International Tax News

Start

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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:

https://www.pwc.com/us/en/services/tax/multinationals.html

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:

The Pillar Two Origin Story (Part 3) | Beth Bell

Doug McHoney is joined by Beth Bell, a principal in PwC's Washington National Tax Services Policy group. Doug and Beth discuss contrasts between Senate personal offices and House committee roles; Ways and Means' tax jurisdiction; and Beth's experience moving from Congress to Treasury. Next, they jump into how DST disputes led to Pillar One and ultimately the emergence of Pillar Two; Build Back Better legislation; the Pillar Two model rules; U.S. credit design under Pillar Two; and the new administration's response to Pillar Two.

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Welcome Video

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

Kazakhstan

Kazakhstan's new tax code will enter into force on 1 January 2026

The new Tax Code of Kazakhstan, effective 1 January 2026, revises a number of provisions governing taxation of incomes of non-residents from Kazakh sources. Certain amendments regulating taxation of incomes of non-residents from Kazakh sources include, among others, the following changes:

Abolishment of domestic exemption of capital gains income from disposal of Kazakh entities

Current Kazakhstan tax legislation exempts capital gains derived by non-residents from direct and indirect disposal of Kazakh entities, to the extent specific conditions are met (non-residents are not registered in jurisdictions with privileged taxation, disposed shares/interest are held for more than three years, and the disposed entity is not a subsurface user).

Beginning in 2026, this exemption would apply only to capital gains income from disposal of debt securities issued by Kazakh entities and no longer would be available to capital gains from disposal of shares/interest in Kazakh entities.

Application of WHT on dividends

The new Tax Code introduces a reduced 5% WHT rate for dividend income of non-residents (other than non-residents from jurisdictions with privileged taxation) owning directly or indirectly at least 25% of the capital of a Kazakh entity that distributes dividends. The reduced 5% WHT will apply within the established limit of 230,000 minimum monthly calculation indices (approximately USD 1.9 million). If dividends exceed this limit, the excess amount will be taxed at a standard rate of 15%.

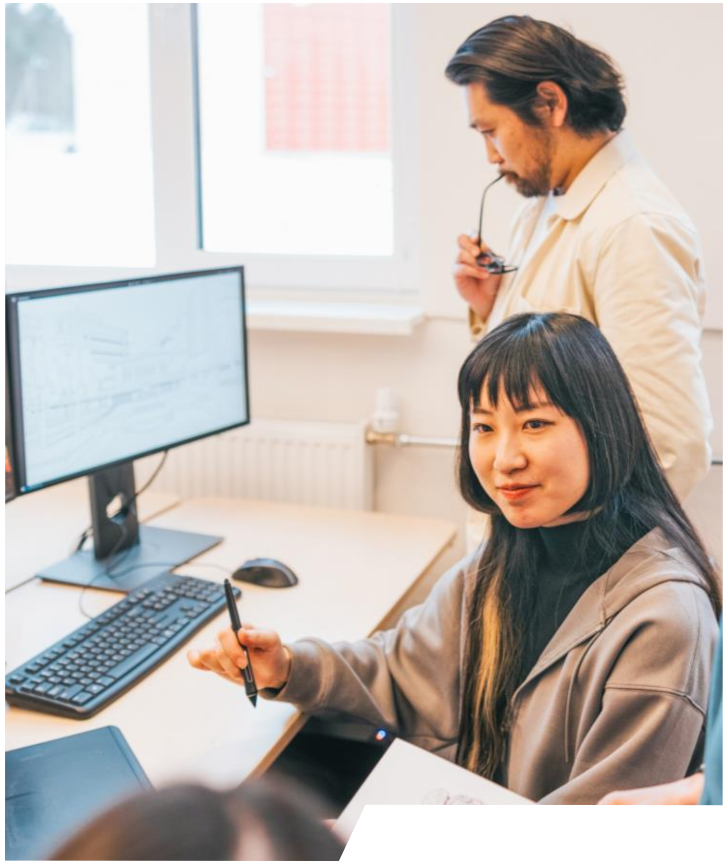
Application of WHT on interest

Interest income paid to a non-resident (except for non-residents from jurisdictions with privileged taxation) from loans and debt securities will be subject to 10% WHT.

