# International Tax News

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Start

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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

**Douglas McHoney**
Global Leader International Tax Services Network
+1 314-749-7824
douglas.mchoney@pwc.com

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.

# In this issue

# Legislation

## Chile

### Chilean Government presents Tax Reform Bill

The Chilean Executive Branch has submitted a comprehensive Tax Reform Bill to the Chilean Congress. Tax reform is a key component of Chilean President Gabriel Boric's agenda. This Bill is expected to represent 4.3% of Chile's GDP by 2026 (a net 4.1% of the country's GDP after discounting tax expenditures incorporated by the Bill). Specifically, the Bill proposes to amend certain matters related to income tax, wealth tax, and shareholder taxation. The Bill also would incorporate new measures focused on preventing tax avoidance and tax evasion and would reduce the number of tax exemptions.

In general, the Tax Reform Bill rules would enter into force in the month following its publication in the Official Gazette, unless specifically indicated otherwise. The Bill includes specific dates of entry into force for several provisions, as well as transitory rules. Further, the government's letter presenting the Tax Reform Bill indicates that most changes are expected to be fully adopted by 2026. However, President Boric does not have a majority in the Chilean Congress. Therefore, amendments to the bill are likely to be introduced during the legislative discussion.

For more information see our PwC Insight.

Chile is proposing significant and wide-spread changes to its tax legislation as part of President Boric's agenda. Given the current political environment, the Tax Reform Bill may be subject to extensive debate, from both a technical and political standpoint. Accordingly, we expect that certain provisions of the Bill will change during the course of the legislative discussion in Congress.

Taxpayers should monitor the progress of the Tax Reform Bill through the legislative process, including discussions as to how residents in jurisdictions with treaties pending to be ratified would be treated under the new tax regime

