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Key Tax Issues at Year End for Real Estate Investors 2025/2026

An overview of year-end tax considerations and important issues in real estate taxation in 34 tax systems worldwide

Introduction

International tax regimes are diverse, complex and variant, and are usually full of fixed dates, terms and deadlines. These dates, terms and deadlines need to be observed carefully in order to avoid penalties and to receive certain tax reliefs or exemptions. At year end these obligations become even more difficult to understand and fulfil, particularly for real estate investors with investments in numerous countries.

This publication gives investors and fund managers an overview of year-end tax considerations and important issues in real estate taxation in 34 tax systems worldwide.

Furthermore, it highlights what needs to be considered in international tax planning and the structuring of real estate investments.

Please note that the list of year-end tax considerations is not exhaustive. This content is for general information purposes only and should not be used as a substitute for consultation with professional advisors.

We hope that you will find Key Tax Issues at Year End for Real Estate Investors 2025/2026 a useful reference and source of information. We would be pleased to assist you with any further requests relating to your specific circumstances.

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Contents

List of abbreviations

ADIs	authorised deposit-taking institutions
AIA	annual inflationary adjustment
AIF	alternative investment fund
AMIT	attributed managed investment trust
AMT	alternative minimum tax
ATAD	anti-tax avoidance directive
ATI	adjusted taxable income
ATO	Australian taxation office
BAT	business activity tax
BCT	business continuity test
BEAT	base erosion anti-abuse tax
BEPS	base erosion and profit shifting
BTR	built-to-rent
CAEDB	central agency for equal distribution of burdens
CbCR	country-by-country reporting
CCA	capital cost allowance
CFC	controlled foreign company
CGT	capital gains tax
CIT	corporate income tax
CPC	communist party of China
CRA	Canada revenue agency
DDCR	debt deduction creation rules
DDD	deemed dividend distribution
DMTT	domestic minimum top-up tax
DTA	double taxation agreement
DRP	deferred resignation program
DST	documentary stamp tax

DTT	double tax treaty
EBITD	earnings before interest, tax and depreciation
EBITDA	earnings before interest, tax, depreciation and amortization
EC	European Commission
ECJ	European Court of Justice
EEA	European Environment Agency
EIFEL	excess interest and financing expense limitation
EOI	exchange of information
ETR	effective tx rate
EU	European Union
FAF	free availability funds
FATCA	foreign account tax compliance act
FDII	foreign-derived intangible income
FIE	foreign-influenced entity
FPI	foreign portfolio investors
FRCGW	foreign resident capital gains withholding
FSI	foreign sourced income
FTA	French tax authorities
FX market	foreign exchange market
GAAP	generally accepted accounting principles
GAAR	general anti-abuse rule
GILTI	global intangible low-taxed income
GHS	general health system
GLoBE	global anti-base erosion
GST	goods and services tax
HST	harmonized sales tax
HTA	Hungarian Tax Authorities
IARPIs	indirect Australian real property interests
IF	inclusive framework

IIR	income inclusion rule
IFRS	international financial reporting standards
i.MAS	Lithuanian IT-based tax administration system
IMU	Italian local property tax
IOSCO	international organisation of securities commissions
IRAP	Italian regional production tax
IREF	Irish real estate fund
IRES	Italian corporate income tax
IRS	internal revenue service
ITC	input tax credit
JDA	joint development agreement
LAT	land appreciation tax
LPT	local property tax
MCIT	minimum corporate income tax
MDR	mandatory disclosure rules
MIT	managed investment trust
MLI	multilateral convention to implement tax treaty measures and prevent base erosion and profit shifting (multilateral instrument)
MOF	Ministry of finance
MREC	mutual real estate company
MST	message structure table
NCST	non-cooperative states and territories
NCMI	non-concessional MIT income
NFE	net financial expenses
NOL	net operating loss
NRCGT	non-resident capital gains tax
NRI	non-resident individual
NWT	net wealth tax
OECD	organisation for economic co-operation and development
OCI	overseas citizenship of India

OIV	overseas investment vehicle
PAC	provincial administrative court
PE	permanent establishment
PCG	practical compliance guideline
PFE	prohibited foreign entity
PIT	personal income tax
PLC	preferred location charges
PNWT	property net wealth tax
PTR	preferred tax regime
QDMTT	qualified domestic minimum top-up tax
QOZ	qualified opportunity zone
QOF	qualified opportunity fund
RAIF	reserved alternative investment funds
RCM	reverse charge mechanism
RCT	relevant contract tax
RE	real estate
REIC	real estate investment companies
REIF	real estate investment fund
REIT	real estate investment trust
RET	real estate tax
RETT	real estate transfer tax
RPGT	real property gains tax
RPT	real property tax
ROS	revenue online service
RTP	restricted transfer pricing
RPVARA	real property valuation and assessment reform act
RUSF	resource utilization support fund
RZLT	residential zoned land tax
SAF-T	standard audit file for tax

SDC	special defence contribution
SEBI	securities and exchange board of india
SEC	securities and exchange commission
SEZ	special economic zones
SIF	specialized investment funds
SIR	societé immobiliere reglementee (Belgian regulated real estate company)
SOCIMI	sociedades anónimas cotizadas de inversión en el mercado inmobiliario (Spanish REIT)
SRET	special real estate tax
STA	state taxation administration
STT	securities transaction tax, stock transaction tax
TAP	taxable Australian property
TCJA	tax cuts and jobs act
TCP	taxable Canadian property
TDRP	treasury deferred resignation program
TP	transfer pricing
TPD	transfer pricing documentation
UBO	ultimate beneficial owner
UIF	financial information unit
UPE	ultimate parent entity
UTPR	undertaxed profit rule
VAT	value-added tax
VERA	voluntary early retirement authority
VHT	vacant homes tax
VSIP	voluntary separation incentive payment
WHT	withholding tax

A Europe

1 Austria

Income tax rates

Generally, the corporate income tax rate in Austria amounts to 23% (until 2022 this rate was 25%; it was reduced to 24% in 2023). There are no local corporate taxes in Austria. For individuals, a progressive tax rate of up to 55% depending on the level of income applies.

Tax group

In order to form a tax group between companies, a written application has to be signed by each of the group members prior to the end of the fiscal year of the respective group member for which the application should become effective. Consequently, the taxable income of the group members is integrated into the parent's income. Profits and losses can be compensated between group members.

Make sure the written application has been filed before the end of the fiscal year.

Losses carried forward

Tax losses may be carried forward for an unlimited period of time and may be offset in the amount of 75% of the total amount of the annual taxable income. However, any transfer of shares or reorganisations may lead to a partial/total forfeiture of losses carried forward.

In order to avoid negative tax consequences regarding tax losses carried forward, any transfer of shares or reorganisations should be reviewed in detail.

Substance requirements

Please note that anti-abuse provisions apply to the application of double tax treaties (DTTs) as well as to the Parent-Subsidiary Directive. Relief-at-source is available only if the direct parent company issues a written declaration confirming that

- It is an "active" company carrying out an active business that goes beyond the level of pure asset management (holding activities, group financing, etc.),
- has own employees and
- office space at its disposal (substance requirements).

Provided the requirements are not met, Austrian withholding tax (WHT) has to be deducted and the refund method applies. In that procedure the foreign company has to prove that its interposition in the structure is not abusive. Further, the lack of substance can result in the non-deductibility of certain expenses (e.g. if the company which receives interest payments has no substance and the actual beneficial owner is an affiliated company which is located in a low-tax jurisdiction). Finally, it should be mentioned that there is also a general substance-over-form provision in the Austrian Fiscal Code, which shall avoid tax abuse.

Substance requirements are more and more challenged by the Austrian tax authority. Therefore, it should be ensured that these requirements are met.

DAC 6

Austria has implemented reporting requirements for cross-border tax arrangements according to DAC 6.

Cross-border arrangements should be reported within 30 days in order to avoid fines of up to EUR 50,000.

Transfer pricing

Generally, all business transactions between affiliated companies must be carried out under consideration of the arm's length principle. In case that a legal transaction is deemed not to correspond with the arm's length principle, or if the appropriate documentation cannot be provided, the transaction price would be adjusted for tax purposes. Additionally, the adjustment may trigger interest payments and fines.

Further, Austria implemented mandatory transfer pricing documentation requirements as defined in Action 13 of the OECD's Action Plan on Base Erosion and Profit Shifting. A three-tiered documentation approach applies, requiring the preparation of a master file, a local file, and a country-by-country report (CbCR). The entire documentation is to be prepared in either German or English.

The arm's length principle should be duly followed and documented in order to avoid negative tax consequences. Further, the mandatory transfer pricing documentation requirements have to be considered.

Thin capitalisation rules

Under Austrian law, interest payments on senior and shareholder loans are generally tax deductible. There are no explicit thin capitalisation rules. Generally, group financing has to comply with the general arm's length requirements.

A debt/equity ratio of 3/1 is usually accepted by Austrian tax auditors. Payments made to related parties located in low-tax jurisdictions are not deductible for tax purposes in case the respective interest income is not taxed or subject to a nominal or effective tax rate of less than 10%. The low-taxation test has to be passed at the level of the beneficial owner of the income.

An Austrian group entity being financed by an affiliated entity must be able to document that the financing structure is in line with the arm's length principle. The affiliated financing entity must not be situated in low-tax jurisdictions.

Real estate transfer tax (RETT)

Generally, Austrian RETT of 3.5% on the compensation is payable upon the transfer of Austrian real estate (asset deal).

With the publication of the Austrian Budget Accompanying Act 2025 (BBG 2025), new tightening measures concerning the real estate transfer tax (RETT) associated with the transfer of shares in corporations and partnerships owning real estate (share deals) came into effect as of 1 July 2025.

Both the "direct change of shareholders" and, subsidiarily, the "direct and indirect consolidation and transfer of shares" in the hands of one acquirer or an acquiring group constitute taxable events, for which the participation threshold was lowered from 95% to 75%.

Moreover, the term “real estate company” has been newly introduced, whose direct and indirect share consolidation and transfer will be subject to an increased RETT burden. Whereas previously RETT amounted to 0.5% of the so-called “real estate value” as tax base, it now amounts to 3.5% of the fair market value, which in practice is significantly higher. A company is considered a real estate company if its primary focus is on the sale, rental, or management of properties, and it engages in little or no other operational activities. The classification as a real estate company is determined based on the company’s assets or the income it generates.

The increased tax rate of 3.5% and the fair market value as the tax base will also apply to reorganisations within the meaning of the Austrian Reorganisation Tax Act in connection with real estate companies (otherwise the RETT amounts to 0.5% of the property value).

The new provisions of the BBG 2025 significantly expand the scope of application for RETT in relation to share transfers materially since indirect share transfers could result in an Austrian RETT burden. Therefore, future transactions and transfers of shares will need to be scrutinised with particular attention to whether and at which shareholding level an individual case might result in a RETT burden.

Land registration fee

The fee for the registration of real estate and transactions in the land register has to be calculated on the basis of the purchase price of the real estate. The fee amounts to 1.1%.

Real estate transactions within the family or due to reorganisations enjoy tax privileges. The registration fee is calculated based on three times of a special tax assessed value. The tax base is limited to 30% of the market value of the real estate.

Capital gains on the sale of property

Capital gains deriving from the disposal of privately owned real estate properties and business properties of individuals, which were acquired after 31 March 2002 are taxed at a rate of 30%. The tax assessment base is the profit calculated by sales price less acquisition costs.

Real estate property acquired before 31 March 2002 is effectively taxed at:

- 18% of the sales price, if the real estate property was rededicated from green area to building area after 31 December 1987 and
- 4.2% of the sales price without rededication after this date.

Losses arising from the sale of private real estate can be compensated with gains from other private real estate sales upon application. Further, 60% of the remaining losses can be offset with income from letting private property over a period of 15 years or in the same year (application necessary). Basically, the above-mentioned tax regime for the sale of private property is also applicable for business property held by individuals.

Losses arising from the sale of business real estate can be compensated with gains from other business real estate sales. Regarding business property, 60% of the losses can be offset against other income and any loss surplus is added to the loss carry forwards (provided that the loss has been calculated through proper accounting (double-entry accounting or accounting on a cash basis).

In addition to the measures outlined above, the BBG 2025 constitutes a rezoning surcharge of 30% which is to be added to the positive income from real estate sales if the property was rezoned after 31 December 2024. This regulation does not only apply to individuals but also to corporations.

The special tax regime is not applicable for corporations since all their profits (including capital gains resulting from the sale of real estate) are taxed with the standard CIT rate of currently 23%.

Gains from the sale of private property are subject to income tax with a special tax rate of 30%.

Transfer of hidden reserves realised from capital gains on the sale of property

Capital gains realized from the sale of real estate property that was held for at least seven years (in certain circumstances 15 years) as business property by individuals (not corporate investors) are not taxed under the condition, that such gains are used to reduce the book value of fixed assets purchased or manufactured within the financial year of the sale.

In case the hidden reserves are not transferred within the financial year of the sale, they can be used to form a tax-free reserve. If this tax-free reserve is not used within a 12-month period (or 24 months under certain circumstances), it is assigned to taxable income.

A potential transfer of hidden reserves should be reviewed to avoid immediate taxation.

Interest limitation rule

Austria implemented the interest limitation rule required by Article 4 of the Anti-Tax-Avoidance Directive (ATAD). The rule caps the deduction of net interest expenses at 30% of the taxable result (the tax-relevant EBITDA).

Nevertheless, taxpayers can make use of carry-forward options for interest expenses and unused EBITDA and numerous exceptions (e.g. EUR 3 million de minimis, stand-alone entities, loans prior to 17 June 2016, equity test based on consolidated accounting). Within a tax group, it is important to note that the interest limitation rule as well as exceptions only apply on group level.

Existing and future financing structures should be examined and planned in detail to avoid increased taxation and to ensure the interest deductibility.

2 Belgium

Tax advanced payments

Unless a company pays its Belgian corporate income taxes by means of timely tax prepayments, a surcharge of 6,5% will be due on the final corporate tax amount. If tax prepayments are made, a credit ("bonification") will be granted which can be deducted from the global surcharge.

Withholding tax

Belgian tax authorities continue to conduct a significant number of tax audits on "passive income" payments such as dividends and interest and related WHT exemptions. In any case, formalities will need to be properly and timely fulfilled as always.

Companies should therefore be prepared to defend the compliance of their tax positions (incl. the appropriate and relevant functional level of substance and beneficial ownership of all companies involved with respect to any Belgian WHT reduction/exemption they are claiming).

Dividend and capital gains tax exemption

Dividend distributions between corporations are generally 100% tax exempt under the so-called dividend received deduction. Certain conditions are to be met, i.e., the recipient of dividends holds at least 10% of the nominal capital of the distributing corporation (or acquisition value of minimum EUR 2.5 million) for a period of at least one year and subject-to-tax conditions should be met at the level of the distributing company. The same conditions apply in order to exempt a capital gain on shares in the hands of a Belgian company. Since the new tax measures adopted by the Belgian government in July 2025, for companies holding a participation which amounts to 2.5 mio EUR but less than 10%, an additional requirement is introduced to benefit from the participation exemption: the participation needs to qualify as a financial fixed asset, unless the investor is a small enterprise. This is applicable as from tax assessment year 2026.

It will be key to monitor whether all conditions to benefit from the exemption for dividend received/capital gains on shares are duly and timely complied with.

Deduction of interest expenses – 30% EBITDA rule

The Belgian 30% EBITDA rule applies to both intragroup loans and bank loans (certain loans are however specifically excluded by Belgian tax legislation).

Exceeding borrowing costs (net basis computation, incl. payments economically equivalent to interest) will be deductible up to the highest amount of 30% tax EBITDA or EUR 3 million (= de minimis rule – EUR 3 million to be allocated across Belgian group entities via specific allocation keys). Disallowing exceeding borrowing costs can be carried forward without a time limit. It is possible to transfer "deduction capacity" to another Belgian group entity.

The taxable basis of certain companies (i.e., regulated real estate companies (SIR/GVV) and real estate investment funds (FIIS/GVBF) does not include net borrowing costs in accordance with the 30% EBITDA limitation rule, if any.

The 30% EBITDA rule needs to be monitored in detail and should be kept in mind for the calculation of tax provision. Its impact should be carefully analyzed (notably in presence of Belgian groups) together with the potential applicability of the group contribution regime (see below).

Anti-Hybrid Mismatch

Since the financial year 2019, anti-hybrid rules have been introduced within Belgian tax law in line with the Anti-Tax Avoidance Directive (ATAD) I and II.

These rules cover not only situations where Belgium is immediately involved in a hybrid mismatch but also imported mismatch situations. More particularly, payments made in the context of an imported hybrid mismatch are disallowed for tax purposes to the extent they (in)directly finance expenses that are deductible at the level of certain foreign taxpayers without any income corresponding to that cost being however included in the taxable income of the beneficiary (unless, of course, an equivalent adjustment is made in one of the jurisdictions involved). This measure may very well turn the spotlight on certain financing instruments.

Group contribution

Under certain conditions and subject to formalities (incl. 90% direct shareholding between the companies (or via EEA parent), affiliation for at least five successive calendar years) Belgian companies can, since 2019, offset their profits against tax losses of another Belgian affiliated company. Only the consolidated tax base is then subject to corporate income tax.

Note that SIR/GVV and FIIS/GVBF are excluded from this possibility.

Tax losses carried forward

Based on current Belgian tax law, tax losses can be carried forward indefinitely if the company is not formally liquidated or dissolved. Under certain circumstances (e.g., change of the control not meeting legitimate or economic needs), the tax authorities are entitled to forfeit the carried-forward tax losses of the company.

Since 2018, a new order of deduction applies. Non-taxable elements, dividends received deduction of the year, patent income deduction and investment deduction (the last one, since 2019) are fully deductible. Other tax attributes (e.g., tax losses carried forward) can only be claimed on 70% of profits exceeding the EUR 1 million threshold. The remaining 30% of profits are fully taxable at the above new rate. Note that this “basket rule” does not apply to losses incurred by SMEs starters.

Please note that for the assessment year 2024, the total amount of tax deductions was temporarily limited to one EUR 1 million plus 40%.

Pillar 2

Belgium approved a minimum tax law for multinational corporations and large domestic groups whose annual consolidated turnover exceeded EUR 750 million in two or more of the four reporting years preceding the reporting year tested. Please note that groups within scope must make advance payments for the qualified domestic minimum top-up tax and/or the qualified income inclusion rule under the new minimum tax law.

This law also impacts businesses by necessitating comprehensive data collection and reporting to comply with new regulations.

Transfer pricing

Generally, all related-party cross-border payments must comply with the arm's length principle. Failure to present appropriate documentation to the tax administration might result in the non-acceptance of group charges and penalties for tax purposes

The arm's length principle should be duly followed and documented.

VAT – Residential development

The regulations for applying the reduced VAT rate of 6% on demolition-reconstruction of residential projects have been updated in July 2025. It is possible when the conditions are met to:

- Apply the 6% VAT rate on construction costs if the residential building is to be leased;
- Apply the 6% VAT rate on sales price if the building (apartment) is used for personal reason or used by an investor for residential long-term rent

E-invoicing as from January 2026

Belgium will introduce a B2B e-invoicing mandate beginning in January 2026. This mandate will apply to B2B transactions located in Belgium that are not VAT-exempt and carried out by companies established in Belgium. No report is foreseen today but it is requested by business organizations.

VAT on rent

Since 1 January 2019, the new legislation allowing VAT to be applied to rent is applicable. This regime provides the following new possibilities to be applied to rent is applicable. This regime provides the following new possibilities:

- Option to apply VAT (in a B2B context) to the rental of newly constructed or newly renovated buildings after 1 October 2018.
- Application of VAT for short-term leases (maximum six months) in a B2B context.
- Simplification of the conditions to apply VAT to the rental of (old or new) warehouses (only 50% of the building must be used for warehousing purposes).

Controlled Foreign Company (CFC) rules

A foreign company or permanent establishment qualifies as a CFC if a Belgian entity holds a majority of voting rights or 50% of capital/profit rights and if it is subject to low (<12,5%) or no corporate income tax. To assess this, the calculation will need to be made on Belgian tax rules. Starting in 2024, non-distributed passive income from CFCs will be taxed at the level of the Belgian shareholder, reflecting a shift to an entity-based approach. While there are exemptions for CFCs with sufficient economic substance, reporting requirements remain mandatory, even for exempt entities.

DAC 6

In relation to the reporting requirements for cross-border tax arrangements, there is a thirty-day turnaround period to report to domestic tax authorities.

In other words, reportable cross-border arrangements must in principle be reported within 30 days after having been made available for implementation, being ready for implementation or the first step in their implementation was taken (whichever occurs first).

Belgian Tax Reform

In July 2025, the new Belgian government voted some new tax measures, such as e.g.:

- Change in participation exemption regime as explained above
- Exit tax: this new tax introduces the concept of a "deemed dividend" (representing the latent capital gains) for shareholders when a company emigrates or restructures in a way that transfers assets abroad. Shareholders will be taxed on this deemed dividend as if they received an actual dividend, subject to applicable personal or corporate income tax rates. A tax credit mechanism is available to prevent double taxation when these gains are eventually realized and distributed.
- The 10% penalty for first-time good-faith tax offenses is waived except in certain cases.

Deduction for investments

To encourage investments in Belgium, the government has also introduced a reform on investment deductions. The rates for enhanced "thematic" investment deductions (covering certain energy saving investments) will be standardized at 40%, applicable to both large and small companies starting from the FY 2027.

3 Croatia

General

Real estate in Croatia may be subject to several forms of taxation. Below you can find a breakdown of the taxation of real estate or in connection with real estate in Croatia.

Real Estate Transfer Tax (RETT)

The real estate transfer tax is accounted for and paid on the acquisition of ownership of real estate in the Republic of Croatia when such acquisition is not subject to VAT (or not subject to exemptions). If the transfer of immovable property is subject to VAT, it cannot be subject to RETT and vice versa; so if the transfer of immovable property is VAT exempt, it is (generally) subject to RETT.

RETT is accounted for on a supply of a land plot that is not considered construction land and on the supply of buildings – with an exception of a new building where not yet two years have passed after the first occupation, together with the land plot on which it stands, if supplied by a VAT payer and if VAT had been deducted on its acquisition.

The RETT is charged at 3% of the market value of the real estate on the contract date and is paid by the acquirer.

Real Estate Transfer Tax Filing

Real estate transfers are reported by notaries public, courts, or public authorities within their jurisdiction. However, if a document is drawn up by someone who has not had it certified by a notary public, that real estate transfer must still be reported to the competent office of the Tax Administration according to the location of the real estate, within 30 days of drafting the document. If the real estate transfer is not reported at the market value of the property, the Tax Administration is authorized to determine the market value by its own assessment. Taxpayers for whom a tax liability is determined will receive a tax resolution.

Value Added Tax (VAT)

Tax Payment

The taxpayer is required to pay the real estate transfer tax within 15 days from the date of delivery of the decision determining the tax liability, as an appeal does not postpone the execution of the RETT resolution (in the majority of cases).

VAT is accounted for on the supply of a construction land, and on a supply of a building prior to its first occupation or within two years after the first occupation together with a land on which it stands, if supplied by a VAT payer and if the input VAT had been deducted on its acquisition.

A construction land is a land plot for which an executive act authorizing construction was issued.

For VAT purposes, a building is a structure attached to the land or fixed in the ground.

The first occupation and use must be proven by appropriate documentation (a document from the competent authority on residence or habitual abode, accounting records showing the building or its parts are put into use, any other documentation that proves the use, such as a lease agreement, a contract for the supply of electricity or water, and similar).

VAT is also payable on the supply of reconstructed buildings or their parts if the reconstruction costs in the two years prior to supply exceed 50% of the selling price.

The VAT base is the compensation for the supplied real estate, and the applicable VAT rate is 25%.

Taxation of Income from Disposal of Real Estate and Property Rights (natural persons)

Entitlement to opt for taxation with VAT (VAT option)

The VAT Act provides for a possibility for the seller to use the entitlement to opt for taxation with VAT, although the supply of that particular immovable property is VAT exempt (and therefore subject to RETT).

The VAT option can be applied only if the buyer is a taxable person, and it has the right to deduct input VAT in full with respect to this particular transaction.

Income that a taxpayer realizes from the disposal of real estate and property rights is classified as income from property and property rights. Disposal is considered to include sale, exchange, and other forms of transfer. The income is the difference between the proceeds determined according to the market value of the real estate or property right being disposed of, and the acquisition value increased by the growth in producer prices of industrial products. Investment costs for which the taxpayer possesses credible documentation, as well as disposal costs, may be deducted as expenses.

Income from disposal is not subject to taxation if the real estate or property right is disposed of after 2 years:

- from the date of acquisition (the date of acquisition is considered to be the date of the purchase agreement)
- from the date when the real estate became usable, if the real estate was self-constructed, reconstructed, or its form and purpose were changed.

Exceptionally, income from the disposal of real estate and property rights is subject to taxation if more than 3 properties of the same type or more than 3 property rights of the same type are disposed of within a period of 5 years from the date of acquisition of the real estate or property right, or within a period of 5 years from the date when the acquired real estate became usable in the case of construction, reconstruction, or change of form and purpose (except in cases where land parcels with an individual area of up to 250 m², and a total of up to 1,000 m², are disposed of).

There are additional special rules and further exemptions for certain types of transactions.

Corporate Income Tax

Tax Rate

The tax rate is 24%.

Corporate income tax (CIT) is calculated and paid by legal entities and other taxpayers who generate profit through their business activities.

Income earned by corporations is always classified as business income; income earned by an individual who opts to pay CIT is also classified as business income. There is no special regime for business income based on either sale or renting of real estate in Croatia; therefore, the general rules for paying CIT in Croatia apply.

The tax base for CIT is the profit determined in accordance with accounting regulations, calculated as the difference between total revenues and total expenses before CIT calculation, and then adjusted in accordance with the provisions of the CIT Act.

Withholding tax on income paid to non-residents is calculated from the gross amount of compensation paid by a domestic payer (or a foreign payer in the case of performances by foreign artists) to a non-resident recipient.

Tax Rates

The standard CIT rate is 18% for taxpayers whose total revenues (not profit) in the tax period exceed EUR 1,000,000. For taxpayers whose total revenues in the tax period do not exceed EUR 1,000,000, a rate of 10% applies.

Withholding tax is generally charged at a rate of 15%, except for dividends and shares in profit, which are subject to a 10% withholding tax rate.

Special Notes

The tax base and rates may be subject to adjustments in accordance with applicable double taxation treaties. In such cases, reduced rates or exemptions may apply, provided that the non-resident recipient submits the necessary documentation to prove eligibility for treaty benefits.

Taxpayers are required to keep appropriate documentation to support the calculation of the tax base, application of rates, and any adjustments or exemptions claimed.

Taxation of Rental income from Real Estate (natural persons)

Rental income from residential property

A landlord of residential property may be liable for income tax on property or CIT, as well as prescribed social security contributions.

1. Income Tax on Property
2. Income tax on property is paid on the amount of rent reduced by 30% of lump-sum expenses, at a rate of 12% (so the effective tax rate amounts to 8.4%).
3. Income tax on property, determined in the manner prescribed for independent activities, is paid on income from property established based on
4. data from business records, as the difference between business proceeds and expenditures, at rates determined by decisions of local self-government units.

5. Income tax on property, determined in the manner prescribed for independent activities, is paid on income from property that is exempt from VAT according to the VAT Act, if the taxpayer in the tax period achieves total proceeds exceeding the amount prescribed for mandatory entry into the VAT system.
6. CIT is calculated and paid at a rate of 18% or 10% on profit determined according to the provisions of the CIT Act (if the Tax Administration has approved the taxpayer to pay CIT instead of income tax)
7. Mandatory contributions are paid in accordance with the Social Contributions Act (only if income tax on property is determined in the manner prescribed for independent activities).

The taxpayer is obliged to submit documentation regarding the occurrence or change of facts related to the realization of rent and lease of real estate and movable property to the competent Tax Administration office according to their residence or habitual abode, within eight days from the occurrence or change of facts relevant for taxation.

Rental income from business premises

The lessor and landlord of business premises may be liable for income tax from property, CIT, VAT, and prescribed social security contributions.

Income Tax from Property.

1. Income tax from property is paid on the amount of rent/lease reduced by 30% of expenses, at a rate of 12% (so the effective tax rate amounts to 8.4%).
2. Income tax from property, determined in the manner prescribed for independent activities, is paid on income from property established based on data from business records as the difference between business proceeds and expenses, at rates determined by decisions of local self-government units, if the lessor/ landlord's value of goods and services delivered in the previous calendar year exceeded EUR 60,000 (a VAT payer) or if, at their own request, they switched to determining income from property based on business records.
3. Corporate income tax is calculated and paid (if the Tax Administration has approved the taxpayer to pay CIT instead of income tax) at a rate of 18% or 10% on profit, which is determined as the difference between income and expenses
4. according to the provisions of the CIT Act.
5. Value-added tax – if the taxpayer is registered in the VAT register, it is required to issue invoices with VAT at a rate of 25%, pay the tax to the state budget, submit VAT declarations, and keep business records in accordance with regulations.
6. Mandatory contributions are paid in accordance with the Social Security Contributions Act (only if income tax from property is determined in the manner prescribed for independent activities).

Tax depreciation

The taxpayer is required to submit documentation regarding the occurrence or change of facts related to the realization of rent and lease of real estate and movable property to the competent Tax Administration office according to their residence or habitual abode, within eight days from the occurrence or change of facts relevant for taxation.

Only buildings and structures used for business purposes are subject to tax depreciation, while land, forests, etc. are not depreciable. The straight-line (linear) method is mandatory for calculating depreciation, and the maximum annual depreciation rate for buildings and most structures is 5%, although the taxpayer may choose a lower rate. Depreciation begins in the month following the month in which the asset is put into use and ceases when the asset is fully depreciated, sold, or otherwise disposed of. If a building is only partially used for business, only the business-use portion is depreciable. Any capital improvements that extend the useful life or increase the value of the property are added to the asset's value and depreciated over the remaining useful life, while regular maintenance and repairs are expensed as incurred. In the case of revaluation, the new value becomes the basis for future depreciation. Taxpayers are required to keep detailed records of acquisition costs, improvements, depreciation calculations, and supporting documentation.

Property Tax

Property tax is local tax determined according to the Local Taxes Act and municipal or city tax decisions. It was introduced on January 1, 2025, replacing the previous tax on vacation homes.

For tax purposes, property includes any residential building, the residential part of a mixed-use building, an apartment, or any other independent functional space intended for housing. However, agricultural buildings used for storing machinery and equipment, as well as properties classified as production or non-production business premises according to municipal decisions, are not considered taxable property.

The annual tax ranges from €0.60 to €8.00 per square meter of usable property area. The exact amount depends on the property's location and may be increased based on factors such as the age of the property or available amenities, but cannot exceed €8.00 per square meter. The specific tax rate is set by the city or municipality where the property is located.

Exemptions from property tax apply to properties used for permanent residence, those rented for permanent residence for at least 10 months, properties used for permanent residence by hosts in the hospitality sector, properties that cannot be used for housing due to lack of infrastructure or damage, properties unusable due to natural disasters, properties for public or institutional use, and properties listed in company records as intended for sale if less than six months have passed since their entry.

4 Cyprus

Cyprus income tax[1]

Immovable property trading gains and rental income derived from Cyprus immovable property are subject to Cyprus income tax.

If the property owner is a company (whether resident or non-resident) the corporate tax rate of 12.5% applies.

If the property owner is an individual, rental income is added to his(er) other Cyprus taxable income and the following personal income tax (PIT) rates apply:

Chargeable income for the tax year	Tax rate (currently applying in 2025)	Accumulated tax
EUR	%	EUR
0–19,500	0	0
19,501–28,000	20	1,700
28,001–36,300	25	3,775
36,301–60,000	30	10,885
> 60,000	35	

Property running expenses incurred in deriving rental income such as insurance, repairs and maintenance, and property management fees as well as any other expenses incurred wholly and exclusively for the production of rental income are deductible if the owner of the Cyprus-situated immovable property is a company.

In case of an individual owner, a flat deduction of 20% on the gross rental income instead of claiming actual expenses (except any interest expense and tax depreciation allowances which can be deducted).

Capital expenditures such as stamp duty and legal costs incurred in acquiring the property are not deductible, but form part of the acquisition costs and therefore can be deducted against sales proceeds realised upon potential disposal of the property.

[1] currently applying in 2025.

Special defence contribution (SDC)

In addition to income tax SDC is also imposed on rental income. SDC is imposed on gross rental income, reduced by 25%, at the rate of 3% (ie, at the effective rate of 2.25%) earned by Cyprus tax resident companies and Cyprus tax resident-domiciled individuals.

Contributions to the General Health System (GHS)

GHS is imposed on the gross rental income earned by individuals tax residents in Cyprus, at the rate of 2,65%. This contribution is subject to a ceiling of EUR 180.000. Certain individuals may obtain an exemption provided certain conditions are met.

Capital gains on the sale of property

Unless the seller is considered to be a trader in real estate (as per badges of trade analysis – in which case corporate income tax would apply), any gains realised upon disposal of immovable property situated in Cyprus will be subject to capital gains tax (CGT).

Disposal for the purposes of CGT specifically includes sale, sale by the Director of the Department of Land and Surveys or a district Lands officer, agreement for sale, assignment of rights deriving from an agreement of sale of property, exchange, gift, abandoning use of right, granting of right to purchase, and any sums received upon cancellation of disposals.

Certain disposals of Cyprus-situated immovable property are not subject to CGT, for example, transfer upon death, gifts from parent to child, or between husband and wife, or between up to third degree relatives, gift to a family company (subject to certain conditions), gift from a family company to a shareholder (subject to certain conditions) gifts to charities and the Government, expropriations, tax approved company reorganisations etc.