Application of the tax treaty

The new Tax Code simplifies conditions for the automatic application of tax treaties by tax agents paying income to affiliated non-residents.

Both multinational and local business operating in Kazakhstan should review their operations with non-residents in order to comply with the framework set by the new Tax Code.



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Legislation

Singapore

Amendments to tax legislation enacted

The Finance (Income Taxes) Act 2025 was gazetted on 8 December 2025. It legislates the changes proposed in the Finance (Income Taxes) Bill 2025, which was published on 14 October 2025. The Bill proposed amendments to the Income Tax Act 1947 (ITA), Multinational Enterprise (Minimum Tax) Act 2024 (MMTA), and the Goods and Services Tax Act 1993, and these amendments were enacted without any further change.

Amendments to the ITA include those arising from the 2025 Budget Statement as well as from the Ministry of Finance's periodic review of Singapore's income tax system. Significant amendments include those providing for upfront certainty of non-taxation of gains on disposal of preference shares, a new tax deduction for payments made under an approved cost-sharing agreement for innovation activities and the identification of related parties of trusts and partnerships for transfer pricing purposes.

Proposed changes to the MMTA clarify various definitions and rules, provide regulation-making powers required for the smooth operation of the law, and other editorial changes.

Taxpayers may now treat the legislative amendments as final law when considering their tax affairs.

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Legislation

Switzerland

Zug Location Development Act

The Swiss canton of Zug approved local legislation (act and ordinance) to establish R&D and sustainability incentives 1 January 2026. The incentives are Pillar Two-compliant and the canton set a budget of CHF 150m p.a. to spend on these new measures.

All companies that have a tax nexus in the canton of Zug (be it through a company or a branch) are generally eligible if they are active in the following areas:

Innovation (cost-based innovation funding): Funding is available for innovative activities such as basic research, applied industrial research, experimental development, and DEMPE-related activities. In addition, clinical studies conducted in Switzerland are considered qualifying activities. 25% of qualifying personnel expenses (plus a 35% lift-up for infrastructure costs) and expenses related to clinical studies are generally giving rise to a subsidy claim.

Sustainability (outcome-based sustainability funding): funding is available for companies that reduce upstream greenhouse gas emissions (Scope 3.1 GHG Protocol). To qualify, companies must reduce the emissions intensity of purchased goods and services, and achieve a reduction of at least 50'000 tons of CO_2-equivalent emissions without using offsets or similar instruments. The maximum funding amounts to CHF 30 per ton of CO_2-equivalent emissions saved annually.

Applications can be submitted starting 1 March 2026 based on financial data from the 2024 fiscal year. The deadline to file requests for the first year is 31 May 2026. Applications must be submitted via an electronic platform.

Taxpayers should model the extent to which they might benefit from this new measure and to what extent this could impact their tax profile. They also should review financial data availability and start preparing for the first applications, considering the rather tight application timeline.

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Administrative

United States

Highlights of Treasury guidance on OBBBA international tax items

Treasury and the IRS on 4 December 2025 issued three Notices—2025-75, 2025-77, and 2025-78—providing early guidance on several international tax provisions enacted as part of the One Big Beautiful Bill Act (the Act or OBBBA).

Notice 2025-75 announces the intent to issue proposed regulations implementing the transition rule under Section 70354(c)(2) of the Act. The transition rule affects how Section 951(a)(2)(B) reductions apply for certain dividends paid by controlled foreign corporations (CFCs) in tax years beginning before January 1, 2026.

Notice 2025-77 provides interim guidance on the implementation of Section 960(d)(4), a new rule enacted by the Act that disallows 10% of foreign tax credits (FTCs) associated with certain previously taxed earnings and profits (PTEP) distributions tied to Section 951A inclusions.

