



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:

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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:

Tariffs, Tensions, and Tightropes: A global risk tour

Doug McHoney is joined by Anja Manuel, co-founder and principal at Rice, Hadley, Gates, and Manuel LLC, a strategic consulting firm, and a former diplomat, author, and foreign policy advisor. Doug and Anja discuss the geopolitical forces reshaping cross-border business, including the Iran conflict and its implications for oil, shipping, Gulf investment, and AI infrastructure; China's internal trajectory, tariffs, critical minerals, Taiwan, and supply-chain strategy; the growth outlook for Southeast Asia and India; Europe's competitiveness challenges and the war in Ukraine; Venezuela's political and investment risks; the effect of possible US midterm shifts on foreign policy; and whether international institutions, alliances, and the broader global economy still offer reasons for optimism despite a highly unstable backdrop.

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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



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Legislation

Columbia

Colombia introduces new equity tax effective in 2026

Through Executive Order 0173 of 24 February (the 'Executive Order'), the Colombian Government created a new equity tax applicable for fiscal year 2026. The tax applies to legal entities and de facto partnerships that are income tax filers in Colombia and whose equity as of 1 March 2026, equals or exceeds 200,000 tax unit's value (UVT) (approximately COP \$10,5 billion or USD \$2,7 million).

The measure introduces different tax rates depending on the industry sector, sets accelerated compliance deadlines, and strengthens anti-avoidance provisions aimed at preventing artificial equity reductions.

The equity tax may create a significant cash tax cost for affected entities, particularly financial institutions and companies in the extractive sector that are subject to the higher rate. The short timeline between the measuring date (March 1, 2026) and the filing and payment deadlines increases the need for early planning and balance sheet review.

Entities near the threshold or that have undertaken recent restructuring transactions (including spin-offs) may face heightened scrutiny under the strengthened anti-avoidance rules.

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

Taxpayers should proactively assess projected equity as of 1 March 2026, determine whether the 200,000 UVT threshold is met, and evaluate the potential cash flow impact. A timely review of asset and liability positions, as well as recent corporate reorganizations, is recommended to mitigate risks and enable compliance.

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Legislation

France

2026 Finance Law adopted

The Finance Law extends the exceptional contribution on the profits of large companies for at least one additional year. The contribution now applies to companies with a turnover in France greater than or equal to EUR 1.5 billion. The taxable basis still corresponds to the average of the corporate income tax due for the current FY and the previous one, based on total taxable profits before applying tax reductions, credits, and tax receivables of any nature.

The Finance law also adjusts the definition of equity securities eligible for the long-term capital gains (LTCG). To secure the characterization as eligible equity securities, the Finance law allows the creation of a dedicated subaccount within the equity securities account and to classify therein the securities eligible for the parent-subsidary regime, held for at least 5% of the voting rights. This provision applies to financial years ending on or after 31 December 2025.

As in 2025, France had to wait until February for a Finance Law to be adopted. In the absence of a political compromise and against a backdrop of an increasingly strained fiscal situation, the Finance Law does not overhaul the tax landscape, even though favourable measures for businesses initially had been announced.

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Legislation

Hong Kong

2026-27 Hong Kong Budget proposes tax and stamp duty measures

In the 2026-27 Hong Kong Budget, delivered 25 February 2026, the Financial Secretary proposed the following tax and stamp duty measures aimed at boosting Hong Kong's economic development and supporting businesses:

1. Enhancing the tax regime for single family offices and funds, including expanding the scope of 'fund' to cover specific funds-of-one, as well as classifying digital assets, precious metals, specified commodities, etc. as qualifying investments eligible for tax concessions. The amendment bill is expected to be introduced in the first half of 2026, with a view to effecting the implementation from the year of assessment 2025/26.
2. Strengthening Hong Kong's role as a key base for the establishment of Corporate Treasury Centres (CTCs). A series of enhancement measures are expected to be announced during mid-2026, including providing additional tax incentives and flexibility to CTCs and their associated companies, and introducing a pre-approval mechanism.
3. Formulating preferential policy packages to attract enterprises and investments, including land grant arrangements, financial subsidies, and tax incentives offering preferential tax rates of half-rate or 5%. The amendment bill is expected to be introduced during 2026.
4. Enhancing the tax concession measures for the maritime service industry and providing a half-rate tax concession to eligible commodities traders. The amendment bill is expected to be introduced in the first half of 2026.
5. Continuing the consultation on tax deduction arrangements for capital expenditure on purchasing intellectual property (IP) or the rights to use IP. The amendment bill is expected to be introduced in 2026.
6. Reviewing and enhancing the tax arrangements for research and development expenditures.
7. Exploring offering tax incentives for eligible institutions conducting gold trading and settlement in Hong Kong.
8. Granting a one-off reduction of 100% of profits tax for the year of assessment 2025/26, subject to a ceiling of HK\$3,000 per case..
9. Relaxing the criteria for stamp duty relief in relation to the intra-group transfer of assets by expanding the scope of eligible associated bodies corporate, and lowering the association threshold from 90% to 75%. The amendment bill is expected to be introduced in 2026, and would apply retroactively to instruments signed on or after 25 February 2026.