**Rodrigo Winter**
Chile
+56 9 7758 0714
rodrigo.winter@pwc.com

**Loreto Pelegri**
Chile
+56 9 9837 9243
loreto.pelegri@pwc.com

# Legislation

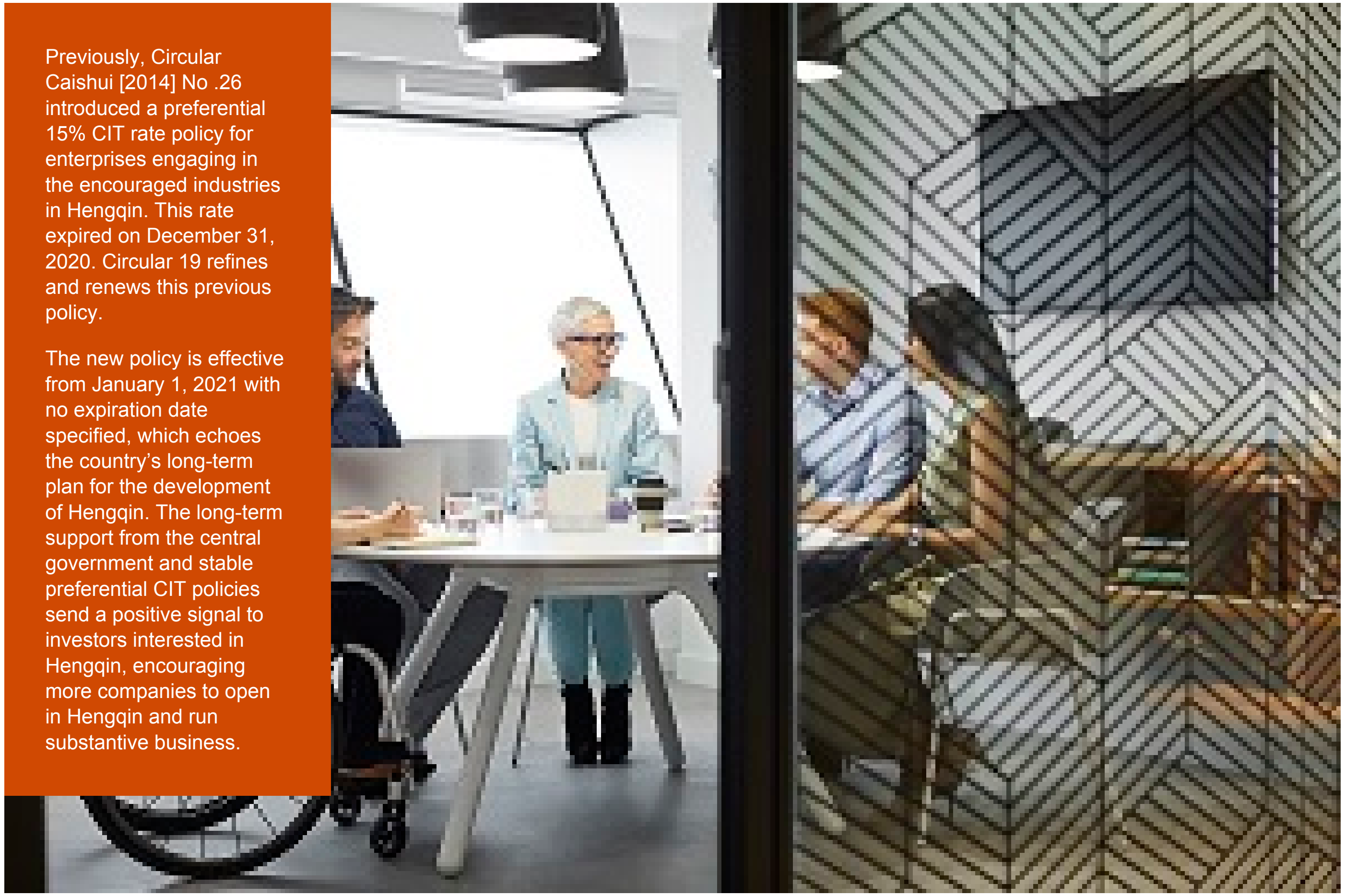
## China

### China released preferential CIT policies in Hengqin Guangdong-Macao

Recently, China issued Caishui [2022] No.19, providing three preferential CIT policies in Hengqin, and released the latest version of “Corporate Income Tax Preferential Catalogue of Hengqin Guangdong-Macao In-depth Cooperation Zone (Version 2021).” Below are more details:

- Eligible enterprises with an effective management in Hengqin are entitled to a reduced CIT rate of 15%. An enterprise is eiligble if its main business falls within the 'preferential catalogue' and more than 60% of its total revenue is derived from its main business.
- CIT exemption for eligible income derived from foreign direct investment by enterprises of tourism, modern service and the high-tech industry.
- Eligible capital expenditures can be deducted in one lump sum (if the unit value does not exceed RMB 5 million), or enterprises can use use accelerated depreciation or amortization methods.

For more information see our China Tax/Business News Flash.



Previously, Circular Caishui [2014] No .26 introduced a preferential 15% CIT rate policy for enterprises engaging in the encouraged industries in Hengqin. This rate expired on December 31, 2020. Circular 19 refines and renews this previous policy.

The new policy is effective from January 1, 2021 with no expiration date specified, which echoes the country’s long-term plan for the development of Hengqin. The long-term support from the central government and stable preferential CIT policies send a positive signal to investors interested in Hengqin, encouraging more companies to open in Hengqin and run substantive business.

**Long Ma**
China
86 (10) 6533 3103
long.ma@cn.pwc.com

# Legislation

## United States of America (the)

### Corporate book minimum tax proposed as part of budget reconciliation bill

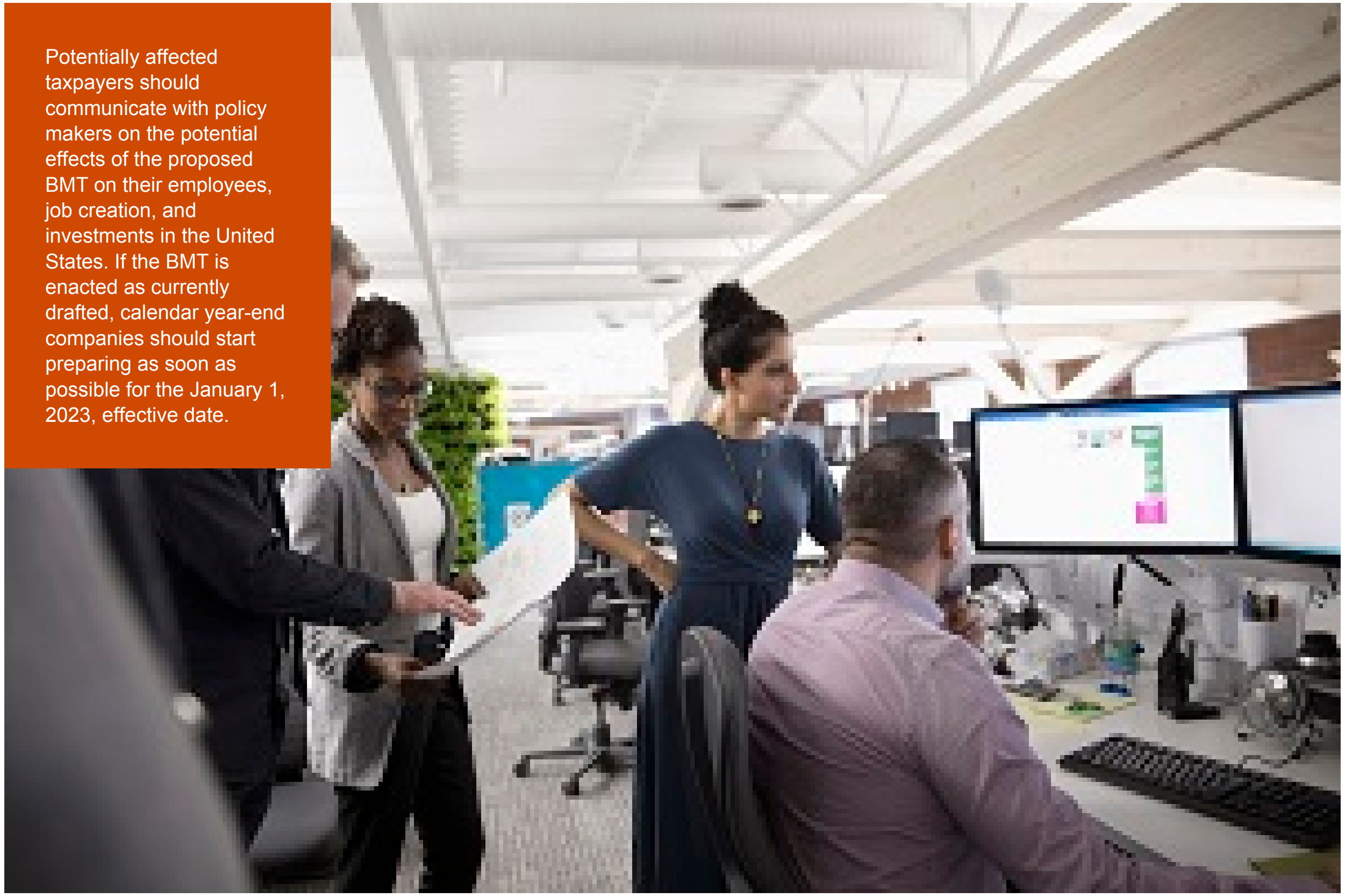
A corporate alternative minimum tax (AMT) based on financial statement income (book minimum tax, or BMT) provision would impose a 15% minimum tax on adjusted financial statement income (AFSI) for corporations with average annual AFSI over a three-tax year period in excess of $1 billion. The provision would impose a minimum tax equal to the excess of 15% of an applicable corporation's AFSI over the corporate alternative minimum tax foreign tax credit (AMT FTC) for the tax year. This provision would be effective for tax years beginning after December 31, 2022.