CGT at the rate of 20% is imposed (when the disposal is not subject to income tax) on chargeable gains arising from the disposal of immovable property situated in Cyprus including gains from the disposal of shares in companies that own Cyprus-situated immovable property. CGT is also imposed on disposals of shares in companies that indirectly own immovable property situated in Cyprus where at least 50% of the market value of the said shares derives from the market value of the Cyprus-situated immovable property.

Disposal of shares listed (with underlying Cyprus situated immovable property) on any recognised stock exchange are exempted from CGT.

In the case of disposal of non-listed company shares, the gain is calculated exclusively based on the gain relating to Cyprus-situated immovable property. The value of the immovable property will be its market value at the time the shares are disposed of.

The above exemptions are lifetime exemptions subject to an overall lifetime.

The following lifetime exemptions are available to individuals:

Capital gain arising from:	Deduction EUR
Disposal of private principal residence (subject to certain conditions)	85,430
Disposal of agricultural land by a famer	25,629
Any other disposal	17,086

The above exemptions are lifetime exemptions subject to an overall lifetime maximum of 85,430 EUR.

Transfer fees and mortgage fees

The fees charged by the Department of Land and Surveys to the acquirer for transfers of Cyprus-situated immovable property are as follows:

Market value EUR	Rate %	Fee EUR	Accumulated fee EUR
< 85,000	3	2,550	2,550
85,001–170,000	5	4,250	6,800
> 170,000	8		

It is important to note that:

- no transfer fees are payable if VAT is applicable upon purchasing the immovable property.
- the above transfer fees are reduced by 50% in case that the purchase of immovable property is not subject to VAT.

Mortgage registration fees are 1% of the current market value.

In the case of companies' reorganisations, transfers of immovable property are not subject to transfer fees and mortgage registration fees.

0,4% levy on the sale of immovable property

A property transfer Levy of 0,4% is imposed on all disposals of immovable property that are within the current control of the Republic of Cyprus, for which a general valuation has been undertaken by the Department of Land and Surveys.

The levy is also imposed on the disposal of shares of a company which owns directly, or indirectly immovable property for which a general valuation has been undertake by the Department of Land and Surveys.

In cases involving a direct disposal of immovable property, the levy is imposed on the disposal consideration, whereas in cases involving a disposal of shares of a company the levy is imposed on the latest general valuation undertaken by the Department of Land & Surveys.

The obligation for payment of the levy lies with the seller.

Certain exemptions apply subject to conditions.

Stamp duty

The general rule is that Cyprus stamp duty is imposed only on written instruments relating to assets located in Cyprus or relating to matters or things that are done or executed in Cyprus. Unless otherwise stipulated in the sale-purchase agreement, the purchaser is liable for the payment of stamp duty. The applicable rates are based on the value stipulated in each instrument and are nil for values up to 5,000 EUR, 0.15% for values from 5,001 EUR up to 170,000 EUR, and 0.2% for values above 170,000 EUR, subject to an overall maximum amount of stamp duty of 20,000 EUR per agreement. Exemption from stamp duty applies in the case of a qualifying reorganisation.

Deemed dividend distribution (DDD)

To the extend the ultimate beneficial owners of a Cyprus tax resident company are Cyprus tax resident and Cyprus domiciled, the Cyprus tax resident company is deemed to distribute 70% of its accounting profits two years from the end of the tax year in which the profits were generated, otherwise it will be subject to the deemed dividend distribution (DDD) provisions of special defence contribution at 17%, and pay the relevant SDC.

In addition, to the extent that the ultimate beneficial owners of a Cyprus tax resident company are tax resident in Cyprus, a contribution to the GHS of 2,65% also applies on the accounting profits subject to DDD provisions.

Dividends and withholding tax

No withholding tax is imposed on dividend payments to investors – both individuals and companies – who are non-residents of Cyprus in accordance with the Cyprus domestic tax legislation, irrespective of the percentage and period of holding of the participating shares.

Additionally, no withholding tax will apply in case the recipient of the dividend is an individual who is Cyprus tax resident but not Cyprus domiciled – applicable as from 16 July 2015.

As from 31 December 2022 payments of dividends from Cyprus non-listed companies to companies from Jurisdictions in the EU blacklist, are subject to withholding tax at the rate of 17% to shareholders with an over 50% holding, directly or indirectly.

Revised withholding tax provisions apply as from 16 April 2025. As from 16 April 2025 payments of dividends directly or indirectly under an anti-conduit rule to companies located in EU blacklisted jurisdictions, are subject to withholding tax at the rate of 17%, with an over 50% holding.

Tax depreciation allowances

Annual tax depreciation allowance on capital costs is available both to the individual and the corporate investors at the rate of 3% for commercial buildings, and 4% for industrial, agricultural and hotel buildings.

Capital expenses on certain environment-friendly assets incurred during tax years 2023–2026 are eligible for accelerated tax depreciation Land does not qualify for tax depreciation allowances.

Loss carried forward

The tax loss incurred by a Cyprus tax resident company during a tax year and which cannot be set off against other same year income, is carried forward subject to conditions and set off against the profits of the next five years.

Group relief (set-off of the income tax loss of one company with the taxable profit of another) is allowed between Cyprus tax resident companies of a group. A group is defined as follows:

- a Cyprus tax resident company holding directly or indirectly at least 75% of the voting shares of another Cyprus tax resident company; or
- both of the companies are at least 75% (voting shares) held, directly or indirectly, by a third company.

As of 1 January 2015, interposition of a non-Cyprus tax resident company/ companies will not affect the eligibility for group relief as long as such company/ companies is/are tax resident(s) of either an EU country or in a country with which Cyprus has a double tax treaty or an exchange of information agreement (bilateral or multilateral).

Capital tax losses incurred both for Cyprus tax resident companies and individuals may also be carried forward and set off against future capital gains tax profits without time restriction (but not group relieved).

VAT on immovable property

Leasing of immovable property

VAT at the standard rate must be charged on the lease of immovable property when the lessee is a taxable person and is engaged in taxable activities by at least 90% (with the exemption of residential dwellings). The lessor has the right to opt not to impose VAT on the specific property. The option is irrevocable.

Sale of buildings

As from 11 November 2022, the supply of building is subject to VAT when supplied before its first delivery and under any subsequent deliveries within a period of five (5) years from its completion, provided that no actual use has occurred by an unrelated person for a period of at least twenty-four (24) months. Otherwise, the supply will be exempt from VAT.

Sale of non-developed building land

VAT at the rate of 19% must be charged on the sale of non-developed building l and, as from 2 January 2018. Non-developed building land is defined as any land intended for the construction of one or more structures in the course of carrying out a business activity. No VAT will be imposed on the purchase or sale of land located in a livestock zone or areas which are not intended for development such as zones/ areas of environmental protection, archaeological and agricultural.

Leases of immovable property which effectively transfer the risks and rewards of ownership of immovable property.

As from 1 January 2019 leases of immovable property that effectively transfer the risks and rewards of ownership of the immovable property are considered to be supplies of goods which are subject to VAT, subject to the conditions indicated under sale of buildings and sale of non-developed building land as indicated above.

Imposition of the reduced rate of 5% on the acquisition and/or construction of residences (including land purchases) for use as the primary and permanent place of residence

Old Rules – prior to the amendment in Law (up to 16 June 2023)

The reduced rate of 5% applies to contracts that have been concluded from 1 October 2011 onwards provided they relate to acquisition and/or construction of residences to be used as the primary and permanent place of residence for the next 10 years. The reduced rate of VAT of 5% applies on the first 200 square meters whereas for the remaining square meters as determined based on the building coefficient, the standard VAT rate is imposed.

The reduced rate is imposed, under certain conditions, only after obtaining a certified confirmation from the Commissioner of Taxation.

New Rules – Amended Law (as from 16 June 2023)

The reduced VAT rate (5%) will be applicable on the first 130 sqm of the building coefficient, up to a value of EUR 350,000, provided that the total buildable area of the property does not exceed 190 sqm and the total value does not exceed EUR 475,000. For the reduced 5% VAT rate to apply, under the amended VAT Law, all the specified criteria should be met, otherwise the Taxpayer does not have the right to apply for the reduced VAT rate.

There is also an exception for persons with disabilities to be eligible for the reduced VAT rate for the first 190 sqm without imposing a cap on the maximum building coefficient.

Transitional Rules

The Tax Authorities have also announced a transitional period during which the

new provisions will not apply for properties for which:

a. A planning permit has been obtained or duly completed planning permit application has been submitted until 31/10/2023 and,
b. A duly completed application for the reduced VAT rate of 5% is submitted within 3 years from the legislation enactment date.

Imposition of the reduced rate of 5% on the renovation and repair of private residences

The renovation and repair as well as extension (as of 20 August 2020) of used private residences (for which a period of at least three years has elapsed from the date of their first use) is subject to VAT at the reduced rate of VAT, 5%, excluding the value of materials which constitute more than 50% of the value of the services.

5 The Czech Republic

Corporate income tax

The general Czech corporate income tax (CIT) rate is currently 21% (until 31 December 2023, the CIT rate was 19%). There are no local corporate taxes in the Czech Republic. For individuals, a progressive tax rate of up to 23% (depending on the level of income) applies.

Value added tax

There are two VAT rates: general rate of 21% and a reduced rate of 12% (until 31 December 2023, there were two reduced rates: 15% and 10%).

Tax group

There is no tax grouping for CIT purposes, only for VAT purposes

Tax losses

Tax losses may, in principle, be carried forward for five tax periods immediately following the tax period in which the tax loss arose. As a measure to tackle down the COVID-19 impact, a two-year tax loss carry-back was introduced into the Czech legislation.

There is no limit to the amount of tax losses carried forward, however the carry back is capped at CZK 30 million. Certain restrictions on the ability to redeem losses apply if there is a substantial change in the ownership of a company, or the company undergoes a reorganization (e.g., merger).

Real estate acquisition/transfer tax has been abolished and as such there are no transfer taxes in the Czech Republic.

Transfer Pricing

Czech tax law requires that transactions between related parties be carried out on an “arm’s length” basis (i.e., at usual market prices). If the price of a transaction differs from the price that would be agreed between independent persons under the same or similar business conditions, and the reason for this difference cannot be satisfactorily documented, the tax authorities may challenge the contracted price and adjust the tax base by the ascertained difference.

Although the transfer pricing documentation is not obligatory in the Czech Republic, it is highly recommended to prepare one to prove compliance with the arm’s length principle, as the taxpayer bears the burden of proof.

It is possible to apply for binding transfer pricing rulings from the tax authorities.

Functional currency

Since 2024, the Czech legislation includes an option to use a functional currency (EUR/USD/GBP), which may be used for bookkeeping and CIT. However, it is not yet fully implemented into all tax areas – e.g., VAT must be paid in CZK, as a result of which this option is rarely applied in practice.

Ongoing developments

Recently, two major amendments were adopted – the amendment to the VAT Act (effective since 2025), and amendment of the Act on Accounting (expected effectivity since 2026).

Real estate investments (CIT aspects)

An investor may either establish a Czech legal entity that will directly acquire the real estate or acquire shares in a Czech special-purpose company that owns the property. It is common practice to hold properties in separate special-purpose companies – a limited liability company and a joint-stock company are the most frequently used types of companies for holding real estate.

It is advisable to conduct a thorough due diligence review of the target company before acquiring its shares. In such a due diligence review, the legal, financial and tax positions of the company should be examined. Generally, the seller should be asked for certain representations, warranties, and indemnities regarding the legal, financial and tax position of the company.

There are no separate capital gains taxes. Capital gains are considered business profits and are as such subject to income tax. Therefore, corporate owners of real estate are subject to CIT on capital gains realized on the sale of property in the Czech Republic, at the standard CIT rate. Capital losses on the sale of real estate, including land, are generally deductible for tax purposes.

If shares in a Czech entity are sold by one foreign shareholder to another, the capital gains derived from the sale of the shares is treated as Czech-sourced income and is, therefore, subject to Czech CIT, irrespective of the residency status of the seller and purchaser.

In cross-border situations, however, subject to the wording of the relevant DTT, the gain may be outside the scope of Czech taxation. Nevertheless, in certain DTTs (e.g., between the Czech Republic and France), such an exemption does not apply if the assets of the entity of which the shares are sold consist only or predominantly of immovable property.

Czech domestic law contains a participation exemption regime regarding capital gains from the sale of shares in a subsidiary. One of the main conditions for applying the participation exemption is a minimum holding of 10% of shares in the subsidiary for an uninterrupted period of at least 12 months.

Real estate investments (VAT aspects)

Acquisition of shares is VAT exempt.

The transfer of vacant land is generally VAT exempt without the entitlement to input VAT deduction; however, the sale of construction land is subject to VAT at the rate of 21%.

For the transfer of land that is a part of a functional unit with a structure that is permanently attached to the ground, the VAT regime is determined by the respective structure.

The transfer of finished structures is generally VAT-exempt without the entitlement to input VAT deduction, except for the first transfer within 23 calendar months following the calendar month in which (i) the first building approval decision for use of the real state is issued, (ii) building approval decision after a substantial change is issued or (iii) conditions for permanent use of the real estate are met if a building approval decision is not applicable.

A substantial change is defined as construction works that exceed 30% of the value of the subsequent supply (i.e., of future sale) of the real estate.

The transfer of unfinished structures is generally subject to VAT.

Even if the VAT exemption is applicable, the vendor can decide to opt to apply VAT on sale of the real estate. If the purchaser is a VAT payer, option to VAT can be applied only upon a consent of the purchaser as such sale is subject to a local reverse-charge regime, i.e., the purchaser self-assesses the VAT, and at the same time, is entitled to reclaim the related input VAT, if general legal conditions are met.

If VAT is applied to the transfer of real estate, the VAT rate is generally 21%; however, real estate that qualifies as "social housing" is subject to the reduced VAT rate of 12%. According to the current definition of "social housing", a large portion of residential development will likely fit into this category.

If the VAT-payer purchases real estate (not exempt) for entrepreneurial activities, it is, in principle, entitled to claim the related input VAT. The VAT-payer however must always distinguish between purchased supplies related to (i) provision of VATable supplies with the entitlement to the input VAT deduction for which it has full recovery of input VAT; (ii) provision of VAT-exempt supplies without the entitlement to the input VAT deduction for which it has no recovery of input VAT; and (iii) provision of both VATable and VAT-exempt supplies for which it has partial recovery of input VAT.

In case of a change in the use of the real estate (e.g., for VAT-exempt activities with no right to claim the input VAT instead of VATable activities), there is an obligation to adjust the original input VAT claimed from the purchased real estate. The period for adjustment is 10 years.

The input VAT adjustment also applies on the costs of repair/maintenance performed on real estate if they exceed CZK 200,000.

Thin capitalization

Thin capitalization rules apply in the Czech Republic. These may limit the tax deductibility of interest payments and other related financial costs on debt financing obtained from related parties.

The debt-to-equity ratio is 4:1, i.e., interest payments and related financial costs on the portion of a related-party debt that exceeds four times the borrower's equity is tax non-deductible for the borrower.

ATAD I (interest stripping rule)

Interest costs exceeding either CZK 80 million p.a., or 30% of company's tax EBITDA are disregarded as tax non-deductible (this applies to both related and unrelated-party loans including bank financing; the test applies to net borrowing costs, which also include interest-like costs in addition to genuine interest expenses). This interest stripping rule also relates to capitalized interest and interest-like portion of leasing payment.

Any interest costs treated as tax non-deductible due to this interest stripping rule may be carried forward for an indefinite period and may be used as a deduction in the years where the threshold has not been reached (up to the amount of such threshold); however, it cannot be transferred to a legal successor in case of a merger, demerger or similar reorganization.

ATAD II (hybrid mismatches)

The EU ATAD II introduced rules into Czech income tax law aimed at preventing the adverse effects of cross border arrangements between affiliated entities where different legal classification of mainly an entity or an instrument in two countries involved ("hybrid mismatch") would lead to deduction without corresponding taxation (deduction/non-inclusion), or double deduction without corresponding double inclusion of income (double deduction), or in case of an imported mismatch.

Foreign exchange differences

Both realized and unrealized foreign exchange (FX) differences are generally subject to CIT in the tax period in which they arise.

Since 2024, it is possible to choose to exclude unrealized FX differences from the CIT base. However, it may potentially increase the related administrative burden.

Holding real estate (CIT aspects)

The basis for computing the taxable income of a company is the difference between the company's taxable revenues and its tax-deductible costs.

Tax-deductible costs generally include depreciation of buildings, structures and other assets; repairs; maintenance; real estate tax paid; and other expenses incurred to generate, assure and maintain the company's taxable income.

For several costs, it is explicitly stated in the law that they are tax non-deductible.

Except for land, real estate is generally depreciable for tax purposes. Many acquisition-related expenses (such as architect's fees, lawyer's fees, notary's fees), should be capitalized as part of the cost of the relevant real estate. Regarding interest costs incurred before putting the asset into use, the taxpayer has the option to capitalize such interest costs or not.

In the first year of depreciation, tangible assets are to be classified into one of six depreciation categories, with minimum depreciation periods ranging from three to 50 years. The sixth depreciation category (depreciated over 50 years) includes hotels, "administrative buildings" (such as office buildings), logistics property, department stores and some other assets.

Holding real estate (VAT aspects)

Generally, for newly acquired assets, the owner of the asset will determine the method of tax depreciation. Tax depreciation may be calculated using either the straight-line method or the reducing-balance method, whichever the taxpayer selects. The chosen method of depreciation cannot be changed during the depreciation period. A taxpayer has the right to stall, and then to recommence later, claiming tax depreciation.

Special provisions need to be considered with respect to the tax treatment of fit-out works installed by the lessee in leased premises to avoid disadvantageous tax impacts for both the lessor and the lessee, especially when lease agreements are terminated.

Holding real estate (VAT aspects)

Property rental is generally VAT-exempt without the entitlement to input VAT deduction, except for short-term rental, rental of parking spaces, safety deposit boxes or machinery that are subject to VAT at the rate of 21%. There is an option to voluntarily apply VAT on the property rental, however, this only applies to non-residential real estate, i.e., it is not possible to apply VAT on rent of premises for living such as family houses, flats or buildings where more than 60% of the space is intended for living. This option to VAT could be applied only if the recipient is a registered Czech VAT payer (or EU VAT payer, if not established in the Czech Republic).

Provision of construction works related to finished residential buildings are subject to the reduced VAT rate of 12%.

Furthermore, construction and assembly works between two Czech VAT payers are generally subject to the local reverse-charge mechanism.

Real estate tax

Real estate tax is for most corporate owners a negligible cost despite an increase in real estate tax rates from 2024. This tax is generally recovered from tenants via service charges.

6 Denmark

Corporate income tax (CIT)

Standard corporate income tax rate is 22% for corporate entities, which are either i) incorporated in Denmark, or ii) has their effective place of management in Denmark. The actual place of management is typically the place where the management decisions concerning the company's day-to-day operations are made.

The corporate income tax applies to all types of income, including rental income. The only exclusions are real estate and permanent establishments located outside of Denmark.

Permanent establishment (PE)

Non-resident companies are liable to tax in Denmark on business profits derived through a PE in Denmark. The existence of a PE is determined according to Danish case law, which makes either a reference to a specific DTT or to text similar to Article 5 of the OECD Model Tax Convention.

Danish real estate may constitute a permanent establishment for the foreign company, if the company has other significant activity in Denmark. However, as mentioned above, foreign companies are subject to limited tax liability on income from Danish real estate, including rental income and profits from the sale of the Danish real estate, even though the company in question does not have a permanent establishment in Denmark.

Danish tax consolidation

A mandatory tax consolidation regime obligates all Danish resident companies, permanent establishments and real estate that are members of the same Danish or international group to file a joint group tax return. The definition of a group generally corresponds with the definition of a group for accounting purposes, i.e. controlling interest. The tax consolidated income is equal to the sum of the taxable income of each individual Danish company, Danish permanent establishment and Danish real estate of foreign companies that are a member of the consolidated group.

The top parent company participating in the Danish tax consolidation group will be appointed the role of a so-called 'management company'; this company is responsible for settling tax on account and final corporate tax payments of all group members.

Companies included in a mandatory tax consolidation are jointly and severally liable for payment of corporate taxes. Withholding taxes on dividends, interest, and royalty payments are also covered by the joint and several liability. For companies with external minority shareholders, the company has a reduced liability and is merely liable if none of the other jointly taxed companies are able to pay the taxes.

Profit from sale of shares in Danish companies is, as a general rule, exempt from Danish withholding tax. This also applies to shares in companies, whose assets either exclusively or primarily consist of real estate.

Sale of shares

Profit from sale of shares in Danish companies is, as a general rule, exempt from Danish withholding tax. This also applies to shares in companies, whose assets either exclusively or primarily consist of real estate.

Stamp duty

A real estate transfer tax of 0.6% of the sales price or the public evaluation (whichever is the highest) is payable on the transfer of title to real property located in Denmark. A fixed registration fee of DKK 1,850 is charged for registration of ownership.

New mortgage loans registered in the Danish land register will be subject to a registration fee of 1.45% of the mortgage debt plus a fixed fee of DKK 1,825. It may be possible to reduce the 1.45% payment by replacing existing mortgages with the new mortgage loan.

Repatriation of dividend

Dividends distributed from a Danish company to a foreign group company are as a main rule subject to Danish withholding tax. However, the foreign group company should be tax-exempt on dividends from the Danish company if the foreign group company:

1. Is a tax resident in an EU-member country or a state with which Denmark has a double tax treaty;
2. holds at least 10% of the share capital, and
3. is considered the beneficial owner of the dividends.

Lack of beneficial ownership in the foreign group company could result in the company not being recognised for tax purposes with regards to dividends resulting in a withholding tax obligation for the Danish company on dividends of 27% (refund of withholding tax can be claimed down to 22%).

Beneficial ownership is decided on a transaction-based assessment and the legal presence of beneficial ownership in agreements, substance etc. is not enough as focus is more on the cash flow.

Due to Danish withholding tax rules as amended from 1 January 2025, a tax-exemption also applies for a recipient company holding portfolio shares (shareholding below 10%) provided that the company is resident within the EU/EEA or in a country with a double tax treaty with Denmark and that beneficial ownership can be documented. If the shareholder is not resident in EU/EEA or a double tax treaty country, special provisions can apply if the shareholder is situated in a country with which Denmark has a tax information exchange agreement.

Payments/accrual of interest are subject to Danish withholding tax, but only on controlled debt. Debt is considered “controlled” if the lender owns, directly or indirectly, more than 50% of the share capital of the Danish borrower or controls more than 50% of the voting rights. Transparent entities may also be considered to have controlling influence.

If the affiliated recipient benefits from the EU Interest and Royalty Directive or a double tax treaty, no withholding tax should be levied but it is a requirement that the recipient is considered beneficial owner of the interest.

Lack of beneficial ownership in the foreign corporate shareholder could result in the receiving company not being recognised for tax purposes with regards to interests resulting in a withholding tax obligation for the Danish companies on interests (22%).

Payment of interest

Payments/accrual of interest are subject to Danish withholding tax, but only on controlled debt. Debt is considered 'controlled' if the lender owns, directly or indirectly, more than 50% of the share capital of the Danish borrower or controls more than 50% of the voting rights. Transparent entities may also be considered to have controlling influence.

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Interest limitation rules

The Danish interest deduction limitation regime consists of three different rules: thin capitalisation, interest ceiling and EBITDA.

If the Danish company is thinly capitalized, it will not be allowed to deduct interest payments or capital losses for tax purposes to the related lender if:

- The controlled debt (including secured external debt) exceeds a threshold of DKK 10 million, and
- the loan could not have been obtained from an independent lender without security on similar terms (the company has the burden of proof), and
- the debt/equity ratio exceeds 4:1.

Any limitation to interest deduction according to the thin capitalization rules will be calculated first. Under the interest ceiling-rule, it is only possible to deduct net financial expenses in a Danish jointly taxed group equal to a pre-determined percentage of the tax value of qualifying assets at year-end. A base amount will always be deductible. The allowed percentage is now 5.8% (2025), which will be adjusted once a year and the base amount is DKK 21,300,000. Under the EBITDA rule, the taxable income before net financing costs and depreciation and amortization may not be reduced by more than 30% when reduced by net financing costs.

There is a special provision for groups of companies, whereby it may be possible to obtain more than 30% deductibility under the EBITDA rule, provided that the net finances do not exceed DKK 22,313,400 on a consolidated basis.

Danish general anti-abuse rule (GAAR)

Danish tax law contains a general anti-abuse rule (GAAR), which is based on the EU Anti-Tax Avoidance Directive (ATAD).

According to this provision, taxpayer cannot benefit from the EU directives or a double tax treaty (i.e. withholding tax may be payable on interest and dividends), if the relevant "arrangement" has been carried out with the main purpose of obtaining a tax benefit that is not in line with the purpose of Danish tax law.

The preparatory works only contains very little guidance regarding the exact application of the provision.

Hybrid mismatches

Danish tax law contains rules that aim to counteract double deduction and deduction without inclusion that arise as a consequence of a hybrid mismatch of instruments (i.e. debt vs. equity) or entities (i.e. transparent vs opaque). In particular, it should be noted, that if a Danish transparent entity is affected by the rules, leading to it being treated as an opaque entity, distribution of profit will be treated as dividend, which can trigger a risk of withholding tax.

Transfer pricing

Danish transfer pricing rules apply to transactions between related parties (e.g. inter-group transactions), whether the transactions are cross-border or purely domestic. The rules apply when a company or person directly or indirectly controls more than 50% ownership of the share capital or more than 50% of the voting power of an entity. Transactions with PEs are also considered subject to the rules.

For income years starting 1 January 2021 or later, the transfer pricing documentation must be submitted no later than 60 days following the filing deadline for the tax return.

For prior income years, the documentation was to be finalized at the deadline for filing the tax return and then submitted upon request from the Danish Tax Agency within 60 days.

Effective from the income year 2025, several reliefs for transfer pricing documentation requirements have been introduced, including targeted documentation exemptions (e.g. a new de minimis threshold and increased limits for when companies are required to report).This is particularly relevant for small and medium-sized companies who will be exempt from preparing and submitting transfer pricing documentation under certain circumstances. Furthermore, the new amendment introduces an automatic extension of the 60-day deadline for submitting transfer pricing documentation, if an extension is granted for the corporate tax return. Thus, it is no longer necessary to request separate extensions for the corporate tax return and the transfer pricing documentation deadlines.

Depreciation

Tax depreciation need not be in conformity with book depreciation.

Land cannot be depreciated for Danish tax purposes.

As a general rule, properties acquired on or after 1 January 2023 can be depreciated for tax purposes in Denmark at a rate of up to 3% annually using the straight-line method. The same rule applies to technical installations. For properties and technical installations acquired before 1 January 2023, the maximum depreciation rate is 4% annually.

Professional advisors' fees and loan costs

Professional advisors' fees (financial, legal and tax advisors) are non-deductible for Danish corporate tax purposes and cannot be added to the acquisition price of the Danish real estate.

Costs occurring in close connection with the establishment of a loan can be added to the principal of the loan and be deducted for Danish tax purposes in connection with the repayment of the loan.

Value-added tax (VAT)

Sale of immovable property (asset deal)

The standard VAT rate in Denmark is 25%, which applies when selling goods and services in Denmark. Various types of goods and services are, however, VAT exempt.

The sale of immovable property is, as a starting point, exempt from VAT. However, the sale of "new" buildings and building plots situated in Denmark is, as a main rule, subject to 25% VAT.

VAT-free Transfer of a Going Concern

Regardless of the nature of the property, if the sale qualifies as a VAT-free transfer of a going concern (TOGC), it will not be subject to VAT.

Sale of immovable property solely used for VAT exempt activities

Furthermore, regardless of the nature of the property, if a property has been used exclusively for VAT exempt activities prior to the sale, the sale will be exempt from VAT.

The VAT adjustment obligation scheme

There is an obligation to adjust VAT recovery if the use of a property changes for VAT purposes; for example, if a VAT exempt tenancy becomes a VAT taxable lease, or vice versa.

A VAT adjustment obligation may also arise when a property is transferred between legal entities without VAT (e.g., as part of a VAT-free TOGC or the sale of an old building). However, the buyer can assume the VAT adjustment obligation if they intend to use the property for VAT-taxable purposes, in which case the obligation is not triggered.

Self-accounting for VAT (in Danish: “Udtagningsmoms”)

If the use of/ intention with a property change from fully or partly VAT taxable use to fully VAT exempt use, this change is treated as equivalent to a sale of the property for VAT purposes. In such cases, an assessment should be made as to whether the property in question would be VAT-exempt or VAT-taxable if sold.

If the property in question is considered “new,” output VAT equivalent to 20% of the market value of the property must be self-accounted for and paid to the Danish Tax Agency. VAT recovery on property costs can be adjusted to 100% if VAT on costs has not previously been fully recovered.

If the property is considered “old,” no output VAT should be paid; however, any VAT adjustment obligations on the property will be triggered and subject to payment.

Sale of property company (share deal)

A sale of a property company is not subject to VAT, as sales of shares are exempt from VAT in Denmark.

Any inherent VAT adjustment obligations will not be triggered by a share deal.

7 Finland

Tax law updates and upcoming changes

The Finnish Government is planning a reform of property taxation. While the intention has not been to increase tax collection as such, the aim of the reform is to link the determination of property tax base more closer to development of the fair values. The legislative proposal for this amendment has not yet been published. The government's proposal is scheduled to be presented during Q4/2025. We expect the act to enter into force no earlier than 2027.

The Finnish Government has determined, in its mid-term policy review, to lower the corporate income tax rate to 18%, effective from 2027. It is also proposed that the tax loss deduction period be extended from the current 10 years to 25 years for losses incurred starting from the tax year 2026. Similar to the property tax reform, a legislative proposal for this amendment is forthcoming and is scheduled for presentation in Q4/2025.

The Finnish Ministry of Finance is looking into the current rules regarding the VAT adjustment liability of real estate investments, since the current legislation may not be in accordance with EU law after the ECJ case C-787/18. The Ministry estimates that a legislative proposal may be presented to the Finnish Parliament in late 2025.

Tax law changes in recent years

Recent changes in Finnish tax law include:

1. The lower limit of real estate tax for land plots has been increased from 0.93% to 1.3% as of 2024. Therefore, many municipalities have been required to increase their real estate tax rate for land plots. The amendment does not affect real estate taxation of buildings.
2. As of 1 January 2024, the Transfer Tax Act has been updated. The new tax rates are applicable for deeds of sale or other transfer agreements signed on or after 12 October 2023.

Reduction of the transfer tax rates on both real estates and securities retroactively as from 12 October 2023:

- Real estate: from 4% to 3%
- Shares in housing and real estate companies: from 2% to 1.5%
- Other securities: from 1.6% to 1.5%

As of 1 January 2024, the transfer tax base was extended by including shareholder loan receivables acquired in connection with a share acquisition to transfer tax base. Further, the scope of the transfer tax exemption applicable to a tax neutral transfer of business was extended to transfers made into an existing company (this exemption was previously available only to newly established entities).

Year-end tax accounting and reporting

At year-end, real estate investors should generally take the following aspects into account: (i) levelling taxable profits at portfolio level and (ii) the interest deduction limitation rules.

i) Levelling taxable profits at portfolio level

Tax position of real estate portfolio may be optimised by adjusting the maintenance fees paid to a mutual real estate company ("MREC"), provision of group contributions, adjusting depreciations to be made in both taxation and accounting as well as utilising carry-forward tax losses. These aspects should be carefully considered at year-end.

Typically, Finnish real estate is owned via MRECs. An MREC collects taxable maintenance fees from the shareholder, corresponding to the tax-deductible maintenance expenses. Additionally, an MREC can collect taxable financial consideration from shareholders, which typically corresponds to annual depreciation of the real property and interest expenses at the MREC level. As a result, the MREC itself does not usually make any profit or loss. The maintenance fees collected by the MREC from the shareholder are generally tax-deductible for the shareholder. The financial consideration is also tax-deductible for the shareholder under certain conditions.

Furthermore, companies within the same group can level their income by giving and receiving group contributions (provided that certain conditions are met). In general, MRECs cannot give or receive group contributions unless they carry on business activities according to the Finnish Business Income Tax Act. The group contribution is considered as a deductible cost for income tax purposes of the distributing company and taxable income for the recipient company.

Depreciations should also be considered at year-end, as it is possible to adjust taxable profit by adjusting the depreciations (within the limits set in tax legislation) either through making lower or higher deprecations in taxation than in accounting, i.e. by creating postponed depreciations or depreciation differences.

Carry-forward tax losses can be utilised against future taxable profits for ten fiscal years following the fiscal year in which the losses have arisen. Tax losses may not be carried back. However, tax losses carried forward are forfeited if more than 50% of the shares in a company changes owner directly or indirectly, although there is a possibility to apply for a special permit to retain tax losses if certain conditions are met.

ii) Interest deduction limitation rules

The Finnish interest deduction limitation rules should be considered at year-end. The limitations are applied on a company-by-company basis by typically applying one of the below rules:

- If total net financing expenses of a company are no more than EUR 500,000, all financing expenses are deductible.
- If total net financing expenses of a company exceed EUR 500,000, the deductibility of a company's net financing expenses in Finland are limited to 25% of the company's adjusted taxable income (EBITD, i.e. taxable income including group contributions and adding back interest expenses and tax depreciation) and the amount exceeding 25% of EBITD is non-tax deductible.
- However, external net financing expenses are always deductible up to EUR 3 million. External bank loans may be contaminated into related party loans in certain situations such as e.g. when related party to the borrower has provided a security for the repayment of the bank loan in the form of a receivable.