For more in the Hong Kong Budget, please see our [Insight](#).

Building on the economic momentum of 2025, the 2026-27 Budget introduces targeted measures aligned with the national 15th Five-Year Plan to lay the foundation for Hong Kong's next chapter of innovation-led and inclusive growth. The budget is balanced, and calibrated to reinforce Hong Kong's resilience in the face of an uncertain external environment.

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Legislation

Poland

Amendments to Top-Up Tax regulations and OECD alignment

On February 13, the Ministry of Finance published a draft act introducing significant amendments to the Polish Pillar Two rules. The primary goal of these changes is to clarify existing rules, address lack of clarity in interpretation, align Polish legislation with the latest OECD Administrative Guidance from June 2024 and January 2025 as well as provide important clarifications on when IFRS can be applied for Qualified Domestic Minimum Top-up Tax (QDMTT) calculations



The draft amendment introduces several modifications that will directly affect the tax settlements of capital groups, particularly focusing on:

- Implementation of Administrative Guidance: This includes guidance from June 2024 (e.g. addressing differences between GloBE values and carrying values of assets and liabilities) and January 2025 (specifying rules for recognizing deferred tax assets from governmental arrangements).
- Clarification of existing provisions: procedural provisions for filing GloBE Information Returns and local tax returns, and conditions for applying uniform accounting standards for QDMTT.

For QDMTT calculations, the general principle is to apply the Polish Accounting Act (Polish GAAP), with IFRS serving as an exception, if at least one taxpayer from a given group is required by law to apply IFRS. It is not clear how to interpret the condition of “being obliged to apply IFRS.” This provision is not entirely clear, but according to one interpretation of the Ministry of Finance, it obliges QDMTT taxpayers from the group:

- to apply, for accounting purposes, the standard that is used to calculate QDMTT (Polish GAAP or IFRS),
- to apply a uniform accounting standard within Polish group entities for the purpose of the preparation of the financial statements,
- to adopt by all group entities the financial year of the UPE.

The draft proposes that being “obliged to apply IFRS” refers to the requirement to prepare consolidated financial statements in Poland by the Ultimate Parent Entity (UPE).

Legislation

Poland

Amendments to Top-Up Tax regulations and OECD alignment (continued)

The amendment introduces important clarifications on when IFRS can be applied for QDMTT calculations: entities applying Polish GAAP can now calculate QDMTT using IFRS consolidation packages (which must be audited), provided that IFRS has been the dominant accounting standard in the group for the past five tax years. This simplification aims to reduce administrative burden and costs, enabling groups to leverage existing consolidation packages without a complete shift in financial reporting standards.

These changes aim to reduce administrative burden and costs by enabling the use of consolidation packages without requiring a full switch in financial reporting standards. The concept of a "dominant standard" is defined based on its use in the group's consolidated financial statement and the proportion of asset value held by IFRS-applying entities to the total assets of all QDMTT taxpayers and will be of great importance.

A key point to consider is that the proposed regulations are a temporary solution, applicable to tax years ending no later than 31 December 2028, which raises questions about the rules that will apply thereafter.

Furthermore, the amendment also addresses the Transitional Safe Harbour (TSH) rules. The draft clarifies that separate TSH calculations for Minority Owned Constituent Entities (MOCEs) are not required. Such approach may come from the current provisions. Moreover, according to the amendment, to benefit from TSH in Poland in 2025, if a group was subject to Pillar Two in 2024, Poland should qualify for TSH also for 2024 and relevant election should be made in GIR for 2024.

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Legislation

United States

Notice 2026-17 charts a simpler Section 987 path with targeted loss relief

Treasury and the IRS on 25 February 2026 issued Notice 2026-17, which provides the plan to issue proposed regulations under Section 987 that would permit taxpayers to elect a simplified method—modeled on the 1991 proposed regulations—to compute a Section 987 qualified business unit's (QBU's) taxable income or loss and related foreign currency gain or loss. The forthcoming proposed regulations also would provide additional simplification and clarification for the suspended loss rules, the deferral rules, and hedging rules as well as an election to exclude CFCs from the requirement to compute or recognize Section 987 gain or loss, except in connection with certain inbound transactions (the CFC election).

The rules in the Notice are expected to be consistent with the rules in the forthcoming proposed regulations and may be relied on (subject to consistency rules), except for the rules with respect to the CFC election. Reliance is permitted for a tax year ending before the proposed regulations are published and to which the 2024 final regulations apply.

For more information: [PwC Tax Insight](#).

Companies should model the tradeoffs between the regime computations in the final regulations issued in December 2024 and the elective equity and basis pool method (including how remittance patterns may affect recognized gain or loss). Companies should assess loss utilization under the proposed loss-suspension thresholds and simplified recognition grouping approach, particularly if a structure has historically 'trapped' Section 987 losses. Companies also should consider taking inventory of, and documenting, hedges tied to QBU exposures to determine whether the expanded hedging definition (and any identification relief) is relevant. Companies should consider whether to submit comments on the new rules provided in the Notice, especially the CFC election. Comments are due 26 April 2026.