The BMT would increase a taxpayer's tax only to the extent that tentative minimum tax exceeds regular tax plus base erosion and anti-abuse tax (BEAT).

The BMT is not expected to be a Qualified Domestic Minimum Top-up Tax (i.e., a domestic minimum tax that is computed using the same rules as the OECD's IIR and UTPR Pillar Two rules). It is not yet clear how the corporate BMT proposal may interact with the OECD's Pillar Two rules.

For more information see our PwC Insight.

Potentially affected taxpayers should communicate with policy makers on the potential effects of the proposed BMT on their employees, job creation, and investments in the United States. If the BMT is enacted as currently drafted, calendar year-end companies should start preparing as soon as possible for the January 1, 2023, effective date.



**Pat Brown**
United States of America (the)
(203) 550-5783
pat.brown@pwc.com

**Nita Asher**
United States of America (the)
(202) 870-2462
nita.asher@pwc.com

# Legislation

## Cyprus

### Cyprus introduces TP documentation, reduces tax on some ‘passive’ interest income, considers NID grandfathering

The Cyprus Parliament on June 30 approved the long-awaited amendments to the Cyprus Income Tax Law and new Regulations to introduce Transfer Pricing (TP) documentation compliance obligations (Master File, Cyprus Local File, Summary Table) for Cyprus tax-resident persons, and permanent establishments of non-Cyprus tax resident persons situated in Cyprus, that engage in transactions with related parties (Controlled Transactions). A formal Advance Pricing Agreement (APA) procedure has also been introduced. Specific penalties for non-compliance with the new obligations are now in place by an amendment to the Assessment and Collection of Taxes Law. The law amendments and Regulations are effective from the tax year 2022 onwards.

Regarding the reduction of some ‘passive’ interest income, the Cyprus Parliament, on May 26, voted to amend the relevant law governing the taxation of corporate and government bonds, reducing the rate to 3% (previously 30%). The amendment became effective on June 8, 2022.

