



# International Tax News

June 2022

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# Welcome

Keeping up with the constant flow of international tax developments worldwide can be a real challenge for multinational companies.

International Tax News is a monthly publication that offers updates and analysis on developments taking place around the world, authored by specialists in PwC's global international tax network.

We hope that you will find this publication helpful, and look forward to your comments.

[Responding to the potential business impacts of COVID-19](#)

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COVID-19 can cause potentially significant people, social and economic implications for organisations. This link provides information on how you can prepare your organisation and respond.



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# Legislation

## Cyprus

### Cyprus Parliament votes to reduce tax on 'passive' interest income from listed corporate bonds

The Cyprus Parliament voted on May 26 to amend the relevant law governing the taxation of corporate and government bonds. Under the amended law, a Cyprus tax-resident company that earns 'passive' interest (i.e. interest not arising from a business or closely connected thereto) from Cypriot and non-Cypriot corporate bonds listed on a recognized stock exchange, as well as from certain other types of bonds such as Cyprus government bonds, will be subject to tax at the reduced rate of 3%.

Prior to the amendments such passive interest income would have been subject to tax at the rate of 30%.

The amendments enhance the competitiveness of Cyprus companies as vehicles for holding listed corporate bonds.



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# Legislation

## Mexico

### New Mexican rules for international tax restructurings

As part of 2022 tax reform, the Mexican Income Tax Law (MITL) introduced new rules in connection with international group restructurings. Under the MITL international group restructuring provisions, non-resident taxpayers may request authorization to defer the corporate income tax over the gain derived from the transfer of Mexican shares that take place as part of a group, as defined in the MITL. The corporate income tax is deemed to be due when the Mexican shares

leave the group.

In connection with the above, a new scenario now considers Mexican shares to leave the group when the issuing and acquiring entities cease to consolidate their applicable financial statement. Furthermore, the new rules provide that any authorization to defer the tax triggered in the context of an international group restructuring may be voided by the Mexican tax authorities when during any review process it is determined that any relevant transaction that took place five years before or after the authorization was granted, lacked business reasons. The acquirer of the shares or its Mexican legal representative are

obligated to report any relevant transaction from the moment the deferral authorization is granted.

These new rules will interact with several other provisions including the new requirements to designate a legal representative. Under this requirement the tax triggered as part of the group restructuring cannot exceed 10% of the paid in capital of the entity acting as a legal representative in Mexico for tax purposes. Another notable practical element to consider is that a tax deferral could be maintained indefinitely through the years as there is no clarity for the length of maintaining the new requirements.

Any multinational group with a presence in Mexico which is currently considering a restructuring by requesting a domestic tax deferral authorization, should carefully analyze the new provisions or alternatives to accomplish said reorganization.