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Legislation

India

Governments of India and France sign Protocol to amend existing tax treaty

The governments of India and France have signed a Protocol amending the India-France Double Taxation Avoidance Agreement (tax treaty). They propose substantial changes to the capital gains, dividend, fees for technical services (FTS), Most Favoured Nation (MFN) and permanent establishment (PE) clauses of the tax treaty.

The Protocol will take effect once the due procedures are completed in India and France. The Protocol is expected to bring about the following key changes to the tax treaty –

- **Capital gains:** The Protocol seeks to assign the taxing rights in case of capital gains from the transfer of shares of a company entirely to the source jurisdiction, i.e., the jurisdiction in which the company is resident, in all cases. The proposed amendment would thus remove the tax exemption in the source jurisdiction available for portfolio investors (i.e. investors holding less than 10% participating interest in the company whose shares are alienated).
- **MFN clause:** This clause is proposed to be removed.

- **Dividend:** The Protocol seeks to introduce tax rates of 5% (where shareholding is at least 10%) and 15% (other cases) for dividend income, replacing the existing singular rate of 10%.
- **FTS:** The definition is set to be aligned with the definition in the India– US tax treaty, possibly implying that the ‘make-available’ test would be introduced in the India–France tax treaty.
- **Service PE:** There was no clause in Article 5 of the tax treaty dealing with service PE. The Protocol is set to broaden the scope of the existing PE clause by introducing a service PE clause.
- **Incorporating Multilateral Instrument provisions in the tax treaty:** The Protocol seeks to incorporate the provisions of the Multilateral Instrument as ratified and signed by India and France into the tax treaty.
- **Other changes:** Updating the ‘Exchange of Information’ provisions, and introducing a new Article on ‘Assistance in Collection of Taxes’.

The change in the definition of ‘FTS’ and the modification in the rates of tax on dividends under the tax treaty are expected to provide an impetus to cross-border economic activity in general and foreign direct investment inflows into India in particular. The introduction of a service PE clause further warrants that the taxpayers undertake a thorough examination of their existing and future business models. The elimination of the MFN clause seeks to impart certainty to investors in the aftermath of the Supreme Court’s landmark decision on the MFN clause.

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Administrative

Australia

Consultation on further Pillar Two Rule amendments

Australia's Treasury has released for comment an [exposure draft](#) of proposed amendments to Australia's Global and Domestic Minimum Tax Rules to ensure the effective operation of Pillar Two top-up taxes in Australia. The changes:

- clarify the operation of Australia's domestic minimum tax (DMT) in relation to stateless entities with an Australian nexus
- refine the interaction between Australia's DMT and tax consolidation rules to ensure it operates appropriately to allocate domestic top-up tax amounts from subsidiary members of the tax consolidated group to the group's head company
- ensure covered taxes are appropriately allocated consistent with the allocation of GloBE income for a reverse hybrid entity or hybrid entity
- ensure that Australia's DMT will function properly, i.e., since Australia is specified as having a Qualified DMT, amendments are made to the Rules to ensure that domestic top-up tax can apply to Australia, and

- add a foreign currency translation rule for the conversion of amounts of top-up tax calculated in a foreign currency to Australian dollars.

Comments on the proposed law closed 13 March 2026.

As the aim of the proposed amendments is to align Australian Pillar Two law with the OECD rules, once these amendments are made they would apply retroactively to fiscal years commencing on and after 1 January 2024. Although the amendments are expected to be made before the forthcoming first Pillar Two deadline, where taxpayers anticipate a law change in finalising their Australian Pillar Two top-up tax liability calculations, they should document the inconsistency identified between the Australian law and the OECD materials.

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Administrative

Australia

Pillar Two and Australia's entry to the GIR-MCAA

The [GloBE Information Return Multilateral Competent Authority Agreement \(GIR-MCAA\)](#) is a multilateral agreement designed to facilitate the automatic exchange of GloBE Information Returns (GIR) between tax authorities as an administrative tool supporting the implementation of Pillar Two.

Australia signed the GIR-MCAA on 28 January 2026 (refer to the [current list of countries that have signed up to the GIR-MCAA](#)). With the first GIR lodgments due 30 June 2026, Australia is now able to share domestic filings of GIRs and receive international exchanges of GIR information with those other participating countries.

Australia's entry into the GIR-MCAA is a foundational administrative step that enables the cross-border exchange of GIR, the potential to reduce compliance burdens for MNE groups that can centralise their GIR filing in one jurisdiction, and ensures the Australian Taxation Office can receive the information it needs to administer Pillar Two global and domestic minimum taxes.

