cyprus Government Gazette, which extend the application of the debt restructuring provisions to 31 December 2025.

The debt restructuring provisions (Debt For Asset Swaps, or DFAS) allow for certain tax reliefs for transactions which involve the direct or indirect transfer of immovable property (or of shares holding immovable property) by a borrower and/or debtor and/or guarantor to a qualified lender. The relevant tax reliefs entered into force on 31 December 2015 for an initial period of two years to 31 December 2017, and had already been extended six times, with the sixth extension being to 31 December 2024 (see our N-20-2023). The current seventh extension is to 31 December 2025.

- These seven Cyprus tax laws were amended:
- The Income Tax Law;
- The Special Defence Contribution Law;
- The Capital Gains Tax Law;
- The Stamp Duty Law;
- The Collection of Taxes Law;
- The Department of Lands and Surveys (Fees and Charges) Law;
- The Value Added Tax Law.

DFAS transactions are also exempt from the 0,4% levy on transfers of immovable property (or of shares holding immovable property), and, given the way this law is phrased with respect to DFAS transactions, this law did not need an amendment for the extension of the exemption to 31 December 2025.

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Legislation

France

Finance Law for 2025 finally adopted

The Finance Law for 2025 has been published in the Official Journal of 15 February 2025 after an unprecedented 7-week delay in comparison with traditional practice. The Constitutional Court examined some measures of the Finance Law for 2025 before its publication and validated most of them. The most significant measures adopted regarding corporate taxation are an exceptional corporate income tax (CIT) surcharge and a tax on share buybacks.

The exceptional CIT surcharge, will apply for one year (i.e., 2025 or the first fiscal year ending after 31 December 2025, if the fiscal year does not correspond to the calendar year) to companies with a French turnover of EUR 1 billion or more in the fiscal year of application of the surcharge (e.g., 2025 in most cases) or the preceding fiscal year. It will be based on the average amount of CIT due by the taxpayer with respect to these two fiscal years.

Within tax-consolidated groups, the turnover and tax base will be determined at the level of the tax-consolidated group. Where turnover exceeds the thresholds by less than €100m, a specific rule kicks in to mitigate threshold effects (smoothing rule).

The surcharge rate will be 20.6% (i.e., effective CIT rate of 30.975%) for companies with an annual French turnover between EUR 1 billion and EUR 3 billion, or 41.2% (i.e., effective CIT rate of 36.125%) for those with EUR 3 billion or more.

Taxpayers should determine if they fall within the scope of the CIT surcharge. The contribution will not be deductible from taxable income, and the payment will be due when CIT balance is paid (i.e., 15 May 2026 for a taxpayer with a fiscal year ending on 31 December 2025).

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Legislation

United Arab Emirates

UAE implements Pillar Two effective 1 January 2025

The UAE has issued Cabinet Decision No (142) of 2024 that implements a Domestic Minimum Top-up Tax (DMTT). The Cabinet Decision follows the December 2024 announcement made by the Ministry of Finance. The DMTT will apply to Multinational Enterprises (MNEs) that are within scope of Pillar Two based on the OECD Global Anti-Base Erosion (GloBE) Model Rules, and will be imposed in cases where the MNE's effective tax rate (ETR) in the UAE is below 15%.

The DMTT is effective for financial years starting on or after 1 January 2025. Notably, the DMTT will only apply to MNEs with global consolidated revenues (in at least two of the preceding four fiscal years) of at least EUR 750m, including MNEs headquartered in and outside the UAE. The DMTT will not apply to UAE-headquartered groups with no operations outside the UAE.

The DMTT Rules contain details on the calculation methodology of the Top-up Tax, scope and conditions for Covered Taxes, accounting standard requirements, various exclusions, certain administrative and compliance matters, and liability provisions. Broadly, the DMTT Rules align with the GloBE Model Rules.

For more information see our Tax Insight.

There is no clarity on whether the UAE will also introduce an Income Inclusion Rule (IIR) and/or Undertaxed Profits Rule (UTPR), the other charging mechanisms under the GloBE rules.

With the DMTT in place, MNEs will need to consider its impact on their existing UAE tax profiles and compliance obligations.

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Administrative

Australia

Enhanced country by country local file reporting

The Australian Taxation Office (ATO) has updated its guidance for completing the 'local file – short form" for reporting periods beginning on or after 1 January 2024. The guidance, together with changes to the structure and required content of the 'local file – short form', introduces a significant compliance requirement for all multinationals subject to country-by-country reporting (CBC) reporting in Australia.

The instructions provide the key definitions and explanations of what to report and how. The new short form includes three additional sections: business lines and key competitors, organizational reporting arrangements, and restructures or new arrangements involving intangibles.

An extensive list of arrangements within the group must be reported, including certain arrangements that may not directly involve an Australian entity or have an Australian tax impact. Relevant arrangements in the prior year will need to be reported in the new format, even if a prior-year short form has already been lodged. The disclosures are intended to capture information relevant to identifying various base erosion and profit shifting risks. For further information refer to this Tax Alert.