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# Legislation

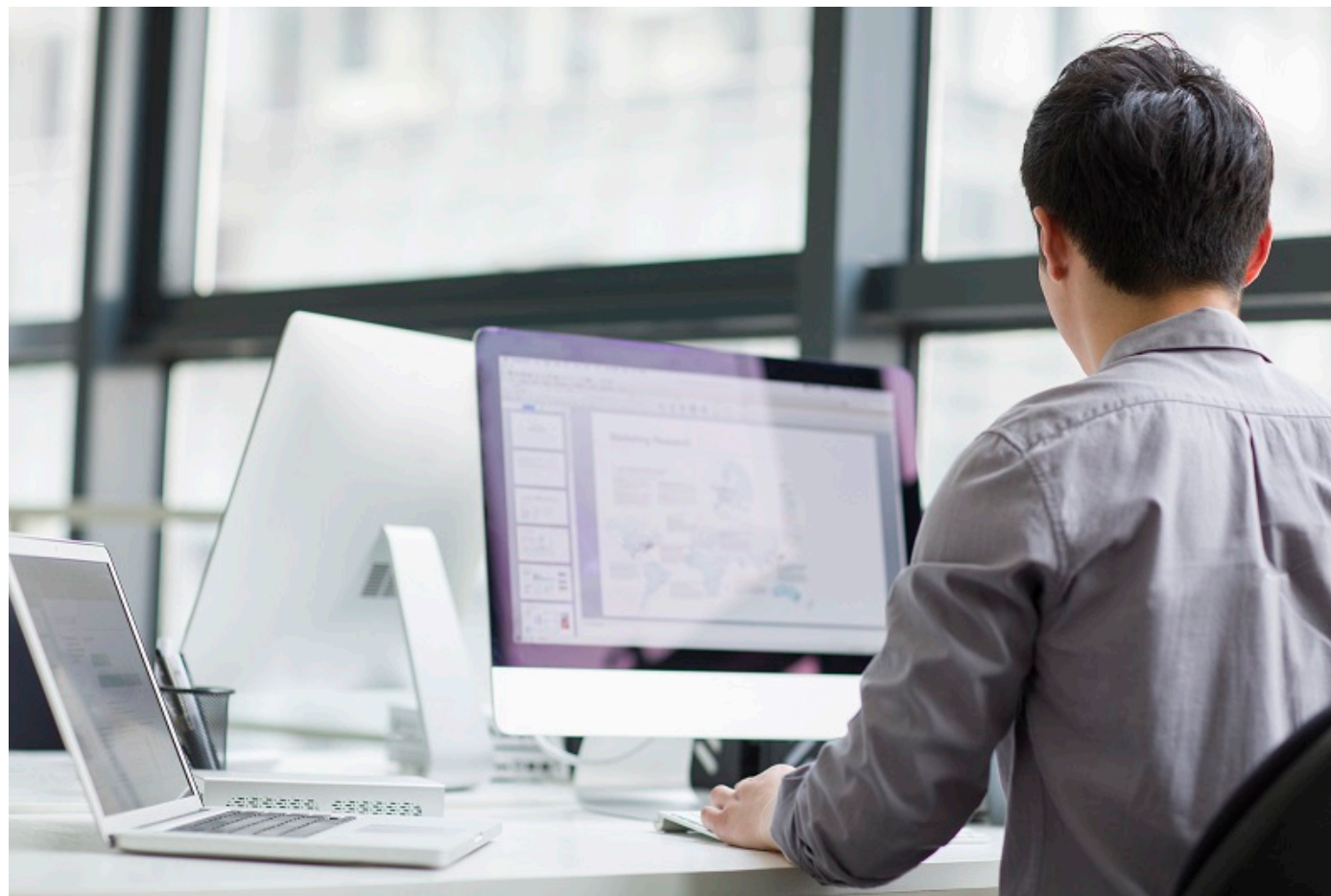
## Hong Kong

### Proposed tax concessions for maritime services in Hong Kong

The Inland Revenue gazetted the 2022 tax concessions for certain shipping-related activities bill on June 2. This introduces a profit tax exemption or a concessionary profits tax rate of 0% or 8.25% for a qualifying shipping commercial principal carrying out qualifying ship agency, ship management, or ship broking activities. The proposed concessionary tax regime should foster maritime service businesses in Hong Kong. Once enacted, the concessionary tax regime will apply to sums received or accrued on or after April 1, 2022.

For more information see our [PwC Insight](#).

The Hong Kong maritime industry has been waiting for this proposed concessionary tax regime for maritime services. This important policy initiative should enhance the competitiveness of Hong Kong's maritime industry. The proposed concessionary tax regime, which only requires relatively relaxed substantial activity requirements, is expected to help foster the development of the high value-added maritime services sector in Hong Kong.



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# Legislation

## United Kingdom

### UK sets implementation for Pillar Two

The UK government confirmed on June 14 that UK Pillar Two legislation would first apply to accounting periods beginning on or after December 31, 2023. This deferral from the original Spring 2023 implementation was in response to concerns that organisations had insufficient lead-time before the rules were implemented. The deferral is a recognition of the sheer complexity of the rules, and the fact that important policy and administrative issues require discussion within the OECD Implementation Framework. The UK Government also has confirmed that draft legislation will be published Summer 2022.

Even with UK deferral, UK-headed groups may still need to comply with the Pillar Two rules earlier, due to the global agreement to implement in 2023 and the construction of the rules. If a lower tier sub-holding company, or a company with a foreign permanent establishment, was based in a jurisdiction that implemented the rules in 2023, then a Pillar Two return would be required for these sub-groups. Further, the Model Rules allow countries to introduce a Qualifying Domestic Minimum Tax (QDMT) that would effectively levy Pillar Two Top-up Tax locally, instead of it being taxed by a foreign parent company. This means if a country introduced a QDMT in 2023, Pillar Two calculations would be required for that territory.

The UK commencement date aligns with the draft EU directive commencement date, such

that this should not be an issue for group companies based in the European Union. To date, no countries have said that they will introduce a QDMT in 2023. However, Australia, Canada, Japan and South Korea have all announced that they will introduce Pillar Two rules in 2023, albeit they may also choose to defer implementation to 2024 to align with the European Union and the United Kingdom.