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Administrative

Australia

Pillar Two lodgment extensions in Australia

The ATO has indicated that it will provide automatic 30-day lodgment deferrals for the Australian IIR/UTPR Tax Return (AIUTR) and Australian DMT Tax Return (DMTR) for all in-scope taxpayers for fiscal years commencing in 2024, giving taxpayers additional time to prepare first-year Pillar Two filings. This deferral applies automatically and requires no action, but it is limited to the first year only. Importantly, the automatic relief applies only to lodgment and not to payment. Any IIR, UTPR or DMT top-up tax payable in the first year remains due by the original payment date, although taxpayers may separately apply for a payment deferral.

Where lodgment deferrals beyond the initial 30-day period are not granted, the ATO may consider suspending lodgment enforcement action for a short period. However, this is discretionary and generally limited. GIR and foreign lodgment notifications cannot be deferred, although limited enforcement suspension may apply, including an automatic 30-day suspension for foreign lodgment notifications for the 2024 fiscal year.

In the absence of an extension, the first Australian pillar two lodgments are due by 30 June 2026 for those with a fiscal year ended on or before 31 December 2024. The ATO's approach to extend Pillar Two lodgments for the first year acknowledges the complexity and readiness challenges facing in-scope MNEs as the regime goes live. At the same time, the ATO has drawn a clear distinction between lodgment relief and payment obligations. The absence of any automatic payment deferral for first-year top-up tax underscores that cash tax timing remains critical, requiring early modelling and funding decisions even where compliance timelines are extended.

Any further lodgment deferrals for the first year, or any deferrals in later years, must be requested from the ATO. Requests are assessed on an entity-by-entity basis.

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Administrative

Australia

Process for public country-by-country reporting finalised

The ATO has released [final instructions](#) to prepare Australia's public country-by-country (CBC) report. Australia's public CBC reporting regime requires certain large groups to publicly disclose selected tax and financial information for Australia, specified countries, and the rest of their global operations. The first public CBC report for reporting periods starting on or after 1 July 2024 is due by 30 June 2026.

This [Tax Alert](#) provides a comprehensive overview of Australia's public CBC reporting regime.

Publication of the finalised instructions provides affected groups with much needed certainty and clarification on the required disclosures under Australia's public CBC reporting regime. Affected groups will need to closely consider and carefully plan for upcoming disclosures. A few key takeaways include:

- Check carefully whether the group is in scope – the obligation rests with the CBC reporting parent, which is the ultimate parent entity of a group with consolidated annual global income of AUD\$1bn or more. In some cases, foreign parent entities may meet this threshold even if they fall below the CBC reporting threshold in their home jurisdiction.
- Identify who will be responsible for authorising the public CBC report prior to lodgment and document your internal processes for nominating the authorised representative(s).
- The Australian regime differs from other CBC reporting regimes in data requirements, jurisdictional thresholds, and disclosure obligations.
- Get your data and processes in order. Reports must be reconcilable to consolidated audited financial statements and lodged in the ATO's prescribed XML format.



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Administrative

France

Tribunal rules on the EU safeguard clause for CFC provisions

French tax authorities applied controlled foreign corporation (CFC) provisions to a French company holding a minority interest in a Gibraltar company, while the remainder of the shares was held by the group outside France.

The taxpayer argued that French CFC rules could not be applied where the CFC was not controlled from France and that, in any case, the EU safeguard clause required tax authorities to demonstrate the existence of an artificial arrangement designed to circumvent French tax legislation.

On 13 February 2026, the Montreuil Administrative Tribunal ruled in favour of the taxpayer and confirmed that the burden of the proof lies on the tax authorities. In the present case, the authorities failed to demonstrate that the taxpayer's operations resulted in a reduction of the French taxable base or that the income received by the CFC corresponded, even indirectly, to interest expenses deducted from the taxable profits of the French company.

This ruling highlights the importance of gathering the appropriate documentation to evidence the absence of profit shifting resulting from the taxpayer's operations.

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Administrative

Italy

IRA approves Pillar Two declaration model

On 6 February 2026, the Italian Revenue Agency approved the annual declaration model for Pillar Two, completing the compliance framework for QDMTT, IIR, and UTPR obligations. The declaration model comprises a cover sheet and six sections covering group data, effective tax rate calculations, and the determination of each top-up tax type (IIR, UTPR, QDMTT). The first filing deadline for FY2024 is set for 30 June 2026.

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

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In-scope multinational and domestic groups should promptly identify the entities responsible for filing each declaration type and assess the applicability of available safe harbor and simplified regimes to potentially reduce top-up tax liabilities. Even groups qualifying for safe harbour regimes are required to file the declaration. Companies should also ensure internal processes and data collection systems are in place to meet the upcoming filing and payment deadlines.

Administrative

Mexico

Limitations on payments to preferred tax regime foreign related parties

Due to the statute of limitations, the Mexican Tax Authorities are expected to initiate audits starting from fiscal year 2020 onwards. Therefore, Mexican corporate taxpayers should carefully review their compliance documentation regarding the deductibility limitation introduced in 2020 under Section XXIII of Article 28 of the Mexican Income Tax Law (MITL), which is the Mexican version of the BEPS anti-hybrid rules.