In addition to introducing the new short form, the ATO has eliminated exemptions , such that many taxpayers will need to complete their first Australian CBC lodgments based on the new guidance. For further information refer to this Tax Alert.

The changes to the short form are the most significant change in CBC reporting since its inception in Australia. Additional information will be required to complete the short form for all CBC reporting entities required to lodge a local file, some of which may be offshore. CBC reporting entities should start planning for the data required to complete the short form as part of their 2024 CBC reporting.

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Administrative

Bermuda

Bermuda Government launches second corporate income tax consultation

Following the first public consultation in August 2024, with respect to the administration of the Corporate Income Tax, the Government of Bermuda has reviewed the responses, comments and submissions made as part of that process. A second public consultation has now been launched and runs from 31 January 2025 to 21 February 2025.

This Second Public Consultation focuses on certain of the enforcement provisions relating to the administration of the Corporate Income Tax Act 2023, as amended, (the “Principal Act”), which are required under Bermuda law to be enacted by Parliament in statutory form rather than by regulation.

A further Public Consultation will discuss the remaining administrative provisions, these additional administrative provisions to be issued in the form of regulations. The Third Public Consultation is expected to commence around the middle of February.

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Administrative

United States

Trump Administration announces steep tariffs on Canada, Mexico, and China

President Trump on 1 February signed three executive orders announcing his intent to impose 25% tariffs on imports from Canada and Mexico and a 10% additional tariff on imports from China. Certain 'energy resources' that are products of Canada would be subject to a tariff of 10%. The tariffs were set to take effect at 12:01am on 4 February 2025 under the authority of the International Emergency Economic Powers Act (IEEPA) to address national security concerns related to unlawful immigration and the flow of illicit drugs and drug precursors. Following talks with the leaders of Mexico and Canada, President Trump on 3 February said he would pause implementation of tariffs on imports from those countries for 30 days. The executive order for China took effect as scheduled.

President Trump's newly announced tariffs are expected to have significant implications, including higher prices for consumers, supply chain disruptions, and escalated trade tensions with the US's biggest trading partners. The Trump administration's executive orders also feature a new, more restrictive approach to applying tariffs. The executive orders for each jurisdiction state that the duties imposed by the orders will not be eligible for duty drawback and the products covered therein will not be eligible for the duty-free de minimis treatment under 19 U.S.C. 1321.

For more information see our Tax Insight.

Companies subject to the newly announced tariffs should conduct thorough impact assessments to understand the financial and supply chain impact on their operations, and explore mitigation strategies such as alternative sourcing options, adjusting inventory levels to account for potential delays and increased costs, utilizing special trade programs, and renegotiating supplier contracts.

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Judicial

India

Capital reduction results in extinguishment of rights

The Supreme Court, in the case of the taxpayer (SLP No. 63 of 2015, order dated 2 January 2025), held that the reduction in share capital of the company and subsequent proportionate reduction in the shareholding of the taxpayer would be squarely covered within the ambit of the expression ‘sale, exchange or relinquishment of the asset’ used in section 2(47) the Income-tax Act, 1961 (the Act) and be subject to tax.

In this case, the taxpayer held 99.88% shares in an Indian company (company). The company reduced its equity share capital (capital reduction), by way of reducing the number of shares, keeping the face value per share intact. The company paid some amount in cash upon reduction of the capital. There was no change in the taxpayer’s holding in terms of percentage.

The issue before the Supreme Court was whether the capital reduction would amount to transfer as per section 2(47) of the Act. Based on the facts of the case, the Supreme Court held that the face value per share has remained the same before and after the reduction of the share capital. However, given that the total number of shares have been reduced, it can be said that it is an extinguishment of rights and would be squarely covered within the ambit of the expression ‘sale, exchange or relinquishment of the asset’ used in section 2(47) the Act.

This judgment involved capital reduction wherein cash consideration was paid. It would be interesting to see whether the same position would be taken in case of capital reduction not involving any cash consideration.

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Treaties

India

Guidelines issued for application of PPT under India tax treaties

India enforced the Multilateral Convention (MLI) to address Base Erosion and Profit Shifting (BEPS) on 1 October 2019. It introduced the Principal Purpose Test (PPT), which envisages denial of benefit under relevant tax treaties, if one of the main purposes of a transaction is to obtain a tax treaty benefit. The Central Board of Direct Taxes (CBDT) has issued a circular (Circular No. 01/2025 dated 21 January 2025) to provide guidance and clarity on the application of the PPT, emphasizing that it should be assessed independently for each case, based on its specific facts.

The circular clarifies the dates from which the PPT provisions should apply for both bilateral amendments and MLI amendments. Moreover, the tax authorities can refer to the BEPS Action Plan 6 Final Report and the UN Model Tax Convention Commentary (2021) (subject to India's reservations) to determine whether to invoke the PPT. The circular also clarifies that the grandfathering provisions in existing tax treaties remain outside the purview of the PPT.

For more information see our PwC Insight.