Notice 2025-78 announces forthcoming proposed regulations interpreting a new exclusion from deduction eligible income (DEI) for income or gain from the sale or other disposition of certain intangible and depreciable, amortizable, or depletable property under Section 250(b)(3)(A)(i)(VII). This provision generally removes that income from the foreign derived deduction eligible income (FDDEI) benefit calculation for transactions occurring after June 16, 2025.

For more information see our PwC Insight.

Comments on the frameworks in Notices 2025-75 and 2025-78 are due by February 2, 2026. Notice 2025-77 does not solicit comments, but taxpayers may rely on it as well as the other two notices until proposed regulations are issued, provided taxpayers apply the respective notice's rules fully and consistently.

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Administrative

United States

Treasury releases final and proposed regulations on taxing the income of foreign governments from investments in the United States

Treasury and the IRS on 12 December 2025, issued (1) final regulations and (2) proposed regulations under Section 892 on the US taxation of income earned by foreign governments and their controlled entities from investments in the United States. The final regulations largely retain the structure of the 2011 and 2022 proposed regulations and, amongst other provisions:

- Clarify what counts as 'commercial activities' versus exempt investment activity, including an expanded inadvertent-commercial-activity exception and updates to the controlled commercial entity (CCE) rules (such as a narrower US real property holding corporation (USRPHC) per se rule including that foreign controlled entities would no longer need to track their USRPHC status).

- Provide further guidance on the qualified partnership interest exception (commonly referred to as the limited partner exception) included in the 2011 proposed regulations including adopting a safe harbor for a limited partner who does not own more than 5% of the partnership's capital and profits interest and otherwise satisfies all applicable safe harbor conditions.

- Finalize a definition of 'financial instrument' that expressly covers certain derivatives (including swaps, options, forwards, and futures) and refine the qualified partnership interest rules that govern when a partnership's commercial activities are attributed to foreign government investors.

The proposed regulations would:

- Provide a framework for when acquiring debt (through origination or otherwise) is treated as investment rather than commercial activity, including providing that all debt acquisitions are commercial activity except if they fall within one of the two provided safe harbors (registered offerings and certain secondary-market acquisitions) or satisfy a facts-and-circumstances test.

- Elaborate on when a foreign government has 'effective control' (previously referred to as 'effective practical control') of an entity (for CCE purposes), by looking to equity, voting, creditor, contractual, and regulatory rights and by treating certain managing-partner / managing-member roles as deemed effective control.

For more information see our PwC Insight.

Taxpayers should reassess structures and CCE status and evaluate existing and planned debt positions and governance rights.

Taxpayers should consider submitting comments on the proposed regulations, including on how the debt framework and effective-control rules interact with common sovereign investment structures. Comments on the proposed regulations are due by February 13, 2026.

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Judicial

Italy

WHT exemption on dividend paid to non-EU funds

The Second-Instance Tax Court of Abruzzo - decision No. 218/1/2025 of 14 April 2025 - upheld the full refund of Italian dividend withholding tax incurred in 2017–2018 by an Israeli pension fund.

The Court found that the Italian rules that grant a favorable regime (exemption from WHT on dividends) exclusively to domestic or EU/EEA-regulated funds, while denying an equivalent benefit to non-EU pension funds, infringe the EU free movement of capital under Article 63 TFEU as the latter applies not only within the European Union.

Building on previous first-instance decisions (First-Instance tax Court of Pescara No. 385/2/2024) and consistent with past Italian Supreme Court decisions (no. 25963/2022 and no. 25692/2022), the Second-Instance Court held that:

- A differentiated WHT treatment between Italian funds and comparable non-EU funds is discriminatory under Article 63 TFEU.
- The WHT exemption on Italian-sourced dividends for qualifying EU/EEA UCITS/AIFs—introduced by Law 178/2020—should be read in an extended manner and should apply also to dividends paid prior to 1 January 2021.

The Court relied on CJEU jurisprudence (including cases C-480/19, C-537/20, C-641/17, C-252/14, C-39/23), which requires Member States to ensure equal treatment unless objective non-comparability is demonstrated.