This limitation disallows any type of payment, whether direct or indirect, made by Mexican residents to foreign-related party recipients, where these payments relate to income that is either not subject to income tax in the foreign jurisdiction or is taxed lower than 75% of the tax that would have been due if the payment had been taxed under Mexican tax rules. These foreign tax regimes are referred to as 'preferred tax regimes.'

The test for applying this rule must be carried out from a transactional perspective, assessing each payment individually. It also requires a thorough comparability analysis based on Mexican tax rules.

This is important because any foreign tax credit or deduction disallowed under Mexican tax law can lead to triggering the limitation on deductibility, even if the foreign related party is subject to a corporate income tax rate that is at least 75% of Mexico's general CIT rate, currently 30%. This means that for foreign tax considerations, the effective taxation should be 22.5% or higher to avoid falling under the limitation.

Note however, that merely demonstrating comparative tax rates is insufficient to support the deduction. Taxpayers are required to document the tax computations they use to compare foreign taxes against Mexican tax liabilities. This detailed documentation is key to safeguard against potential challenges during Mexican tax audits by the Mexican Tax Authorities.

In addition to these requirements, there is an important exception to the limitation. This exception applies when the foreign related party receiving the payment is engaged in an entrepreneurial activity supported by substantiated operational presence, which includes having the necessary assets and employees to carry out such business operations.

For this exception to be effective, the foreign related party must be a resident in a jurisdiction with which Mexico has a broad exchange of tax information agreement. This requirement aims to ensure transparency and cooperation between tax authorities to prevent tax avoidance.

Mexican entities are therefore strongly advised to maintain substantial documentation, demonstrating the foreign related party's qualifying business activities. The responsibility to prove that the payments are deductible rests entirely with the Mexican taxpayer, making accurate and comprehensive record-keeping indispensable in the face of potential tax audits.

The complexity of compliance increases in situations where hybrid mechanisms are involved. Hybrid mechanisms arise when there are differences between Mexican and foreign tax legislations in the treatment of entities, revenue classification, ownership of assets, or specific payments. These differences can create scenarios where a deduction is allowed in Mexico, but the corresponding payment is not taxed, either partially or fully, abroad.

Administrative

Mexico

Limitations on payments to preferred tax regime foreign related parties (continued)

In such cases, hybrid payments to foreign related parties are typically excluded from the business activity and substance exception. This exclusion remains unless taxpayers can prove that the payments they make are subject to tax in the foreign jurisdiction, even if the tax is not levied directly on the hybrid entity itself.

This definition of hybrid mechanisms emphasizes the need for Mexican taxpayers to carefully analyze cross-border arrangements to identify mismatches in characterization or taxation that could trigger denial of deductibility or other tax adjustments.

As of today, Mexican Tax Authorities have not yet issued additional clarifications or official regulations that provide detailed criteria regarding when a foreign related party can be deemed to have sufficient assets and employees to qualify for the substance exception. Consequently, Mexican taxpayers must approach these assessments on a case-by-case basis with detailed factual and legal analysis.

In practice, this means there are circumstances where foreign related parties may employ personnel directly. In such cases, taxpayers should retain proper employment agreements and supporting documentation of related expenses to evidence the entity's operational substance.

Alternatively, some foreign related parties may subcontract activities to other related parties located outside their tax-residence jurisdiction. For these arrangements, further analysis is necessary to evaluate whether the subcontracted services can be considered when assessing the business rationale and substance requirements. Mexican taxpayers must examine if subcontracting outside the jurisdiction supports the operational needs legitimately and protects the deductibility of payments.

Given the evolving tax landscape and the increasing focus of Mexican tax authorities on cross-border intercompany transactions, it is vital to proactively assess and organize documentation and analysis related to payments made to foreign related parties.

In conclusion, Mexican taxpayers should conduct a thorough review of intercompany payment structures and associated documentation in light of the limitations introduced in 2020. Particular attention is necessary for transactions involving hybrid mechanisms.

Ensuring that payments can be substantiated with robust documentation and valid economic substance will be essential to defend deductibility positions during tax audits.

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Judicial

Belgium

CJEU rules that Belgium infringed the ATAD when implementing the CFC rule

In its 26 February judgment, the CJEU ruled that Belgium failed to fulfil its obligations under the Anti-Tax Avoidance Directive (ATAD) by not transposing Article 8(7) of the ATAD (Commission vs Belgium, C-524/23). Article 8(7) forms part of the CFC rules contained in Article 7 and 8 of the ATAD and requires that EU Member States allow a credit for the taxes paid at the CFC level.

Background and facts

This case concerns Belgium's failure to transpose Article 8(7) of the ATAD. In general, the ATAD's CFC rules require an EU Member State to tax certain non-distributed profits of a foreign entity or permanent establishment that is controlled by an EU taxpayer and subject to low taxation, where those profits are considered to have been artificially diverted from the EU Member State. ATAD requires EU Member States to introduce CFC rules in line with Articles 7 and 8 and provides two options for implementing those rules:

- Model A (Article 7(2)(a)): Taxes certain passive income categories (such as interest and royalties) that have not been distributed by the CFC (Entity approach), or

- Model B (Article 7(2)(b)): Taxes income arising from non-genuine arrangements put in place essentially to obtain a tax advantage, based on the transfer pricing arm's length principle (Transactional approach).