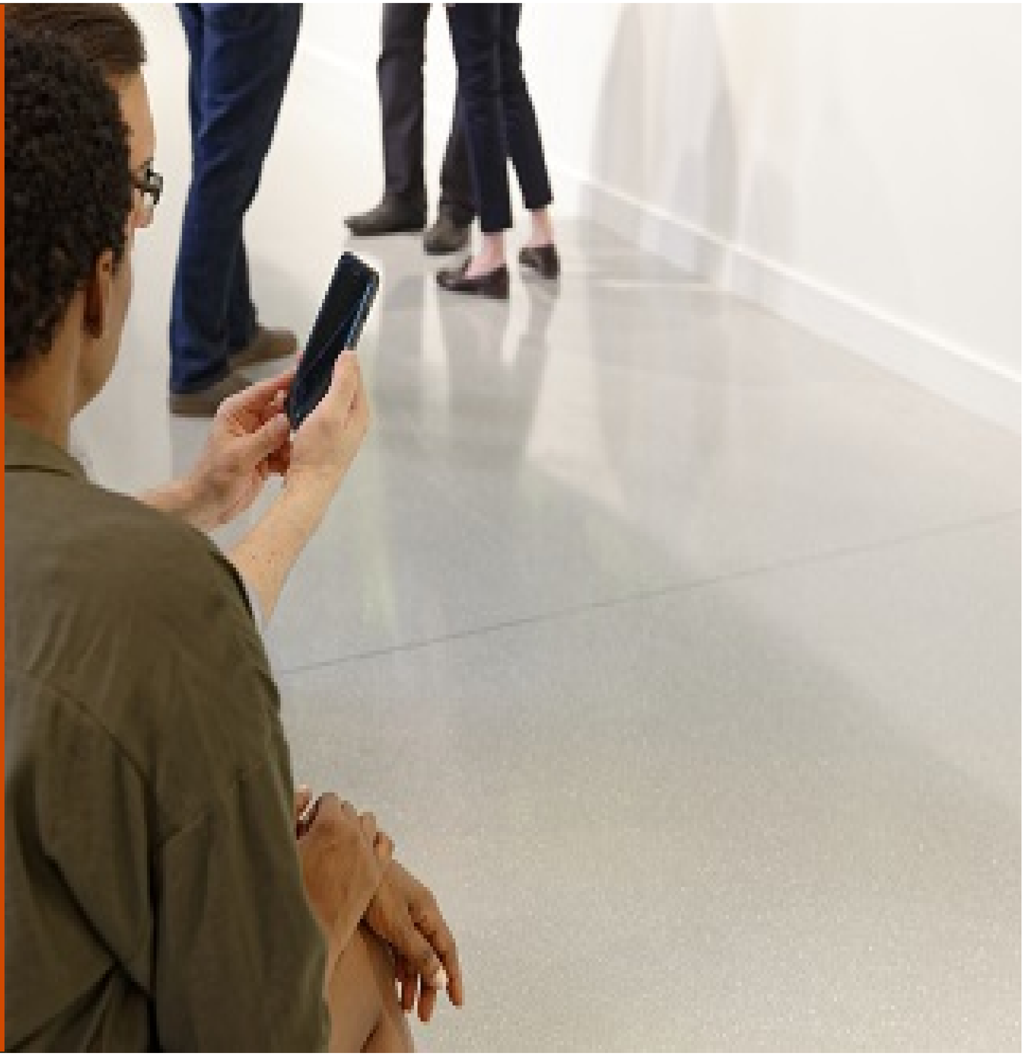
Finally, Cyprus is considering grandfathering the Cyprus Notional Interest Deduction (NID) regime for taxpayers already benefiting from it as of the cut-off date of January 1, 2024, and delaying implementation of the European Commission’s EU Debt-Equity Bias Reduction (DEBRA) proposal.

For more information see our PwC Insight.

Updating of the Income Tax Law on TP matters, and the introduction – from tax year 2022 onward – of wider TP documentation obligations and a formal APA process, will have an impact on most of the (local or multinational) groups and companies having presence in Cyprus that engage in transactions with related parties. Businesses therefore should act proactively so as to understand the impact of the new rules on their operations and invoicing flows, and identify the TP-related implications and risks to which they may be exposed, in order to take any necessary steps designed to mitigate risks and comply with the new requirements in the most efficient and effective way.

Existing and potential Cyprus corporate taxpayers should consider their portfolio allocations in light of the reduced taxation on ‘passive’ interest income from listed corporate bonds.

MNEs with or without Cyprus presence should consider the Cyprus NID grandfathering provided under DEBRA before the cut-off date of January 1, 2024.



**Stelios Violaris**
Cyprus
+357 22 555 300
stelios.violaris@pwc.com

**Christos Charalambides**
Cyprus
+357 - 22 553 617
christos.charalambides@pwc.com

# Legislation

## Germany

### Germany releases draft bill on taxation of payments for German-registered rights

The German Federal Ministry of Finance recently published a proposal that includes far-reaching changes to the taxation of payments for IP rights that are registered in a German register between foreign taxpayers.

The draft bill also would change the taxation of capital gains from the sale of rights registered in a domestic register in Germany with the following content:

1. For royalties and capital gains received through December 31, 2022, the former taxation of royalties would be limited to payments between related parties in the sense of Sec. 1 para. 2 of the German Foreign Tax Act. Therefore, payments to unrelated (third) parties would be excluded from the scope of the provision in all open cases under the current proposal.
2. For payments received after December 31, 2022, the limited tax liability formerly included under Sec. 49 of the German Income Tax act would be abolished in total (i.e., for payments between related and third parties).
3. All payments received on or after January 1, 2022, would be regulated under Sec. 10 of the German Tax Haven Defence Act (for all payments made between related and third parties). According to this revised provision, only payments made to taxpayers residing in tax havens within the meaning of the Tax Haven Defence Act would be subject to tax if the underlying rights are registered in a domestic register in Germany. Tax havens within the meaning of the Act currently are American Samoa, Fiji, Guam, Palau, Panama, Samoa, Trinidad and Tobago, the US Virgin Islands, and Vanuatu. However, the list of tax havens could change subject to a proposal by the German Ministry of Finance and approval by the German Federal Council.

For more information see our PwC Insight.

Taxpayers should monitor the legislative process and analyze how the draft bill might impact their compliance obligations.