The decision confirms the judicial approach whereby non-EU funds that are objectively comparable to domestic and EU funds should benefit from the WHT exemption on sourced Italian dividend distributions even if occurred before 2021. Eligible non-EU funds may therefore rely on the principles affirmed by the Court decisions to claim access to the domestic WHT exemption for future distributions and the refund of the WHT levied for past dividend distributions.

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Judicial

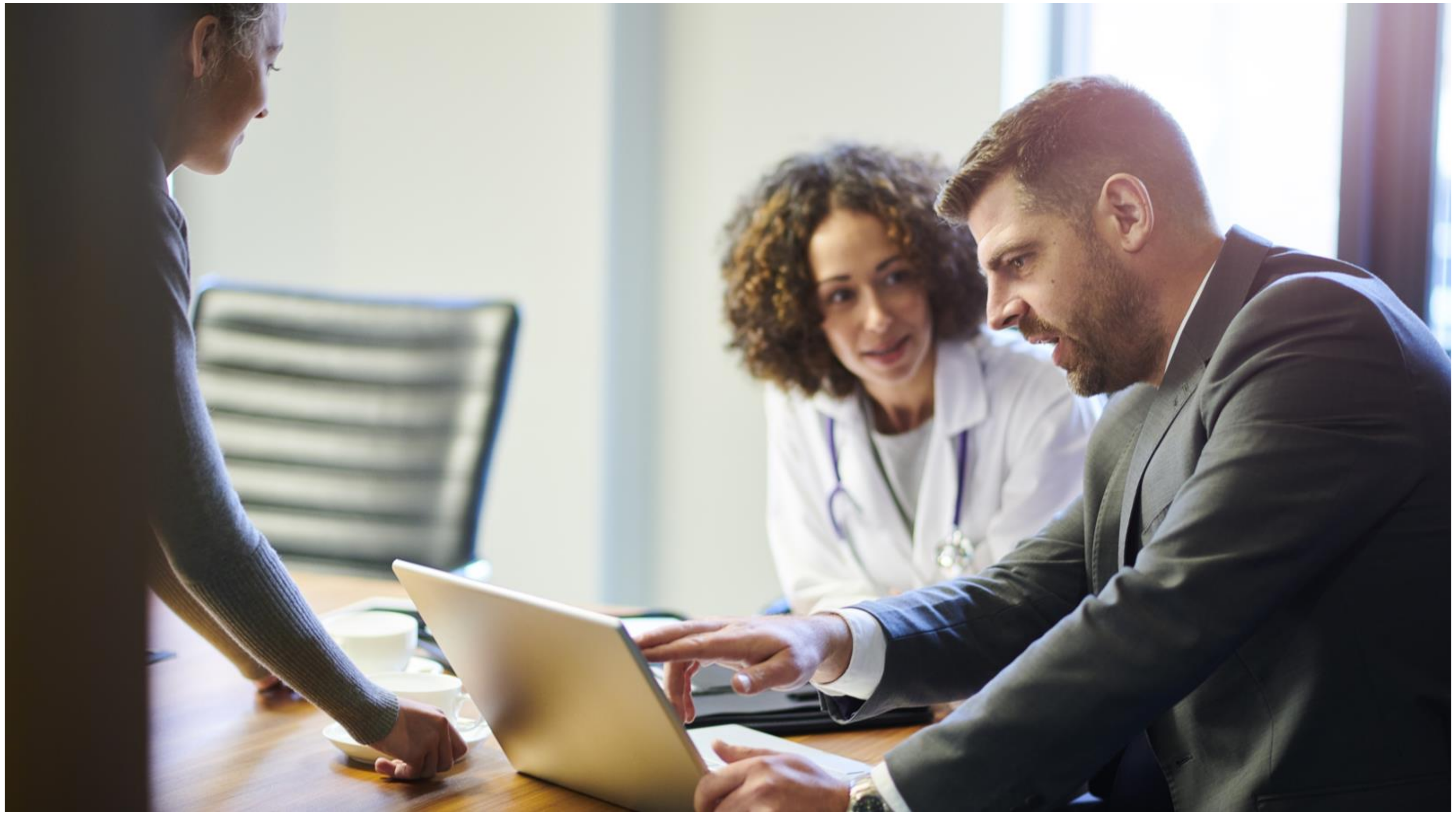
Singapore

High Court rules on Qualifying Debt Securities status

In Modernland Overseas Pte Ltd v Comptroller of Income Tax and another matter [2025] SGHC 239, the taxpayer issued certain Amended Notes pursuant to a debt restructuring scheme. In an advance ruling the Singapore tax authority held that the Amended Notes were not the same debt instrument as before and could not qualify for the Qualifying Debt Securities (QDS) scheme.