Article 8(7) of the ATAD requires EU Member States to allow taxpayers to deduct the tax paid by the CFC from their domestic tax liability, with the deduction calculated in accordance with national law.

Belgium initially implemented Model B, targeting abuse via non-genuine arrangements. It chose not to transpose Article 8(7) on CFC tax deductions arguing, among others, that pursuant to Article 3 of the ATAD the aim of the ATAD is only to achieve a minimum level of harmonisation. By not allowing tax deductions under Article 8(7) of the ATAD in situations involving abuse, it ensures a stronger protection for domestic corporate tax bases.

The CJEU's judgment

The Court decided that Belgium failed to fulfil its obligations under the ATAD by not adopting the necessary legislative, regulatory and administrative provisions to comply with Article 8(7) based on the following arguments:

- Mandatory Tax Deduction Requirement: Article 8(7) of the ATAD requires EU Member States to allow taxpayers to deduct the tax paid by a CFC from their domestic tax liability. The Court held that the wording of this provision is imperative and creates an obligation on EU Member States.
- Article 8(7) Applies to All CFC Options: The Court concluded that Article 8(7) applies to both Model A (Article 7(2)(a) - Entity approach) and Model B (Article 7(2)(b) - Transactional approach), not just to Model A.
- No Exemption Under Minimum Harmonisation: The Court rejected the argument of Belgium that the ATAD is a minimum harmonisation Directive allowing stricter national measures, holding that EU Member States cannot adopt measures contrary to the specific obligations imposed by the Directive, including Article 8(7).
- Equal Treatment Principle: Allowing some EU Member States not to implement Article 8(7) would create unjustified differences in treatment among taxpayers based on which Member State's legislation applies to them.

Judicial

Belgium

CJEU rules that Belgium infringed the ATAD when implementing the CFC rule (continued)

Who is affected

By the Law of 22 December 2023 Belgium switched from Model B (Transactional approach) to Model A (Entity approach) and the new Belgian CFC rules provide a tax credit for CFC taxes. For Belgian tax purposes the direct impact is hence limited, all the more so because the old Belgian CFC rules, which were at stake in the judgment, had a narrow scope and limited impact in practice. The Court made clear, however, that Article 8(7) must be transposed regardless of which option (Model A or Model B) an EU Member State chose under Article 7(2) of the Directive. Hence, the case could have an impact on all EU Member States that decided not to implement Article 8(7).

In this important judgment, the CJEU confirmed that ATAD Article 8(7) is a mandatory requirement, obliging EU Member States to allow taxpayers to deduct tax paid by a CFC from their domestic tax liability. The Court rejected the argument that minimum harmonisation permits non-transposition, clarifying that stricter national measures cannot override mandatory provisions of the Directive. Furthermore, the CJEU decided that Article 8(7) applies to both Model A and Model B under Article 7(2), ensuring a consistent tax credit mechanism irrespective of the approach adopted. Although the direct impact on the application of the Belgian CFC rules is limited since it concerns the old Belgian CFC rules, the case can have important consequences for other EU Member States.

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Judicial

Italy

Italian Supreme Court Decision on beneficial ownership status

This case (ISC decision no. 1635 of 25 January 2026) involves intercompany royalty payments from an Italian company to its German affiliate for the use of the group's trademarks and know-how.

According to the findings of the audit conducted by the Italian Tax Police (Guardia di Finanza), the US parent entity was the beneficial owner of the royalties. Consequently, the royalties should have been subject to the higher withholding tax rate provided under the Italy-United States tax treaty.

With this judgment, the ISC reaffirmed the tests that, if passed, identify the foreign entity receiving Italian-sourced income (such as royalties) as the beneficial owner of such income.

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 proceeds received (i.e., royalties 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-saving purposes, or whether it plays a functional role in the payment flows.

The threefold tests established by several ISC decisions beginning in 2023 shall be considered by the Italian entities paying interest, dividend, and royalty incomes to non-Italian resident companies in order to prevent challenges on the beneficial ownership status or based on the Italian GAAR triggering a risk of 26% or 30% WHT challenge upon tax audit.

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Judicial

Italy

Italian court confirms that non-EU corporations may claim refunds on dividend withholding taxes paid

In a landmark decision (Sentenza n. 93/2026, dated 17 February 2026), the second-tier Italian court of Abruzzo (Corte di Giustizia Tributaria di secondo grado dell'Abruzzo) confirmed that a US corporation controlling an Italian subsidiary is entitled to a withholding tax (WHT) refund on dividends. The court ruled that the application of a 5% WHT rate (under the Italy-United States Double Tax Convention), rather than the 1.2% rate applicable to EU/EEA-resident shareholders, constitutes an unjustified restriction on the free movement of capital under Article 63 TFUE.