Tax accounting and reporting processes of real estate portfolios should be carefully managed in order to optimise the tax position at portfolio level and to ensure robust documentation is in place to support the decisions made.

Input VAT deductions on transaction costs

Based on a ruling of the Supreme Administrative Court, input VAT on transaction costs related to sales and purchases of real estate and shares of MRECs can be deducted under certain conditions (as overhead costs) if the real estate has been or will be used for VAT taxable purposes. However, the Finnish tax authorities are currently actively trying to challenge this and limit VAT deduction rights of transaction costs. The developments in this respect should be monitored.

It should be verified whether the requirements for VAT deduction have been met. Non-deducted transaction costs for the year 2022 can still be recovered until the end of 2025.

Change of VAT taxable use of premises

In case the VAT taxable use of premises has changed compared to the situation when the real estate investment (new building or fundamental improvement) was taken into use, VAT included in the real estate investment might be subject to adjustment at year end.

It should be verified whether there has been changes to the VAT taxable use of real estate and determine whether the VAT deductions should be adjusted. The effect can be positive or negative, depending on whether the VAT taxable use has increased or decreased. If the VAT taxable use of the premises does not change during the adjustment period, no VAT adjustment right or liability will arise.

VAT deductions of real estate investors

The Finnish Tax Authorities have lately audited several real estate investors (e.g. funds and joint ventures) and denied deduction rights of input VAT relating to costs, which the Tax Authorities treat as costs related to activities of an investor (e.g. costs related to sale of real estate even when the real estates have been in VAT taxable use).

8 France

Most relevant recent developments

Disclosure: The draft finance bill for 2026 has not been published yet. This topic should be carefully followed up, as it may include relevant provisions for real estate investors.

Impairment of French real estate assets

The decrease of value of certain French real estate assets may have conducted some French entities to book impairment in their account. This raises various questions and problems from a tax standpoint for past fiscal years and, especially, with respect to fiscal years to come during which such impairment may be reversed.

The first issue relates to the tax deductibility of such impairment when booked. French tax regulations provide for limitation of tax deductibility of impairment on real estate assets and shares of property companies. In addition, the French tax authorities dispute the tax deductibility of such impairments on the basis of a subtle distinction between the market value ("valeur vénale") and the value in use ("valeur d'usage"), which has proven very difficult to apply with respect to real estate assets.

The second issue relates to the taxation of reversal of impairment that have been tax deducted. In such case, it should be reminded that tax losses carried forward are available to offset only for the first EUR 1 million of taxable profits and 50% of taxable profits in excess of this. Such limitation of offset of tax losses carried forward may lead to the taxation of reversal of impairment and should be properly anticipated.

Benefit of the withholding tax exemption on dividends for foreign investors

Non-EU funds and the plurality of investors: The benefit of the exemption is conditional upon several requirements among which the fact that capital should be raised from several investors. A first-tier tribunal considered that this requirement was not met where the compartments of funds were all ultimately owned by the same insurance life company. This raises questions notably for institutional investors investing through dedicated funds and which rely on such exemption.

Beneficial ownership

Benefits of double tax treaties is generally subject to a beneficial ownership condition which has been increasingly subject of the attention of the French tax authorities.

An important decision rendered by the French Supreme Administrative Court on 22 May 2022 (Planet, n° 444451) could reduce the adverse tax consequences of tax reassessments made by the French tax authorities based on the beneficial owner requirement. In the Planet case law, the Court ruled that the "true" beneficial owner of a royalty payment can rely on the tax treaty between its country of residence and France to benefit from a reduced rate of (or an exemption from) withholding tax.

In practice, the French tax authorities scrutinize the following criteria to assess whether a recipient is the beneficial owner of a payment: (a) existence of a legal or a contractual obligation to repay the passive income it received; (b) immediate repayment of the entire amount of the passive income it received or at least partial reinvestment; (c) carrying out of another activity (even ancillary) rather than mere conduct of flow of passive income; (d) negligeable level of taxable income; (e) receipt of income from countries other than France; (f) staffing with qualified professionals and benefit of material resources, in particular in case of royalty income; (g) identity of directors between the recipient and the company to which it repays the passive income it received.

Recent French key case law

For fiscal years beginning on or after 1 January 2022, the standard CIT rate is set at 25% (i.e. effective CIT rate of 25.825% taking into account the additional 3.3% contribution assessed on CIT exceeding EUR 763k for companies with a turnover in excess of EUR 7,63 million).

The French list of non-cooperative states and territories (NCST) was amended on 18 April 2025 and includes: (i) based on the French criterion: Anguilla, Antigua, Turks and Caicos Islands; and (ii) based on the EU list: Anguilla, Antigua, Fiji, Guam, American Virgin Islands, Palau, American Samoa, Samoa, Trinidad and Tobago, Panama, Vanuatu and Russia.

Unfavorable French tax treatment applies to certain transactions in NCST or with entities located in NCST, based on their classification above (i or ii). In respect of NCST listed in (i) in the paragraph above, the French regulations provide inter alia that interest and dividends from French entities paid on a bank account located in a NCST are subject to a withholding tax of 75%; and capital gains on shares in a French non-real estate company derived by an entity located in a NCST are subject to a withholding tax of 75%.

Application of the France-Netherlands double tax treaty

Administrative Court of Montreuil – May 7th 2025, n°2301787 Villiot HoldCo B.V.

In this case, a Dutch entity divested its entire stake in a French SPPICAV, whose assets comprised shares in two French SCIs. One of these SCIs owned a substantial real estate complex in Paris, while the other held no material assets. Following a tax audit, the capital gain from the transaction was subjected to the withholding tax under Article 244 bis A of the French Tax Code, along with a 10% surcharge and late payment interest.

The Dutch company subsequently filed a contentious claim, which was rejected by the French Tax Authorities.

The Montreuil Administrative Court ruled in favor of the taxpayer, interpreting paragraph 1 of Article 13 of the France-Netherlands tax treaty as limiting the taxing rights of the State where the property is located to cases involving direct ownership of immovable property. In the absence of any provision addressing indirect ownership, the Court concluded that such gains should not be taxable in France.

Forfeiture of the SIIC regime due to property trading activity

Administrative Court of Paris – June 3rd 2025, n°2224119, Lupa

In this case, a French SIIC directly owned real estate assets in France, acquired in 2006. Between 2008 and 2019, the SIIC gradually disposed of these properties, one by one – for instance, the first sale occurred in 2008, followed by another in 2012. The French Tax Authorities (FTA) challenged the application of the SIIC tax exemption regime, arguing that the frequency and number of disposals constituted a property trading activity, which is incompatible with the conditions required to benefit from the exemption.

The court held that the time elapsed between the initial sale in 2008 and the subsequent disposals beginning in 2012 did not reflect an original intent to lease, particularly in light of the post-2008 real estate market context.

The existence of lease renewals and long-term financing arrangements prior to the disposals does not outweigh the systematic sale of assets, the absence of new acquisitions, and the progressive cessation of leasing activity, culminating in the sale of the final asset in 2019.

Lastly, the company's corporate purpose was deemed irrelevant, as its principal activity was found to be that of a trader rather than a passive real estate lessor.

Consequently, the judges confirmed the reassessment of the FTA.

9 Germany

Tax rates

The statutory corporate income tax rate is 15.825% (including 5.5% solidarity surcharge). The current rate of 15% will be reduced in five steps by 1% annually from 2028 to 10% in 2032. The trade tax rate is depending on the local municipality in which the business operations are carried out and varies in most municipalities between 14.0% and 18.0%, The overall tax rate for a German corporation thus ranges currently between 29.825% and 33.825%.

Dividend and capital gains tax exemption

Dividend distributions between corporations are generally 95% tax exempt. However, the 95% tax exemption is only granted where the recipient of dividends inter alia holds at least 10% of the nominal capital of the distributing corporation at the beginning of the calendar year.

Capital gains received by corporations upon selling the shares in other corporations are 95% tax exempt. Since 1 January 2019 this generally also includes capital gains derived by selling shares in foreign corporations which assets – directly or indirectly – consists more than 50% of German real estate. If the shareholder is a foreign resident corporation, the capital gains are 100% tax exempt according to case law of the German Federal Fiscal Court. Currently, there is no minimum holding requirement.

Consider restructuring shareholding before distributing dividends (and selling shares). Foreign corporate shareholders may claim a tax refund if they were taxed upon selling shares in other corporations.

Share capital repayments

Share capital repayments received by a German shareholder from a foreign corporation are generally treated as a taxable dividend in Germany. However, share capital repayments may not be qualified as taxable dividends but as repayment of shareholder equity upon application. Such application has to be filed up to the end of the twelfth month following the end of the fiscal year in which the share capital repayment has been made.

Apply for equity qualification of share capital repayments made in 2024 before 31 December 2025 (if the fiscal year equals the calendar year).

Rollover relief

Gains of a German permanent establishment (PE) from the sale of land and buildings need not be taken to income immediately but may be deducted from the cost of replacement premises. For gains which do not belong to a German PE no rollover relief is available. However, the taxation of capital gains reinvested in another EU member country may be deferred and spread over five years. The EC has filed a lawsuit with the ECJ, alleging that the German PE requirement is incompatible with the freedom of capital movement. The application for tax deferral has to be made in the fiscal year in which the land or building has been sold.

Apply for tax deferral on capital gains for EU land and buildings sold in the fiscal year 2025 in the tax return for the fiscal year 2025.

Interest capping rules

Where an entity is not able to limit its net interest to below the EUR 3m threshold, other escape clauses (non-group escape clause or group escape clause) might be applicable. According to the group escape clause, interest expenses paid in 2026 may be fully deductible only where the equity ratio of the German business equals or is higher than that of the group (2% tolerance) as of 31 December 2025.

Ensure the tax paying entity's equity equals the group's; if more than 2% below the quota of the group, inject additional equity to ensure 2026 interest deductibility.

Net operating losses (NOL) planning

According to tax accounting rules, an impairment to a lower fair market value may be waived.

In a loss situation, impairment may be waived to avoid an increase of net operating losses.

NOL planning for partnerships

Net operating losses of a partnership are allocated to a limited partner only up to the amount of its equity contribution.

Inject equity before fiscal year end in order to benefit from losses exceeding the current equity contribution.

Losses carried forward

Any direct or indirect transfer of more than 50% of shares/interests (or similar measures, e.g., in the course of restructurings) may lead to a total forfeiture of losses and interest carried forward at the German entity's level. Exemptions may apply for tax privileged restructurings and where the entity continues to perform the same business as prior to the share transfer (restrictive requirements).

Currently a case is pending at the German Supreme Court to determine whether the loss forfeiture rules are unconstitutional. The upcoming decision by the Supreme Court may have retroactive effect.

It is strongly recommended to explore structuring alternatives where you intend to reorganise your investment structure. All tax assessments for years in which a harmful share transfer has occurred should be kept open.

Trade tax status

Investments relying on no trade tax due to the non-existence of a German PE, or a preferential trade tax regime under the extended trade tax deduction, must fulfil strict requirements. The requirements of the extended trade tax deduction must be met for a complete fiscal year.

It should be verified whether the requirements are met from 1 January 2026 onwards (if the fiscal year equals the calendar year) in order to mitigate trade tax on income derived in 2026.

Tax prepayments

In the case of declining profits, an application can be made to reduce current income and trade tax prepayments.

Cash flow models and profit forecasts should be checked in order to improve liquidity by applying for tax prepayment reductions and/or refunds.

Substance requirements

General substance requirements need to be met by foreign corporations receiving German income in order to be recognised by the German fiscal authorities. This inter alia may ensure the deductibility of interest expenses borne in connection with German investments. Where (constructive) dividends are distributed by a German corporation to a foreign shareholder, the foreign shareholder must fulfil strict substance requirements in order to benefit from a dividend withholding tax exemption/reduction.

It should be ensured that the tightened German substance requirements are met.

Transfer pricing

Generally, all related-party cross-border payments have to comply with the arm's length principle. Failure to present appropriate documentation to the tax administration might result in the non-acceptance of group charges and penalties for tax purposes.

The arm's length principle should be duly followed and documented.

Tax group

The acceptance of a tax group is subject to strict observation of certain legal requirements. The profit transfer agreement needs to be registered with the commercial register up to 31 December 2025 in order to become effective for the fiscal year 2025 (if the fiscal year equals the calendar year). If companies do not obey the requirements during the minimum term of five years, the tax group will not be accepted from the beginning.

Special precautions need to be taken regarding tax groups for VAT and RETT purposes as there are different legal requirements.

Where a tax group shall be established in future, the profit transfer agreement needs to be drafted properly and registered in time.

Land tax refund

For vacant buildings and buildings rented at low rents land tax up to 50% is refunded upon application of the landlord.

Apply for land tax 2025 refund before 1 April 2026.

Land tax reform

In the course of the land tax reform the tax base has been aligned to the fair market value as of 1 January 2022. The reformed land tax is levied for the first time on 1 January 2025 on this new tax base.

Consider new filing requirement from 2022 onwards and changing land tax burden from 2025 onwards.

Real estate transfer tax (RETT)

Federal states have the right to set the real estate transfer tax (RETT) rate themselves instead of applying the uniform federal RETT rate of 3.5%. Only in Bavaria the rate of 3.5% applies. The other federal states have increased their RETT rate up to 6.5%.

Monitor and consider potential changes of RETT rates in federal states.

Currently a case is pending at the German Federal Fiscal Court to determine whether EU law excludes the imposition of a RETT in the event of restructuring.

All RETT assessments in the event of a restructuring should be kept open.

From 1 January 2027 onwards RETT exemptions for transfers between partnerships are no longer applicable.

Execute transfers of real properties between partnerships before 1 January 2027.

Value added tax (VAT)

Starting from 1 January 2025 mandatory electronic invoicing (e-invoicing) for transactions between entrepreneurs has been introduced in Germany.

Comply with the legal requirements from 2025 onwards.

DAC 6

Germany has implemented reporting requirements for cross-border tax arrangements in July 2020.

Report cross-border tax arrangements within 30 days in order to avoid fines of up to EUR 25,000.

Planned tax changes

German tax law is subject to continuous changes. Currently, there are a number of tax amendment acts in the legislative process which impact taxation of real estate investments (inter alia an increase in the maximum amount for the tax neutral transfer of hidden reserves, expanding opportunities for investment funds to invest in renewable energy and commercial facilities).

10 Greece

Reduction of the CIT rate and advance income tax payment

From the tax year 2021 onwards, the corporate income tax rate is reduced from 24% to 22%. Regarding the advance income tax payment the advance tax payment rate has been reduced from 100% to 80% for legal entities. The relevant percentage may be reduced by 50% for newly established legal entities during the first 3 financial years following the commencement of their business activities.

Special real estate tax (SRET) – Key framework

Designed to deter Greek taxpayers from avoiding disclosure of their real estate property through the use of offshore vehicles, SRET applies to all companies owning real estate in Greece, unless they fall into one of the exemptions. If no exemption can be achieved, the company must pay an annual 15% tax on the objective value of the property.

Key exemptions inter alia include:

- Legal entities irrespective of the country of their establishment, exercising commercial, manufacturing or industrial, activity in Greece, provided that the gross revenue from this activity is higher than the real estate gross revenue.
- Legal entities irrespective of the country of their establishment, constructing premises to use exclusively for the exercise of their commercial, manufacturing or industrial activity (self-use) and for a period of seven years starting from the issuance of the initial building permit.
- Legal entities that have their registered seat in Greece or in an EU member country, provided that they disclose their ultimate shareholders all the way up to an individual, who have a tax registration number in Greece. In case other legal entities are participating in the shareholder chain, the exemption is granted to the extent that the shares of the ultimate shareholder entity are traded on regulated exchanged markets.
- Legal entities that have their registered seat in Greece or in an EU member country or in a third country (not considered as a non-cooperative country), provided that they disclose their ultimate individual shareholders, who have a tax registration number in Greece. In case other legal entities are participating in the shareholder chain, the exemption is granted to the extent that the shares of the ultimate shareholder entity are traded on regulated exchanged markets, which should be supervised by an authority accredited by the International Organisation of Securities Commissions (IOSCO).

It should be noted that the aforementioned disclosure of individual shareholders is not a prerequisite if the total of the shares is owned by a listed company or the whole or a part of the registered shares belong to:

- Credit institutions including savings banks or deposit and loan funds;
- social security funds;
- insurance companies;
- mutual funds specified in art 18 par.3 of the new L. 5219/2025.

The Greek tax authorities tend to strictly apply documentation requirements in support of the abovementioned exemptions. Decision. 1206/2020 – as amended by Decision A. 1089/2023 and currently in force – provides for a detailed list of documentation required for every specific SRET exemption category and determines the exact process to be followed for invoking an exemption. In this context, Decision E.2086/2023 further clarified that it is allowed for SRET exemption purposes to use the documentation set out in A. 1089/2023 for years prior to the publication of decision A. 1089/2023 years, during which the statutory exceptions apply.

Moreover, to be noted that the SRET is assessed annually on 1 January of the tax year and the SRET return (even if zero in case of an exemption) is by 20 May (unless an explicit exemption is announced). To be noted that all the exemption supporting documentation shall be issued, collected and in place by the time of the submission of the SRET return.

VAT – Suspension of VAT on real estate sales until 31 December 2025

A 24% VAT applies on the sale of new buildings in Greece by persons subject to VAT. In particular, the supply of real estate subject to VAT is the transfer for consideration of ownership or rights in rem of buildings or part of buildings and the land on which they stand, before their first occupation. To be noted that the term occupation refers to the use of the real estate in any possible way (e.g. self-use, leasing of the property etc.) The above transaction is taxable only when the following conditions are fulfilled:

a. The person who transfers is a taxable person, or anyone who carries out, on an occasional basis, the transaction on condition that he opts for the standard VAT regime and
b. the construction permit is issued after 1 January 2006.

A suspension of VAT on real estate sales for until 31 December 2025 has been introduced, levying of real estate transfer tax on all unsold immovable property with a construction permit issued from 1 January 2006 onwards, upon relevant application by taxable persons. For permits issued from 1 July 2020 onwards, the application shall be submitted within a six-month deadline from the issuance of the permit.

Pursuant to recent governmental announcements, the suspension of VAT on real estate sales is expected to be extended until 31 December 2026; however, this should be subject to ratification, thus should be further monitored.

Exemption from donation tax for the purchase of a main residence

Pursuant to the amendments introduced by L. 5073/2023 short-term lease income when the lessor is a legal entity or an individual who owns at least three (3) properties is considered as business income and is further subject to VAT at a reduced rate of 13%.

Based on the Greek Donation and Inheritance Tax Code, cash donations and parental grants provided by parents to their children for the purchase of a main residence shall be exempt from donation tax up to the amount of EUR 150,000. To be noted that the tax-free amount on donations and parental grants has been previously increased to EUR 800.000 per parent.

Real estate investment companies (REIC)

The regime for Real Estate Investment Companies (REICs) was initially governed by Law 2778/1999, which has now been replaced by Law 5193/2025, introducing a more flexible and modern framework aligned with European developments. According to the new law, a REIC is set up as a SA, exclusively engaging in the management of portfolios comprising securities and real estate, with a minimum share capital of 40 million EUR. Existing REICs must align with the new minimum capital requirements within one year from the effective date of the new regime.

From a tax point of view, the applicable framework provides for various tax exemptions, which are the key advantage of the Greek REIC regime. Key exemptions are:

- The transfer of real estate assets to the REIC is exempt from all forms of taxation, fees, contributions, duties, or charges (such as real estate transfer tax, digital transaction tax, etc.);
- Exemption from income tax (instead they are taxed in the average fair market value of the European Central Bank's main refinancing operations (MRO) interest rate, increased by one percentage point)
- The transfer of non-listed shares to a REIC is exempt from capital gains tax

Dividends distributed by the REICs are exempt from income tax and from dividend's withholding tax.REICs are subject to several regulatory restrictions, as well as an obligation to list their shares within a 2-year period from their establishment, which can be further extended for another 36 months in total.

Special non-dom regime for high net worth individuals/investors

Foreign individuals transferring their tax residence in Greece may be subject to an alternative taxation for their income derived abroad.

The following conditions shall be met cumulatively:

- The taxpayer must not have been tax resident in Greece the previous seven years out of eight year before the transfer of the tax residence in Greece.
- The taxpayer provides evidence that themselves or relatives are in possession of the majority of shares or participation in immovable property, business, tangible assets or shares of legal person/entities tax resident in Greece.

The amount of this investment shall at least be equal to EUR 500,000 and the investment shall be completed within three years from the application submission date.

Under this regime, individuals will pay a lump-sum tax of EUR 100,000 per tax year, irrespective of the amount of income earned abroad, for a maximum of 15 fiscal years. It is also possible to extend the regime to any of their relatives by paying an additional tax equal to EUR 20,000 per person per tax year.

Any tax paid abroad on income covered by the alternative taxation regime will not be offset against the tax liability of the above persons in Greece. In case the individuals, who have opted for the non-domiciled regime, earn in parallel income subject to income tax in Greece (e.g. income arising from the leasing of a real estate property located in Greece), this will be taxed in accordance with the general income tax law provisions and will not be covered by the non-domiciled regime.

Taxpayers opting for the regime are not obliged to declare any income earned abroad. They will be able to justify the imputed income calculated based on deemed expenses and assets acquisition by importing funds from abroad.

For completeness purposes, to be noted that Greece has also introduced legislation to facilitate the establishment of family offices, providing a centralized structure to manage family wealth and assets. Family offices benefit from favorable tax treatment, since the gross revenue is determined by adding a profit margin at seven percent (7%) to the total of all types of expenses and depreciation, excluding income tax (cost-plus method.

Special non-domiciled regime for pensioners

In parallel, a special non-domiciled regime intended specifically for foreign pensioners is provided in domestic legislation, enabling individuals entitled to a pension arising abroad to be subject to a favorable taxation of their income.

Foreign pensioners wishing to enter the special regime should cumulatively meet the following eligibility conditions:

- be earning non-Greek source pension amounts; the scope of qualifying pensions should be further defined.
- have held their tax residence outside Greece for 5 out of the last 6 years; and
- be former residents of a state with which an agreement on administrative cooperation in the field of taxation is in force with Greece.

The qualifying individuals should be in a position to evidence that Greece is the center of their vital interests.

The key tax benefit provided in the context of this special regime is that qualifying individuals will pay flat tax on an annual basis at the rate of 7% on their foreign sourced income, with exhaustion of the tax liability for this income. Any tax paid abroad will be deducted from the tax due in Greece, up to the amount of the latter.

Qualifying individuals shall not be exempted from inheritance tax or property donations tax on wealth located abroad. In addition, any Greek-sourced income of qualifying individuals/pensioners (e.g. income from leasing of real estate property located in Greece) will be subject to tax, in accordance with the general income tax provisions. Pensioners subject to this regime are required to declare their income earned both in Greece and abroad. This regime has applied to tax years beginning on or after 1 January 2020. The maximum duration of applicability of the regime is set at 15 tax years, starting from the next tax year from the date of submission of the application, while the possibility of revocation is provided within the fifteen-year period.

Special regime for angel investors

A special regime for angel investors has been set in effect as from 29 July 2020 and has been recently amended with L. 5162/2024.. According to this regime, angel investors i.e. individuals who contribute capital to a duly registered start-up company, shall deduct from their taxable income, an amount equal to 50% of the amount of their contribution, in the tax year in which it took place. This incentive applies to capital contributions via a bank deposit of up to 900,000 per tax year, which are invested in up to three start-ups with a maximum investment of EUR 300,000 per start-up.

Fines and penalties may be imposed in case, following a tax audit, if it arises that the capital contribution has been made with a view to obtain a tax advantage, which would effectively frustrate the purpose of the regime, which is, in essence, the increase investment activity through the support of start-ups during the early stages of their operations. In case of a tax audit during which there is evidence that the capital contribution to the start-up company has been made for the purpose of the tax advantage, the amount of the fine imposed to the angel investor may reach the amount of the pursued tax benefit.

11 Hungary

Year-end considerations

Change of functional currency to mitigate unfavorable FX effects

Due to the volatility of the Hungarian Forint (HUF) exchange rate to the most important currencies, in the case of companies, where the functional currency of the company is HUF and there is a high exposure in a different currency (e.g. shareholder loan or rental fees denominated in EUR) a year end revaluation should be carried out that could lead to unrealized F/X gain or loss. Losses may erode the equity of the company to an inadequate level. To mitigate this effect, companies using HU GAAP for local statutory reporting purposes can change their functional currency to EUR or to USD without any substantive conditions before the beginning of their new financial year (or to other currencies, however, in those cases subject to further conditions). This change must be documented in the accounting policy and the articles of association of the Company. In the case of such decision, the change will be effective on the first day of the new financial year.

Deferral of non-realized F/X gains

Should the company recognize non-realized gains because of the above-mentioned year-end revaluation due to F/X differences, there is a possibility to delay the taxation of such a gain. This decision should also be made at year-end by the company.

Tax group for corporate income tax purposes

A corporate income tax group could be established by at least two taxpayers. In the case of already existing taxpayers, it is possible to elect to form a group in the period from the first day of the penultimate month of the tax year to the 20th day of the penultimate month of the tax year (which is the period between 1 November and 20 November for calendar year taxpayers). In the case of newly established taxpayers, tax group could be formed simultaneously with the registration at the Hungarian Tax Authority (HTA). Some benefits of the tax group are as follows:

- The available tax loss of the members could (partially) be utilized on a group level;
- There are no transfer pricing requirements in respect of the transactions carried out within the group members;
- Tax credits of the members could partially be utilized on a group level.

The safe-harbor lump sum interest deduction amount (that is HUF 939 million, approximately EUR 2.7 million) should, however, be applied at a CIT group level, which could be a disadvantage. The 30% EBITDA threshold is also calculated at group level, which may also be a disadvantage.

VAT considerations

As a general rule, rental or sale of real estate is a VAT exempt transaction (except for building plots, undeveloped property or properties not older than two years). However, taxpayers can opt for VATable treatment of such transactions. In some cases such options can only be made at year-end, until the end of the particular calendar year. Such decisions may not be reversed for 5 years, i.e. careful planning is recommended before such decisions.

Tax deferral due to recognizing development reserve

In the case of real estate transactions where a real estate is sold as a result of an asset deal, development reserve can be created up to the amount of the pre-tax profits of the particular financial year. The amount of the reserve reduces the corporate tax base of the particular financial year, however, a qualifying (tangible) asset must be purchased from the reserve within 4 years. Until then the amount of the reserve decreases distributable profits. Once the new asset is acquired the reserve is released. The amount of the reserve reduces the tax bookvalue of the new asset(s), i.e. it is ultimately a brought forward tax depreciation allowed for the deferral of taxation. If the development reserve is not released within 4 years following the creation, the corporate income tax due thereon and late payment interest is to be paid.

Other topics to consider

Interest deductibility

Hungary implemented the ATAD based rules. Accordingly, the threshold limiting the deductibility of debt financing costs should be understood as 30% of tax-EBITDA or HUF 939 million (whichever is higher), with group figures based safe harbour threshold available. Considering the increased financial expenses due the recent and current situation on the financial markets, the HUF 939 million/entity safe harbour threshold may be exceeded more easily than before. As a result, careful planning may be required to ensure that financing expenses remain deductible for corporate income tax purposes.

Real estate transfer tax (RETT)

Purchasing real estate property or real estate rich entity in Hungary is subject to RETT in the hands of the buyer. The general rate is 4% of the FMV of the real estate property up to HUF 1 billion, and 2% for the exceeding part, while the tax is capped at HUF 200 million (approx. EUR 500,00) per real estate. Any company (foreign or domestic) is considered to be a real estate rich company if the Hungarian real estate properties it owns represent more than 75% of its adjusted balance sheet total, or has at least 75% direct or indirect ownership in a company qualifying under the above conditions.

Accordingly, indirect transfers are also subject to RETT. For the purpose of calculating the above ratios, the latest available balance sheet should be used at the time of the transaction. Additionally, those assets (excl. cash and cash equivalents) should also be considered when calculating the real estate related ratios/thresholds which were bought or sold between the date of the transaction and the balance sheet date of the latest available balance sheet at the time of the transaction. Deferrals and exemptions are available, however, careful planning and calculations are recommended prior to share deals at any level of the ownership chain if a Hungarian real estate rich entity is involved in the transaction.

Real Estate Investment Funds (REIF)

REIFs in Hungary have been used more widely in recent years, especially by developers. Pursuant to the Hungarian legislation, real estate investment funds are collective investment vehicles with legal personality, not operating though in a corporate form. Rather, they qualify as an unincorporated asset funds where all the investment decisions are made by the fund manager in the name and on behalf of the fund. Fund managers have to operate in the form of a company limited by shares and are subject to strict regulatory requirements.

Real estate investment funds can be established either publicly or privately, for a determined or undetermined duration, and also with closed-end or open-end terms (based on whether redemption of the investment units is possible during the fund's term). The tax treatment of real estate investment funds is as follows:

- Real estate investment funds are not liable to pay corporate income tax. Domestic investors of the funds are subject to income tax when profits of the fund are distributed to them. On the other hand, generally funds are not considered to be treaty residents.
- According to standard market practice real estate investment funds do not qualify as taxpayers for the purposes of the local business tax (the rate of which for companies is otherwise 2% of the adjusted net sales revenue).
- In the case of acquisition by real estate investment funds, the RETT rate is flat 2%, however, no cap applies.
- Real estate investment funds have to pay yearly 0.05% special tax on the basis of their net asset value.
- Per the Hungarian rules, no specific VAT legislation has been enacted in the case of real estate investment funds, thus, the general rules have to be applied. The standard headline VAT rate is 27%.
- Per Hungarian domestic legislation, there is no withholding tax on distributions/ payments made to entities. Thus, foreign investors can realize the fund's proceeds withholding tax free. However, tax obligation arises in respect of domestic investors.
- There is no real estate transfer tax payment obligation during the transfer of the investment units.

Pillar 2 considerations

Hungary has implemented an "advance return" and payment obligation for the Qualified Domestic Minimum Top-Up Tax (QDMTT) for tax years beginning on or after 1 January 2024. The QDMTT advance return and payment must be completed by the 20th day of the 11th month after the relevant tax year (i.e., 20 November 2025, for 2024 calendar-year tax years). A single Hungarian constituent entity may file on behalf of all Hungarian Constituent Entities.

The current law requires a 100% advance payment obligation, though detailed guidance on the information granularity needed to support the QDMTT position is yet to be provided. We expect that the return itself will not require detailed disclosure of all components of the QDMTT calculation. However, the total QDMTT amount expected for FY2024 must be reported and paid, otherwise penalties may be levied (a default penalty of up to HUF 10 million, approx. EUR 25,000 may be levied in case of late filing, however transitional penalty reliefs may apply). It is also expected that a return must be filed even if the QDMTT liability is nil (including Constituent Entities applying the TCSH rules).

12 Ireland

Taxation of rental income

Rental income profits are subject to corporation tax at the rate of 25% where the real estate asset is held through an Irish company or a non-resident company

Interest deductions

A deduction for interest is only allowed in computing the rental profits for the year where the money borrowed has been used on the purchase, improvement or repair of the property which generates the rental income.

Landlords must ensure that residential properties are registered with the Private Residential Tenancies Board in order to obtain an interest deduction.

Capital allowances

Tax depreciation is available on plant and equipment at an annual rate of 12.5% of the cost over eight years. Where items of plant and equipment are deemed to be energy-efficient, the entire allowance can be claimed in the year in which the expenditure is incurred. Excess allowances over rental income profits can be carried forward as a loss to offset against future rental income.

Qualifying industrial buildings such as factories, hotels, nursing homes etc. may be able to avail of capital allowances at an annual rate of 4% of the cost over 25 years.

Withholding tax on rent

Rental payments made by a lessee to a non-resident landlord are subject to a withholding tax of 20% which the lessee must pay to the Irish Revenue Commissioners.

Non-resident landlords should appoint an Irish collection agent to collect the rents from the lessee in order to avoid Irish withholding tax.

Interest withholding tax

Interest payments made by an Irish resident company to a non-resident are generally subject to Irish withholding tax of 20%. The Irish resident company is obliged to withhold the tax from the interest payment and pay it directly to the Irish Revenue Commissioners. Several generous domestic exemptions are available under Irish tax legislation.

Investors making interest payments to non-resident lenders should ensure appropriate exemptions are available before paying interest gross to lenders.

Dividend withholding tax

Distributions made by an Irish resident company are generally subject to withholding tax at a rate of 25%. Several exemptions are available under the Irish tax legislation subject to having the appropriate declarations in place.

From 1 January 2025, a new participation exemption applies to foreign dividends and distributions from companies in the EEA or treaty countries. To qualify, the Irish parent must hold at least 5% of the subsidiary's share capital, profits, and assets for 12 months, and the subsidiary must be subject to a comparable tax. The exemption covers distributions from profits or, in some cases, assets – if the parent qualifies for the substantial shareholding exemption. It excludes tax-deductible distributions, winding-up payments, interest-like income, offshore funds, and Section 110 companies. Elections are made per accounting period in the tax return.

Disposals by non-residents

A non-resident will be subject to capital gains tax in Ireland on the disposal of Irish specified assets. Land (including tenements, hereditaments, houses and buildings, land covered by water and any estate, right or interest in or over land) situated in the State is considered to be an Irish specified asset. Additionally, shares in a company which derives the greater part of its value from land are also considered to be Irish specified assets. A disposal of such shares by a non-resident would also be within the scope of Irish capital gains tax.