For further information on this, please see our [PwC Insight](#) and more resources on our [UK Pillar Two page](#).

Businesses need to take steps and build systems to ensure reporting and rule compliance. Undertaking an impact assessment now will allow taxpayers to manage Pillar Two adoption effectively. It will identify data gaps and required process changes, allow for timely restructuring, facilitate a roadmap of how your organisation can become 'Pillar Two ready' for reporting and compliance, and allow time to engage with stakeholders to build the necessary teams to deliver on the required process and system changes.

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# Judicial

## France

### French High Court rules on tax treaties' beneficial ownership provision

A French company distributed sports programs developed by a New Zealand company and paid royalties to two intermediary companies established in Belgium and Malta.

French Tax Authorities considered that the New Zealand-based company was the beneficial owner of the royalties and applied a reduced withholding tax rate of 10%, in accordance with the tax treaty concluded between France and New Zealand in 1979.

On the contrary, the taxpayer claimed that the application of tax treaties concluded by France with Belgium and Malta should apply.

In the light of the OECD commentaries on the Model Convention published in 1977 and in 2017, the High Court ruled that royalties could be considered 'paid' to the beneficial owner receiving them via an intermediate company located in a third State. The tax treaty between France and the beneficial owner's State of residency should therefore apply.

This an important decision as the High Court provides such a resolution for the first time. It dismisses the French tax authorities' position, which usually invoked the existence of intermediate companies to exclude the application of any tax treaty.



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# EU/OECD

## European Union

### EU Finance Ministers fail again to reach political agreement on proposed Pillar Two Directive

The EU Finance Ministers met to agree a new compromise text covering the introduction of a minimum taxation proposal by the EU Member States on June 17. No political agreement to the text has been reached, since unanimous approval for the proposal was not forthcoming. According to the French Finance Minister Bruno Le Maire, and agreed by Poland, who until June 17 remained the only country to oppose the proposal, all conditions were met to reach unanimous support. However, as was widely anticipated in the days before the meeting, Hungary declined to approve the compromise text, thereby revoking its previous support for the proposal.

#### Third compromise text

This third compromise text includes a new recital 14b and adds two elements to article

47a, para 2. Member States that choose to defer implementation (for up to six years) because they have no more than 12 in scope UPEs located in their state, face an information sharing requirement.

#### Hungarian position

The main factors underpinning the Hungarian position, according to Minister Varga, relate to the economic impact of the Ukrainian war on businesses and the uncertain economic consequences that would flow from the introduction of the minimum tax at such an early stage.

For more information see our [Tax Policy Bulletin](#).

It is unclear how this delay will impact the overall implementation of the pillars within the European Union. The Czech Presidency will have to start the discussion with Hungary under which conditions the proposal could obtain Hungarian support, thereby making it difficult to reach agreement by the first ECOFIN of the Czech presidency on July 12. The factors preventing the Hungarians from supporting the proposal will present a tricky obstacle for the EU Council to overcome. None of the reasons given are likely to be easily resolved with any measure of speed, if indeed the EU has any control over these pressure points at all. And it is possible that Hungary also has other issues – as Poland was rumoured to have – which may also prove hard to resolve quickly.



# Treaties

indirectly, at least 25% of the shares of that company at any time during the 365 days preceding the alienation.

## China

### China and Rwanda enter into tax treaty and accompanying protocol

China and Rwanda entered into a tax treaty on December 7, 2021. It will enter into force on the 30th day following the day on which the respective legal procedures are completed by both sides. The key points of China-Rwanda tax treaty include:

#### Permanent establishment (PE)

- The time threshold for an enterprise carrying activities related to natural resources exploitation to be deemed a PE is 183 days within any twelve-month period.
- The situations that constitute a Service PE are not included.

#### Dividends:

- The restricted tax rate on dividends paid to a beneficial owner meeting the prescribed requirements shall not exceed 7.5% of the gross amount of the dividends.