The court upheld the first-instance decision ordering the Italian Tax Authorities to refund the 3.8% excess withholding tax paid on dividends distributed in 2018.

This decision represents a significant refund opportunity for non-EU corporations that have received dividends from Italian subsidiaries and paid WHT at rates higher than 1.2%.

The court's reasoning applies the principles established by the European Court of Justice regarding the free movement of capital to third-country (non-EU) shareholders, confirming that discriminatory WHT treatment cannot be justified solely based on residence outside of the European Union.

The claim is available also for participations that do not qualify under the EU Parent-Subsidiary Directive (which provides a complete exemption for qualifying EU participation).

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

Key takeaways and recommendations:

Non-EU corporations that have paid Italian WHT on dividends at rates exceeding 1.2% may be entitled to substantial refunds. Groups with material Italian investments should assess their exposure.

The 48-month limitation period means that claims relating to dividends paid in early 2022 will begin to become time-barred starting in early 2026. Taxpayers should review their dividend history immediately.

Additionally, taxpayers should consider:

- **Preparing robust documentation:** The Italian courts require evidence that the recipient is the beneficial owner and satisfies the substantive business activity, dominion, and business purpose tests. Taxpayers should gather comprehensive documentation before filing.
- **No penalty risk for claiming refunds:** Unlike a direct application of the 1.2% rate by the Italian distributing company (which would expose both parties to penalty and criminal risk), a refund claim carries no penalty or interest exposure.

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Judicial

Mexico

Recent isolated beneficial ownership legal precedents

Recent Mexican judicial precedents reinforce a substance-based interpretation of ‘beneficial ownership’ for treaty relief purposes, aligning domestic case law with OECD standards and BEPS anti-abuse principles. The courts confirmed that formal residence in a treaty jurisdiction is not sufficient to access reduced withholding tax rates or exemptions on dividends and interest.

The rulings clarify that treaty benefits may be denied where an intermediate entity lacks real economic control over the income, is contractually or factually required to retransmit the funds, or operates as a passive holding or financing conduit, particularly when ultimate ownership resides in a nontreaty jurisdiction. Importantly, the courts explicitly endorsed the mandatory use of OECD Commentary to interpret the concept of beneficial ownership, allowing the tax authority to infer obligations and restrictions based on facts and circumstances, rather than formal documentation alone.

These precedents also confirm that beneficial ownership is an indispensable and cumulative requirement—together with minimum shareholding thresholds—for dividend exemptions under tax treaties, and that the burden of proof rests with the taxpayer, especially in refund claims of Mexican withholding tax.

Overall, the decisions signal a clear shift toward a more technical, coordinated, and economically grounded treaty analysis by the Mexican tax authority, increasing scrutiny over holding structures, back-to-back financings, and arrangements perceived as indirect treaty shopping.

These precedents significantly increase the level of scrutiny applicable to treaty positions involving Mexico and confirm that not only economic substance, but also control over income, among other items, are now central to the analysis. Structures that rely on intermediate holding or financing entities—particularly where ultimate ownership is in a nontreaty jurisdiction—are more likely to be challenged if they lack **documentation to support** the real decision-making authority or economic autonomy.

Multinational groups should reassess their existing holding company structures, especially its dividend and financing arrangements to ensure that beneficial ownership can be robustly evidenced, beyond formal residence or legal ownership. This includes reviewing governance, substance, cash-flow mechanics, and any contractual or factual obligations to retransmit funds.

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Judicial

India

Supreme Court rules on non-compete fees and interest deductions

The Supreme Court has delivered a detailed decision on two important issues: (i) the tax treatment of non-compete fees; and (ii) allowability of a deduction for interest paid on borrowed funds used for investment and advances.

On the first issue, the Supreme Court held that a non-compete fee paid by a taxpayer to restrain another party from operating in the same business segment does not result in the creation of any new asset or accretion to the profit-earning apparatus and, therefore, is not capital in nature. Such a payment merely protects or enhances the profitability of the existing business and facilitates more efficient conduct of that business and should be allowable as a revenue expenditure under section 37(1) of the Income-tax Act, 1961 (the Act).

The Supreme Court reiterated that even where an expenditure yields an advantage that may endure over a period, it should be treated as revenue in nature if the advantage is not in the capital field and merely facilitates the carrying on of business more efficiently, without altering the fixed capital structure.

Applying these principles, it held that non-compete fees, paid essentially to keep a potential competitor out and to give the payer a commercial ‘head start’ are revenue in nature in the hands of the taxpayer.

On the second issue, the taxpayer had borrowed funds on which interest was paid and claimed as a deduction under section 36(1)(iii) of the Act. Such funds were used for (a) investment in the shares of a subsidiary to obtain a controlling interest; and (b) interest-free advances to a sister concern and its directors. The Tax Officer disallowed the interest, asserting that where shares are acquired not as an income-yielding investment but to acquire control, the related interest is not deductible, further alleging that the borrowed funds had been used for non-business purposes in making advances to related parties.