A vendor who is disposing of an Irish specified asset where the consideration exceeds EUR 500,000 (or EUR 1 million where the asset is residential property) should obtain a Form CG50A from the Irish Revenue Commissioners to avoid a potential 15% withholding tax.

Tax filing obligations

Both Irish tax resident companies and non-resident landlords are obliged to pay their corporate income tax liability and file their corporation tax return within nine months of the end of its accounting period.

Stamp duty

Stamp duty applies to the acquisition of real estate assets and is payable by the purchaser. The rate of duty is 7.5% on the acquisition of commercial property and generally 1% on residential property transactions up to a value of EUR 1 million and 2% thereafter. These rates do not apply to acquisitions of relevant residential units, which are liable to a 15% rate

A "relevant residential unit" is where it is part of a bulk purchase of 10 or more residential units, or where the buyer has bought at least 9 other residential units in the 12 months preceding the current purchase. Residential units in apartment blocks are not liable to the 15% rate.

Anti avoidance provisions apply a 7.5% stamp duty to interests entities that derive their value or the greater part of their value, directly or indirectly from Irish non-residential land and buildings. The 7.5% stamp duty charge will only apply where:

a. The transfer results in a change in the person or persons having direct or indirect control over the real estate assets listed above, and
b. It would be reasonable to consider that the real estate assets concerned were acquired with the objective to profit from their sale, are being developed with the objective of realizing profit from their sale or are held as trading stock.

The rules apply not only to conveyances or transfers of shares/units/partnerships interests, but also to contracts for the sale of any such shares/units/interests which might otherwise not be stampable.

Losses carried forward

Losses on the disposal of real estate property can be carried forward and set off against future capital gains. A restriction applies to gains made on development land. Only losses incurred on disposals of development land can be offset against gains made on the disposal of development land.

Value Added Tax (VAT)

Where VAT has been charged on the acquisition of property, it may be necessary to charge VAT on the rental payments due from the tenant in order to avoid a clawback of any VAT reclaimed on the purchase or development of the property.

VAT is only chargeable on commercial properties and cannot be charged on residential lettings (including student accommodation).

A landlord who leases out a mixture of commercial and residential properties can only reclaim VAT on expenses incurred in relation to the commercial properties. For dual use expenses (i.e., expenses relating to a mixture of commercial and residential properties), a recovery rate must be calculated to determine the proportion of the VAT which can be reclaimed on such expenditure.

The recovery rate applicable to dual use expenses must be calculated each year and must be a true representation of the mixture of the commercial and residential properties to which the expenditure applies.

Local property tax

Local property tax is only chargeable on residential properties and is generally payable by the owner of the premises. The local property tax for 2025 is calculated based on the market value of the property as at 1 November 2021, and LPT for the years 2026–2029 will be based on 1 November 2025 property values.

Transfer pricing

Irish transfer pricing legislation endorses the OECD Transfer Pricing Guidelines and adopts the “arm’s length” principle. The rules apply to domestic and international arrangements entered into between associated persons, involving the supply or acquisition of goods, services, money, or intangible assets, and relating to trading activities within the charge to Irish corporation tax.

Under Irish rules, the Irish tax authorities have the power to recompute the taxable profit or loss of a taxpayer where income has been understated or where expenditure has been overstated as a result of non-“arm’s length” transfer pricing practices. There is, however, an exemption available for small and medium-sized enterprises.

Interest limitation rules

Ireland’s interest limitation rules impose a cap on interest deductions to no more than 30% of EBITDA where a company has over EUR 3 million of an interest expense. However, an exemption from interest limitation rules is available in respect of certain long term public infrastructure projects.

Anti-hybrid legislation

The Irish anti-hybrid rules, implement the requirements of EU ATAD II. The rules broadly deny deductions or impose tax on transactions between associated entities where there is an element of hybridity in the transaction or due to the form of the payor/payee.

Ireland also introduced reverse hybrid mismatch rules. Where a reverse hybrid mismatch arises, the rules provide for a neutralising mechanism whereby the income of the reverse hybrid entity will be subject to Irish corporation tax, "as if the business carried on in the State by the entity was carried on by a company resident in the State.

Pillar two

As part of the OECD's global tax reform, countries agreed to implement a minimum effective tax rate of 15% for large multinational groups. Ireland introduced these rules through the Finance Act 2023, effective from 31 December 2023.The rules apply to multinational enterprise (MNE) groups with annual consolidated revenue of at least EUR 750 million in two of the last four financial years (2020–2023). This includes entities consolidated in the financial statements of the Ultimate Parent Entity (UPE), either due to ownership/control or unless excluded only for size, materiality, or sale-related reasons. Importantly, the Irish legislation also covers standalone entities (not part of a consolidated group) if they exceed the EUR 750 million revenue threshold.

Residential Zoned Land Tax (RZLT)

RZLT applies at a rate of 3% of the market value of land that is serviced, zoned for residential or mixed-use development, and not otherwise excluded. Land meeting these criteria is identified as a "relevant site" and included on maps published by local authorities. The person who owns the land on 1 February each year is generally responsible for paying the tax for that year, although deferrals may be available in certain cases.

Local authorities publish updated RZLT maps annually by 31 January, with draft maps released the previous year by 1 February. Landowners who believe their land should not be included have the opportunity to make submissions and appeals during the draft mapping process.

Relevant Contracts Tax (RCT)

RCT is a withholding tax that applies when a principal contractor pays a subcontractor for certain construction-related work in Ireland, regardless of where the subcontractor is based. Principal contractors include developers, builders, utilities, public bodies, and those involved in sectors like energy, transport, and telecommunications.

RCT also applies when a subcontractor passes work to another party, or when certain services – such as telecom hardware supply or offshore support – are provided to a principal contractor. There are three RCT rates: 35% for unregistered or non-compliant subcontractors, 20% for compliant registered subcontractors, and 0% for those meeting specific Revenue conditions.

Vacant Homes Tax (VHT)

The VHT, introduced by the Finance Act 2022, applies to residential properties that are occupied for less than 30 days during a 12-month period starting each 1 November, beginning in 2022. For chargeable periods starting from 1 November 2024–31 October 2025, the rate is seven times the base LPT rate.

Property owners must file their VHT returns electronically by 7 November following the end of each chargeable period. The tax is not deductible for income tax purposes. Exemptions are available for properties that are actively listed for sale or rent, undergoing significant renovations, or vacant due to the recent death of an occupant. VHT operates on a self-assessment basis, meaning property owners are responsible for determining whether they are liable and for meeting their filing and payment obligations.

Irish Real Estate Funds (IREFs)

Irish Real Estate Funds (IREFs) are funds which derive over 25% of their value from Irish land or buildings, assessed at the sub-fund level. IREFs must apply a 20% withholding tax on income distributions and redemption gains paid to non-exempt investors. Exemptions apply to certain investors, including Irish pension schemes, life assurance companies, regulated funds, and their EEA equivalents.

Additionally, financing costs linked to “excess debt” – borrowings over 50% of asset cost – are treated as deemed income and taxed at 20%. IREFs must also maintain a minimum financing cost ratio of 1.25; falling below this triggers a deemed income charge. Expenses not wholly for IREF business purposes are similarly taxed as deemed income.

13 Italy

Interest capping rule

For corporate income tax (IRES) purpose, interest expenses (even those capitalized on assets) are deductible within the limit of interest revenues and, subsequently, within the limit of 30% of the fiscal EBITDA. The fiscal EBITDA derives from the accounting EBITDA (as per P/L), adjusted according to the same provisions used to compute the IRES taxable base.

Interest expenses that exceed such limits can be carried forward to be deducted in the following fiscal years, without time limitations, but only up to the amount of the interest revenues and 30% fiscal EBITDA of any following year (the latter, net of the interest expenses excess of the same year). Any "unused" 30% fiscal EBITDA can be carried forward and used to increase the 30% fiscal EBITDA of the following 5 years. In case, in a year, interest revenues exceed interest expenses, such excess may be carried forward without any time limitation.

As a temporary provision adopted with the enactment of ATAD rules in the Italian income tax system, interest expenses concerning facilities executed before 17 June 2016 whose amount or duration has not varied after that date, can be deducted by using the 30% (accounting) EBITDA excesses not yet used up to 2018 and carried forward. This specific portion of the EBITDA can be carried over indefinitely (as in the previous system), but it can be used only to deduct interest expenses on the facilities stated above (contrarily, out of this circumstance, any EBITDA excess existing at 2018 year-end is definitively lost).

However, it has been confirmed that interest expenses that have been generated by loans/debts guaranteed by mortgages on real estate up for lease are still not subject to the interest capping rule. Pursuant to law, the benefit of such exclusion is applicable only to companies which carry on "actually" and "prevalently" real estate activity. This is met if the following conditions are fulfilled:

- the greater part of the total assets is formed by the fair value of properties up for lease;
- at least 2/3 of the revenues derive from building rentals and leases of business which is made prevalently by buildings.

These rules do not apply to partnerships, which can fully deduct interest expenses.

Evaluate the impact of the interest capping rule, especially with regard to capitalized interest and carried forward EBITDA. Check if the stated asset test and revenues test are fulfilled to take benefit from full deduction of interest on mortgage loans concerning properties up for lease. In case of refinancing, check if the original financing (other than bridge loans) fulfilled the conditions to enjoy the exclusion from the EBITDA limitation.

Shareholder's debt waivers

Shareholder's debt waivers are taxable for IRES purposes in the hands of the Italian subsidiary to the extent its accounting value, as booked in the subsidiary's general ledger, exceeds its related tax value in the hands of the shareholder.

For this purpose, the shareholder has to communicate in writing to the Italian subsidiary the tax value of its credit waived. In absence of such communication, the entire accounting value of the waived debt is subject to IRES.

In case of shareholder's debt waivers, obtain the shareholder's communication to prevent (or limit) the raising of a taxable contingent income in the hands of the Italian subsidiary.

Tax loss carry-forward

For corporate income tax (IRES) purpose, tax losses can be carried forward without any time limit, as follows:

- Tax losses incurred in the first three years of activity (provided that they derive from the launching of a new activity) can be used to entirely offset future taxable income;
- Tax losses incurred in subsequent years can be used to offset only 80% of the taxable income of any following year. The remaining 20% must be taxed according to the ordinary rules (IRES rate: 24%).

It is possible to combine the use of the two kinds of tax losses to reduce/offset the taxable income as much as possible.

The tax losses carried forward may be limited in case of: (i) transfer of shares representing the majority of voting rights in the company's general meetings ("change of control"), if also the change of the business activity from which such tax losses derived intervenes in the year of transfer or in the preceding or subsequent two years (exceptions exist); or (ii) in case of tax neutral reorganizations (e.g., mergers, spin-offs).

Check if there are any tax losses that can be carried forward and define their regime of carry-forward.

Passive company legislation

The "passive" (or "non-operative") company legislation postulates that if an "expected minimum" amount of revenues (calculated as a percentage of the average value of the fixed assets over a three-year period) is not reached ("operative test") the company is deemed to be "non-operative", with the consequence that taxation for both corporate income tax (IRES) and regional production tax (IRAP) will not follow the ordinary rules, but will be based on an "expected minimum" taxable income, calculated as a percentage of the value of the fixed assets owned (such minimum income cannot be offset by tax losses carried forward). This rule applies also to partnerships.

For companies which are deemed as "non-operative" the IRES rate is increased by 10.5% (therefore, from 24% to 34.5%). Other implications for "non-operative" companies may include limitations to the tax losses carry-forward and to the VAT credits refund/offset.

Check the impact of the "operative test" and of this special legislation.

Pillar Two considerations

Italy has transposed into domestic law the Minimum Taxation Directive (2022/2523) by means of Legislative Decree No. 209/2023.

The legislation applies to entities located in Italy that are part of a multinational enterprise (MNE) group or a large-scale domestic group with annual revenues of EUR 750 million or more in at least 2 of the 4 fiscal years immediately preceding the tested fiscal year, where their effective tax rate is lower than the minimum rate of 15%.

The imposition of a top-up tax of at least 15% is ensured via two interlocking Global Anti-Base Erosion (GloBE) rules:

- the income inclusion rule (IIR), which applies to fiscal years beginning from 31 December 2023; and
- the undertaxed profits rule (UTPR), which applies to fiscal years beginning from 31 December 2024.

However, in-scope MNE groups are excluded from the application of the IIR and the UTPR in the first 5 years of the initial phase of their international activity.

Additionally, Italy chose to implement a domestic minimum top-up tax (DMTT) (imposta minima nazionale), intended to meet the requirements for the qualified domestic minimum top-up tax (QDMTT) safe harbour.

The Ministerial Decree of 20 May 2024 implemented the Pillar Two transitional safe harbours and the Ministerial Decree of 1 July 2024, provides the implementing rules on the DMTT.

Evaluate the impact of the new Pillar Two provisions to the group.

Transfer pricing documentary requirements

The setup of a transfer pricing (TP) documentation according to certain parameters allows avoidance of tax penalties in case of assessment on transfer pricing matters carried out by Italian tax authority (penalties range from 90% to 180% of the higher tax assessed). The existence of such documentation has to be declared in the relevant annual income tax return.

Map intra-group transactions and possibly prepare compliant TP documentation.

Deductibility of local property tax (IMU) on "instrumental" buildings

Local Property Tax (IMU) paid over "instrumental" buildings (these being buildings directly used in the company's business – therefore subject to depreciation) has become fully deductibility for IRES purpose since FY2022.

This provision is precluded to buildings for sale/inventory (which for builders and at stated conditions, however, may be exempt from local property tax) and those held as investment that do not pertain to the company's business.

Consider IMU deductibility rules for real estate companies based on the destination of the properties owned.

The new Italian NRCGT ("land rich" provisions)

Starting from 1 January 2023, the taxation of capital gains earned by non-residents (excluding those deriving from the disposal of shares and similar securities listed in regulated markets) has been modified as follows:

- Capital gains deriving from the disposal, for consideration, of shareholdings in non-resident companies and entities, more than half of whose value is derived, in any of the 365 days prior to the disposal, directly or indirectly, from real estate located in Italy, are deemed to be earned in the Italian territory for income tax purposes.
- The domestic tax exemption for non-residents in respect of capital gains deriving from the disposal of shares, securities and other financial instruments which are not "qualifying" shareholdings (i.e., those not exceeding, in terms of voting rights or capital ownership, respectively, 20% or 25% for unlisted shareholdings, computed over a 12-month period) in Italian resident companies and entities is no longer applicable if more than one-half of their value is derived, in any of the 365 days prior to the disposal, directly or indirectly, from real estate located in Italy.

In this respect, real estate assets for sale (inventory) and those directly used in the company's business shall not be included in the one-half value.

The new land rich provisions are not applicable to capital gains realized by foreign Undertakings for Collective Investments compliant with UCITS IV EU Directive or, for those not compliant, which are managed by a regulated manager under the AIFMD EU Directive, in both cases set-up in an EU or EEA country. Moreover, the disposal of Italian real estate AIFs does not fall in the scope of these new rules.

In case of disposal of companies and entities, consider if they may be qualified as Italian real estate "rich" (even indirectly).

The 2-year Preventive Composition Procedure ("Concordato Preventivo Biennale" – "CPB")

The 2-year Preventive Composition Procedure ("CPB") is a newly introduced option to agree in advance with the Tax Authority the taxable business income of the following two tax periods. Applicable from fiscal year 2024, it aims to streamline tax obligations and encourage voluntary compliance, and it is offered to resident companies which apply "ISA" (Indici Sintetici di Affidabilità, the audit method based on a synthetic index of reliability).

Access to the CPB is allowed provided specific conditions are met (e.g., no unsettled tax/social contributions, no tax criminal sanctions in the preceding three years, regular tax returns filings in the same preceding periods).

Pursuant to the CPB regime, the subsequent 2 years' taxable income for IRES and IRAP purposes is determined in advance by the Italian Tax Authority on the basis of the information in its hands. The taxable income so determined excludes capital gains, extraordinary income/costs and income derived from partnerships actually incurred (these items must be added to the determined taxable income).

The 2-year taxable income is then "proposed" to the taxpayer, for acceptance or denial.

In case of CPB option election, if the taxable income agreed is higher than the taxable income of the previous fiscal year, the difference is subject to a substitute tax (of IRES and IRAP) with rate ranging from 10% to 15%.

The CPB regime provides several benefits, such as, among others: exclusion from certain types of tax audits and from the dummy company legislation, a one-year reduction of the statute of limitations.

The CPB regime does not apply for VAT purposes.

For the first 2-year period (FYs 2024/2025) the option had to be elected within the deadline of the income tax return filing (31 October 2024). For subsequent years, the calendar may change (the option for the 2-year period FYs 2025/2026 had to be elected by end of September 2025).

Consider, from a cost-benefit perspective, the subsequent 2 years taxable income automatically determined by the Italian Tax Authorities.

14 Latvia

Matters to be aware of

Due to the increase in the interest rate, it is important to consider the application of thin capitalisation rules (debt to equity ratio of 1:4 and EBITDA 30% rule). As of January 2025, a 3% additional PIT rate on dividends paid to individual is applicable in case individual's total annual income exceeds EUR 200,000.

Stamp duties

Stamp duty is paid by the entity which acquires the ownership rights. In cases where RE ownership rights are obtained as a result of reorganisation, the new owner does not have to pay stamp duty. Stamp duties per immovable property are determined as follows:

- For alienation of real estate (RE) on the basis of a contract is 2% of the RE value if ownership rights are transferred to a legal entity, but not more than EUR 50,000.
- For alienation of RE on the basis of a contract is 1.5% of the RE value if ownership rights are transferred to an individual, but not more than EUR 50,000.
- For alienation of RE on the basis of a gift agreement is 3% of the RE value.
- Investment of RE into the share capital of a company is 1% of the RE value invested into the share capital, but not more than EUR 50,00.

Sale of real estate/rental income

The rental income received by non-resident is subject to 5% withholding tax (WHT). The taxation principles applied to income from the sale of a real estate differs for Latvian residents and non-residents. Sale of real estate by non-residents would be subject to 3% WHT on gross proceeds. This tax must be either withheld by the Latvian purchaser or, in case the transaction is between two non-residents, declared and paid by the non-resident seller.

CIT Act allows non-residents from EU or double tax treaty (DDT) countries to pay 20% on profit from such sale, on condition that the company can justify the acquisition costs by documentary evidence. This tax must also be withheld on a non-resident company's proceeds from the sale of particular real estate or shares in a Latvian or foreign company if Latvian real estate represents more than 50% of the company's asset value (whether directly or indirectly through participation in one or more other Latvian or foreign entities) in the tax period the sale is made, or in a previous tax period.

Taxation of dividends

The taxation of dividends is made on the company's level. The CIT rate of 20% is applicable to the taxable base. However, before applying the statutory rate, the taxable base should be divided by a coefficient of 0.8. As the taxable base is increased by the coefficient, the effective CIT rate is 25%. Starting from 1 January 2026, companies whose shareholders are individuals will have the option to apply an alternative CIT rate of 15% at the company's level and withhold PIT rate of 6% on dividend income received by the individual.

CIT exemption: Flow through dividends would be exempt from CIT if they are received from CIT taxpayer or tax has been withheld at source state. In addition, some anti-avoidance provisions would apply aimed at offshore entities or artificial structures.

Review your dividend payment policy to benefit from the current CIT regime (e.g., profits paid out of retained earnings up to 31 December 2017 are not subject to CIT. However, if the shareholder is an individual personal income tax (PIT) rate of 20% is applicable).

Sale of shares and securities

In line with the CIT Act the income arising from the disposal of shares constitutes CIT taxable base. At the same time, the CIT Act provides the relief determining the reduction of the taxable base in case of a disposal of direct participation shares held for at least 36 months (i.e. three years). The relief mentioned is not applicable to the shares held in the companies established in black-listed jurisdictions and to the real estate company's shares.

Please note there are specific rules for the sale of real estate company's shares by non-residents. More details are provided in the paragraph Sale of real estate.

If relevant, please consider that income gained on disposal of shares held for 3 years or more may be used to reduce CIT taxable base.

Losses carried forward

The CIT Act does not include the concept of tax losses.

Deductibility of interest payments

CIT is payable on increased interest payments. The allowable interest shall be calculated applying two methods.

If both methods are applicable, the higher of the two amounts calculated which exceed the calculated threshold should be added to the CIT taxable base.

There are a number of exemptions from the above rules, e.g. qualifying loans from credit institutions do not fall under the mentioned regulation. Thin capitalisation exemption might apply to broader alternative financing sources, if accepted by government in November 2025.

If relevant, consider options for improving equity before year's end to improve deductibility of interest next year, as well as seek for clarification from tax consultants or tax authorities on the use of exemptions of interest deductibility rules.

Exchange of shares

Where a share exchange takes place (one kind of share being exchanged for another kind), payment of PIT is postponed and is due when the individual sells the shares acquired through exchange.

Provision for bad debts

Provisions for bad debts do not become a subject to CIT if debts are repaid during a 36-months period. If a company made provisions up to 31 December 2021 and the debtors are going through insolvency proceedings, the recovery period may be extended to 60 months.

Opportunities to recover bad debts should be considered to decide how much provision for bad debts is necessary.

Write-offs for bad debts

Bad debts must comply with certain criteria listed in the CIT Act in order not to constitute the CIT taxable base, when written off.

Transfer Pricing

All related-party cross-border payments as specified in the Taxes and Duties Act must comply with the arm's length principle. Failure to present appropriate documentation to the tax administration might result in the non-acceptance of group charges and penalties for tax purposes.

The arm's length principle should be duly followed and documented.

Real estate tax

Companies have to pay annual real estate tax (RET). Generally, the RET is between 0.2–3% of the cadastral value. The exact rate is determined by each municipality.

As of 1 January 2024, there is 50% tax relief available for energy-efficient buildings in Riga. Tax relief is granted for newly built or fully renovated buildings that are delivered for occupancy after 2023. Energy efficient buildings eligible for relief mean newly built or fully renovated buildings with international certification such as BREEAM International New Construction, BREEAM Refurbishment and Fit-Out, LEED BD +C or DGBN certificate with at least a 55% rating.

As of 1 January 2025, there are two cadastral values for each cadastral object: the fiscal cadastral value and universal cadastral value. One of them is used for the calculation of taxes, state fees, but the other one is used for other purposes (e.g. for accounting and financial reports).

In accordance with The National Cadastre of Real Estate Act the cadastral values are changed once every four years if the property market or factors affecting the value of an area have changed. The base of cadastral value for the period from 2025 to 2028 has been approved and has been in force as of 1 January 2025.

Consider the RET payments taking into account the available exemptions and possible changes in cadastral value.

Value-added tax (VAT) legislation regarding sale of real estate in Latvia

According to VAT Act sale of unused real estate and development land attracts the standard VAT rate of 21%. Under VAT Act, development land is defined as a piece of land that is covered by a permit issued under construction law for building development, engineering communications or access roads.

Input VAT incurred upon construction works, renewal, rebuilding or restoration is recoverable if the building is intended to be used for taxable transactions. The taxable person should follow the deducted input VAT for 10 years, that is, follow whether the actual use of real estate is not different from the planned one and no adjustment of the deducted input tax is required.

There might be claw-back provision, if a real estate previously acquired with VAT has been further sold as used within the meaning of VAT. It means that the seller is liable to repay a proportion of input VAT previously recovered. Option to tax allows a registered taxable person to charge VAT on supplies of used real estate transactions. This option is available only where property is registered with Latvian tax authorities and sold to a registered taxable person.

Make sure that VAT for the sale of real estate has been applied correctly.

VAT grouping

The VAT grouping facility helps related companies reduce their administrative burden and improve cash flows, as their mutual transactions no longer attract VAT. A single VAT return can be filed covering all group companies. This especially benefits group companies with both taxable and exempt supplies and companies that have extensive sales outside Latvia.

Consider the option of creating a VAT group.

Reverse-charge VAT on construction services

Construction services are subject to domestic reverse-charge VAT, meaning VAT is paid by the recipient. VAT Act defines construction services as any performance of construction work and all types of design work included in a construction project.

Make sure that reverse-charge VAT has been applied correctly.

Permanent establishments

If you have not registered a legal entity or a branch in Latvia, consider if your business operations have created a permanent establishment (PE), which requires a CIT compliance in Latvia.

Consider the requirements for registering a PE in Latvia.

Management fees

Management and consulting fees paid to non-residents are subject to a 20% WHT. However, WHT may be eliminated under provisions of the respective tax treaty. In order to apply for a more favorable tax regime, a non-resident has to provide the payer with a tax residency certificate.

The Latvian taxpayer should obtain this certificate from the income recipient and approve with the Latvian tax authorities until the financial statement submission deadline.

15 Lithuania

Investment in real estate and land

There are no restrictions for foreigners to acquire the immovable property in Lithuania (except for land). Agricultural, non-agricultural and non-forestry land, inland waters and forests can be acquired only by companies or individuals who are established or residing in the EU member countries or in countries that are the members of OECD, NATO or EEA and receive relevant permissions from local authorities.

Real estate (RE) related transactions are subject to a notary's approval and registration fee. The notary fee charged in case of a sale and purchase of RE amounts to 0.37% of the RE price but not lower than EUR 76 and not higher than EUR 5,000 (plus VAT). Registration fees of RE are not material.

In case of a share deal the transfer of shares in a RE holding entity is subject to the notary fee of 0.26% on the value of transaction (the fee shall not be less than EUR 24 or exceed EUR 5,000 (plus VAT), when:

- ≥25% of limited liability company's shares are sold;
- the sale price of the limited liability company's shares sale exceeds EUR 14,500 except for certain exemptions.

Group taxation

Tax grouping is not allowed in Lithuania (except for intra-group tax loss transfer possibility), thus each company is taxed separately.

Real estate tax (RET)

From 2026 RE where a natural person Registered place of residence will be tax exempt up to the value of EUR 450,000 (or higher depending on the municipality), the excess will be taxed at the rate of 0.1% to 1% depending on the municipality.

Other RE, excluding the personal premises, is taxed as follows:

a. Under EUR 50,000 0% RET rate;
b. EUR 50,000–200,000 0.2% RET rate;
c. EUR 200,000–400,000 0.4% RET rate;
d. EUR 400,000–600,000 0.6% RET rate;
e. EUR 600,000–1,000,000 0.8% RET rate;
f. Over EUR 1,000,000 1% RET rate

Procedure of filing advance RET return

RET base is the value of the property: depending on the type and purpose of the property it can be assessed either by mass valuation method (performed every 5 years) or using the replacement value (costs) method (established not earlier than 5 years ago). There is a possibility to apply the property value determined during the individual valuation if it differs from the market value by more than 20%.

Legal entities have an obligation to pay advance RET on a quarterly basis. Advance RET return for the first 9 months of the current tax period should be submitted together with the annual RET return for the previous tax period.

Value-added tax (VAT)

The standard VAT rate in Lithuania is 21%. The reduced VAT rates are 5% and 9%. The sale of new buildings is subject to VAT at the standard rate while the sale of buildings older than 24 months is VAT-exempt. A sale or any other transfer of land is exempt (except for building land and land transferred together with a new building that has been used for less than two years and land for construction). Rent of RE is also VAT-exempt (with some exceptions).

Reverse-charge VAT on construction service

Local reverse-charge VAT mechanism applies for supply of construction services, when such services are supplied to a taxable person Lithuanian VAT payer. If a foreign entity supplies construction services in Lithuania to a taxable person Lithuanian VAT payer, then the foreign entity is required to register with the Lithuanian VAT payers' register and apply local VAT reverse-charge mechanism for construction services.

Reverse-charge VAT mechanism is also applicable to supply of goods installed in immovable property in which construction services are performed and after such installation the goods become an integral part of the property. Such treatment is applicable when goods are supplied under a single agreement (supply of goods and installation services).

IT-based tax administration system – i.MAS

The Lithuanian tax authority created an IT-based tax administration system ("i.MAS"). All persons registered for VAT purposes in Lithuania are required to submit invoice data to i.SAF subsystem on a monthly basis (with some exceptions). Also, following certain turnover thresholds, companies established in Lithuania are required to prepare their accounting data in a SAF-T file and upon request provide it to the tax authority or other authority.

Corporate income tax

Standard corporate income tax (CIT) rate is 16% (from 1 January 2026 – 17%). Small entities (i.e. entities with fewer than ten employees (from 2026: employee count is irrelevant) and less than EUR 300,000 gross annual revenues) can benefit from a reduced CIT rate of 0% for the first tax period (from 2026: for two tax periods) and 6% (from 1 January 2026 – 7%) for the consecutive tax periods with certain exceptions.

Generally, the taxable period for CIT is the calendar year. The tax return has to be filed and CIT due has to be paid before June 15th of the next taxable period.

The companies with annual turnover exceeding EUR 300,000 are also subject to advance CIT payment in Lithuania.

Dividends exemption

Dividends distributed by a Lithuanian company to another Lithuanian company are generally subject to a 16% (from 1 January 2026 – 17%) CIT, which is withheld by a distributing company.

Dividends distributed by a Lithuanian company are exempt from withholding tax (WHT) if the recipient company has held not less than 10% of the voting shares in the distributing company for at least a 12-month period (without interruption) (except for blacklisted territories).

Dividends distributed by a foreign company are subject to a 16% (from 1 January 2026 – 17%) CIT that is to be paid by the receiving Lithuanian entity.

Dividends distributed by a foreign company to a Lithuanian company are exempt from CIT in Lithuania if the distributing foreign entity is established in the EEA and related profit is properly taxed in the domiciled country. Also, dividends distributed by a foreign company to a Lithuanian company are exempt from CIT in Lithuania when the Lithuanian company has held not less than 10% of the voting shares in the distributing foreign company for at least a 12-month period (without interruption) and when the profit of foreign company is subject to CIT or similar tax, and which is not registered or otherwise organized in the blacklisted territories.

Dividends paid out to foreign companies or received from foreign companies are not subject to tax exemption in cases where tax benefit is the main or one of the main objectives of a particular structure of companies. Dividends received from foreign companies are also not subject to tax exemption if they were deducted from taxable profit at the distributing company level.

Depreciation of fixed assets

The depreciation of fixed assets is calculated separately for each asset using the straight-line method, double declining balance depreciation method or production method. Generally, buildings may be depreciated over periods from 8 to 20 years (new buildings over 8 years), machinery and plant – over 5 years.

Land is not subject to tax depreciation.

Withholding tax on sale of real estate

Income from the sale of RE situated in Lithuania and derived by a foreign entity is subject to a WHT of 16% (from 1 January 2026 – 17%). WHT on income sourced in Lithuania must be withheld and paid to the state budget by both Lithuanian entities and permanent establishments in Lithuania.

Withholding tax on interest

Interest paid to foreign companies established in the EEA or in countries with which Lithuania has a double tax treaty are not subject to WHT in Lithuania and no holding requirements are applied. In other cases, 10% WHT is applied.

Deduction of interest expenses

In Lithuanian thin capitalization rule apply: interest on the debt in excess of the controlled debt-to-fixed-equity ratio of 4:1 is non-deductible for CIT purposes if the company can not substantiate that the same loan under the same conditions would be received from a non-associated party. The rule do not apply to the financial institutions providing financial leasing services.

Additionally, an entity is given the right to deduct interest costs exceeding interest revenue up to 30% of taxable EBITDA or up to EUR 3 million. If an entity belongs to the group of entities, the above criteria shall be applied jointly for all Lithuanian entities and permanent establishments of foreign entities in Lithuania that belong to the same group. Restrictions do not apply if an entity's financial results are included in the consolidated financial results of a group, and the equity-to-asset ratio of that entity is not more than 2 percentage points lower than the equivalent ratio of the group. Interest costs exceeding interest revenue could be carried forward without time limitation. Mentioned rules do not apply to financial institutions and insurance companies.

Transfer pricing

Transfer pricing documentation (TPD) should consist of two files: 1) Master File, which describes inter-company transactions in the worldwide context of an entity's group, and 2) Local File, which includes more detailed information and analysis about the local entity's inter-company transactions.

Local File should be prepared by all Lithuanian entities with the annual revenue for the previous period exceeding EUR 3 million. Master File is mandatory if an entity belongs to the international group of companies and its previous period's revenue in Lithuania exceeds EUR 15 million.

TPD requirements are not applicable for transactions between Lithuanian associated parties, provided such transactions are related to their activities in Lithuania.

Administrative penalties, amounting from EUR 1,820 to EUR 6,000 for non-compliance with the TPD procedures, could be imposed for CEO of the company. The arm's length principle should be duly followed and documented in order to avoid negative tax consequences.

Losses carried forward

Operating tax losses can be carried forward for an unlimited period of time. Losses incurred from the disposal of securities can be carried forward for a period of 5 years (indefinitely for financial institutions) and can only be offset against income of the same nature. Only up to 70% of current year's taxable profits can be offset against tax losses carried forward. The carry back of tax losses is not allowed under Lithuanian law.

Land tax

Land tax applies to land owned by companies and individuals, except for the forest land.

Land tax rates range from 0.01% to 4% depending on local municipalities. In Vilnius, the land tax rate established for 2025 varies from 0,12% (standard rate) to 4% (e.g. for the land that is not used and for the land with buildings recognised as unauthorised construction).

Exemption from land tax is available in some cases. The tax base is the average market value determined according to the mass valuation performed not rarer than every 5 years. There is a possibility to apply the property value determined during the individual valuation if it differs from the market value by more than 20%.

Land lease tax

Users of state-owned land are subject to land lease tax. The tax rate ranges from 0.1% to 4% of the value of the land. The actual rate is established by municipalities. In Vilnius, the land lease tax varies from 0.5% to 4%. Municipalities have an opportunity to apply tax incentives.