**Thomas Loose**
Germany
+49 211 981 1527
thomas.loose@pwc.com

**Arne Schnitger**
Germany
+49 30 2636 5466
arne.schnitger@pwc.com

# Legislation

## Hungary

### Hungarian Government Decree on extra-profit tax

The Hungarian Government, on June 4, announced new windfall measures to maintain a balanced budget with the publication of Government Decree 197/2022. (VI. 4.) on extra profit surtaxes. These new measures, which were slightly updated on July 17, include newly introduced surtaxes aimed at the energy, retail, pharma, airline and licensed financial industries and also the increase of existing taxes. Below is a list of the measures included in the Budget:

- Extra-profit tax on producers of petroleum products
- Extra-profit tax on producers leaving the KÁT and METÁR subsidy schemes and on producers leaving the green premium-type aid scheme
- Contribution of commercial airlines
- Energy suppliers' income tax (the so called 'Robin Hood tax')
- Extra-profit tax on pharmaceutical distributors
- Mining royalty
- Surtax on credit institutions and financial enterprises
- Financial transaction tax
- Insurance surtax
- Company car tax
- Telecommunications surtax
- Surtax on retail tax
- Excise duty
- Public health product tax

For more information see our PwC Insight.

Most of the measures entered into force on July 1, 2022, however in some cases there is retroactive application. There are still many uncertainties regarding the above measures mainly relating to the scope and administration. To mitigate risks arising from misinterpretation, companies that fall under the scope of these new rules should engage in further analysis.

**Gergely Juhász**
+36-1-461-9101
gergely.juhasz@pwc.com

# Legislation

## Korea (the Republic of)

### Korea releases draft Pillar Two rules

As part of 2022 tax reform, the Korean Ministry of Strategy and Finance (MOSF) announced, on July 21, the introduction of draft domestic legislation for a global minimum tax. Korea's summary draft rules, released in Korean, correspond closely to the OECD's Pillar Two Model Rules, which was led by the OECD / G20 and has been agreed upon by 141 countries in the Inclusive Framework. Detailed legislation is expected in December.

According to the proposed rules, if a multinational company incurs an effective tax rate (ETR) lower than the Korean minimum tax rate (15%) in a specific jurisdiction, the taxpayer would have to pay the difference between the tax calculated at that lower ETR and the tax calculated at the 15% minimum rate. The draft rules include an Income Inclusion Rule and 'Supplementary rules for income inclusion' (known as the UTPR in the OECD Model Rules). Both rules are proposed to be effective for tax years beginning on or after January 1, 2024.

Importantly, the UTPR effective date in the draft EU minimum tax Directive has shifted to 2025 (effectively), but Korea's UTPR appears to maintain a 2024 effective date for now.

The draft rules do not include a Qualified Domestic Minimum Top-up Tax (QDMTT). However, it is possible that the detailed legislation expected in December might include a QDMTT.

For more information see our PwC Insight.

Potentially in-scope entities should consider how to prepare for the possible implementation of Pillar Two rules in Korea. In addition to reviewing the group structure and estimating a potential ETR impact, entities should be considering whether their current systems and processes will be able to capture, catalog and process the required data.

**Michael Kim**
Korea (the Republic of)
+82 10-4945-9707
michael.kim@pwc.com

**Dong-Youl Lee**
Korea (the Republic of)
+82 10-3100-4186
dong-youl.lee@pwc.com

# Legislation

## Korea (the Republic of)

### Korea tax reform proposals would lower corporate rate

The Ministry of Economy and Finance (MOEF) announced on July 21 the government's bill to amend a series of tax laws including the corporation tax law. The Reform Bill includes measures aimed at enhancing corporate competitiveness, expanding tax support to facilitate corporate investment and job creation, revitalizing capital markets, expanding tax revenue sources to enhance public finance sustainability and easing the tax burden of low and middle-income families.

To help enhance the competitiveness of domestic companies, the Reform Bill would provide a three percentage point reduction in the top marginal corporate income tax rate and, in the same context, abolish the existing 20% additional tax on excess corporate earnings reserves.

For more information see our PwC News Flash.

The government's reform proposals will be finalized with modifications before being submitted to the National Assembly on September 2, 2022. If approved by the National Assembly, most of the proposed changes will become effective January 1, 2023, unless otherwise specified.

**Alex Joong-Hyun Lee**
Korea (the Republic of)
709-0598
alex.lee@pwc.com

**Sang-Do Lee**
Korea (the Republic of)
709-0288
sang-do.lee@pwc.com

# Legislation

## Hong Kong

### Proposed refinements to Hong Kong's foreign source income exemption regime for passive income

The Hong Kong SAR Government recently launched a consultation on a proposal to refine Hong Kong's foreign source income exemption (FSIE) regime for passive income in response to the European Union's concern over potential double non taxation arising from tax exemption for offshore passive income in Hong Kong. The consultation ended on July 15, 2022.

Under the proposed refined FSIE regime, four types of offshore passive income – interest; income from intellectual properties (IP); dividends, and disposal gains in relation to shares or equity interest (collectively, 'in-scope offshore passive income') – would be deemed sourced from Hong Kong and chargeable to profits tax under certain circumstances. The proposed refined FSIE regime is expected to become effective on January 1, 2023, with no grandfathering arrangement.

For more information see our PwC Insight.

Multinational enterprise (MNE) groups currently lodging offshore claims on in-scope offshore passive income should (1) closely follow the developments of the legislation; (2) carefully evaluate the impact arising from the proposed refined FSIE regime, including whether they can satisfy the conditions of the economic substance requirement, the nexus approach or participation exemption so that their in-scope offshore passive income will remain exempt from profits tax, and the related compliance requirements; and (3) consider whether any restructuring is required to mitigate any potential additional tax exposure. Those MNE groups that are also in scope for Pillar Two may also need to consider the interaction between the proposed refined FSIE regime and the Global Anti-Base Erosion (GloBE) Rules.