The taxpayer sought a declaratory relief from the High Court that would allow the Amended Notes to retain the QDS status after restructuring. However, the taxpayer failed in its application as the Court found that the Amended Notes were not mere amendments of the Existing Notes (which had qualified as QDS) but were entirely new debt instruments, as the original notes were expressly cancelled and replaced under the restructuring scheme.

Businesses should consider the impact of debt restructuring schemes on existing tax positions and the importance of documenting such transactions.



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Judicial

Italy

Italian Supreme Court outlines beneficial owner tests

The case at hand involves an intercompany interest payment made by an Italian company to its Dutch parent company. The Dutch holding company was mainly financed through loans provided by non-EU third-party banks. The Italian Tax Authorities (ITA) challenged the WHT exemption applied on the interest paid by the Italian entity to the Dutch entity under the EU Interest and Royalty Directive. Specifically, the ITA argued that the actual beneficial owners of the interest income originating from Italy were the non-EU third-party banks, which would not qualify for the WHT exemption under the Directive.

With this judgment, the ISC outlines the tests that, if passed, would identify the beneficial owner as such. These include:

- The Substantive Business Activity Test, which assesses whether the foreign company is artificial or is actually engaged in a business activity;
- The Dominion Test, which verifies whether the company has the right to freely use the financial flows (i.e., interest received) or is instead obliged to pay them back to third parties;
- The Business Purpose Test, which examines whether the recipient company qualifies as a conduit company established solely for tax purposes, or whether it plays a functional role in the payment flows.

The threshold tests established by the ISC should be carefully considered by Italian entities paying interest, dividend and royalty incomes to non-Italian resident companies. This should help properly manage the risk of being audited by Italian tax authorities and determine the applicability of the WHT exemption.

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Treaties

Italy

New tax treaty between Italy and China

Italy ratified a new tax treaty with China on 3 December 2024, effectively replacing the previous tax treaty. The main changes include:

Tax residence - the new treaty introduces a new definition of 'resident' for treaty purposes excluding entities taxed in a contracting state only on income sourced from that state. Moreover, the new paragraph 3 of Article 4 eliminates the reference to the place of management (or the head office location) as the tie-breaker rule to solve double residence problems for entities. The new tax treaty includes the mutual agreement procedure in line with the 2017 OECD Model Tax Convention.

Permanent establishments - the new treaty extends the threshold to 12 months for a construction PE, aligning with OECD standards.

Capital gains - the source State is now entitled to tax the capital gains resulting from the sale of significant shareholdings (participation of at least 25% at any time within the 12 months preceding the sale).

Dividends, interests and royalties - In the new treaty, the WHT rate for dividends, interests, and royalties has been reduced as follows:

- 5% WHT on dividend payments, if the beneficial owner has owned at least 25% of the share capital that pays dividends for at least 365 days. Otherwise, a 10% WHT applies;
- 8% WHT on interest if the payment is directed to a financial institution in connection with loans granted for investment projects with a minimum of three years. Otherwise, the 10% WHT rate applies.
- 10% WHT on royalties paid for the use or concession of industrial, commercial or scientific equipment, applicable to a tax base equal to 50% of the gross royalty amount.

Elimination of double taxation - under the new treaty, Italy maintains the foreign tax credit mechanism but clarifies that a credit will not be granted for foreign taxes if the income is taxed in Italy using a withholding tax or substitute tax applied 'upon request or not' by the recipient. The new treaty also increases the minimum participation threshold for obtaining an indirect tax credit on dividends from 10% to 20%.