Personal income tax

As of 2026, Lithuanian taxpayers' income from the sale/rent of RE located in Lithuania is summed together with other sources of income, and the sum is subject to 20% PIT for income not exceeding EUR 82, 962 per calendar year 2026. Sum of income from EUR 82,962 to EUR 138,270 is subject to 25% PIT, while the sum of income exceeding EUR 138,270 per calendar year is taxed at 32% PIT.

DAC 6

The European Union (EU) Directive on the mandatory disclosure and exchange of reportable cross-border tax arrangements (referred to as DAC 6 or the Directive) is introduced into Lithuanian law. Under DAC 6 taxpayers and intermediaries are required to report cross-border reportable arrangements which include at least one of the distinguishing hallmarks defined in the law.

16 Luxembourg

Corporate tax rate

The aggregate income tax rate for 2025 is 23.87% for entities registered in Luxembourg City:

- Standard corporate income tax rate is 16% for taxable income exceeding EUR 200,001. Companies with a tax base of less than EUR 175,000 benefit from a reduced corporate income tax rate of 14%. Companies with a tax base between EUR 175,000 and EUR 200,001 are subject to a corporate income tax of EUR 24,500 plus 30% of the tax base above EUR 175,000
- Municipal business tax is also levied at a rate generally varying from 6.75% to 10.50% depending on where the company is located (the municipal business tax rate is 6.75% if the company has its registered office in the Luxembourg City).

Luxembourg undertakings are also contributing to the Luxembourg employment fund for 1.12% of their taxable income (i.e. 7% rate assessed on the 16% income tax).

Losses carried forward

Tax losses incurred before 1 January 2017 may be carried forward indefinitely by the company that has incurred them.

Tax losses incurred as from FY 2017 may be carried forward for a maximum period of 17 years.

Tax losses cannot be carried back in Luxembourg.

Net Wealth Tax (NWT)

Companies resident in Luxembourg are subject to an annual Net Wealth Tax on their unitary value (net asset value) to be determined as at 01.01 of each calendar year.

The following rates are applicable:

- for a unitary value up to and including EUR 500 million: 0.5%;
- for a unitary value exceeding EUR 500 million: 0.05% on the portion of the unitary value above EUR 500 million, plus EUR 2.5 million (i.e. EUR 500 million at 0.5%).

Some exemptions are available under the Luxembourg participation exemption regime (e.g. shares in certain companies) or by virtue of the applicable Double Tax Treaties (e.g. real estate located abroad).

The tax liability can in principle be eliminated or reduced if a specific reserve, equal to five times of the tax is created before the end of the subsequent year and maintained for the following five years.

Minimum Net Wealth Tax

A minimum NWT charge applies for all corporate entities having their statutory seat or central administration in Luxembourg. The minimum NWT ranges from EUR 535 to EUR 4,815 depending on the total balance sheet, as follows:

- EUR 535 if the total balance sheet does not exceed EUR 350,000;
- EUR 1,605 if the total balance sheet exceeds EUR 350,000 but does not exceed EUR 2,000,000;
- EUR 4,815 if the total balance sheet exceeds EUR 2,000,000.

There is no withholding tax on interest.

Withholding Tax

Generally, dividends are subject to 15% withholding tax unless the conditions of the Luxembourg participation exemption regime are fulfilled, or more favorable tax treaty rates are available.

Liquidation proceeds paid by a Luxembourg company are not subject to withholding taxes in Luxembourg.

Director fees related to seating at the board are usually subject to a 20% withholding tax.

Real Estate Levy

The Bill (n°7666) presenting the Budget for 2021 and issued by the Luxembourg Government on 14 October 2020 has proposed the introduction of a new tax, termed a Real Estate Levy ("prélèvement immobilier"). It applies to Luxembourg investment fund vehicle which is regulated under the 2007 specialised investment fund ("SIF") regime, or the 2016 reserved alternative investment fund ("RAIF") regime, or Part II of the 2010 UCI regime and has its own legal persona and owns directly (or indirectly through one or more entities that are regarded as tax transparent under Luxembourg principles) real estate assets that are sited in the Grand Duchy of Luxembourg.

The Real Estate Levy is to apply to the gross (but VAT-exclusive) amount of rental income deriving (directly or through tax transparent entities) from Luxembourg real estate assets and the net amount of gains on disposal deriving from such assets (directly or through tax transparent entities, either on disposal of the real asset by a transparent entity or disposal of the interest in the tax transparent entity owning the Luxembourg real estate) on or after 1 January 2021, and is charged at a rate of 20%.

Real Estate Levy due on income or gains arising or realised in a calendar year must be reported to the tax authorities no later than 31 May of the following calendar year, and the Levy due must be paid no later than 10 June of the following calendar year. Returns of Real Estate Levy due must be accompanied by an auditor's certificate confirming that the amount being subject to the levy is computed in accordance with the provisions of the legislation.

Payments to EU "black-listed" countries

With the law of 10 February 2021 (the Law), Luxembourg introduced defensive measures in its tax legislation that disallows tax deduction of interest or royalties paid or due to related parties, if these are corporate entities established in countries that are "black-listed" as being "non-cooperative" for tax purposes listed on Annex I of the EU List. The new provisions apply as from 1 March 2021.

On 31 May 2022, the Luxembourg tax authorities published an updated circular on the application of these measures (L.I.R. n°168/2).

VAT Grouping implemented in Luxembourg

The VAT grouping legislation has been introduced in Luxembourg with effect from 31 July 2018 (via Law no.671 of 6/08/2018). Some of the feature of the VAT group include:

- Enhances consolidation for VAT purposes;
- Is an optional regime, choice is left to the taxpayer, but all-in or all-out, limited opt-out possibilities;
- Only Luxembourg resident companies and a local branch of a foreign company can join.
- Applicable for any sector/industry but the three following links need to exist simultaneously:
  - Financial links;
  - Economic links and
  - Organizational links.
- Members cannot be part of more than one VAT group;
- Must be set up for at least 2 calendar years.

Although this is a new regime in Luxembourg, VAT groups are already used in other jurisdictions as a way to mitigate irrecoverable VAT costs and cash flow effects on intra-group charges.

VAT and Transfer Pricing

The Luxembourg VAT law has been amended (via Law no.671 of 6/08/2018) to implement Article 80 of the EU VAT Directive with effect from 31 July 2018.

This law aims at avoiding VAT loss by allowing the VAT authorities to disregard consideration agreed between related parties to retain the open market values under the following situations:

- When the consideration for a supply has been underestimated while the purchaser has a limited recovery right;
- When the consideration for an exempt supply has been underestimated while the supplier has a limited recovery right and
- When the consideration for a supply has been overestimated while the supplier has a limited recovery right.

Directors Fees

Since 1 January 2017, directors' fees paid to directors (private individuals) are subject to 17% VAT, based on the Circular issued on 30 September 2016. Since 1 January 2017, increase of the enforcement powers of the VAT authorities:

- Personal liability of the delegated administrators, directors and "de jure" or "de facto" managers is engaged in case of VAT underpayments/late payments/non-compliance with VAT law if it can be proved that they failed in the performance of their duties.
- General increase of penalties.

FAIA requirement

The Luxembourg VAT Authorities may require certain VAT taxpayers to provide all the information necessary for their audit on an electronic structured audit file (the so-called "Fichier d'Audit Informatisé de l'Administration de l'enregistrement et des domaines" – "FAIA").

As a general rule and based on the guidance from the Luxembourg VAT Authorities, this FAIA file can be requested to (1) VAT registered entities under the normal regime and that are subject to the Luxembourg Standard Chart of Accounts and (2) which perform more than 500 transactions per year.

These requests are more and more frequent and the affected companies should ensure that they are able to generate the file and can provide it when requested since failure to provide may attract penalties.

Anti Tax Avoidance Directive (ATAD) I

On 18 December 2018, the Luxembourg Parliament voted for Bill (n°7318) (the "Law"), implementing ATAD I in Luxembourg domestic law. The Law was

published on December 21st 2018 and entered into force on 1 January 2019. The Law covers the following measures:

Interest limitation rules

The Law sets out new interest deduction limitation rules restricting deduction of "exceeding borrowing costs" up to a higher of (i.) 30% of the taxpayer's EBITDA or (ii.) EUR 3m. Exceeding borrowing costs not deductible in a tax period may be carried forward without time limitation. Interest capacity which cannot be used in a given tax period may be carried forward for five years.

The Law also provides for a grandfathering to be applied to any loans granted to a Luxembourg company before 17 June 2016 and to the extent that these loans have not been modified since this date and will not be modified afterwards.

Borrowing costs arising from long-term infrastructure projects (where the project operator, borrowing costs, assets and income are all in the European Union) are also excluded from the scope of the interest limitation rules.

Controlled foreign company rules (CFC)

The Law sets out new CFC rules targeting non-distributed income of CFCs arising from non-genuine arrangements, which have been put in place for the essential purpose of obtaining a tax advantage.

If a CFC is identified, the Luxembourg company may have to include totally or partially the non-distributed income earned by the CFC entity/-ies following a functional analysis.

General anti-abuse rule ("GAAR")

The Law aims at modernizing the existing general anti-abuse rule as provided by the Adaptation Law. Under the Law, there is an abuse of law if the legal route which, having been used for the main purpose or one of the main purposes of circumventing or reducing tax contrary to the object or purpose of the tax law, is not genuine having regard to all relevant facts and circumstances.

Exit tax rules (applicable as from 1 January 2020)

The Law modifies the existing exit taxation rules and amends the existing taxation deferral rules to provide for a payment of tax in installments over five years.

The payment of the Luxembourg tax arising on the gains upon transfer of assets outside Luxembourg in any of the circumstances listed in ATAD may be made in installments over a period of five years. However, this is possible only where the transfer is to an EU Member State, or an EEA State with which Luxembourg has an agreement on the recovery of taxes.

Anti Tax Avoidance Directive (ATAD) II

On 19 December 2019, the Luxembourg Parliament voted to approve the law implementing the EU Anti Tax Avoidance Directive regarding hybrid mismatches with third countries ("ATAD 2") into Luxembourg domestic law (the "ATAD 2 Law"). The Law generally follows the text of ATAD 2 rather closely, adapting it mainly to integrate with the structure and terminology used in the Luxembourg Income Tax Law. The ATAD 2 Law applies to tax years starting as from 1 January 2020, with the additional "reverse hybrid" measures that comprise Article 9a of ATAD 2 applying from the 2022 tax year, i.e. to tax years closing in 2022. For taxpayer having a tax year diverging from the calendar year, this means that Article 9a of ATAD 2 may apply to them already in 2021.

The ATAD 2 Law aims at preventing "deductions without inclusion" and "double deductions" caused by "hybrid mismatch" tax treatments. A "hybrid mismatch" may be defined as the difference in the legal characterization of a financial instrument (e.g. debt in the jurisdiction of a payer and equity in payee's jurisdiction) or an entity (i.e. tax transparent in one jurisdiction but opaque from another jurisdictions' perspective).

The provisions of the ATAD 2 Law apply whenever there is a "hybrid mismatch" under:

i. a "structured arrangement" or
ii. between "associated enterprises" or
iii. between a head office of an entity and a permanent establishment or
iv. between two or more permanent establishments of the same entity or
v. in cases of dual tax residence.

Essentially any link, where there is a 50% or more right to votes, capital ownership or profits, causes two entities, or an individual and an entity, to be associated enterprises (except in relation to payments under a financial instrument – here a threshold of 25% is sufficient to create an associated relationship).

In relation to the "acting together" concept, the Law deals specifically with investors (either physical persons or entities) in an investment fund that own, directly or indirectly, less than 10% of the shares or units of the fund and are entitled to less than 10% of the profits of that fund. Unless demonstrated otherwise, any such investor in a fund is not to be regarded as "acting together" with any other investor. This means that in these circumstances any such "less than 10%" investor should not be "associated" with the fund vehicle, and as a consequence also not be "associated" with the entities the fund vehicle controls.

2022 reverse hybrid mismatches

With effect as from the 2022 tax year, Luxembourg transparent partnerships will become liable to corporate income tax in relation to net income, to the extent that such income is not otherwise taxed under the Luxembourg domestic tax law or the laws of any other jurisdiction, provided one or more associated non-resident entities i) holding in aggregate a direct or indirect interest in 50%

or more of the voting rights, capital interests or rights to a share of profit in the Luxembourg partnership ii) consider the Luxembourg partnership to be a taxable person.

The ATAD 2 Law confirms that, while the Luxembourg partnership will be considered as a tax resident for corporate income tax purposes, it will be exempt from Net Wealth Tax.

In line with the exclusion provided for in ATAD 2, collective investment vehicles are out of the scope of this provision. For the purpose of this rule, collective investment vehicles are defined as an investment fund or vehicle that is widely-held, holds a diversified portfolio of securities and is subject to investor-protection regulation in the country in which it is established. The Commentary to the ATAD 2 Law clarifies that this definition includes undertakings for collective investment in the sense of the Law of 17 December 2010, specialised investment funds ('SIFs') covered by the Law of 13 February 2007, reserved alternative investment funds ('RAIFs') covered by the Law of 23 July 2016, and other alternative investment funds ('AIFs') not falling within the above categories but covered by the Law of 12 July 2013 (implementing the EU AIFM Directive) relating to managers of alternative investment funds although only to the extent that such AIFs are widely-held, hold a diversified portfolio of securities and are subject to investor-protection regulations.

The recent 2023 Budget Law adopted by the Luxembourg parliament on 15 December 2022 clarifies that reverse hybrid rules should only be triggered in case the non-inclusion of the income of a Luxembourg tax

transparent partnership in the investors' taxable basis results in a difference of characterization of the Luxembourg tax transparent partnership in the investors' tax jurisdictions (i.e. investors viewing the Luxembourg partnership as tax opaque for their own local tax purposes when it is actually a tax transparent entity for Luxembourg tax purposes). The reverse hybrid rules should however not be triggered when the non-inclusion of the Luxembourg tax transparent partnership's income at the level of the investors is rather due to the investors' tax status (i.e., tax exempt entities) or results from the fact that the investors' jurisdictions do not levy corporate tax.

On 9 June 2023, the Luxembourg tax authorities issued an administrative circular (Circular L.I.R. n°168quater/1) providing some additional guidance on their interpretation of the reverse hybrid.

DAC 6 – Disclosure for certain cross-border arrangements

On 21 March 2020, the Luxembourg Parliament voted to approve the Bill (n°7465) implementing DAC 6 into local law. This DAC 6 Law is applicable since 1 July 2020. The first reportable transactions will however be those whose first implementation step occurred between 25 June 2018 and 1 July 2020 (transitory period).

Investment structures should be analysed by intermediaries or relevant taxpayers to identify potential reportable cross-border arrangements and to assess any reporting obligations towards the Luxembourg or foreign tax

authorities based on the applicable local law. And even if, based on the local assessment, no reporting is required, a proper documentation would be crucial and might serve as a proof for DAC 6 compliance.

Disclosure obligations

As from 2017 tax return, the following TP (Transfer pricing) related information would need to be disclosed:

- if the Luxembourg company engages into transactions with related parties;
- if the Luxembourg company opts for the simplification measure stated in section 4 of the 2017 TP Circular (L.I.R. n° 56/1 – 56bis/1 of 27 December 2016).

As from the 2018 tax return, Luxembourg entities are required to indicate in their tax return whether they have performed any transaction.

Development concerning Country-by-Country (CbCR) reporting

A grand-ducal regulation has been issued on 18 March 2019 (the Mémorial A Nº 163), amending the revised grand-ducal regulation published on

13 February 2018. In case the ultimate parent is resident in a jurisdiction that is not listed in the mentioned regulation, a CbC report will have to be filed either by a "surrogate entity" resident in a jurisdiction listed in the grand-ducal regulation or by an affiliate in Luxembourg. Exceptions may apply, on a case-by-case basis, if countries mentioned in the regulation have CbC reporting

obligations but starting from a different fiscal year. In case of CbC reporting and notifications finalised before the regulations, MNE groups (Multinational group of enterprises) shall review them to ensure they have been done in compliance with the list of "exchanging" jurisdictions listed in the regulations.

On 15 August 2023, the Law implementing the European Union directive regarding the Disclosure of Income Tax Information by Certain Undertakings and Branches (2021/2101) (the Public Country-by-Country Reporting (CbCR) Directive) has been signed and published on 22 August 2023 in Memorial A532 in Luxembourg. The Public CbCR is an additional requirement for MNEs besides the existing CbCR reporting that is in place since 23 December 2016.

On 22 June 2024, the implementing law came into effect in Luxembourg and concerns EU-based MNEs and non-EU-based MNEs doing business in the EU through a branch or subsidiary with total consolidated revenue of more than EUR 750 million in each of the last two consecutive financial years.

Substance in Luxembourg

Over the past few years, we have noticed an emerging trend in various jurisdictions where portfolio companies are located, that tax administrations tend to challenge the actual substance of foreign holding companies.

According to Luxembourg income tax laws, a company is considered to be resident in Luxembourg, and therefore fully taxable therein, if either its registered office or central administration is located in Luxembourg.

To avoid the risk of challenge by other tax authorities, it is usually recommended that it can be evidenced that a Luxembourg company is effectively managed and controlled in Luxembourg and that minimum substance exists in Luxembourg (e.g. bookkeeping, phone line, etc.). In particular, with respect to the day-to-day management it is recommended to have at least one local director in charge of the day-to-day management with a real decision power (to be assessed in light of the decision power of the foreign directors).

Transfer pricing requirements related to the substance have been reinforced and highlight the need to have a majority of the board of directors tax resident in Luxembourg and that the personnel is sufficiently qualified to control the transactions performed.

Pillar 2 Law

On 20 December 2023, the Luxembourg Parliament voted to approve the Pillar Two law transposing the EU Pillar Two Directive 2022/2523 which aim to ensure a 15% minimum tax rate for multinational groups (MNE) and large-scale domestic groups in the European Union with a consolidated revenue of at least EUR 750 million.

The Pillar 2 Law introduced the Income Inclusion Rule ("IIR"), Undertaxed Profits Rule ("UTPR") and Qualified Domestic Minimum Top-up Tax ("QDMTT") into Luxembourg law for fiscal years starting on or after 31 December 2023 (with a general one year delay for the UTPR to become effective).

On 19 December 2024, the Luxembourg Parliament adopted the law based on draft law (n°8396), which amends the law of 22 December 2023 introducing the Pillar 2 minimum taxation rules. While the law mainly aims to incorporate administrative guidance issued by the OECD until the end of 2023, the commentary to the adopted law clarifies some important principles which are relevant for Luxembourg businesses impacted by the rules.

The amended law introduces the following main amendments:

- The exclusion of an Investment Fund or a Real Estate Investment Vehicle ("REIV"), which is not an Ultimate Parent Entity for the sole reason that the applicable financial accounting standard does not require it to prepare consolidated financial statements, is assimilated with an Ultimate Parent Entity, for the purposes of applying the Excluded Entity test for holding entities or special purpose vehicles.
- The exemption for the Luxembourg investment funds (e.g. RAIF, SICAR, SIF) to prepare consolidated financial statements.
- The QDMTT Safe harbour which allows switching off the Luxembourg IIR and UTPR for jurisdictions that follow the QDMTT rules as outlined by the EU and the OECD and that qualify for the QDMTT Safe harbour. Moreover, Luxembourg entities which form part of MNE groups in their initial phase of expansion are excluded from the application of the QDMTT for a period of 5 years.

17 The Netherlands

CIT | Statutory corporate income tax (CIT) rates

The (highest bracket) corporate income tax (CIT) rate is expected to remain at 25.8% per 1 January 2026. The threshold for the lower bracket is EUR 200,000. The rate for profits up to this threshold is expected to remain at 19% as of 1 January 2026.

CIT – Temporary transitional law funds for joint account

As per 1 January 2025 the classification rules for Dutch and foreign legal entities and partnerships were amended. Furthermore, the rules for funds for joint account (fonds voor gemene rekening, "FGR") were amended.

Under these new rules, FGRs, and comparable foreign entities, are considered non-transparent as per 2025. Furthermore, entities, such as partnerships, that have characteristics of an FGR are reclassified as non-transparent FGRs. To avoid conversion from a transparent entity into a non-transparent FGR as per 2025, funds that also meet the other FGR conditions, had to incorporate a redemption mechanism in their fund terms, based on which interests in the fund can only be transferred to the fund itself by way of redemption. As certain funds were unable to timely implement these adjustments in their fund terms, which usually requires the consent of all participants, before 1 January 2025, the Dutch government previously introduced a transitional measure based on which giving such funds until 1 January 2026 had the opportunity to include the redemption mechanism in their fund terms to become a redemption fund, i.e., to remain tax transparent for Dutch tax purposes.

Following earlier consultation, specific issues in relation to the FGR-definition and the classification of funds into FGRs are investigated by the Dutch government. This investigation may lead to a new proposal of law to (again) amend the current definition of FGR. This potential change will take effect no earlier than 1 January 2027 and likely results in fewer entities qualifying as FGR. Consequently, certain funds that were transparent until 1 January 2025 may become transparent as of 1 January 2027 again. In such a situation, the fund could have short-term tax liability for the years 2025 and 2026. The government now proposes a transitional measure to prevent such a short-term corporate income tax liability if the definition of the FGR changes as of 2027.

Funds that fulfill certain conditions and if they choose so, are temporarily not considered FGRs starting 1 January 2025. One of the conditions is that the fund qualified as tax transparent for Dutch tax purposes before 1 January 2025. These funds may choose ultimately on 28 February 2026 to opt for the transitional rules and the participants need to agree to the entity's choice to apply the proposed transitional law. Such consent is not required if the fund already complied with the previously approved transitional law (with the intention to implement a redemption mechanism in the fund documents prior to 31 December 2025).

The funds express their choice by not registering as a FGR with the Dutch Tax Authorities and not filing a corporate income tax return. Conversely, funds that do not wish to apply the proposed transitional measure must register as an FGR with the Dutch Tax Authorities and file a corporate income tax return over the year 2025. Entities opting for the transitional measures should generally remain tax transparent as from 2025 similar to the period up to 1 January 2025.

It should be noted that this transitional measure applies in addition to the previously approved transitional law, which gives entities until 1 January 2026 to implement the adjustment in the fund terms to qualify as a redemption fund. This means that entities that do not meet the conditions of that previously offered transitional law can rely on the new transitional measures published on Budget Day 2025, which may offer a solution for funds that have the intention to amend the fund terms but that are not able to do so before 1 January 2026.

The proposed transitional law will expire on 1 January 2028, given the possible change to the FGR definition will take effect on 1 January 2027 at the earliest. If the possible change to the FGR definition takes effect on 1 January 2027 the transitional law may already expire on 1 January 2027 or may be replaced with other transitional law.

Personal income tax – Lucrative interest

Proceeds from a lucrative interest are in principle taxed as employment income in box 1 (up to 49.5% in 2025). If the lucrative interest is held through a corporate entity, the income can however also be taxed as income from closely held stock in box 2 (up to 31% in 2025) provided certain conditions are met. It is proposed to limit the box 1 and box 2 rate differences for income from lucrative interests. This is done by introducing a multiplier in box 2 for income from lucrative interests. As a result of this multiplier, box 2 income from indirectly held lucrative interest will become subject to an effective tax rate of 36% (ETR for income in the first bracket (up to EUR 68,843) will increase to 28.45%).

This effectively aligns the tax burden on these benefits with the rate in box 3 (the box in which other investments are taxed). No transitional rules will be implemented, hence also existing structures are affected by these new measures.

Minimum Tax Act 2024 – second law of amendments

The Minimum Tax Act 2024, also known as Pillar Two, provides for a minimum effective tax rate of 15% per jurisdiction for multinational enterprises and large domestic groups (with an annual turnover exceeding EUR 750 million). Since the publication by the Inclusive Framework (“IF”) of the model rules and its commentary, the IF published several sets of additional administrative guidelines in. Some of these have already been included in the Dutch implementing legislation, while others have not. This legislative proposal incorporates the latest administrative guidance from the IF and some technical changes to the Dutch Pillar Two legislation.

The key amendments relate to:

- flow-through entities and hybrid entities;
- mismatches between financial years;
- transition rules regarding the treatment of certain deferred tax assets;
- difference in tax basis or value and accounting carrying value of an asset or liability; and
- transitional CbCR Safe Harbour rule.

Most amendments will have retroactive effect to 31 December 2023, with the exception of certain proposed amendments that will come into effect as of 31 December 2025.

DAC9 – Implementation

The EU Directive DAC9 will be implemented. This Directive facilitates the exchange of Pillar Two-related information between tax authorities within the EU. It includes a simplified procedure for submitting a 'Top-up Tax Information Return' at a central level for the entire multinational group using a standardized template. Further details are available in our Tax News article.

Real estate transfer tax – decrease of the RETT rate for residential real estate

As per 1 January 2026 the real estate transfer tax rate for investments in residential real estate decreases from 10.4% to 8%. For investments in other real estate, such as commercial or logistic real estate assets, the rate remains 10.4%.

Value added tax – VAT increase on accommodation

The reduced VAT rate (9%) will be abolished for the provision of accommodation (short stays within the framework of hotel, boarding house, and holiday spending businesses). From 1 January 2026, these provisions will legally fall under the general VAT rate (21%). The transitional arrangement aims to subject overnight stays in 2026 to the 21% rate, even if the reservation and payment are made in 2025.

Value added tax – Introduction of VAT deduction revision

From 1 January 2026, the VAT revision scheme will be extended to include certain services related to Dutch immovable property.

The new VAT revision scheme applies to services such as renewing, enlarging, repairing, replacing, and maintaining Dutch real estate, including demolition work related to renovations. Examples provided by the Dutch State Secretary include painting window frames and doors (interior or exterior), soil or asbestos remediation, installation of kitchens and bathrooms, insulation, and façade or roof renovations services that serve the property over multiple years. Materials, installations, machinery, and tools that are integrated into the service and lose their independent function after installation or assembly are also included.

The VAT revision scheme applies to real estate services with a value of at least 30,000 euros.

For such investment services, a review period of 5 years applies. For certain major real estate services, such as a thorough renovation or an extension, EU case law can be invoked that allows for an extended revision period of 10 years. We expect that further clarification will follow later this year on how this should be documented and at what point in time this should be done.

VAT-registered businesses that own or lease Dutch real estate will need to monitor, per building, whether real estate services are received that are in scope of the new VAT revision scheme for real estate services and whether a change in use occurs during the chosen 5- or 10-year VAT revision period that triggers a VAT revision amount payable or receivable.

We expect that the new VAT revision schemes increases the administrative burden for businesses that own or lease real estate.

18 Poland

Withholding tax ("WHT") – explanations on Polish beneficial owner have been issued

On 9 July 2025, the Ministry of Finance published the final version of the explanations concerning the application of the beneficial owner clause in the context of WHT. The explanations refer to three criteria from the CIT Act, which must be met for an entity to be recognized as a beneficial owner.

According to the explanations, the beneficial owner condition applies both to participation exemptions provided for in the CIT Act (implementing Parent-Subsidiary and Interest-Royalties Directives) as well as to reliefs resulting from double taxation agreements ("DTA"), regardless of whether the relevant provisions literally indicate such a condition.

The document is particularly important for entities making and receiving payments subject to WHT, because according to the Tax Ordinance, compliance by the taxpayer or payer with the tax explanations grants certain protection.

Careful Analysis of the Explanations is recommended.

Global minimum tax (Pillar II)

The Act on the top-up tax of constituent entities of multinational and domestic groups has entered into force on 1 January 2025, implementing the global minimum tax (Pillar II) in Poland.

The new regulations apply to international and domestic capital groups with a combined annual turnover of at least EUR 750 million in at least two out of four tax years immediately preceding the tax year under review.

The global minimum tax payable is the difference between the 15% minimum rate and the effective tax rate ("ETR") calculated for a given jurisdiction. If ETR in the given jurisdiction is not less than 15%, the mechanism does not apply.

The analysis of whether the global minimum tax will apply to a given entity should be performed.

Real Estate Tax – changes introduced to the RET regulations and SAC resolution

Real Estate Tax ("RET") is a local property tax which applies to land, buildings and structures (i.e. certain objects other than buildings such as roads, car parks, etc.).

As of 1 January 2025, the new definitions of structures and buildings, which are crucial for the purposes of RET taxation, have been introduced to the Polish RET regulations.

On 21 October 2024, Supreme Administrative Court ("SAC") issued a resolution regarding RET rate applicable to the residential buildings that are rented out for residential purposes as part of the owner's business activity. SAC stated that, to the extent that such properties serve to meet the housing needs of tenants, they should be treated as residential buildings or parts thereof, subject to a lower RET rate. This resolution is significant, taking into account that the maximum rate for business-related buildings is approximately 30 times higher than RET rate for residential buildings.

Review of the RET reconciliations in view of the new legislation and the SAC resolution is recommended.

Limitation on tax depreciation of buildings

According to the draft of changes to the CIT Act, published on 16 September 2025, the limitation of tax depreciation to the amount of accounting depreciation applies also in cases where depreciation charges are not made for an asset in accordance with accounting regulations, particularly due to the classification of such an asset as a long-term investment valued at market price or another determined fair value.

In case the proposed change comes into force, from 2026 the real estate companies may indisputably lose tax depreciation rights with respect to the assets that are not subject to accounting depreciation.

On the other hand, the proposed changes may potentially strengthen the position presented in court rulings, according to which Article 15(6) in its current wording does not exclude the right of real estate companies to claim tax depreciation on assets classified as long-term investments valued at fair value.

The legislative process should be carefully monitored. Real estate companies may consider applying for a refund of the overpaid CIT for the period 2022–2025.

KSeF (National e-invoice System) – obligatory as of February 2026

The obligation to use KSeF (National e-invoice System) and to issue the so-called "structured invoices", has been postponed to 1 February 2026 for taxpayers whose turnover exceeded PLN 200 million in the previous year and to 1 April 2026 for other taxpayers. However, both groups of taxpayers will be obliged to accept purchase invoices issued via KSeF as of 1 February 2026.

JPK-CIT (SAF-T for CIT purposes)

The regulations imposing obligations concerning JPK-CIT (SAF-T for CIT purposes) came into effect on 1 January 2025. For the largest CIT taxpayers (taxpayers with revenues exceeding EUR 50 million per year) and tax capital groups JPK-CIT is mandatory with respect to the tax year starting after 31 December 2024. For other groups of taxpayers, for the tax year starting after 31 December 2025 and, accordingly, 31 December 2026.

The accounting processes and systems will have to be adapted.

Other changes to be introduced to CIT Act

The draft of changes to the CIT Act, published on 16 September 2025, introduces several important changes to the CIT regulations, in particular:

- Limitation of amortization of goodwill – it will no longer be possible to amortize goodwill that arises from paid use of a business.
- Retroactive depreciation rate changes – taxpayers will no longer be able to adjust depreciation rates after the deadline for filing annual CIT return.
- Modification of minimum CIT rules – differentiation of simplified method of determining the tax base depending on company size; exemptions available if profitability exceeds 2% in at least one of the previous two years (as opposed to current three years).
- Changes to the diverted profit tax – elimination of the condition for taxation under this tax requiring that the related entity receives at least 50% of its total revenue from the taxpayer or other entities related to the taxpayer
- Taxation of early liquidation after corporate-to-partnership conversion – income from liquidation of non-corporate entity (e.g. partnerships), which was formed through conversion from a company will be taxed if liquidation occurs within three years.

Further monitoring of the legislative processes.

Polish version of REIT (Real Estate Investment Trust)

Continuation of works on introducing real estate funds ("S.I.N.N."), i.e. companies investing in real estate, equivalent to foreign REITs, into the Polish legal system. At this point, no draft bill has been prepared yet.

Further monitoring of the legislative processes.

Additional note

Note that – except the key issues described above – the Polish tax law contains a bunch of filing/payment/reporting obligations, as well as provisions which should be taken into account for real estate investors/structures, relating i.a. to:

- the rules of CIT taxation of the on-going operations of the entities holding real properties – including i.a. revenue basketing, deductibility limitations of certain costs (i.a. EBITDA-based deductibility limitations of debt financing costs, ATAD 2 provisions), rules of utilisation of the tax losses, applicable tax rates, general depreciation rules and limitations (such as tax depreciation exclusion in relation to residential buildings and apartments, irrespective of their accounting treatment);
- obligation to file annual CIT returns and settling the tax due (if any);
- obligation to report real estate structures by the so-called "real estate companies" (in short: entities deriving their value mainly from Polish real properties and meeting certain other, additional criteria) and their shareholders (deadline: as a rule: 3 months after the end of the tax year of the real estate company);
- diverted profit tax;
- WHT filing and payment deadlines, as well as due care;
- VAT taxation of the on-going operations of the entities holding real properties;
- taxation of real estate transactions (asset deals/share deals) – CIT, VAT, CLAT (including 6% CLAT on the purchase of the sixth and subsequent residential premises constituting separate units) etc.;
- transfer pricing obligations;
- Mandatory Disclosure Rules (MDR);
- anti-abuse regulations.