**Gwenda Ho**
Hong Kong
+852 2289 3857
gwenda.kw.ho@hk.pwc.com

# Legislation

## Puerto Rico

### Puerto Rico amends tax incentives laws and allows election out of the Act 154 excise tax of 4%

Puerto Rico (PR) Governor Pedro Pierluisi, enacted Act 52-2022 on June 30. The Act amends the PR manufacturing tax incentives laws and provides a framework for electing out of the income and excise tax regimes enacted under Act 154-2010, which applies to certain nonresident foreign entities. To achieve this transition, Act 52-2022 allows PR manufacturing businesses holding tax decrees under the various PR tax incentives laws to amend their tax decrees to increase their applicable PR corporate income tax rates to 10.5% (15% if certain conditions are met), in exchange for relieving such PR manufacturing businesses' foreign related parties from being subject to the Act 154-2010 income and excise tax provisions.

Act 52-2022 addresses the potential noncreditability for US federal income tax purposes of the Act 154-2010 excise tax paid by US multinational entities (US MNEs) because of the foreign tax credit (FTC) regulations the US Treasury released in 2021, and which will become effective, as relevant to this issue, for tax years beginning on or after January 1, 2023. Additionally, Act 52-2022 introduces additional requirements for business operating under the Puerto Rico Incentives Code of 2019, as amended.

Lastly, Act 52-2022 amends certain provisions of the PR Internal Revenue Code of 2011, as amended (PR-IRC). These amendments include treating single-member LLCs as disregarded entities as opposed to regarded pass-through entities; providing trade or business exceptions for foreign employers with remote workers in Puerto Rico; and setting the corporate AMT rate to 23% for taxpayers with gross income of US $10 million or more.

For more information see our PwC Insight.

> Analyzing whether these elections are beneficial to foreign members of a controlled group with PR manufacturing activities requires a fact-driven exercise. Therefore, US taxpayers should consider whether electing to apply the new rules would benefit their US FTC positions.

**Denisse Flores**
Puerto Rico
+1 (787) 422-7959
flores.denisse@pwc.com

**Johnny Garcia**
Puerto Rico
+1 (646) 423-8076
johnny.garcia@pwc.com

# Legislation

## United Kingdom of Great Britain and Northern Ireland (the)

### UK publishes draft Pillar Two legislation

For inclusion in Finance Bill 2022/23, the United Kingdom has released draft legislation to introduce the OECD's Pillar Two Model Rules into UK law. The draft legislation includes an Income Inclusion Rule (IIR), to be known in the United Kingdom as the 'Multinational Top-up Tax', which will apply to accounting periods beginning on or after December 31, 2023.

The UK Government also intends to introduce an Undertaxed Profit Rule (UTPR), although the final decision on its timing will be confirmed at a later date. The overall approach to drafting the legislation has been to closely follow the intent of the Model Rules, while also adapting the structure and drafting in places to achieve clarity. Thus, there are a few areas where the draft legislation potentially differs from the Model Rules or the associated commentary.

For more information see our PwC Insight.

Although further changes may be made to the UK Pillar Two rules, the draft legislation provides an opportunity to assess the impact and prepare a roadmap to be Pillar Two ready. Also note that transitional rules will apply to transactions undertaken now and therefore the draft legislation should be considered as part of any analysis relating to current transactions.

**Matt Ryan**
United Kingdom of Great Britain and Northern Ireland (the)
+44 (0) 7718 981211
matthew.a.ryan@pwc.com

**Rachael Palmer**
United Kingdom of Great Britain and Northern Ireland (the)
+44 (0) 7525 298719
rachael.palmer@pwc.com

# Administrative

## Australia

### Election Commitments Report reveals potential Australian changes to royalty and interest deductibility

The independent Parliamentary Budget Office (PBO) has released its estimates of the budget impacts of the incoming Australian Labor Party (ALP) Government's proposed tax policy measures. This 2022 Election Commitments Report is prepared based on the election commitments of the new government. The report is not formal government policy, much less legislation. However, the report is intended to 'hold parties to account' regarding their election commitments.

The Labor Government may seek to enact these measures as a priority given they are broadly consistent with the ALP's election commitments released in April 2022. The report reveals additional details of certain policy measures that could impact inbound investment into Australia, including:

- Potentially denying deductions for certain royalties paid to any country with a preferred taxation regime for intellectual property income (including the United Kingdom, Switzerland, Ireland, and Singapore) or to any country where the income would be subject to tax at a rate of less than 24%.
- Proposing changes to Australia's thin capitalization regime to modify the safe harbor regime from being a balance sheet-based approach to instead being a debt-deduction limitation based on 30% of EBITDA, thereby aligning with an OECD recommended approach. The proposal would retain existing alternative thin capitalization measures.
- Doubling the fees payable on transactions where Foreign Investment Review Board (FIRB) notification is made (whether the notification is mandatory or voluntary).

For more information see our PwC Insight.

The royalty change would be a significant expansion of Australia's tax base and could have a material impact on the effective tax rate of multinational groups operating in Australia. The FIRB fee increase likely could be made to apply imminently, whereas the royalty and thin capitalization changes could apply beginning July 1, 2023.