The main changes represent the key outlines of the new Italy-China tax treaty, which is significantly different from the previous version. Consequently, Italian and Chinese entities should understand if they are impacted by the new provisions.

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EU/OECD

European Union

Second evaluation of the EU Directive on Administrative Cooperation in Taxation (DAC)

The European Commission's second evaluation of the EU Directive on Administrative Cooperation (2018–2023) was published on 19 November 2025. The European Commission concludes that the DAC is an effective, agile framework that boosts tax transparency and cooperation, purporting to increase revenue collections by approximately EUR 6.8 billion annually. The evaluation calls for simplification, more consistent application of the DAC standards across EU Member States, stronger penalties, better data matching, and a digital overhaul of reporting and exchange systems.

The Commission's report concludes that successive DAC amendments (from DAC1 through DAC6 evaluated for this purpose) have significantly expanded automatic exchange of information and increased the volume and use of data for risk assessment, control and voluntary compliance. While the report cites that the DAC framework is effective and offers a positive cost-benefit ratio, it also notes that the DAC imposes significant administrative burdens, especially on businesses. Reported annual ongoing costs are estimated at roughly EUR 646 million for all stakeholders, of which about EUR 604 million fall on business (with circa EUR 550 million attributable to DAC2).

The evaluation highlights challenges in data quality and matching, fragmentation in Member State application (notably for DAC6), and widely divergent penalty regimes that may undermine consistent compliance.

For more information, see our Global Tax Policy Alert.

Financial institutions, intermediaries, multinational groups, digital platform operators, and crypto-asset service providers remain directly exposed to DAC due diligence, reporting and record-keeping obligations, supervisory scrutiny, and penalties. The Commission's intention to simplify and consolidate the legal framework, recalibrate aspects of DAC6 (including hallmarks), encourage more systematic use of data, bring in a minimum standard on penalties that could see increases in some Member States, and explore an EU-wide taxpayer identification number (EU TIN), could all directly impact businesses that are exposed to the DAC standards.

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EU/OECD

OECD

2025 updates to the OECD Model Treaty and Commentary released addressing cross-border remote work arrangements

The OECD released updates to the OECD Model Treaty and Commentary on 19 November 2025. The updates provide guidance related to cross-border remote work in the context of permanent establishments, as well as the taxation of certain income related to natural resource extraction.

The updates were approved by the OECD Committee on Fiscal Affairs and the OECD Council, and are included in the 2025 Update to the OECD Model Tax Convention. They will be reflected in revised condensed and full editions of the OECD Model Treaty and Commentary, to be released in 2026. The OECD Model Treaty was last updated in 2017.

As noted in the press release accompanying the release, the updates are intended to provide practical solutions to modern tax challenges. The updates consist of changes to the Introduction to the OECD Model Treaty, changes to Article 25 (Mutual Agreement Procedure), changes to the Commentary on various articles, including Article 5 (Permanent Establishment), and changes to the positions of non-member economies.

Although any such provisions would have to be included in a US income tax treaty in order for them to directly apply to a taxpayer, the OECD Model Treaty and Commentary are reflected in many existing bilateral income tax treaties, and they often serve as an interpretive reference for courts, tax authorities, and practitioners. They provide helpful guidance in an area where no guidance was previously available, filling a gap that should be helpful to companies.

For more information see our PwC Insight.

While cross-border remote work arrangements have proliferated in recent years, there has been a dearth of guidance on how to address such arrangements from a cross-border tax perspective. The OECD Model Treaty and Commentary may influence how such arrangements are viewed by tax authorities, courts, and practitioners.

Businesses should consider how these changes to OECD Model Treaty and Commentary may affect existing cross-border remote work arrangements and the guidelines provided to remote workers.

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Glossary

Acronym	Definition
ATAD	anti-tax avoidance directive
BEPS	Base Erosion and Profit Shifting
CFC	controlled foreign corporation corporate
CIT	income tax
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
VAT	business test value added tax
WHT	withholding tax

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