19 Romania

Exceeding borrowing cost capping rules	Interest deductibility is capped at EUR 1 million plus 30% of adjusted tax profits. From 1 January 2024, exceeding borrowing costs with affiliates (which do not finance the acquisition/production of fixed assets under construction/assets) are limited to EUR 0.5 million, with exceptions for financial institutions.
Holding legislation	No specific holding regime, but participation exemption applies. Dividends from Romanian subsidiaries are non-taxable; similar treatment for dividends from non-resident subsidiaries if holding conditions are met (e.g. minimum 10% stake held directly for at least one year). Capital and liquidation gains may also be exempt if the above participation exemption criteria are fulfilled.
Withholding tax exemption	Standard WHT rate: 16% for most external payments; dividends to non-residents at 10% (starting 2026, dividends will be taxable at 16%). Reduced rates possible under EU Directives or Double Tax Treaties (DTT), subject to documentation (i.e. a valid tax residency certificate or a statement of own responsibility in the case of applying the EU law indicating that it is the beneficial owner of the income which certified that certain specific conditions are fulfilled). DTT/EU law provisions prevail if more favourable.
General anti-abuse rule (GAAR)	Substance over form principle: tax authorities may disregard or reclassify transactions lacking economic purpose. Anti-base erosion, transfer pricing, and mandatory information exchange rules apply.
DAC6	Cross-border arrangement reporting is mandatory, with intermediaries bound by professional secrecy unless consent is given.
MLI	Romania has ratified the MLI, which may produce effects for most DTTs concluded by Romania.
Losses carried forward	From 2024, annual tax losses can be recovered up to 70% of taxable profits over five years. The annual tax losses related to the years preceding the year 2024 follow similar rules, with a seven-year recovery period. The recovery of the annual fiscal losses is made in order of their registration, at each payment term of profit tax.
Tax credits/avoidance of double taxation	Romanian taxpayers can credit foreign CIT/WHT against Romanian CIT if allowed by DTT, subject to specific conditions.

Tax prepayments	CIT is declared and paid quarterly, with annual reconciliation. Standard CIT rate is 16%; some businesses have special rates (e.g. gambling activities, nightclubs and casinos, the tax due is 5% of the revenues).
Minimum turnover tax ("IMCA")	From 2024, companies with turnover over EUR 50 million pay the maximum between IMCA (1% of adjusted revenues) and CIT, whichever is higher.
Pillar 2 – Minimum global tax	From 2024, large groups (turnover > EUR 750 million) must ensure a 15% effective tax rate in Romania, or pay a top-up tax.
Accounting and fiscal period	Standard period is the calendar year, but companies can opt for a different fiscal year with notification.
Tax consolidation	The fiscal consolidation system for CIT has been included in Romanian legislation starting 1 January 2021. Optional for Romanian legal entities; requires at least 75% ownership and a five-year commitment.
Tax incentives	Tax reductions starting with 2021 for maintaining/increasing equity (e.g. certain tax reduction between 2%–10% if a minimum level of equity is maintained or if equity is increased with a certain percentage) until 2025 / the fiscal year that ends in 2026. Exemption for reinvested profits in certain assets.
Depreciation methods for movable fixed assets	Buildings must be depreciated using only the straight-line method, with useful lives typically between 40 and 60 years. Machinery can be depreciated using the straight-line, reducing balance, or accelerated methods.
Revaluation of real estate property	Revaluation increases are taxable as assets are depreciated, sold, or written off.
Property taxes	Building tax rates depend on property type, and not revaluing non-residential buildings every five years leads to higher tax; land tax is a fixed amount set by local councils based on various factors.
Transfer pricing rules	Romanian transfer pricing rules, aligned with OECD principles, require related-party transactions to be at market value and properly documented; otherwise, tax adjustments and penalties may apply.
Construction tax	The construction tax, reinstated from 1 January 2025, applies to the value of constructions at specified rates (0.5% / 0.25%) and must be paid in two instalments each year.
Transfer of business	For corporate income tax neutrality, domestic mergers, spin-offs, asset transfers, and share exchanges are generally aligned with cross-border rules, but neutrality applies if specific conditions are met.
Micro-company tax regime	The micro-enterprise tax regime is optional and applies to small companies meeting certain conditions, with turnover-based tax rates of 1% or 3% depending on revenue and business activities.

VAT treatment on immovable property	Romanian VAT rules exempt most real estate rentals and sales of old buildings or non-buildable land, but landlords can opt to tax rentals, and new buildings or building land are generally taxed at reduced or standard VAT rates depending on conditions; real estate investors must carefully assess the correct VAT treatment for each transaction.
VAT deduction right	Any taxable person registered for VAT purposes in Romania has the right to deduct the VAT related to its acquisitions of immovable properties, if such acquisitions are performed for the purposes of performing taxable transactions.
Input VAT adjustment for capital goods	Where the landlord/lessor does not opt to tax the rental fees/lease instalments, or to tax the sale of the immovables while the input VAT was deducted on acquisition/ construction of the real estate property, VAT should be adjusted accordingly within the adjustment period of 20 years. Opportunities and benefits of applying for a VAT exemption should be considered for sale or rent of real estate.
VAT transfer of business	Transfers of assets during mergers or spin-offs are generally VAT neutral if the beneficiary is a Romanian taxable person and certain conditions are met; real estate investors should ensure compliance with VAT rules for such transfers.
VAT refund	VAT refunds in Romania are generally processed after a tax audit, with deadlines that may be delayed in practice; both Romanian and foreign businesses can claim VAT refunds under specific EU or international rules if certain conditions are met.
Digitalisation measures	Certain mandatory digitalization measures have been implemented recently in Romania, such as SAF-T (Standard Audit File for Tax), RO e-factura (mandatory electronic invoicing), RO e-transport (mandatory monitorization of national and international transports) and the pre-filled in VAT returns.
Draft tax legislation	We note that as at 7 October 2025 there is a piece of draft legislation which brings significant changes both from a tax and legal perspective and we recommend to check the latest form of tax legislation in force when doing business in Romania.

20 Spain

Corporate income tax (CIT)

According to the Spanish CIT Act the standard tax rate is 25%.

Other rules such as the disallowance of real estate impairments, the definition of mere holding entities, the domestic-participation exemption regime, the restrictions on the utilisation of carry-forward tax losses, financial expenses capping-rule, etc. may be relevant for real estate investors. Taxpayers shall pay special attention to these rules as well as to the interpretation made by the Tax Authorities by means of binding tax rulings.

To be noted that the Spanish CIT Law shifted from a full domestic participation exemption regime to a 95% cap on domestic participation exemption for dividends and capital gains derived from the transfer of shares (foreign and domestic, including a Spanish tax group) for fiscal years starting after 1 January 2021. This would result in 1.25% effective tax for companies subject to the standard 25% CIT rate.

As well, new anti-hybrid rules came into force with effects from FY21 onwards.

It is recommended to analyse the impact that these rules may have in the investors' structures as well as the guidelines provided by the tax authorities.

CIT payments on account

According to CIT payments on account rules, the rate for payments on account for companies with a turnover of EUR 10 million or over is 24% and a minimum payment on account rate of 23% of accounting profits is applicable for companies which exceed this threshold.

We highly recommend planning when to carry out operations which generate tax-exempt income (distributions of dividends, sales of shares, etc.) as payments on account are made over these types of income. As well, the calculation method should be revisited.

Domestic withholding tax rate

Domestic withholding taxes applicable on dividends, interest and capital gains is 19%. It will be due unless an exemption or reduced rates are applicable to the case at hand.

Tax losses carried forward

Tax losses (NOLs) may be carried forward with no time limitation. According to the CIT Law, NOLs generated by Spanish companies, if any, can only be used to offset up to 70% of tax adjusted income (with a EUR 1 million threshold that can be utilised in any event). However, if the company's turnover in the twelve preceding months is higher than EUR 20 million additional limitations apply (50% for companies with turnovers of at least EUR 20 million but below EUR 60 million, 25% for companies with turnovers of at least EUR 60 million).

These limits would not be applicable in the period in which the company is wound up and will be computed on a group basis under tax consolidation. With effect for the tax periods that begin in 2023, when aggregating the individual tax bases in order to calculate the tax group base (under tax consolidation), only 50% of the negative tax bases will be computed (new temporary measure). The 50% of non-utilized tax bases will be recaptured on a straight-line basis during the following 10 years starting as from 2024 (to note that the same rule has been implemented for FYs 24 and 25).

Transfer pricing

Related party transactions must be arm's length. Generally, taxpayers are obliged to prepare transfer pricing documentation for transactions exceeding certain thresholds. Failure to comply with the documentation obligations may result in penalties being imposed. In addition, it must be noted that tax form No 232 must be filed to declare transactions carried out between related parties.

This tax form must be filed during the month following the ten months after the end of the tax period which the information to be provided refers to. That is, for fiscal years ending 31 December 2024 the tax return should be filed between 1 November and 30 November 2025.

Prepare a transfer pricing study covering the relevant transactions carried out with related parties in the period in accordance with the applicable regulations. File the tax form 232 in November.

Country-by-country report (CbCR)

From 2016 certain entities are required to file a country-by-country report (CbCR). The report should be filed electronically and should contain aggregate information in Euros relating to the tax year of the controlling company of the group and with respect to each country or jurisdiction in which the group operates.

This CbCR must be filed electronically through the tax form No 231 within 12 months of the end of every tax period. Note that, unlike the master file and local file that will need to be "at the disposal" of the tax administration, the CbCR has to be filed every year.

We recommend analysing if the CbCR obligation is applicable and prepare the relevant report, if necessary, in accordance with the applicable regulations.

Residence certificates

Withholding tax exemptions and reduced treaty rates must be supported with the relevant residence certificates validly issued by the corresponding tax authorities in a timely manner. This is especially relevant for interest, dividends and management fees.

On the other hand, withholding tax exemptions based on the EU residence of the payment's recipients should be reviewed from a beneficial owner perspective, considering the most recent EU and Spanish case law in this respect.

Request and collect the corresponding residence certificates.

Real estate investment trust

A special corporate income tax regime, namely a 0% tax rate, is granted for Spanish REITs (SOCIMI) subject to a number of requirements. Should they not be respected, the tax regime may be lost together with a three year ban to be imposed.

To be noted that the SOCIMI regime has been amended. From 2021 onwards, profits obtained in the year that are not distributed will be subject to 15% special tax, insofar as they derive from income that has been taxed at 0% rate and not qualifying for the reinvestment period.

Review the compliance of the REIT requirements, in particular the asset and income tests and dividends distributions obligations.

Value-added tax (VAT)

Large companies (whose turnover for the prior year will have exceeded EUR 6m) and any other companies which file monthly VAT returns are required to provide their invoicing records and VAT books for issued and received invoices to the Spanish tax authorities in real time.

It must be noted that this obligation, which implies that companies will need to adapt their accounting and invoicing systems, accordingly, has multiplied the information, which the Spanish tax authorities have access to.

Business Activity Tax (BAT)

BAT is an annual tax payable depending on the specific business activity carried out. The turnover of the company may be relevant for exemption purposes.

Indeed, entities with a turnover of less than one million euros are exempted from BAT purposes. As per an amendment of the Spanish regulation, as of 2022, it would be considered the turnover of the group companies (only Spanish companies) regardless of the accounting consolidation obligation.

Review of the BAT position for Spanish companies belonging to a corporate group is advisable.

Real Estate Transfer Tax (RETT) and Stamp Duty

A new value to be determined by the Tax Administration will be considered for the calculation of the taxable base in real estate transactions for RETT and Stamp Duty purposes (so-called “cadastral reference value”). In this regard, as of 2022, said value is considered as the minimum value for tax purposes (taxable base) in case that the price agreed in the transaction would be lower.

That said, the Constitutional Court has recently admitted a question of unconstitutionality regarding the reference value. It is therefore recommended to monitor the outcome of this proceeding and the potential effects of a possible future declaration of unconstitutionality of the reference value as then element for determining the taxable base.

We recommend monitoring the assignment of a reference value for the properties located in Spain to properly determine the taxable base for RETT and Stamp Duty purposes. In particular, this should be checked in advance of any acquisition. Likewise, it is advisable to monitor the development of the unconstitutionality proceeding.

Solidarity Tax and Net Wealth Tax

By the end of 2022 a new Solidarity Tax on Large Fortunes and some amendments on the existing Net Wealth Tax (NWT) were passed in Spain. According to the amendments included in the NWT, regarding non-resident taxpayers (individuals) subject to NWT, securities representing holdings in the equity of entities, not traded on organized markets, would be deemed to be located in Spain where at least 50% of their assets, directly or indirectly, consist of property located in said territory.

On the other hand, the new Solidarity Tax on Large Fortunes is very similar to the NWT and it is shaped as a supplementary tax to the NWT for taxpayers with a net worth higher than EUR 3 million. In this respect, generally the main purpose of this new tax is to limit the 100% exemption on the NTW applicable in certain Autonomous Regions (for instance, Madrid).

Finally, it must be noted that, notwithstanding the above, certain double tax treaties could prevent Spain from applying these taxes.

Based on the above, non-resident individuals which could directly or indirectly hold Spanish properties should analyze if these new rules could impact them.

21 Switzerland

Changes in Tax Rates

In Switzerland, there are two different kinds of taxation of capital gains on real estate. The Swiss Federal level as well as the so called “dualistic” cantons apply the ordinary income tax on real estate capital gains, whereas other cantons, the so called “monistic” cantons, apply a special real estate capital gains tax on real estate capital gains.

- The changes in income tax rates will have an impact on the deferred tax position in cantons that apply the ordinary income tax on real estate capital gains.
- On the other hand, the special real estate capital gains tax is not impacted by changing corporate income tax rates, meaning that in these cantons the deferred tax position is not affected by changing corporate income tax rates.

Recaptured depreciations and value adjustments on real estate are subject to ordinary income tax on a Swiss Federal level as well as in all cantons.

For FY2025, the following changes in maximum corporate effective income tax rates may impact Swiss real estate investors (overall maximum ETR in the capital city of each canton for illustration, excluding any potential Pillar 2 top up tax):

Canton	FY2024	FY2025
Aargau	15.07%	15.03%
Basel-Land	15.90%	12.63%
Jura	16.00%	14.80%
Luzern	12.09%	11.91%
Schaffhausen	15.05%	15.08%
Schwyz	13.91%	13.45%
Ticino	19.32%	16.05%
Uri	12.62%	12.64%
Vaud	14.00%	14.72%

The applicable real estate capital gains tax rates depend on various factors, such as the holding period of the real estate and the canton and commune where the property is located. For FY2025, there have been no significant changes in real estate capital gains tax rates as compared to FY2024.

Changes in Safe Harbor Interest Rates on Intercompany Loans

For the assessment of appropriate interest rates on intercompany loans, the Swiss Federal Tax Administration publishes safe harbor rates. The published safe harbor rates for intercompany mortgages from related parties denominated in CHF have changed in FY2025 as compared to FY2024 as follows:

Intercompany Mortgage in CHF	Safe harbor interest rate 2024	Safe harbor interest rate 2025
Max. rate on IC mortgage in CHF for housing and farming up to <2/3 LTV	2.25%	1.25%
Max. rate on IC mortgage in CHF for housing and farming as of >2/3 LTV	3.00%	2.00%
Max. rate on IC mortgage in CHF for industry and production up to <2/3 LTV	2.75%	1.75%
Max. rate on IC mortgage in CHF for industry and production as of >2/3 LTV	3.50%	2.50%

The published safe harbor rates for intercompany mortgages from related parties denominated in EUR and USD do not differ between type of real estate or LTV and have remained unchanged in FY2025 as compared to FY2024:

Intercompany Mortgage in EUR and USD	Safe harbor interest rate 2024	Safe harbor interest rate 2025
Max. rate on IC mortgage in EUR	2.50%	2.50%
Max. rate on IC mortgage in USD	4.25%	4.25%

Note that for operational loans which use real estate as collateral, the safe harbor rate for mortgages is not applicable and the safe harbor rate for operational loans must be used instead.

Assessment Basis for Capital Tax for Real Estate Funds

The Federal Act on Collective Investment Schemes (CISA) mandates real estate funds to record property values based on independent market estimates, while some cantons determine property values based on rental income and capitalization rates, resulting in tax values often exceeding market values. In a recent judgement, the Federal Supreme Court ruled that the tax law's goal of assessing economic performance differs from CISA's goal of protecting investors. This permits cantons to use tax values based on capitalization rates for capital tax purposes, even if tax values may surpass both book and market values.

Loss Offsetting in the Swiss Intercantonal Context Relating to Real Estate Gains Taxation

According to Swiss intercantonal tax allocation rules, real estate is exclusively taxed by the canton in which the real estate is located ("Location Canton").

In a recent judgement, the Federal Supreme Court allowed losses from other cantons to be offset against real estate gains in the Location Canton, even across different types of taxes (i.e. losses for corporate income tax purposes in one canton can be recognized for real estate capital gains tax purposes in a different canton). This is a significant development for entities operating in multiple cantons and applying different real estate taxation regimes within Switzerland, allowing for a more holistic view on a company's Swiss wide overall tax situation incl. real estate.

Change of Geneva Tax Practice for Real Estate Investment Foundations

In a recent judgement, the Federal Supreme Court found the Canton of Geneva's practice of applying ordinary profit tax to real estate capital gains for investment foundations in Geneva to be impermissible. Instead, the court decided that tax-exempt investment foundations should be subject to real estate capital gains tax. This decision has profound implications for tax-exempt investment foundations in Geneva, particularly regarding the tax burden associated with varying holding periods. Short-term holdings under 10 years face a higher tax rate, while longer-term holdings may benefit from reduced rates or similar burdens. Tax-exempt investment foundations in Geneva may need to consider changing their approach in calculating the deferred taxes.

Change in the Management of Real Estate Funds

In a recent judgement about the change of the management company in a contractual real estate fund, the Administrative Court of Geneva disagreed with the Geneva Tax Administration and confirmed that transactions, which are related to the fiduciary holding and in which the funds, or more specifically the investors, remain the economic owners, are not subject to real estate transfer tax (RETT). The decision made by the Administrative Court of Geneva can be seen in the context of a recent decision made by the Vaud Administrative Court, which had indicated in one of its recitals that the change of management should not trigger the Vaud RETT as in Geneva. These decisions mean that contractual real estate collective investments are no longer captive of a management company and therefore changing it should not trigger RETT, whereas other cantons may apply another tax practice until a court decision by the Federal Supreme Court is issued.

Economic Transfer of Ownership

The Zurich Tax Office recently changed its practice regarding the subjection of economic transfers of ownership to real estate capital gains tax. According to this new practice, shares in a real estate company are considered to qualify as "immovable property," and the economic transfer of ownership is thus treated as a sale of the property for real estate capital gains tax purposes. The right of taxation of the seller (outside of Switzerland) for Zurich would not be limited by double tax treaties concluded by Switzerland. This practice has however been rejected by the Zurich cantonal administration court in its decision dated 15 January 2025, whereas the case is pending in front of the Swiss Federal Supreme Court.

Sale of Shares in Real Estate Funds

In a recent judgement, the Federal Supreme Court decided that the sale of shares in an investment fund with direct real estate holdings, which are treated as legal entities for the purposes of their income from direct real estate investments, are part of the taxable profit, subject to a statutory correction standard, i.e. such gains cannot be excluded from the taxable profit. The appellant argued that capital gains from the sale of units in an investment fund with direct real estate holdings should be treated in the same way for tax purposes as gains from the sale of the directly held real estate of the fund itself. The appellant's appeal has, however, been dismissed by the court.

22 Turkey

Corporate tax

Resident companies in Turkey are subject to corporation tax on their worldwide income. The standard corporate tax rate is 25%. For financial sector companies (including Capital Market Board entities), the CIT rate is 30%. On the other hand, 5% discount (capped with TL 9.9 million for 2025) is provided to the compliant taxpayers (who submit their tax returns on time, and have no outstanding tax liability, etc.). Corporate income tax law states exemptions which can be beneficially utilized by corporations (upon meeting certain conditions), such as dividend income received from resident or non-resident companies, earnings of corporations derived from their foreign establishments of representatives, 25% of capital gains derived from the sale of property (for the properties acquired before 15 July 2023) or 50% of participation shares which are held by corporations for more than two years.

When filing the corporate tax return, it should be ensured that the taxpayers can benefit from such tax-exemptions, and that CIT law requirements are fulfilled.

Domestic Minimum CIT regime

Turkish Parliament introduced a domestic minimum tax regime that aims to ensure the corporate tax is not less than 10% of corporate income before certain exemptions and deductions. Under the new rule, the corporate taxpayers will compute their tax liability under both the standard regime (i.e. 25% tax on taxable income after deductions and exemptions) and under a parallel regime (i.e. 10% tax on taxable income before certain deductions and exemptions). The larger amount is then payable.

The domestic minimum tax regime is applied to fiscal years starting from 1 January 2025. Earnings from immovables of REICs and REIFs will not be regarded as exemption from the minimum CIT base.

Profit Distribution Rule on REICs and REIFs

As per the new rule which has been introduced into the legislation by Law No. 7524, earnings of REICs and REIFs are exempt from general CIT if the half of the earnings stemming from immovables is distributed to the shareholders until the end of the second month following the declaration of CIT Return. Otherwise, the total income shall be subject to 30% CIT.

Profit distribution rule is applied to fiscal years starting from 1 January 2025.

Transfer pricing

If a taxpayer enters into transactions regarding the sale or purchase of goods and services with related parties, the parties should follow the arm's length principle. Transfer pricing regulations stipulate documentation requirements for taxpayers, who should complete the transfer pricing form every year and submit it as an appendix with the corporate tax returns. Taxpayers are also required to prepare an annual transfer pricing report including supporting documents for their international and/or domestic related-party transactions. Furthermore, OECD's Base Erosion and Profit Shifting Action Plan ("BEPS Action Plan") documentation requirements are introduced. The recommended three-layered documentation model outlined in BEPS Action 13 is being integrated to the Turkish transfer pricing regulations. Accordingly, master file preparation, annual transfer pricing report preparation and country-by-country report (CbCR) filing, which is to be submitted electronically, are applicable for entities operating in Turkey, along with notification submissions to the tax authorities.

Thin capitalization rule

If the ratio of the borrowings from related parties exceeds 3 times the shareholders' equity of the borrower company, the exceeding portion of the borrowing will be considered as thin capital. Interest and other payments relating to thin capital and the related foreign exchange losses are non-deductible expenses while calculating the corporate tax base. For loans received from related party banks or financial institutions that provide lending also to third parties, the debt/equity ratio will be considered 1/6 instead of 1/3. The shareholders' equity represents the total shareholders' equity at the beginning of the given fiscal year.

A thin capitalization analysis should be made by the taxpayer.

Controlled foreign company (CFC)

Corporations that are established abroad and are at least 50% controlled directly or indirectly by tax resident companies are considered controlled foreign companies when certain requirements are met, such as being subject to an effective income tax rate lower than 10% in its home country, having a gross revenue more than TRY 100,000 in the related period and having passive income (at least 25% of gross revenue). CFC profits would be included in the corporate income tax base of the controlling resident corporation irrespective of whether it is distributed or not.

CFC profits should be included in the tax base of the Turkish resident company if the foreign corporations meet the conditions of being a CFC.

Depreciation

Depreciation may be applied by using either the straight-line or declining-balance method at the discretion of the taxpayer. The rates are determined by the Ministry of Finance. The maximum applicable rate for the declining-balance method is 50%. With the new amendments taxpayers are allowed to calculate depreciation expenses on a daily basis. A longer useful life may be used as long as it does not exceed two times the useful life (determined by the MoF) and 50 years. The calculation method for these fixed assets cannot be changed.

Interest and foreign exchange costs regarding the financing of fixed assets should be added to the cost of fixed assets until the end of the year in which assets are taken into account. The depreciation method should be selected for the fixed assets which are purchased in the related year.

Foreign currency revaluation

Assets and liabilities denominated in foreign currency are revalued at year end and each quarter based on the exchange rates announced by the Ministry of Finance.

Doubtful receivables

Receivables which are relevant to the acquisition of commercial income and at the litigation stage or administrative action can be written as doubtful receivables in the year that the litigation process started. Provisions may be accounted for the doubtful receivable at the disposable value on the day of valuation. Receivables lower than TL 20,000 (for FY25) can be written as doubtful receivables without litigation process if they are requested more than one time via mail, etc.

It should be determined whether the conditions are met.

Bad debts

Account receivable whose collection is no longer possible, based either upon a judicial decision or upon other substantiated documents can be considered as bad debt. The bad debt amount can be regarded as an expense item in the related period. Furthermore, the legislation provides for VAT relief for uncollectable receivables that become worthless in accordance with the above-mentioned regulation.

It should be determined whether the conditions are met.

Title deed fee

Title deed fee is calculated according to the "Fee Law" for the transactions concluded at the title deed registry such as property buying/selling, registration of rental contract, annotations of any transaction made at registry etc. At the time of acquisition, title deed fee at the rate of 2% is applicable over the sales price for buyer and seller separately.

Fee has to be paid to the tax office before the transaction is made at the registrar.

Value-added tax (VAT) rate for the residential units

The determination of the VAT rate to be applied (1%, 10% or 20%) on the deliveries of houses starting from the year 2013 will vary based on several different factors such as; Building license obtaining date, Construction class of the building, square meters of the house, etc.

For the units with the building license obtaining date is after 1 April 2022; parts which is up to 150m2 of the residences will be subject to 10% VAT, exceeding part of 150m2 will be subject to 20% VAT.

Furthermore, the VAT Law provides VAT exemptions for deliveries to non-resident individuals with valid work and residence permits, as well as Turkish citizens who work abroad for more than six months. This exemption is applicable for the first sale of new buildings built as residences or workplaces. Additionally, foreign currency should be brought to Turkey for this purpose. Please also note that there are other certain conditions to be fulfilled for the application of the exemption.

Starting from 1 January 2030, the deferred VAT shall be subject to 5-year statute of limitation.

Stamp tax

Stamp tax applies to a wide range of documents, including but not limited to agreements, financial statements and payrolls. Agreement that states a monetary value is subject to stamp tax at a general rate of 0.948%. Lease contracts are subject to stamp tax at a rate of 0.189% of the rental amount. Stamp duty rate to be applied on some agreements, which are specifically related to the real estate industry, is 0% (zero); such as officially drafted construction agreements on flat for land basis or revenue sharing etc.

Stamp tax is capped at TRY 24.477.478,90 (approximately EUR 505,500 under the current foreign exchange rate, subject to annual revaluation) for the year 2025. All signatory parties are jointly held liable for the stamp tax payment.

Resource utilization support fund (RUSF) rates

RUSF rates are to be applied on foreign loans obtained by Turkish resident individuals or legal entities (except for banks or financial institutions) in terms of foreign currency or gold (except for fiduciary transactions) was restructured based on the average maturities as follows:

- 3% on the principal if the average maturity period of the foreign currency credit does not exceed one year.
- 1% on the principal if the average maturity period of the foreign currency credit which is between one and two years.
- 0.5% on the principal if the average maturity period of the foreign currency credit which is between two and three years.
- 0% on the principal if the average maturity period of the foreign currency credit over three years.
- 1% on the interest amount if the average maturity period of the foreign loan denominated in Turkish Liras does not exceed one year.
- 0% on the interest amount if the average maturity period of the foreign loan denominated in Turkish Liras which is over one year

Financial expense restriction

As per the rule concerned the limitation on financial expenses applies only in situations where the amount of external financing of the taxpayer exceeds the taxpayer's equity. The non-deductible portion of the financial expenses is capped at 10%. Credit institutions, financial institutions, financial leasing companies, factoring companies and financing companies are excluded from the application of financial expense restriction. Restrictions shall not apply to interest rates and similar payments added to investment costs.

Deemed interest deduction on cash injection as capital

According to the arrangement Turkish resident companies (except for those that operate in banking, finance and insurance sectors and public enterprises) would be able to benefit from a deemed interest deduction that is equal to 50% (re-determined between 0%–100% for various situations) of the interest calculated on the cash capital increase in the registered capital of the existing corporations or cash capital contributions of the newly incorporated corporations based on the average interest rate by the Central Bank of Turkey for TL denominated commercial loans, from their corporate tax base of the relevant year.

Companies can benefit from a deemed interest deduction for the year of cash injection and following four years. Certain companies operating in real estate industry, especially the ones earning rental income and making land investments may not utilize the above-mentioned interest deductions.

Inflation Accounting

Taxpayers within the scope will apply inflation adjustment by the end of FY25.

Net inflation adjustment gain or loss will not be included in taxable income of Real Estate Investment Companies (REICs) or Real Estate Investment Funds (REIFs) in FY25.

Pillar Two

Similar to the OECD Model Rules and the Pillar Two Directive, the Turkish Pillar 2 legislation will apply to constituent entities that are members of a multinational enterprise group that has annual revenue of Turkish equivalent of EUR 750 million or more in the consolidated financial statements of the ultimate parent company in at least two of the four fiscal years immediately preceding the tested fiscal year.

In general, the Turkish Pillar Two provisions do not differ significantly from the EU Minimum Tax Directive. Very briefly, the Turkish Pillar Two regulations introduce the global minimum top-up taxation rules by providing for the main interlocking measures, i.e. the Income Inclusion Rule (IIR) and the Undertaxed Payment Rule (UTPR) as well as a Qualifying Domestic Top-Up Tax (QDMTT) under the safe-harbor OECD standards.

The new rules are effective for fiscal years starting from 1 January 2024, except for the UTPR provisions which apply to fiscal years starting from 1 January 2025.

23 United Kingdom

Non-UK resident companies are within the charge to corporation tax on UK property rental income, and the period of assessment under corporation tax will usually be the same as the company's accounting period unless that period exceeds 12 months. Non-resident companies are also within the charge to corporation tax on direct and certain indirect disposals of UK property. Where such companies are not otherwise within the charge to corporation tax (eg because they do not have any rental income), this may result in a one-day period of assessment.

Non-resident investors which are not companies are required to submit a UK income tax return for the fiscal year which runs from 6 April to 5 April, which is unlikely to correlate with the fiscal year. This guide deals with the position for companies only.

For companies, it is important that the following issues are considered in relation to existing investments in UK real estate on at least an annual basis.

The main rate of corporation tax is currently 25% on profits over GBP 250,000.

Rental income subject to corporation tax

As noted above, non-UK resident companies are within the charge to corporation tax on UK property rental income. Withholding at the basic rate of income tax (20%) may apply to rent receipts unless the company is registered with the UK tax authority as a 'non-resident landlord'. The non-UK corporate landlord (even if tax is withheld at source) is subject to UK corporation tax filing and payment rules, which includes (except for the first corporation tax accounting period), the quarterly instalment payments (QIPs) regime. Also, there are group relief provisions in respect of profits/losses of such non-UK tax resident companies that fall within the charge to corporation tax.

The loss restriction limits to 50% the amount of profit against which brought forward losses in excess of GBP 5 million can be offset.

For property investors, there is no ability to carry back property business losses and offset these against taxable income in earlier accounting periods.

Financing costs

In calculating the profits subject to corporation tax for non-resident companies with a UK property business, this will include debits/credits in relation to loans or derivative contracts which the company is party to for the purposes of that business.

Shareholder financing in relation to a UK property investment business should be provided on arm's length terms to comply with the UK transfer pricing rules (which also apply where a third-party loan is subject to a shareholder guarantee) in order to be tax deductible (in addition to the restrictions referred to below).

Support for the level of shareholder financing and the terms on which this financing is provided should be retained. It should be considered what support is available for the shareholder financing for each UK property investment.

The 'corporate interest restriction' (CIR) rules generally restrict finance cost deductions to 30% of taxable profits before interest and capital allowances in addition, the net interest deduction of the UK group cannot exceed the net interest shown in the worldwide group's consolidated financial statement.

There are some options under the CIR rules which may provide for a better result than the basic rules above:

Each group can use a GBP 2 million de minimis per 12 month period

- A Group may elect to using an alternative group ratio or
- A Company within a group may elect to use a public infrastructure exemption

The latter two are normally considered when external debt financing exceeds the £2m de-minimis and 30% EBITDA. However, there are certain conditions to be met, they will not always provide a better result and the outcomes can be affected by commercial arrangements such as guarantees or other financial support over the debt.

There are other ways in which interest deductions can be restricted. These include:

- The hybrid mismatch rules can deny interest (and other expenses) relief where a deduction/non-inclusion result or double deduction for the same expense as a result of using hybrid entities or instruments. ;
- Reclassification of interest as a distribution where the debt has certain equity characteristics; and
- Denial of relief where a loan relationship of a company has an 'unallowable' purpose (broadly, a purpose that is not within the business or commercial purposes of the company).

Capital allowances

Capital allowances are the mechanism under which tax relief is obtained for capital expenditure. Allowances are available for capital expenditure on plant and machinery in UK properties at 18% per annum on a reducing balance basis for loose plant and machinery, or 6% for integral features (unless more generous full expensing is available, see further below). Providing certain requirements are met, relief is also available at 3% per annum on a straight line basis for the cost of the construction, conversion and renovation of certain buildings ('Structural Buildings Allowances').

From 1 April 2023, companies investing in qualifying new plant and machinery assets benefit from a 100% first-year capital allowance rather than the existing 18% writing down allowance, and 50% first-year allowance for qualifying special rate (including long life) assets rather than the existing 6%.

Companies are also entitled to an annual 100% allowance for investment in most plant and machinery up to the annual limit of GBP 1 million per annum (AIA). One AIA is available per company or group of companies if relevant.

Each UK property investment should be reviewed to ensure the maximum entitlement to capital allowances is being claimed, and that the relevant data is being captured.

Disposals by non-residents

UK tax is charged on capital gains made by non-residents on direct and certain indirect disposals of all types of UK immovable property.

The indirect disposal rules apply where a person makes a disposal of a company (or an entity deemed to be a company) in which it has at least a 25% interest where that entity derives 75% or more of its gross asset value from UK land. Where the disposal is of an interest in certain collective investment vehicles (which includes certain holdings in UK REITs and PAIFs), the 25% interest requirement is disapplied so that non-residents making disposals of interests in these vehicles do not have to have a stake of 25% or more to fall within the charge, or, in certain limited circumstances, replaced with a 10% threshold. The 25% ownership test applies where the person holds at the date of disposal, or has held within two years prior to disposal, a 25% or more interest in the property-rich company. This holding may be directly, or through a series of other entities, or via connected persons.