This circular should clarify the ambiguity regarding the applicability of PPT to grandfathering provisions. Moreover, it aims to ease compliance and reduce undue hardship for taxpayers. Additionally, the CBDT's clarification on sources of guidance for invoking PPT will help tax authorities apply it consistently.

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OECD

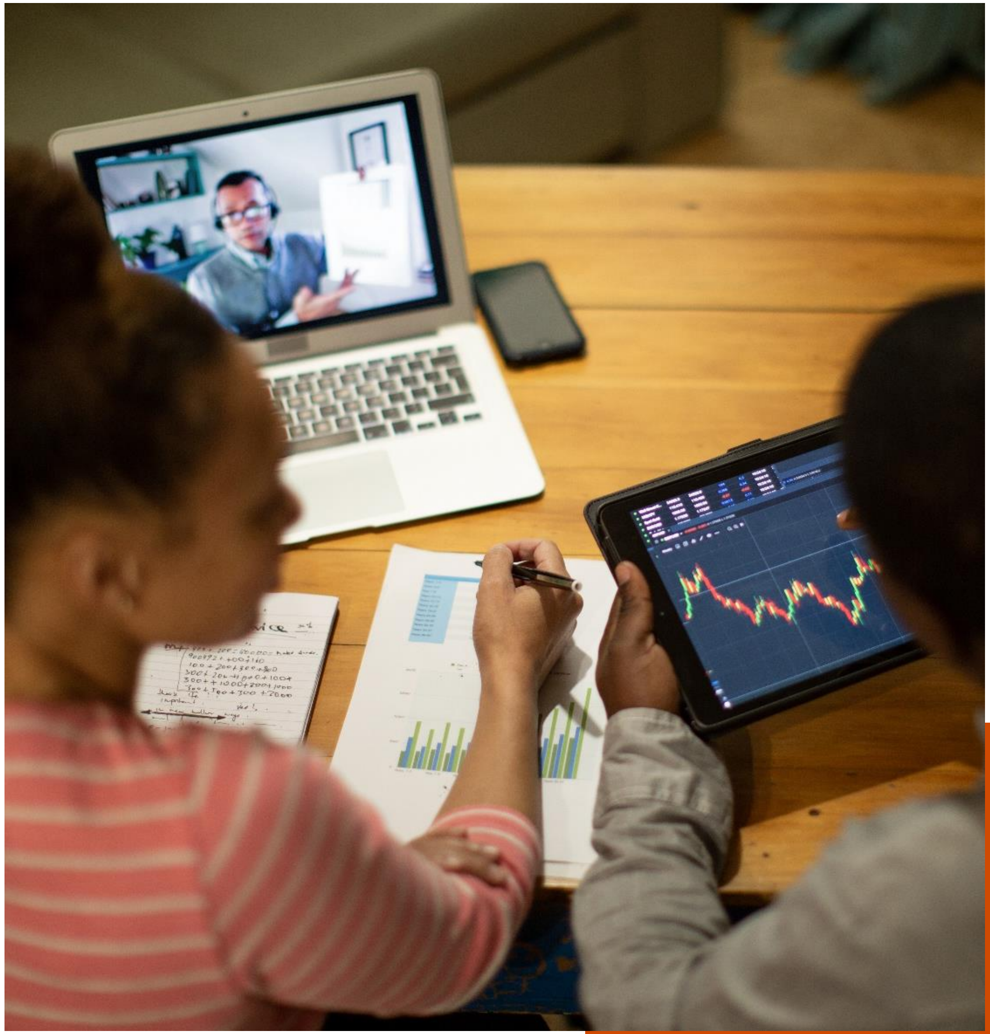
United Nations

UN kicks off negotiations on international tax cooperation; US withdraws

From 3-6 February 2025, the UN intergovernmental negotiating committee (Committee) held an organizational session to draft a UN Framework Convention on International Tax Cooperation (Convention). Key decisions included the composition of the Committee's bureau, choosing "prevention and resolution of tax disputes" as the topic for the Convention's second early protocol, and adopting a simple majority decision-making process for the Convention negotiations with a two-thirds majority required for protocols. On the first day, the United States withdrew from the negotiation, stating that it would oppose any resulting outcomes. The UN is seeking to conclude negotiations by 2027.

This was the Committee's first meeting since the UN General Assembly approved the initiative in December 2024. The initiative is led by the Africa Group and other developing and emerging countries. Majority-based decision-making ensures that the interests of these countries, which represent the voting majority, are considered. The significant differences in opinions expressed during the negotiations suggest that it will be difficult to reach agreement on some issues. Even without agreement, the initiative might influence countries' domestic legislation on international tax issues. Substantive discussions are expected to commence shortly.

For more information see our Tax Policy Alert.



The larger role in international tax for the UN must be taken seriously. There will be opportunities for stakeholders to contribute to the Committee's work, and companies should monitor developments and engage when possible.

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Glossary

Acronym	Definition
ATAD	anti-tax avoidance directive
ATO	Australian Tax Office
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	notional 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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