Relying on its earlier decision in the case of SA Builders Ltd., the Supreme Court reaffirmed that the decisive test under section 36(1)(iii) of the Act is one of ‘commercial expediency’ and nexus with the purposes of business, which need not be confined to the taxpayer’s own immediate business,

and that tax authorities cannot step into the shoes of the businessperson to decide the reasonableness or profitability of such decisions. It endorsed the Income-tax Appellate Tribunal’s and Bombay High Court’s concurrent finding that the investment in the subsidiary’s shares, made to acquire controlling interest in a company engaged in a similar line of business, was clearly driven by commercial expediency and, therefore, interest on the borrowed capital used for such investment was allowable as a deduction under section 36(1)(iii) of the Act.

Furthermore, extending the same principle, the Supreme Court held that advances made to the sister concern and its directors were also covered by commercial expediency and upheld the allowability of interest on the borrowed funds utilised for such advances as well, dismissing the Revenue’s appeal on this issue and deciding the question in favour of the taxpayer.

Judicial

India

Supreme Court rules on non-compete fees and interest deductions (continued)

The Supreme Court's decision provides important clarity on two recurring controversy areas. First, for non-compete payments, the Supreme Court has firmly located the analysis in commercial reality — where such payments merely protect or enhance the profitability of an existing business, without creating a new capital asset or enlarging the profit-earning apparatus, they should be viewed as revenue expenditure, even if the protection lasts for multiple years. This should help taxpayers facing disallowances on non-compete fees claimed under section 37(1) of the Act.

Secondly, the Supreme Court reiterates and strengthens the 'commercial expediency' doctrine for interest deductions under section 36(1)(iii) of the Act, confirming that interest on borrowings used to acquire a controlling stake in a subsidiary or to fund group entities or directors can be deductible, provided the taxpayer can demonstrate a real business purpose and nexus with its overall commercial interests, even if the immediate use lies in another group entity and not in the taxpayer's own operations. Taxpayers making strategic investments or intra-group advances should, however, ensure robust documentation of business rationale and group-level commercial considerations to withstand scrutiny.

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Treaties

Cyprus

Cyprus and Oman sign their first tax treaty

The first tax treaty between Cyprus and Oman, signed 8 December 2024, entered into force 5 March 2025. The treaty is effective as of 1 January 2026.

A Cyprus MoF announcement at the time of signature stated that the treaty “is based on the OECD Model

Convention for the Elimination of Double Taxation on Income and on Capital and on the UN Model Tax

Agreement, and incorporates all the minimum standards of the Base Erosion and Profit Shifting (BEPS)

project, as issued by the OECD/G20.”

Overview of the treaty’s provisions

1. Dividends

A 0% withholding tax (WHT) rate applies.

2. Interest

A 0% WHT rate applies.

3. Royalties

An 8% WHT rate applies on the gross amount of royalties.

The term ‘royalties’ for the treaty means payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work including computer software, cinematograph films, or films or tapes or discs used for radio or television broadcasting, any patent, trademark, design or model, plan, secret formula or process, or for the use of, or the right to use industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.

Irrespective of the 8% royalty WHT rate that the treaty provides, according to Cyprus domestic tax legislation, no Cyprus WHT applies on royalty payments to non-Cyprus tax residents except in cases where:

- a) the royalties are earned on rights used within Cyprus, or
- b) provisions relating to the EU so-called ‘blacklisted’ jurisdictions apply; Oman is not currently listed by

the EU as a ‘blacklisted’ jurisdiction (Oman was previously ‘blacklisted’ by the European Union in the period 2018-2020).

Oman’s own domestic tax legislation provides for a higher WHT of 10%.

4. Capital gains

Cyprus retains the exclusive taxing rights on disposals of Oman company shares made by Cyprus tax residents (except for shares of companies which own Oman-situated immovable property or deriving the greater part of their value, directly or indirectly, from certain Oman offshore rights/property).

Likewise, Oman retains the exclusive taxing rights on disposals of Cyprus company shares made by Cyprus tax residents (except for shares of companies which own Cyprus situated immovable property or deriving the greater part of their value, directly or indirectly, from certain Cyprus offshore rights/property).

The treaty does not include a ‘property rich clause’ with respect to capital gains.

Treaties

Cyprus

Cyprus and Oman sign their first tax treaty (continued)

5. Entitlement to benefits

A benefit under the treaty shall not be granted, in respect of an item of income or capital, should this benefit be one of the principal purposes of any arrangement or transaction that resulted directly or indirectly in that benefit, unless it can be established that granting that benefit in these circumstances would be in accordance with the object and purpose of the relevant provisions of this treaty.

This first tax treaty between Cyprus and Oman will contribute to further development of trade and economic relations between the two States.

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Glossary

Acronym

Definition

ATAD	anti-tax avoidance directive
BEPS	Base Erosion and Profit Shifting
CFC	controlled foreign corporation
CIT	corporate income tax
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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