**Stuart Lansberg**
United States of America (the)
+1 646 675 4713
stuart.ross.landsberg@pwc.com

**Peter Collins**
Australia
+61 438 624 700
peter.collins@pwc.com

# Administrative

## Germany

### Germany extends ability to claim exemption from IP withholding tax by one year

The German Ministry of Finance issued a circular on June 29 to extend the 'simplified withholding tax procedure' regarding German IP nexus rules to payments received before July 1, 2023.

Given the continuous time constraints arising from application of the simplified procedure, the Ministry of Finance further extends with its latest circular dated June 29, 2022, the simplified procedure to payments received before July 1, 2023. Accordingly, the deadline for applying for the issuance of a (retroactive) withholding tax exemption certificate is extended to June 30, 2023

For more information see our PwC Insight.

Taxpayers have an additional year in which to file for exemption from the withholding tax and avoid penalties that otherwise may be imposed. Therefore, they should continue to evaluate their IP structures and transactions in order to identify potential German-registered IP and evaluate respective German compliance requirements.

**Thomas Loose**
Germany
+49 211 981 1527
thomas.loose@pwc.com

**Arne Schnitger**
Germany
+49 30 2636 5466
arne.schnitger@pwc.com

# EU/OECD

## OECD

### OECD releases a Progress Report on Amount A of Pillar One

The OECD released a Progress Report on Amount A of Pillar One on 11 July. The OECD is seeking public comments by 19 August 2022. The OECD also published frequently asked questions (FAQs) and a fact sheet that includes a high-level overview of the rules on Amount A and a process map with steps for applying the rules.

The Progress Report contains 'domestic model rules' for the different building blocks relating to the new taxing right under Amount A. These rules include proposals for the marketing and distribution safe harbour (MDSH) and elimination of double tax. They also include updates to rules on other building blocks based on previous consultations. Notably, the rules introduce a three-year transition period for Covered Groups to use simplified revenue sourcing rules (i.e., allocation keys). The consultation document does not include the rules on the administration of Amount A, tax certainty related provisions, the identification of the liable entity(ies), or the implication of withholding taxes on deductible payments made to in-scope Groups, which it states will be released before the Inclusive Framework meeting in October.

For more information see our PwC Tax Policy Bulletin.

The Inclusive Framework continues to operate under the mantra “nothing is agreed until everything is agreed,” which is worrisome considering the number of outstanding issues and increasing complexity of the rules. Even with the 'more realistic' timetable approved by the Inclusive Framework, a lot of work remains to finalise the rules and translate them into a MLC by mid 2023 -a date that coincides with when the EU Commission is obliged under the latest draft EU minimum tax Directive to submit a report to the EU Council assessing the progress on Pillar One. The Cover Note approved by the Inclusive Framework recognises that a 'critical mass' of countries will need to ratify the MLC before it goes into force. Hence, the concrete feasibility of Pillar One is intrinsically linked to whether countries, particularly the United States, are able to adopt it. Should the stars align for Amount A to actually take effect, compliance will require an enormous effort for MNEs in scope.

**Stef van Weeghel**
Netherlands (the)
+31 (0) 88 792 6763
stef.van.weeghel@pwc.com

**Will Morris**
United States of America (the)
+1 (202) 213 2372
william.h.morris@pwc.com

# Treaties

## China

### China tax treaties with Congo, Angola and Rwanda enter into force

China issued a Public Notice, on June 27, to announce that the tax treaties and protocols between China and Congo, Angola and Rwanda entered into force. A summary of the key provisions is below:

**China-Congo treaty**

- The China-Congo tax treaty and its accompanying protocol, which were signed on September 5, 2018 in Beijing, entered into force on July 6, 2022. They apply to taxes withheld at source for tax years beginning on or after January 1,2023, and other taxes collected for tax years or accounting years beginning on or after January 1,2023.
- The time threshold for constituting a construction Permanent Establishment (PE) is six months. However, there is no service PE provision in the treaty.
- For passive income, in the premise of meeting the prescribed requirements, withholding tax (WHT) rates on dividends, interests and royalties paid to qualified beneficial owners (BOs) will be restricted to 5%, 10% and 5%, respectively.
- Capital gains arising from the transfer of property-rich shares may be taxed in the source state. In other cases of share transfers, the taxing right belongs to the residence state.

**China-Angola treaty**

- The China and Angola tax treaty and its accompanying protocol, which were signed on October 9, 2018 in Beijing, entered into force on June 11, 2022. The treaty and its protocol apply to income derived in any taxable year beginning on or after January 1, 2023.
- The time threshold for constituting a construction PE is 183 days within any twelve-month period, while that for installation or structure used in the research or exploration for natural resources is 90 days. However, there is no service PE provision in the treaty.
- For passive income, in the premise of meeting the prescribed requirements, WHT rates on dividends, interests, royalties and fee for technical services paid to qualified BOs will be restricted to 5%, 8%, 8% and 5%, respectively.
- Capital gains arising from the transfer of property-rich shares may be taxed in the source state. In other cases of share transfers, the taxing right belongs to the residence state.