The 75% 'property richness' test looks at the gross assets of the entity being disposed of. Where a number of entities are disposed of in one arrangement and certain other conditions are met, their assets will be aggregated to establish whether the 75% test is met.

The gain or loss is generally calculated using the market value of the asset as at April 2019 but there is an option to calculate the gain or loss on a disposal using the original acquisition cost of the asset. The April 2015 value replaces the April 2019 value in the case of direct disposals of UK residential property that would previously have been within the charge to UK tax prior to 6 April 2019. Where the option to use the original acquisition cost is taken in the case of an indirect disposal, and this results in a loss, this will not be an allowable loss.

There is a trading exemption, so that disposals of interests in property-rich entities where, broadly, at least 90% of the UK land (by value) is used in a qualifying trade are excluded from the charge, and existing reliefs and exemptions available for capital gains continue to be available to non-UK residents, with modifications where necessary. Those who are exempt from capital gains for reasons other than being non-UK resident continue to be exempt (for example, overseas pension schemes).

In addition, the provisions of any relevant double tax treaty need to be considered.

Losses arising to non-UK residents under the rules are available. However, the offset by companies of carried forward capital losses is limited to 50% only of the capital gains arising in a later accounting period, subject to a GBP 5 million de minimis applied on a group basis (which includes income losses).

It may be possible for a group company to elect for gains (or losses) to be treated as arising in another group company. This can impact on the ability to offset gains and losses and also the date on which any tax is due. The election must be made within 2 years of the end of the period of assessment/accounting period in which the gain arises.

Accounting changes

A non-resident company is required to calculate the profits of its UK property rental business in accordance with UK GAAP if it does not already prepare accounts under UK GAAP or IFRS. Otherwise it is the company's UK GAAP/ IFRS accounts which are used to calculate the profits of the UK property rental business.

It may therefore be necessary to keep up with any changes in UK GAAP and investors should consider the implications for their UK tax liability.

B Asia Pacific

1 Australia

Tax on distribution of trust income to non-residents

Withholding Managed Investment Trust (MIT)

Trusts that meet the requirements of a withholding MIT are eligible for a concessional 15% final withholding tax rate (10% for MITs that are invested in certain energy efficient buildings via a "clean building MIT") on MIT fund payments distributed to residents of exchange of information (EOI) countries or 30% for residents of non-EOI countries. To the extent the MIT fund payment comprises non-concessional MIT income (NCMI), then the MIT fund payment will be subject to a 30% final withholding tax rate. NCMI broadly includes income relating to cross staple arrangements, trading activities and residential and agricultural assets.

The MIT rules are an ongoing area of focus for the Australian Taxation Office (ATO). It is therefore critical that taxpayers confirm MIT eligibility on an annual basis. MITs must make sure that they are aware of their compliance obligations and provide appropriate statements to investors containing the required information by the due date.

Build-to-Rent (BTR) measures

In response to Australia's housing crisis and to encourage foreign investment in the BTR sector, the Australian Government has introduced legislative amendments to provide accelerated tax deductions for construction costs and reduced the MIT withholding tax rate (previously 30% as NCMI) to 15% for both net rental income and capital gains in respect of eligible BTR investments.

Eligible BTR developments are those which satisfy a certain set of criteria, including when construction of the project commenced, number of dwellings/apartments in the project, lease terms offered to tenants and the affordable housing requirement. Meeting these criteria are not straightforward and require careful planning to ensure the concessions can be accessed.

The current BTR measures are complex and require careful planning in order to access the tax concessions. Taxpayers should also monitor changes in legislative instruments for affordable dwelling requirements if they intend on relying on these measures.

Distributions by trusts that are not withholding MITs

Where trustees of non-withholding MITs make distributions to non-resident investors, they are assessable on the distributions at a rate of 30% where the non-resident investor is a company, and at a rate of 45% where the non-resident investor is an individual or trustee. The tax due is generally deducted from the distributions paid to the non-resident investors as a "non-final withholding tax". The non-resident investors are subject to Australian income tax in respect of the distributions they receive, must lodge an Australian income tax return, but may be able to deduct any expenses relevant to the Australian investment, and also receive a credit for any non-final withholding tax paid by the trustee of the non-MIT.

Non-resident investors need to make sure they are aware of their compliance obligations if they invest into non-withholding MITs.

Attributed Managed Investment Trust (AMIT)

A MIT can elect to be treated as an AMIT. Broadly, the AMIT regime applies an attribution model to the taxation of unitholders rather than the current system of present entitlement. AMITs provide for fixed trust status for Australian tax purposes, allow cost base increases and decreases of the member's units in the trust and also allow for multiple classes of membership interests.

The advantages and disadvantages of electing into the AMIT regime should be considered prior to making such election. Becoming an AMIT may require changes to systems, documentation (including trust deeds) and processes.

Taxation of trading income

Public trading trust

A trust will be taxed in a similar manner to a company if it is classified as a "public trading trust" for a year of income – that is, a trust that is both a "public unit trust" (i.e. a listed or widely held trust) and a "trading trust'. A trading trust is a trust that carries on a trading business at any time during an income year. In the context of land, a trading business is any activity other than investing in land primarily for the purpose of deriving rent.

The activities of a trust should be monitored on an ongoing basis to ensure that the trust's activities do not constitute a trading business and the flow through status of the trust is retained. This is an ongoing focus area for the ATO.

Taxation of foreign tax-exempt investors

Withholding tax exemption for foreign superannuation funds

The dividend and interest withholding tax exemption for foreign superannuation funds is generally restricted to portfolio like investments (i.e. less than 10%) as from 1 July 2019 (subject to transitional rules). Specified additional conditions also need to be satisfied before the exemption can be applied. Note that this exemption does not generally apply to MIT fund payments.

Foreign pension funds that have established captive trusts to house their Australian real estate investments should consider whether they qualify for the withholding tax exemption.

MIS changes for captive MITs

On 7 March 2025, the ATO issued Taxpayer Alert (TA) 2025/1 targeting "captive MIT" restructures aimed at accessing concessional MIT withholding and deemed CGT treatment. Higher risk cases include restructures coinciding with asset disposals, and where trusts may not substantively be MISs under section 9 Corporations Act (Cth) (e.g., all unitholders within one corporate group).

The ATO may seek to apply the general anti-avoidance rules of Part IVA where there is no commercial rationale beyond tax benefits, especially when converting ineligible vehicles into MITs via unnecessary steps. Integrity risks also arise with multiple CGT rollovers or introducing related-party debt, heightening anti-avoidance exposure. The ATO will not generally review "pre-alert" MITs unless material changes occur, though Part IVA remains relevant.

Following release of the TA, the Australian Government has planned to clarify MIT laws to ensure that genuine foreign widely held investors, including single widely held owners, qualify, preserving industry practice. Draft laws are yet to be released and are intended to apply from 13 March 2025.

Taxpayers contemplating "captive MIT" restructures should consider the MIS status and commercial substance of their arrangements. Regard should be had to the potential application of the general anti-avoidance regime, especially where restructures are closely connected to disposals, multiple rollovers or related-party debt.

Access to sovereign immunity exemptions

From 1 July 2019 (subject to transitional rules), the tax treatment of sovereign wealth funds has been codified in the tax legislation. An entity that meets the definition of a sovereign entity will only be exempt from tax on ordinary or statutory income that is derived from portfolio-like investments in Australian companies and managed investment trusts. The portfolio level interest must be measured by reference to a sovereign entity group (entities are grouped according to whether they are federal, state or provisional level government entities).

Sovereign entities will need to consider whether they meet the eligibility tests for the sovereign immunity exemption (which may include gathering information on investments held by other group members).

Tax on capital gains

Taxable Australian property and taxation of capital gains for foreign residents

A non-resident is subject to tax on capital gains in respect of taxable Australian property (**TAP**). TAP assets broadly include Australian real property and non-portfolio (generally, 10%+) interests in entities whose assets are predominantly real property at the time of disposal (i.e. indirect Australian real property interests or **IARPIs**).

Different tests apply to determine if a gain in respect of an asset is taxable where it is held on revenue account (e.g., an asset acquired for re-sale at a profit in the short term).

Broadly, non-residents disposing of TAP will have 15% of the purchase price of the asset withheld by the purchaser and remitted to the ATO under the foreign resident capital gains withholding (FRCGW) regime. The non-resident is then required to prepare and file an Australian tax return, whereby the 15% withholding tax remitted to the ATO by the purchaser should be creditable to the non-resident.

Foreign residents should be aware of their Australian filing obligations in the even they are investing in or disposing of TAP assets.

Changes to the taxation of capital gains for foreign residents

As part of the 2025 Federal Budget, the Australian Government announced the deferral of proposed changes to amend the capital gains tax (CGT) rules which applies to foreign residents. The start date of this amendment has been deferred from 1 July 2025 to the later of 1 October 2025, or the beginning of the first quarter after Royal Assent has been received. These rules will clarify and broaden the types of assets on which foreign residents are subject to CGT, amend the existing "point-in-time" principal asset test to a 365-day testing period and require disclosure to the ATO by foreign residents disposing of membership interests that the foreign resident is declaring is not an IARPI (i.e. not a "land rich" entity) exceeding AUD 20 million in value.

Amendments to the law have also been introduced to give effect to the increased FRCGW tax rate and reduced withholding threshold that applies to real property interests. As of 1 January 2025, the FRCGW rate is 15% (previously 12.5%) and the threshold exemption has been reduced to nil (from AUD 750,000).

Foreign residents investing in Australia should consider the impact of the changes to the CGT regime and whether any action is required before the introduction date.

Debt deductions

Thin capitalisation

The Australian thin capitalisation rules can restrict the deductibility of interest expenses for general class investors (broadly foreign controlled Australian entities or Australian entities that control a foreign entity). The current regime contains three tests, including the fixed ratio test, the group ratio test and the third-party debt test. Other tests may apply to certain types of authorised deposit-taking institutions (**ADIs**) and financial entities (**non-ADIs**).

The Debt Deduction Creation Rules (**DDCR**) also apply to limit debt deductions arising from both existing and new debt arrangements. The DDCR applies to general class investors, whilst entities that apply the third party debt test are exempt from the operation of the DDCR. Arrangements that fall within the DDCR include related party debt used to fund the acquisition of CGT assets or legal or equitable obligations from associates (Type 1) and related party debt used to fund certain payments and distributions to associates (Type 2). The DDCR applies before the operation of the three tests and deny debt deductions to the extent Type 1 or Type 2 applies.

Taxpayers should consider the impact of these rules on any existing and proposed funding structures for Australian investments.

Transfer pricing

Australian transfer pricing rules apply when an entity receives a "transfer pricing benefit", which is when the actual conditions relating to its cross-border dealings differ from the arm's length conditions, and had the arm's length conditions operated, the entity's taxable income or withholding tax liability would have been greater, or losses or tax offset would be less.

Effective for periods commencing from 1 July 2023, the transfer pricing rules have been expanded to require all general class investors, and financial entities that have not chosen the new third party debt test, to assess whether the quantum of any cross-border related party borrowings is consistent with an arm's length amount of debt, in addition to assessing whether the price or interest rate on the debt is arm's length.

The ATO has published draft guidance in Practical Compliance Guideline (PCG) 2025/D2 which provides a framework for taxpayers to self-assess the risk of their arrangements and sets out factors that are relevant in determining and testing the amount of inbound cross-border related party debt. It also outlines the ATO's expectations regarding documentation and evidence in relation to the amount of inbound cross-border related party debt.

Key factors the ATO recommends be considered and documented include (among others) the commercial purpose of the debt, group policies and practices, covenants, security, and analysis of key debt ratios relative to the group and independent comparable entities.

Detailed questions regarding intra-group financing arrangements continue to be requested as part of Foreign Investment Review Board approvals.

The transfer pricing rules should be considered by all Australian entities with cross-border related party dealings and consider the implications of the documentation requirements. Taxpayers with cross-border borrowings will now need to conduct an analysis to determine whether the quantum of their borrowings is arm's length under the expanded transfer pricing rules.

Hybrid mismatch rules

Australia has statutory "hybrid mismatch" rules in Division 832 of the Income Tax Assessment Act 1997. These rules generally took effect for income years commencing on or after 1 January 2019.

Division 832 gives effect to the OECD's recommended hybrid mismatch rules to prevent entities obtaining a tax benefit from hybrid mismatch arrangements. In addition, Australia introduced an integrity measure, designed to prevent multinational groups from debt funding Australia via interposed conduit type entities that are effectively subject to low (10% or less) or nil tax rates.

Broadly, hybrid mismatches arise from differences in the tax treatment of an entity or instrument under the laws of two or more tax jurisdictions, which result in either a deduction/deduction mismatch (whereby a taxpayer obtains a deduction in two countries for the same payment) or a deduction/non-inclusion mismatch (whereby a deduction is provided for payment in one country (i.e. Australia), but the corresponding income is not included in the assessable income in the recipient country). Australia also has a broad "imported" hybrid mismatch rule where a deduction may be denied for payments made from Australia which may not directly be related to a hybrid mismatch but may be taken to fund an offshore hybrid mismatch between non-resident group entities.

The hybrid mismatch rules are amongst the most complex set of tax rules enacted in Australia in recent years. These rules also have wide-ranging application, with no de minimis threshold for small and less complex operations. Taxpayers will therefore need to gather detailed information of the foreign income tax treatment of related entities and instruments. Any restructuring will need to be carefully evaluated, due to the interaction with other areas of the business (accounting, operational and legal/regulatory issues).

Other

Loss recoupment tests

Any change in direct or indirect interests in an entity (e.g. in the course of restructurings) may lead to a partial/total forfeiture of tax losses at the Australian entity level. Broadly, trusts and companies must maintain 50% or more continuity of ownership to be able to deduct carried forward tax losses. Companies may also rely on the same business test (or similar business test) in order to recoup its tax or capital losses.

The tax loss rules must be considered prior to the recoupment of prior year and current year's losses. The tax loss rules should also be considered where there are transactions that result in significant changes to ownership.

Country-by-Country reporting (CbCR) ("confidential" regime)

Australia has a comprehensive reporting and penalty regime including CbCR transfer pricing reporting standards, FATCA and tax transparency.

Currently, the CbC statements that are submitted to the ATO are confidential. These statements include a "CbC Report", "Master File" and "Local File".

Recently, significant changes to the Australian CbCR standards have recently been implemented by the Government, namely:

- The reduction in the available grounds for obtaining an exemption from a CbCR requirement. In particular, entities that had no international related party dealings during the reporting period are no longer able to seek a "fast track exemption" from the Local File requirement.
- The "Short Form" (which is a component of the Local File submission) has been significantly expanded to include information requirements that go beyond transfer pricing and are aligned to a wide range of "Base Erosion Profit Shifting" risk areas.

Taxpayers should be aware of these changes particularly those that intend to rely on exemptions from CbCR requirements.

Public CbCR regime

In addition to the "confidential" CbCR requirements described above, the Australian Government has enacted a separate "public" CbCR regime applicable for periods commencing from 1 July 2024.

The public CbCR regime requires large multinational groups with an Australian presence to submit data on their global financial and tax footprint to the Australian Taxation Office (ATO), which will be made available publicly. This new obligation will apply in addition to existing confidential CBC reporting regime and any other public CBC reporting regime that a multinational group may be subject to (e.g. the European Union regime).

Broadly, the information included in the public CbC Report is a subset of what is currently included in the "confidential" CbC Report and also requires a statement of the Group's approach to tax.

Lodgment of the public CbC Report can be made directly by the public CbC reporting parent or by an "authorised representative", which can be the Australian subsidiary. In exceptional cases, namely impact on national security, breach of law, or revealing commercially sensitive information, the Commissioner may grant a full or partial exemption from the public CbCR requirements.

Taxpayers should be aware of their filing obligations in respect of the public CbCR regime and understand responsibilities for public CbCR filings within their corporate groups.

Pillar Two

Australia has implemented Pillar Two for fiscal years commencing on or after 1 January 2024, including:

- the Income Inclusion Rule (IIR); and
- a Domestic Minimum Tax (DMT),

with the Undertaxed Profits Rule (UTPR) applying for fiscal years commencing on or after 1 January 2025.

The interaction between the Pillar Two rules and Australian trusts (both consolidated group entities and equity accounted joint ventures) can be complex and potential unintended outcomes need to be carefully considered and appropriately managed.

2 China

Preferential Deed Tax policies for corporate transformation and restructuring are extended for four years.

The Ministry of Finance ("MOF") and the State Taxation Administration ("STA") issued the Public Notice on the Continued Implementation of Deed Tax Policies Related to Restructuring and Reorganization of Enterprises and Institutions ("PN [2023] No.49) on 22 September 2023, extending the reduction/exemption treatment of Deed Tax for the following types of corporate transformation and restructuring in Circular [2018] No.17, including: transformation of enterprises and public institutions, merger, spin-off, bankruptcy, asset assignment, debt-to-equity swap, equity (share) transfer.

The valid period of PN [2023] No.49 is from 1 January 2024 to 31 December 2027.

Preferential Land Appreciation Tax policies for corporate transformation and restructuring are extended for four years

The MOF and the STA issued the Public Notice on Extending the Land Appreciation Tax (LAT) Policy for Corporate Transformation and Restructuring ("PN [2023] No. 51") on 22 September 2023, extending the provisional LAT exemption policy on corporate transformation as a whole, merger, spin-off, and investment with real property and continues to adhere to the non-applicability of this exemption policy to real property transfer transactions where either party to the transactions is a real property development enterprise. In addition, the requirements for "investors of the original enterprise to remain unchanged", "investors to be the same as those of the original enterprise" and "investors of the original enterprise to continue to exist" remain unchanged.

Meanwhile, PN [2023] No. 51 also clarifies the issue of LAT deductible amount of the transferee of the real property under three scenarios in corporate transformation and restructuring:

- Scenario 1. For the "amount paid for acquiring land use rights", the deductible amount is determined based on the price paid for acquiring the state-owned land use rights before the transformation and restructuring and the fees paid in accordance with the state-level unified regulation.
- Scenario 2. For state-owned land use rights received as a capital contribution by an enterprise upon approval, the deductible amount is the valuation value approved by the country-level and above natural resources authorities at the time of the capital contribution.
- Scenario 3. For the deductible amount determined based on the housing purchase invoice, the amount of the deductible item shall be calculated at an additional 5% of the amount indicated in the housing purchase invoice before the transformation and restructuring for each year from the year of the purchase to the year of transfer, i.e. the amount indicated in the invoice x (1 + the number of years after purchase x 5%).

The PN [2023] No.51 is effective until 31 December 2027.

Preferential policies on Value-added Tax and Land Appreciation Tax in regions where the distinction between ordinary and non-ordinary housing has been abolished.

The MOF, the STA and the Ministry of Housing and Urban-Rural Development ("MOHURD") jointly issued the Public Notice to promote the stable and healthy development of the real estate market ("PN [2024] No.16") on 12 November 2024, providing the preferential policies on value-added tax and land value-added tax in regions where the distinction between ordinary and non-ordinary housing has been abolished.

The regions that have abolished the distinction between ordinary and non-ordinary housing, according to the provisional regulations of the People's Republic of China on land appreciation tax, for the taxpayers build the ordinary housing for sale and the value-added amount does not exceed 20% of the amount of the deductible items, they will continue to be exempted from land appreciation tax.

The PN [2024] No.16 is effective from 1 December 2024.

Lowering the Minimum Prepayment Rates for Land Appreciation Tax

The STA issued the Public Notice on lowering the minimum prepayment rates for land appreciation tax ("PN [2024] No.10) on 13 November 2024, to better leverage the regulatory role of the land appreciation tax, in accordance with the interim regulations of the People's Republic of China on land appreciation tax and its implementation rules and other relevant provisions, the minimum prepayment rate for land appreciation tax shall be lowered by 0.5 percentage points.

After the adjustment, except for affordable housing, the minimum prepayment rate shall be 1.5% for provinces in the eastern region, 1% for provinces in the central and northeastern regions, and 0.5% for provinces in the western region.

The PN [2024] No.10 is effective from 1 December 2024.

Improving the End-of-Period Excess Input Value-Added Tax Credit Refund Policies for real estate industry

The MOF and the STA jointly issued the Public Notice to improve the implementation of the refund of VAT credit balance ("PN [2025] No. 7") on 22 August 2025.

Starting from the VAT filing period of September 2025, taxpayers in the real estate development and operation industry whose newly increased end-of-period excess input tax credit for six consecutive months (or two consecutive quarter for taxpayers paying taxes on a quarterly basis) prior to applying for the refund is all greater than zero, and the newly increased end-of-period excess input tax credit in the sixth month (or the second quarter for taxpayers paying taxes on a quarterly basis) is not less than CNY 500,000, compared with the end-of-period excess input tax credit as of 31 March 2019, may apply to the competent tax authorities for a refund of 60% of the newly increased end-of-period excess input tax credit in the sixth month (or second quarter).

The taxpayers in the real estate development and operation industry are those whose VAT sales revenue and advance receipts derived from the "real estate development and operation" business in the Industrial Classification for National Economic Activities account for more than 50% of their total VAT sales revenue and advance receipts.

The PN [2025] No. 7 is in effect from 1 September 2025.

3 India

Foreign investment framework in real estate sector in India

Subject to specific conditions, NRI and OCI are permitted to acquire any immovable property in India other than agricultural land, plantation property, or farmhouse property.

A foreign company is not permitted to directly hold any immovable property in India. However, as an exception, a foreign company (through a branch or project office or other place of business in India) is permitted to acquire any immovable property in India, for carrying on its business activities.

Foreign investments are permitted in securities of Indian companies engaged in construction and development and other real estate related activities (subject to conditions).

Foreign investments (other than from countries sharing land border with India) are permitted without prior Government approval – subject to adherence of pricing guidelines and other sectoral conditions. A brief summary of the key regulatory conditions is provided below:

Foreign investment in construction/ development projects	Foreign investment in completed assets
Investments are subject to lock-in period of three years from date of receipt of each installment/tranche of investment.	Investments are subject to lock-in period of three years from date of receipt of each tranche of investment.
Lock-in shall not apply on completion of the project or after development of trunk infrastructure or in case of transfer between non-residents or construction of Special Economic Zones (SEZ) or construction of industrial parks, etc subject to certain prescribed conditions	Permitted activities – Operating and managing Townships, Malls, Shopping Complexes and Business Centre, including leasing of properties

Investment in the real estate sector can also be made by Foreign Portfolio Investors (FPI) by way of non-convertible debentures (subject to conditions) through following routes:

General Investment Route	Voluntary Retention Route
Investments are subject to minimum residual maturity of above one year and short-term investments are capped at 30% of the total investment of such FPI in corporate bonds.	No requirement for minimum residual maturity but investment to be retained in India for minimum period of three years (75% of committed portfolio size).
Single FPI (including related FPIs) cannot subscribe more than 50% of any issue of corporate bonds, subject to certain exceptions	Concentration limits do not apply i.e. single FPI can subscribe to full issue.

Corporate tax

Indian companies engaged in real estate related activities are chargeable to tax either at 25.17% (if special incentives are not claimed) or 29.12%/34.94% (incentive claim and certain turnover criteria). Further in case where the incentives are not claimed, it would also be liable to Minimum Alternate Tax at the rate of 17.47% if the accounting profits are higher than tax profits.

Real estate investment trusts (REITs)

REIT is an investment vehicle formed as a trust duly registered with the Securities and Exchange Board of India (SEBI). REITs are required to be listed on the stock exchange and hold completed and rent/income generating properties in India either directly or through holding company (Hold Co) or special purpose vehicle (SPVs) in India. Properties could inter alia include office buildings, shopping malls, industrial parks, warehouses, etc.

In a recent development, SEBI has introduced a distinct category of REIT called Small and Medium REITs (SM REITs) with a minimum asset value of INR 500 million. The maximum asset value for SM REITs is capped at INR 5,000 million, which is the minimum required asset value for traditional REITs.

Like traditional REITs, funds can be raised for the SM REIT from both Indian and foreign investors by issuing units, in accordance with any applicable conditions or approval requirements set by the Reserve Bank of India and the Government of India regarding foreign investment.

REITs are also subject to conditions, inter alia, including the condition that at least 80% (95% for SM REIT) of the value is invested in completed and rent/income generating real estate with a lock-in period of three years from the purchase date (lock-in not prescribed for SM REIT). REITs are prohibited from investing in vacant land or agricultural land or mortgages (with certain exceptions). Further, REITs are required to distribute at least 90% (100% for SM REITs) of their cash flows to their unit holders.

REITs have been accorded effective tax pass through status whereby interest, dividend (subject to conditions) from SPVs and rental income from property held directly (though direct holding not commercially attractive) is exempt in the hands of the REIT. Other incomes, including capital gains on disposal of REIT assets are taxable in the hands of the REIT.

Distribution by the REITs to unitholders in form of capital/debt repayment in excess of issue price of units is taxable at applicable rates in the hands of the unitholders. Distribution not taxed as above is to be reduced from the cost of acquisition of units.

Sale of units of the REIT is subject to a preferential tax regime (subject to payment of securities transaction tax on the sale transaction) as under:

a. Short-term capital gains – Effective tax rate[2] 21.84%
b. Long-term capital gains – Effective tax rate[3] 13.65%

[2] Rate is applicable for sale of units on or after 23 July 2024. Also, we have considered maximum applicable surcharge applicable to foreign company (non-resident)
[3] Rate is applicable for sale of units on or after 23 July 2024. Also, we have considered maximum applicable surcharge applicable to foreign company (non-resident)

Income characterisation (business income vs house property income)

The income of Indian companies engaged in "construct and sell" model is characterised as business income and taxable at applicable rates on a net income basis. Development and borrowing cost incurred to develop the property is considered as part of inventory and allowed as deduction.

The characterisation of income of Indian companies engaged in "construct, purchase and lease" model would largely depend on the facts and business objectives of the company. In a case where the primary objective of the company is to lease property together with provision of other related facilities/amenities, it should be characterised as business income and would be taxed in a manner similar to "construct and sell" model.

In case, the company earns rental income only from leasing, such rental income is characterised as income from house property. In computing taxable income from house property, only standard deduction of 30% of rental income (net of property tax) and interest expense on borrowings is allowed as expense.

Quasi thin capitalisation rules

In summary, interest deductibility is capped to 30% of EBIDTA. These rules apply to interest deduction claimed on debt raised from non-resident associated enterprise or a debt raised from non-associated enterprise is guaranteed by an associated enterprise subject to prescribed conditions.

Anti-abuse provision (sale of immovable properties)

Sale of immovable properties for an inadequate or NIL consideration is subject to taxation at a deemed value (determined based on the values imputed for stamp duty purposes). However, no adjustments shall be made in a case where the variation between stamp duty value and the sale consideration is not more than 10%.

Anti-abuse provisions (receipt of immovable properties)

Receipt of immovable properties for an inadequate or NIL consideration is subject to taxation at a deemed value (determined based on the values imputed for stamp duty purposes). The difference is taxable if the same exceeds:

- INR 0.05 million; and
- 10% of the consideration

Indirect taxes

Supplies to Special Economic Zone (SEZ) developers and units

Goods and/or services provided to SEZ developers and SEZ units for SEZ approved operations within an SEZ are zero rated under GST law. Thus, goods and services can be supplied without payment of GST, and the supplier would be entitled to seek a refund of GST paid on items used for supply to the SEZ developer/SEZ unit. Property rental services provided by a SEZ developer within an SEZ area continue to be GST free.

Recently, government has allowed an invoice-based refund filing system (as compared to period-based refund) providing flexibility to the taxpayer to file refund application for selected transactions instead of applying for all transactions of a given period.

Reverse Charge on Residential Dwellings

When GST was first introduced, the service of renting residential dwellings was fully exempt. This exemption was later narrowed to apply only where the dwelling is used for residential purposes. In cases where such property is rented to a registered person, the liability to pay GST arises under the reverse charge mechanism (RCM). However, it has been clarified that if the registered person uses the residential dwelling purely for personal purposes and does not claim the rent as a business expense, no GST is payable under RCM.

Recently Las has been amended to provide that in case of commercial properties where lessor is not registered under GST, the GST liability shall be payable by the registered lessee under RCM

Input Tax Credit on Construction Services

The admissibility of input tax credit (ITC) on inputs and input services used for constructing immovable property has long been a contentious issue under GST. Section 17(5) of the CGST Act restricts ITC on works contract services and goods or services used for construction of immovable property, other than "plant or machinery". This led to disputes, particularly where such properties were intended for taxable outward supplies like renting or leasing.

In October 2024, the Supreme Court in the Safari Retreats case provided significant relief by holding that if the construction of a building is essential for carrying out taxable services such as renting or leasing, the building could be treated as "plant" and ITC may be admissible. The Court also introduced the "functionality test," requiring that the immovable property be functionally integral to the taxable supply in order for ITC to be claimed.

However, the government, through the Finance Act, 2025, amended Section 17(5) by substituting the phrase "plant or machinery" with "plant and machinery" and clarified that this change applies retrospectively from 1 July 2017, overriding any contrary judicial decisions. This amendment effectively nullifies the relief granted by the Apex Court in Safari Retreats and reinstates the legislative intent to block ITC on construction of immovable property, even if such property is subsequently rented or leased. As a result, only construction relating to "plant and machinery" remains outside the ITC restriction, while all other immovable property continues to be excluded from credit entitlement.

GST on Long term Lease of Land

Under GST Law, sale of Land is not subject to GST. Although long term lease of land (which is generally for 99 years in India) is equated with sale of land, however, this is treated differently and subject to GST. GST on long-term lease of land is exempted only in specified circumstances (i.e., when the land is for industrial use / situated in the financial district).

In a recent decision, the Gujarat High Court held that the assignment of leasehold rights of land, along with any building constructed on it falls outside the GST ambit as such assignment involves the absolute transfer of rights, extinguishing the assignor's interest and creating new rights for the assignee, which essentially construes the sale of immovable property. However, whether the principal derived from this ruling can be applicable on grant of long-term lease of land, is still unclear.

GST 2.0: Rate Rationalization and Its Impact on Real Estate

The Government took a massive exercise to rationalize GST rates applies to various Goods and Services. GST rates on many products have lowered (with GST rate of 28% applicable on many products coming down to 18%). GST rates on key construction inputs, most notably reducing the rate on cement from 28% to 18% and on select wood-based products and sand lime bricks from 12% to 5%. These changes are designed to ease input costs, improve cost efficiency, and support the government's broader agenda of making housing more affordable and transparent.

For developers, the impact will depend heavily on their procurement models. Turnkey contractors, who have already offset input tax credits against 18% output GST on works contracts, may see limited benefits. By contrast, developer led procurement models stand to capture measurable cost savings, creating room for commercial negotiations and potentially improving project margins.

From an investor's standpoint, the reforms could translate into healthier balance sheets for developers who actively renegotiate vendor contracts and pass on savings to end buyers accordingly, the investors (specifically residential sector) are expected to receive immediate benefits as cement and related inputs constitute a significant share of construction costs.

Looking ahead, the sector must also prepare for increased scrutiny of documentation and pass through practices. Developers will need to maintain clear working papers to justify assumptions and tax computations. For investors, this means greater transparency in cost structures and potentially improved confidence in project viability – provided developers execute effectively on the opportunities created by GST 2.0.

4 Korea

According to the proposed tax amendment in August 2025, the following tax amendment will be effective from 1 January 2026 once it is passed through the resolution of the National Assembly.

Increase in Corporate Tax Rate (including Local Income Tax Rate)

From 1 January 2026, the corporate tax rate (including local income tax rate) will be changed as below for each tax base bracket.

Tax Base	Marginal Tax Rates	
	Current	Proposed
Up to KRW 200 million	9.9%	11.0%
Over KRW 200 million to KRW 20 billion	20.9%	22.0%
Over KRW 20 billion to KRW 300 billion	23.1%	24.2%
Over KRW 300 billion	26.4%	27.5%

Increase in Securities Transaction Rates

From 1 January 2026, the securities transaction tax rate will be changed as below.

Type of Shares	Securities Transaction Tax Rates	
	Current	Proposed
Listed shares traded on the KOSPI market	0%[1]	0.05%[1]
Listed shares traded on the KOSDAQ · K-OTC market	0.15%[2]	0.20%[2]
Listed shares traded on the KONEX market	0.10%[2]	0.10%[2]
Unlisted shares	0.35%[2]	0.35%[2]

[1] A special tax for rural development is imposed at a rate of 0.15%, in addition to the securities transact tax.

[2] No special tax for rural development is imposed.

New Requirement for Submission of Application for Reduced Tax Rate on Domestic Source Income to the Korean Tax Authority

If a non-resident or foreign corporation, which is a beneficial owner of domestic source income, applies for a reduced withholding tax rate under an applicable tax treaty, the non-resident or foreign corporation should complete an application for entitlement to reduced tax rate on domestic source income and submit the completed application and related documentation to the income payor (acting as a withholding agent) before income is paid. The prescribed related documentation includes documents supporting the beneficial ownership of the domestic source income and, where applicable, may include an overseas investment vehicle (OIV) report and a report on the OIV eligible for the beneficial ownership exception. The withholding agent and the OIV are required to retain the application and related documentation for five years from the due date for payment of the withholding tax.

Currently, the withholding agent is not required to submit the application and related documentation to the Korean tax authority unless submission is requested by the tax authority. However, the proposal introduces a new submission requirement: withholding agents must submit the application and related documentation received from a nonresident or foreign corporation to the competent tax office. The deadline for this submission will be the end of February of the year following the year in which the payment due date falls.

5 Malaysia

Taxation of real estate investment trusts ("REIT")

Generally, the income of a REIT consisting of rental income, interest (other than interest which is exempt from income tax) and other investment income derived from or accruing in Malaysia will be taxable at the corporate tax rate currently at 24%.