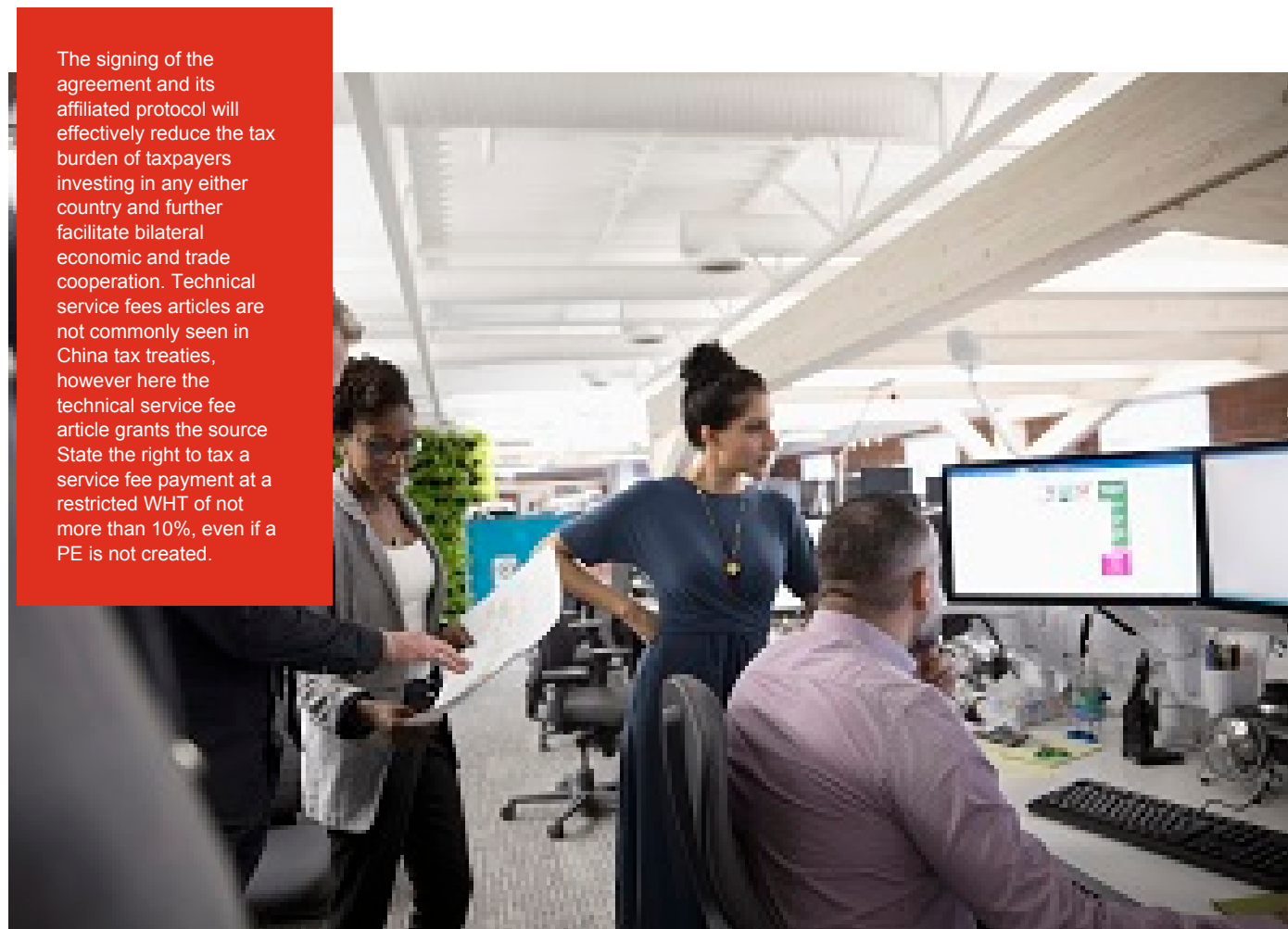
#### Fee for technical services:

- The restricted tax rate on technical service fees paid to a beneficial owner meeting the prescribed requirements shall not exceed 10% of the gross amount of the technical service fees.

#### Capital gains:

- Gains derived from the alienation of non-property rich shares may be taxed in the source State, if the alienator has owned, directly or

The signing of the agreement and its affiliated protocol will effectively reduce the tax burden of taxpayers investing in any either country and further facilitate bilateral economic and trade cooperation. Technical service fees articles are not commonly seen in China tax treaties, however here the technical service fee article grants the source State the right to tax a service fee payment at a restricted WHT of not more than 10%, even if a PE is not created.



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# Glossary

Acronym	Definition
AFIP	Argentine Tax Authorities
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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### Worldwide Tax Summaries

If you're operating globally, are you aware of changes to the myriad tax rates in all the jurisdictions where you operate?

If not, we can help - [download the eBook](#) of our comprehensive tax guide, or explore rates in over 150 countries using our online tools, updated daily.

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