**China-Rwanda treaty**

- The China and Rwanda tax treaty and its accompanying protocol, which were signed on December 7, 2021 in Kigali, entered into force on June 25, 2022. The treaty and its protocol apply to income derived in any taxable year beginning on or after January 1, 2023.
- The time threshold for an enterprise carrying activities related to natural resources exploitation to be deemed as PE is 183 days within any twelve-month period. The situations that constitute Service PE are not included.
- For passive income, in the premise of meeting the prescribed requirements, WHT rates on dividends, interests, royalties and fee for technical services paid to qualified BOs will be restricted to 7.5%, 8%, 10% and 10%, respectively.
- Gains derived from the alienation of non-property rich shares may be taxed in the source State, if the alienator has owned, directly or indirectly, at least 25% of the shares of that company at any time during the 365 days preceding the alienation.

China's new tax treaties and their accompanyting protocols aim to promote economic relations between China and African countries. They will also provide tax certainty for cross-border taxpayers by eliminating double taxation.

**Long Ma**
China
86 (10) 6533 3103
long.ma@cn.pwc.com

# Treaties

## Mexico

### Upcoming changes to the Mexico - Germany tax treaty

The governments of Mexico and Germany have signed a new protocol to amend the previous tax treaty established in 2008. The agreed changes are intended to implement new measures related to the applicability of tax treaty benefits. Based on public information available in the Mexican Senate website, this protocol is not yet in force and is pending approval. Below is a summary of the relevant changes:

- **Anti-abuse provision.** The updated text states that the agreement is intended to eliminate double taxation without creating opportunities for non-taxation or reduced taxation including through treaty shopping aimed at obtaining reliefs for the indirect benefit of residents of third states.
- **Permanent establishment.** The new protocol includes a list of activities that are do not consitute a 'permanent establishment' (similar that the previous treaty) with the clarification that all listed activities must have a preparatory or auxiliar nature.
- **Dividends. A reduced 5% withholding tax rate would apply in cases where the beneficial owner of the income holds at least 10% of the capital of the company paying the dividend through a 365-day period (some exemptions may apply).**
- **Capital gains:** There is a limitation to tax the transfer of shares or comparable interest when at any time during the 365 days preceding the alienation the shares derived more than 50% of their value directly or indirectly from immovable property.
- **Limitation of benefits**. New requirements are introduced intended to limit the applicability of tax treaty benefits where the income is attributable to a third jurisdiction permanent establishment, but are not taxed in the jurisdiction of the entity obtaining the income.
- **Entry into force.** According to the new protocol the provisions would enter into force 30 day after the approval process is completed and it would have effect in the case of taxes withheld/other taxes on or after the 1st day of January of the calendar year after the entry into force.

Taxpayers should analyze transaction flows that involve the applicability of Mexico-Germany tax treaty benefits. These changes may impact transactional payments from Mexico to Germany, as well as structures where permanent establishment protection was claimed under the previous treaty between Mexico and Germany.

**Mario Alberto Gutierrez**
Mexico
+52 55 4373 6036
mario.alberto.gutierrez@pwc.com

**Marta Milewska**
Mexico
+52 55 3232 1137
marta.milewska@pwc.com

# Treaties

## United States of America (the)

### US Treasury gives notice to terminate the US-Hungary income tax treaty

The US Treasury Department took the rare step on July 8 of providing notice to Hungary that it is terminating the US-Hungary income tax treaty, which has been in operation since 1979. According to a July 8 article in the Wall Street Journal, Treasury explained its action based on long-standing concerns with Hungary's tax system and the treaty itself, and a lack of satisfactory action by Hungary to remedy these concerns in coordination with other EU member countries that are seeking to implement the OECD Pillar Two global minimum tax proposal.

The treaty termination will apply to US-source dividends, interest, and royalties for payments made on or after January 1, 2024. A new US income tax treaty with Hungary was agreed to in 2010 (to replace the 1979 tax treaty), primarily to add a Limitation on Benefits article, the United States' traditional treaty anti-abuse provision. However, the new 2010 treaty has not been ratified by the US Senate due to objections of Senator Rand Paul (R-KY). In addition, according to a Treasury spokesperson, the new treaty is not supported by the Biden administration given reductions in Hungary's corporate tax rate since 2010 and the 2017 changes to US tax law.

For more information see our PwC Insight.

Since the notice was provided in July 2022, it will impact payments subject to US federal income tax and withholding that are paid or credited on or after January 1, 2024, and for all other purposes, for taxable periods beginning on or after January 1, 2024. Hence, taxpayers potentially impacted by the termination of the treaty will need to be prepared to take steps before 2024 to alleviate any adverse effects of such termination.

**Oren Penn**
United States of America (the)
+1 202 413 4459
oren.penn@pwc.com

**Steve Nauheim**
United States of America (the)
+ 1 202 415 0625
stephen.a.nauheim@pwc.com

# 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 | 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 |

# Contact us

For your global contact and more information on PwC's international tax services, please contact:

**Douglas McHoney**
Global Leader International Tax Services Network
+1 314-749-7824
douglas.mchoney@pwc.com

**Geoff Jacobi**
International Tax Services
+1 202 262 7652
geoff.jacobi@pwc.com

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