Business tax deductions can include management fees, interest and property taxes and the REIT manager's remuneration. However, trustee's fees do not qualify for tax deduction since it is not seen to be wholly and exclusively incurred in the production of gross income.

Expenses incurred to set up an entity are generally not allowed as a tax deduction as these expenses are regarded as pre-commencement expenses. As a tax incentive, the Income Tax (Deduction for Establishment Expenditure of REIT or Property Trust Fund) Rules 2006 provide that the legal, valuation and consultancy fees incurred for establishing a REIT, which is subsequently approved by the Securities Commission Malaysia ("SC"), will be allowed as a tax deduction when the business of the REIT commences.

Where a listed REIT distributes at least 90% of its income, the tax transparency rules will apply so that tax will not be levied at the REIT level. Where a REIT, listed on Bursa Malaysia, intends to distribute 90% or more of its total income but has fallen short of 90% at the end of the basis period, the listed REIT is given a grace period of 2 months from the closing of its accounts to distribute the balance so that the tax exemption can still be applied at the REIT level.

If less than 90% of its total taxable income is distributed in a year of assessment (YA), the tax transparency system would not apply, and total taxable income of the REIT would be taxed at the current prevailing tax rate of 24%. Income, which has been taxed at the REIT level, will have tax credits attached when subsequently distributed to unitholders.

Unlisted REITs will not enjoy the above tax transparency treatment and will be taxed at 24%.

Exempt income

All dividends received from a Malaysian resident company are not subject to income tax in Malaysia.

Since REITs are unit trusts, certain income is exempt from income tax, including interest or discount from the following investments:

- Any savings certificates issued by the government.
- Securities or bonds issued or guaranteed by the Government.
- Sukuk or debentures issued in Ringgit, other than convertible loan stocks, approved or authorised by or lodged with the SC.
- Bon Simpanan Malaysia issued by Bank Negara Malaysia;
- Bonds and securities issued by Pengurusan Danaharta Nasional Berhad.
- Licensed bank under the Financial Services Act 2013 or Islamic Financial Services Act 2013 or a development financial institution prescribed under the Development Financial Institution Act 2002.

The exemption of Foreign Sourced Income ("FSI") received in Malaysia is only applicable to a person who is a non-resident.

FSI (e.g. dividends, interest, etc. from overseas) of a Malaysian resident REIT when received in Malaysia will be subject to income tax at the prevailing rate of 24%.

Such income from foreign investments may be subject to taxes or withholding taxes in the specific foreign country. Subject to meeting the relevant prescribed requirements, the REIT in Malaysia is entitled for double taxation relief on the foreign tax suffered on the income in respect of overseas investment.

Losses and capital allowances carried forward

Any unabsorbed tax losses and unabsorbed capital allowance for a year of assessment cannot be carried forward to set off against future rental income.

Cost of obtaining finance

Costs of obtaining finance (other than interest), including legal costs and stamp duty on new loan transactions, are generally not tax deductible. However, specific tax deduction is allowed for financing costs incurred in relation to the issuance of certain Islamic securities in Malaysia.

Tax transparency

Taxation of REIT unitholders

Where 90% or more of the listed REIT's total taxable income is distributed by the listed REIT, distributions to unitholders will be subject to tax based on a withholding tax ("WHT") mechanism at the following rates:

Unitholders	WHT[1] Rate
Individuals and all other non-corporate investors such as institutional investors (resident and non-resident)	10% (up to YA 2025)
Non-resident corporate investors	24%
Resident corporate investors	0%

[1] The WHT is a final tax and resident individuals and non-corporate investors will not be required to declare the income received from the listed REIT in their Malaysian tax returns.

No WHT is applicable on distributions to resident corporate investors. Resident corporate investors are required to report the distributions from the listed REITs in their normal corporate tax return and bring the taxable listed REIT distributions at the corporate tax rate, currently at 24%.

Distribution by unlisted REITs is not subject to WHT since an unlisted REIT has already paid income tax at 24%.

Distribution below 90%

Where less than 90% of the total taxable income is distributed, the listed REIT is not entitled to the tax transparency rules. The listed REIT will be subject to income on taxable income at 24% (normal corporate rate of tax). The distributions made by the REIT of such taxed income will have tax credits attached.

Resident individuals will be subject to tax at their own marginal rates on distributions and be entitled to tax credits representing tax already paid by the REIT.

Resident corporate investors are required to report the distributions from REITs in their corporate tax return and bring such income to tax at the corporate tax rate, currently 24%. Where tax has been levied at the REIT level, the resident corporate investors are entitled to tax credits.

No further taxes or WHT would be applicable to foreign unitholders. Foreign unitholders may be subject to tax in their respective jurisdictions depending on the provisions of their country's tax legislation and the entitlement to any tax credits would be dependent on their home country's tax legislation.

Distributions representing specific exempt income or gains on disposal of investments at the REIT level will not be subject to further income tax when distributed to all unitholders.

Transfer pricing

The Director General of Inland Revenue is empowered to make adjustments to transactions of goods and services between associated persons, including related companies. The transfer pricing audit framework has been issued by the tax authorities to ensure that controlled transactions comply with the arm's length principle, the Malaysian tax laws as well as administrative requirements.

If any understatement or omission of income is discovered during the transfer pricing audit, a penalty will be imposed. However, a concessionary penalty rate may be imposed in a case where a voluntary disclosure was made. Taxpayers have to prepare contemporaneous transfer pricing documentation, (i.e. either at the point of developing the inter-company transaction or prior to the submission of the company's tax return).

Withholding tax ("WHT")

Payments made by Malaysian residents to non-residents that are deemed to be derived in Malaysia are subject to WHT at the following prescribed rates:

a. Interest – 15%
b. Royalty – 10%
c. Contract Payments – 10% + 3%
d. Rental – 10%
e. Services – 10%
f. Other gains or profit – 10%

The rates may be reduced under specific double tax treaties.

Stamp duty

Stamp duty is imposed on a wide range of documents and transactions. The rates vary with the type of document and amount involved. The stamp duty payable for transfer instruments for real property is 1% to 3% of the market value of the property. The stamp duty payable for transfer instruments for shares is 0.3% of the consideration. Generally, the purchase and sale of units in a listed REIT are not subject to stamp duty since the units are traded scripless on the Malaysian Stock Exchange.

Sales and service tax

Income received by REITs (i.e. rental, interest and dividend income) will not be subject to service tax while expenses incurred by the REIT such as management fees, trustee fees and other administrative and operating expenses will be subject **to 8% service tax with effect from 1 March 2024 (previously service tax rate was 6%).**

Digital service tax

Effective 1 January 2020, service tax at 6% will be imposed on digital services provided by both local and foreign service providers. Digital services are defined as services which are delivered or subscribed over the internet or other electronic network and cannot be delivered without the use of IT and the delivery of the service is substantially automated. This could potentially result in certain service providers charging digital service tax to the REIT, resulting in an increase in cost.

Gains on sale and property

Any gains on disposal of real properties (chargeable asset), or shares in real property companies (chargeable asset) would be subject to the following real property gains tax (RPGT) rates:

Date of disposal	Companies incorporated in Malaysia and trustees of a trust	Individual (citizen and permanent resident)	Individual (non citizen and non-permanent resident and companies not incorporated in Malaysia)
Within 3 years from	30	30	30
In the 4th year	20	20	30
In the 5th year	15	15	30
In the 6th year and above	10	0	10

A real property company is a controlled company that owns or acquires real property or shares in real property companies with a market value of not less than 75% of its total tangible assets. A controlled company is a company that does not have more than 50 members and is controlled by not more than five persons.

Disposal of property to a REIT approved by the SC are exempt from RPGT and stamp duty. Where the approved REIT subsequently sells properties, the RPGT and stamp duty exemption would not apply.

With effect from 1 March 2024, CGT will be applicable on gain on sale of shares in unlisted Malaysian companies and shares in foreign companies which ultimately have investments in Malaysian real property at the following rates:

Share Acquisition Date	CGT rate
Before 1 January 2024	Rate can be: i.10% on net gain; or 2% on gross sales value
From 1 January 2024	10% on net gain

Therefore, gains from disposal of all Malaysian unlisted shares will be subjected to CGT from 1 March 2024 instead.

6 Philippines

Ownership of real estate

Generally, foreign individuals or corporations cannot privately own land in the Philippines. However, foreign investors can acquire up to 40% of the equity in a domestic company that owns land in the Philippines. Moreover, foreign individuals or companies can own 100% of a condominium unit, although the condominium units owned by foreign investors should not exceed 40% of the total units in a particular condominium project.

A natural born citizen who is now a naturalized citizen of a foreign country may acquire land in the Philippines, but subject to the following limitations:

a. for business purposes, up to 5,000 square meters of urban land or up to 3 hectares of rural land, and
b. for residential purposes, up to 1,000 square meters of residential land or up to 1 hectare of agricultural land.

Ownership of real properties is normally represented by titles issued in the name of the owner. Registration of title in the Register of Deeds constitutes notice to the world that the property is owned by the person in whose name it is registered.

Sale/acquisition and lease of real estate property

Leasehold

Although foreigners are prohibited by the Constitution from acquiring lands in the Philippines except by hereditary succession, they can lease real property in the Philippines.

With the signing of Republic Act No. 12252, the aggregate period of the lease contract for approved and registered investment may be extended up to 99 years which may be renewed upon mutual agreement and proof of social and economic contribution. Meanwhile, critical infrastructure may be imposed a shorter lease by the President.

Every lease of real estate must be recorded in the Registry of Property for it to be binding upon third persons.

Capital gains tax (CGT)

Sale of real property shall be subject to a capital gains tax (CGT) of 6% on the gain presumed to have been realized on the sale, exchange or disposition of lands and/or buildings which are not actually used in the business and are treated as capital assets.

Capital assets are defined as property held by the taxpayer (whether or not connected with his trade or business), but not including the following:

- Stock in trade or other property of a kind which would properly be included in the inventory, if on hand at the close of the taxable year;
- Property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business;
- Property used in trade or business, of a character which is subject to allowance for depreciation; and
- Real property used in trade or business of the taxpayer.

Ordinary income tax/expanded withholding tax

Sale of real property classified as ordinary assets, however, shall be subject to ordinary income, and any gain/income from the sale or exchange of such real properties shall be subject to the 20%/25% normal corporate income tax (CIT) or 2% minimum corporate income tax (MCIT), whichever is higher. The rate of 20% CIT shall be applicable to domestic corporations with a net taxable income not exceeding PHP 5 million, and with total assets not exceeding PHP 100 million (excluding the land on which the taxpayer's office, plant and equipment are situated).

The gain is the difference between the gross selling price or the fair market value, whichever is higher, and the cost of the land. The basis of the tax shall be the gross selling price or fair market value of the land and/or building, whichever is higher.

If the real property is sold at less than fair market value, in addition to the income tax liability, the Bureau of International Revenue (BIR) may also assess a donor's tax at the rate of 6% on the supposed gift based on the excess of the fair market value over the selling price, unless the taxpayer can prove that the transaction is bona fide and without any intent to evade tax.

Value-added tax (VAT)

Generally, sale of real properties held primarily for sale to customers or held for lease in the ordinary course of trade or business is subject to 12% VAT. The VAT shall be based on the gross sales of the real property sold, or leased.

The following sales are exempt from VAT:

- Sale of real properties not primarily held for sale to customers or held for lease in the ordinary course of trade or business;
- Sale of real property utilized for low-cost and socialized housing as defined by Republic Act (RA) No. 7279, as amended;
- Sale of house and lot, and other residential dwellings with selling price not more than PHP 3,600,000; and
- Lease of a residential unit with a monthly rental not exceeding PHP 15,000 per month, regardless of the aggregate rental amount during the year.

Notwithstanding, VAT may be imposed on incidental sales.

Documentary stamp tax (DST)

DST is imposed on the privilege of entering into certain transactions through the execution of specific instruments or documents as follows:

- Sale, conveyance and donation of real property (PHP 15 for each PHP 1,000 [effectively 1.5%] is levied on the consideration paid for the real property, or its fair market value, whichever is higher)
- Lease agreements on land and other tenements (PHP 6.00 for the first PHP 2,000 + PHP 2.00 for every PHP 1,000 thereafter is levied for each year of the agreement)
- Mortgages, pledges, and deeds of trust (PHP 40.00 for the first PHP 5,000 + PHP 20.00 for every PHP 5,000 thereafter is levied on the amount secured)

Sale of shares

Capital gains tax (CGT)

The sale of shares in a real property company not listed on the Philippine Stock Exchange (PSE) or in a Foreign Stock Exchange by all types of taxpayers is subject to a flat capital gain tax (CGT) of 15%.

If the shares are listed and traded through the PSE or a Foreign Stock Exchange, then their sale will be subject to a stock transaction tax (STT) of one-tenths of one percent (1/10 of 1%) on the gross selling price or gross value in money of the shares of stocks.

Any gain realized from the sale of listed shares of stock through the PSE by a dealer in securities licensed by the appropriate government regulatory agencies to buy and sell securities, for the individual's own account in the ordinary course of business, shall be considered ordinary income.

If the seller is a resident of a country with which the Philippines has a tax treaty, then the seller may be exempt from CGT under the capital gains article of that particular treaty. However, under a majority of Philippine tax treaties, the exemption will not apply if the assets of the issuing company consist principally of real property.

Documentary stamp tax (DST)

The sale, barter or exchange of shares in a real estate company, which are not listed and traded through the PSE, is subject to DST at the rate of PHP 1.50 for each PHP 200, based on the par value of the shares (effectively 0.75%). However, in the case of shares without par value the DST levied shall be 50% of the DST based on the original issuance of the said shares.

On the other hand, if the shares are listed and traded through the PSE, the sale, barter or exchange of said shares is exempt from DST.

Transfer Pricing

In the Philippines, Section 50 of the National Internal Revenue Code ("Tax Code") authorizes the Commissioner of Internal Revenue to adjust, allocate, or apportion the revenues and expenses of associated enterprises to reflect their appropriate taxable income. Section 50 is exercised applying the arm's length principle as the most appropriate standard to determine transfer prices of related parties.

Revenue Regulations (RR) No 2-2013 provided guidelines in applying the arm's length principle for cross-border and domestic transactions between associated enterprises. These are largely based on the principles set out in the Organization for Economic Co-operation and Development ("OECD") Transfer Pricing Guidelines. Under the Philippine TP Guidelines, transfer pricing documents must be contemporaneous, i.e., the documents should exist or be brought into existence at the time the associated enterprises develop or implement any arrangement that might raise transfer pricing issues, such that in the event of a tax examination, those transfer pricing documents must be made available upon the BIR's request.

Revenue Audit Memorandum Order No. 1-2019 (TP Audit Guidelines) introduced standardized audit procedures and techniques in the BIR's conduct of audit of taxpayers with related party and/ or intra-firm transactions. It further provided guidelines on business restructuring within a multinational group, intra-group services, intangible asset transactions, cost contribution arrangements, and interest payment transactions.

RR No 19-2020 prescribed the use of the new BIR Form No 1709 replacing BIR Form 1702H or the Information Return on Transactions with Related Foreign Persons, series of 1992. In this regard, RR No 19-2020 provided rules in determining related parties and related party transactions in accordance with PAS 24, the required disclosures on related party transactions which shall be presented separately per related party, and the guidelines on the submission of BIR Form No 1709 and its supporting documents as an integral part of the Annual Income Tax Return of the taxpayer.

Tax Authorities further issued Revenue Memorandum Circular (RMC) No. 76-2020 which provides further clarification on certain issues on the filing of BIR Form No. 1709 regarding the streamlined procedures for the submission of the BIR Form No 1709, TP documentation and other supporting documents by providing, inter-alia, safe harbors and materiality thresholds.

Real Estate Investment Trust (REIT)

The Real Estate Investment Trust (REIT) Act of 2009 defined a REIT as a stock corporation formed for the purpose of owning income-generating real estate assets. It is a type of investment instrument that provides a return to investors derived from the rental income of the underlying real estate asset. A REIT must be registered with the SEC as a stock corporation with a minimum paid-up capital of PHP 300 million.

In the first quarter of 2020, the SEC issued its revised regulations requiring a 1/3 Minimum Public Ownership of a REIT. Among others, the revised regulations also require the appointment of a REIT fund manager and property manager and the creation of a related party transactions committee.

The act extended various incentives to REITs as long as the qualifying conditions are complied with. A REIT that owns land in the Philippines must comply with foreign ownership limitations imposed under Philippine laws. A REIT may also own foreign real estate property, provided that such investment does not exceed 40% of the REIT's deposited property and only upon special authorization from the SEC.

Real Property Taxes

Provinces and cities, as well as municipalities within Metropolitan Manila, are primarily responsible for the levy and collection of real property tax (RPT).

All owners of real property are required to file with the provincial, city, or municipal assessor a sworn declaration of the current and fair market value of their real property once every three years. Where any owner fails or refuses to make such a declaration, the assessor concerned shall do so in the name of the defaulting owner.

The basis of the RPT shall be the assessed value of the property, which is computed as a certain percentage (i.e., assessment levels based on classification of the real property at rates not exceeding those prescribed under the Code) of the fair market value of the real property (as fixed by ordinances enacted by the Sanggunians of the province, city, or municipality concerned).

Moreover, real property is classified, valued and assessed on the basis of its actual use, regardless of location, whoever owns it and whoever uses it. A province, city, or a municipality shall fix a uniform rate of basic RET, applicable to their respective localities, as follows:

- In the case of a province, at the rate not exceeding 1% of the assessed value of real property; or
- In the case of a city or a municipality, at the rate not exceeding 2% of the assessed value of real property.
- In addition to the basic real property tax, a province, city, or a municipality may impose the following:
  - An additional levy for the special education fund equivalent to 1% of the assessed value of real property;
  - An additional ad valorem tax on idle lands in the form of an annual tax at a rate not exceeding 5% of the assessed value of the property.

Republic Act No. 120001 or the Real Property Valuation and Assessment Reform Act (RPVARA) provides for a relief or tax Amnesty on Real Property Taxes and Special Levies on Real Property until 5 July 2026.

Pending Bills

On November 2023, the Philippines joined the OECD/G20 Inclusive Framework on BEPS which focuses on the reformation of international tax rules and ensuring that multinational entities (MNEs) will pay a fair share of tax on any jurisdiction. However, no initiatives yet as to the enactment of local legislation observing the global standard pursuant to this.

On the one hand, the 20th Congress has a pending House Bill, HB03841, with the Committee on Local Government since August 2025, which seeks to expand the coverage of the special education fund (SEF) by increasing the rate from one percent (1%) to two percent (2%) of real property tax, amending for the purpose Section 235, Republic Act No. 7160 otherwise known as the Local Government Code of 1991. On the other hand, there are no major pending bills in relation to taxation of real properties.

C America

1 Canada

Investment Structures

Foreign investors, or non-residents, may invest in property in Canada using a legal entity (corporation, partnership or trust) or may acquire property directly. Corporations resident in Canada are subject to Canadian tax on worldwide income. Non-resident corporations are taxed on business income earned through a Canadian permanent establishment and on capital gains from selling taxable Canadian property. Partnership income is determined at the partnership level and the partners are taxed on their share of the partnership income, whether or not such income is distributed. Income of a trust resident in Canada that is paid or payable to a beneficiary is generally deductible in computing the trust's taxable income and is included in the beneficiary's taxable income.

Corporate Income Tax Rates

The combined federal and provincial/territorial corporate income tax rates for the 2025 taxation year range from 23% to 30%, depending on the province or territory. The combined rates include the 15% federal rate plus the provincial or territorial rate which is applied when income is earned in one of Canada's ten provinces and three territories.

Capital Cost Allowance (Tax Depreciation)

Non-residents are generally subject to the same rules relating to depreciable property and capital cost allowance ("CCA") as for residents of Canada. A non-resident person cannot claim CCA in respect of property situated outside Canada. Depreciation determined for accounting purposes is not deductible. CCA on rental buildings, including additions or component replacements of a capital nature, is calculated on a declining balance basis at an annual rate between 4% and 6%, depending on type of property. Additionally, several recent legislative regimes (subject to phase out) may allow for higher CCA on certain eligible properties depending on the timing of construction and availability for use. CCA is calculated on a pool basis, with separate tax classes provided for various types of property. Most rental properties (i.e. buildings costing more than CAD 50,000) are required to have separate tax pools so that CCA is claimed on a property-by-property basis and not on a combined pool of properties. CCA is a discretionary deduction, up to an annual maximum amount, but cannot be claimed on a rental property to create or increase a tax loss unless the CCA claim is being made by a corporation, the principal business of which is the leasing, rental, development or sale of real property, or a partnership, the partners of which are all such corporations.

Thin Capitalisation Rules

The Canadian thin capitalisation rules may apply when the lender to a Canadian corporation or trust (or a corporation or trust that is not resident in Canada but carries on business in Canada or has elected to pay tax on passive income from Canadian real property as if it was a resident of Canada) is a non-resident person that alone or with other related persons owns more than 25% of the Canadian corporation's shares (or has more than 25% by value of all interests in the trust), and interest expense on the loan would otherwise be deductible to the corporation or trust. If the ratio of these debts to a measure of equity exceeds 1.5/1, the interest on the excess is not deductible. Special rules can address debts owing by a partnership, including in respect of back-to-back arrangements.

Interest expense of a Canadian corporation disallowed under the thin capitalisation rules will be deemed to be a dividend subject to Canadian non-resident withholding tax of 25%, which may be reduced under a tax treaty.

The Excess Interest and Financing Expense Limitation ("EIFEL") rules which limit interest deductibility in Canada, are generally consistent with the recommendations under BEPS Action 4, and apply in addition to existing interest limitations including the thin capitalisation rules. The rules limit the amount of deductible net interest expense to no more than a fixed ratio, being 30%, of its "tax EBITDA". Exemptions and elections may be available to allow for deductions in excess of the fixed ratio. Interest denied may be carried back 3 years and carried forward indefinitely to the extent there is room for additional deduction during the relevant years. The Government of Canada has released draft legislation to provide an elective exemption for the EIFEL rules not to apply to certain interest and financing expenses relating to debt used to finance purpose-built rental housing.

Disposition of Property by Non-Residents

A non-resident that disposes of taxable Canadian property (TCP) that is held as capital property is subject to Canadian tax on the taxable portion of any resulting capital gain (proceeds of disposition less capital cost of the property). TCP generally includes real property situated in Canada and shares of the capital stock of an unlisted corporation, or an interest in a partnership or trust, if at any time during the previous 60-month period, more than 50% of the value of the share or interest was derived from real property situated in Canada. In addition, previously deducted CCA may be taxable as recaptured depreciation. TCP held on account of income (e.g., inventory) is subject to tax on the full amount of any profit from a disposition, subject to possible tax treaty relief.

Generally, a non-resident vendor of TCP must report the disposition to the Canada Revenue Agency (CRA) and obtain a clearance certificate in respect of the disposition. If no certificate is obtained, the purchaser is required to withhold and remit to the CRA either 25% or 50% (in the case of land that is not capital property, or of a building or other depreciable property) of the gross sales proceeds. Relief from the reporting and withholding requirements may be available in certain cases. In addition to the federal reporting and withholding obligations noted above certain provinces within Canada have separate reporting and withholding requirements, subject to available relief provisions.

Losses Carried Forward

Losses incurred in a taxation year from a business carried on in Canada are deductible from income, other than passive income from property earned by a non-resident. If these losses are not used in the year they are incurred, they can be carried back three years and forward 20 years. Capital losses, resulting from the disposition of taxable Canadian property of a capital nature, can be carried back three years and forward indefinitely to reduce taxable capital gains realised on the disposition of taxable Canadian property in those years.

Transfer pricing

Certain amounts paid or credited by a Canadian resident entity to non-residents are subject to withholding tax of 25% of the gross amount paid or credited. These amounts may include interest paid to related parties, dividends, rents, or royalties. The withholding tax rate may be lower subject to relevant tax treaties. Interest paid to arm's length non-resident lenders is generally exempt from Canadian withholding tax, unless paid in respect of a participating debt arrangement.

Additionally, a non-resident that makes payments to another non-resident may be deemed to be a Canadian resident for the purposes of withholding tax, in respect of payments made to the other non-resident person to the extent that those payments are deductible in computing the non-resident payer's Canadian-source income (including passive rental income). Canadian transfer pricing legislation and administrative guidelines are generally consistent with OECD Guidelines and require that transactions between related parties be carried out under arm's length terms and conditions.

Transfer Tax and Sales Tax

Various provinces and territories and some Canadian municipalities levy a land transfer tax or registration fee on the purchaser of real property (land and buildings) within their boundaries. Rates may be up to 5% of the property value depending on the city in Canada and type of property. The tax is generally payable at the time the legal title of the property is registered or on the transfer of a beneficial interest. Additional transfer taxes in certain cities of Ontario and British Columbia may be levied on non-residents that acquire residential property, with rates up to 20% to 25% of the property value.

The Underused Housing Tax is a federal annual 1% tax on the value of certain non-Canadian-owned residential real estate considered to be vacant or underused. Certain exemptions may be available. In addition, certain cities and provinces have similar vacancy tax measures generally ranging from 1 to 4%. Most cities and towns impose an annual realty and/or business tax on real property based on assessed values set by local municipalities.

The 5% federal goods and services tax (GST) will apply on the purchase of real property (except, in most situations, used residential property) and on certain expenses incurred in connection with the operation of the property, although the GST paid is usually recoverable (subject to significant restrictions in respect of residential rental properties). In most cases, a landlord is required to collect and remit GST on commercial rents received. However, a non-resident vendor of real property is not generally required to collect GST on the sale of real property. Some provinces have harmonized sales tax (HST) regimes that operate similar to GST but at higher rates ranging from 13% to 15%. Enhanced GST/HST rebate for newly constructed multi-unit residential rental properties that begin construction after 13 September 2023 and before 1 January 2031 and are completed by 31 December 2035 may be available. companies established in Belgium. No report is foreseen today but it is requested by business organizations.

Residential Real Property Ownership Restrictions

Effective 1 January 2023, foreign-controlled commercial enterprises and individuals who are not Canadian citizens or permanent residents are prohibited from acquiring residential property in certain areas within Canada for 2 years (with proposed extension to 1 January 2027), subject to certain exceptions. Also, effective 1 January 2023, profits arising from certain dispositions of properties owned for less than 12 months are deemed to be business income, rather than a capital gain.

2 Costa Rica

Tax reform

In 2019, Costa Rica enacted Law No. 9635, which introduced for the first time a 15% capital gains tax applicable to the transfer of real estate, shares, and other capital assets. The reform also established rules to distinguish between ordinary income from habitual real estate transactions (taxed at corporate rates) and capital gains from occasional sales (taxed at the flat 15%). In addition, the law reinforced anti-avoidance measures and clarified that exemptions apply, for example, to the transfer of a taxpayer's primary residence. If the assets were acquired before the 2019 reform, at the time of purchase, a 2% tax rate may be applied instead of 15%.

Books vs. tax depreciation

For accounting purposes, companies may apply IFRS rules and use different depreciation methods according to their policies. However, for tax purposes, Costa Rican law requires depreciation to be calculated strictly under the straight-line method, applying the maximum percentages authorized by the Ministry of Finance. Accelerated depreciation or inflationary adjustments are permitted just in specific cases according to the annex of the law. Any impairment or revaluation recognized for accounting purposes must be excluded from the tax base, as only statutory depreciation is deductible.

Alternative minimum tax

Costa Rica does not impose an alternative minimum tax regime. Corporate income is taxed under the general income tax framework, with progressive rates according to their gross income and a flat 30% rate when the amount specified in the law is exceeded. Consequently, companies are not required to pay a minimum percentage of gross income as tax; taxation is solely determined by net taxable profits, unless they are subject to special regimes such as the Free Trade Zone Regime.

Asset impairment

Impairment losses recognized under IFRS cannot be deducted for income tax purposes. Taxpayers must reverse these accounting adjustments when determining their taxable base. This reflects the principle that only realized losses or statutory depreciation can reduce taxable income.

Goodwill

Goodwill arising from the acquisition of a business or assets is not amortizable or deductible for income tax purposes. However, in the case of future disposal of the business, the amount effectively paid as goodwill may be recognized as part of the cost of acquisition, reducing the taxable capital gain. This approach ensures that goodwill is not deducted twice-once as amortization and again through capital gains adjustments.

Non-deductibility of payments made to preferred tax regimes

Payments made to related parties located in jurisdictions classified as non-cooperative or considered low tax by the Costa Rican Ministry of Finance are subject to strict deductibility requirements. To deduct such payments, the taxpayer must demonstrate that the transaction is genuine, necessary, and at arm's length. Absent such proof, the deduction will be denied.

Classification of real estate acquisition

The classification of real estate is critical. If property is acquired for resale as part of the taxpayer's ordinary business activity, it is treated as inventory and income from its sale is considered ordinary income subject to corporate tax. If property is acquired for long-term use or investment, it is treated as a fixed asset, subject to depreciation, and any subsequent disposal generates a taxable capital gain subject to the 15% flat rate. The distinction between ordinary income and capital gains depends on the "habituality" of the transactions.

Thin capitalization rules

Costa Rica does not apply a formal debt-to-equity thin capitalization ratio. Instead, the deductibility of interest is limited by a general earnings-stripping rule. This operates as a functional equivalent to thin capitalization rules, as it restricts the extent to which companies may reduce taxable income through debt financing.

Limitation on deducting interest expense

Costa Rican legislation authorizes the full deduction of interest on loans paid to banking institutions in Costa Rica and abroad, provided the transaction is conducted with a supervised banking entity.

On the other hand, non-banking financing operations, or those between private parties, are subject to a deductibility limit of 24% (applicable for 2025) of EBITDA for the fiscal period in which the deduction is applied.

Costa Rican legislation allows non-financial interest amounts that exceed the limit to be carried forward which may be deductible in the following fiscal periods, always respecting the applicable limit (i.e., 24% for 2025, 22% for 2026, and 20% from 2027 onward).

Investments in Costa Rica through foreign transparent vehicles and foreign transparent vehicles deemed as Costa Rican tax residents.

In Costa Rica, there are not special rules for transparent entities. Foreign entities conducting businesses in Costa Rica are deemed as taxpayers in Costa Rica and considered as separate entities independently of the business being conducted.

Reportable schemes

Costa Rica does not have in place a "Reportable Schemes" regulation as it is used in other jurisdictions to report "high-risk" business structuring for tax purposes. However, please consider that Costa Rica has enacted the law for reporting Ultimate Beneficial Owners (UBO), filed annually, with the information of the corporate structure until the ultimate beneficial owners which is reported to the authorities.

General anti-abuse rule (GAAR)

Costa Rican tax law includes a General Anti-Abuse Rule (GAAR). Under this provision, the Tax Administration may disregard or recharacterize transactions that lack economic substance and are primarily designed to obtain a tax benefit. In such cases, taxation is applied based on the economic reality of the transaction rather than its legal form.

Transfer pricing

Recently, the Tax Administration established the obligation to file the transfer pricing informative return annually, within six months after the end of the fiscal period for the Income Tax.

All taxpayers subject to Income Tax (legal entities and individuals engaged in profit-making activities) are required to file this return if any of the following conditions are met:

1. Large Taxpayers who carry out domestic or cross-border transactions with related companies.
2. Taxpayers subject to the Free Trade Zone regime who carry out domestic or cross-border transactions with related companies.
3. Taxpayers who carry out domestic or cross-border transactions with related companies and who, separately or jointly, exceed the equivalent of one thousand base salaries in the corresponding year, which in dollars represents an approximate amount of USD 906,000.00

Pension fund exemption

Costa Rican legislation does not provide a general tax exemption for foreign pension funds investing in local assets. Unless specifically covered by a tax treaty, income such as interest, rental payments, or capital gains derived from Costa Rican sources is subject to local taxation. Domestic pension funds, however, may enjoy preferential treatment under local law.

Costa Rican REITs

Costa Rica does not have a specific legal framework equivalent to REITs. Investment vehicles holding real estate are generally taxed according to their legal form, either as corporations or trust, which are both subject to income tax.

Tax incentive for real estate developers

Costa Rica does not provide specific nationwide tax incentives for real estate developers. However, projects that qualify under the Free Trade Zone Regime may obtain full or partial exemptions from income tax, customs duties, and capital gains tax, provided they meet export, employment, and investment requirements. Some municipalities may also grant property tax exemptions for development projects in designated areas.

Labor Outsourcing

Labor outsourcing is not prohibited in Costa Rica, and it is a common practice. For tax purposes, if the outsourcing can be linked to income generation for the taxpayer, the amounts paid might be considered as a deductible expense. However, please consider that labor authorities in Costa Rica are highly protective of employees' rights. There have been cases where labor courts agreements and assigned employer liability to the contracting party, recognizing it as the de facto employer due to the nature of the working relationship and level of control exercised over the outsourced personnel.

3 Mexico

Tax developments

Mexico has enacted relevant tax reforms in the last 5 years that introduced changes in the Mexican Income Tax Law, Value-Added Tax Law and Mexican Federal Tax Code meant to incorporate fundamentals of the OECD base erosion and profit shifting (BEPS) initiative.

Also, the Executive branch of the Mexican government has submitted for congress discussion and approval the economic budget for 2026 which includes modifications to the Mexican tax laws.

Books vs. tax depreciation

For book purposes, assets can be depreciated using different methods. For income tax purposes, fixed assets are depreciated on a straight-line basis applying the rates established by law. In addition, tax depreciation is adjusted for inflation, resulting in differences with the amount of the book depreciation.

Review book and tax depreciation, including the adjustment for inflation in the latter, and determine whether the tax depreciation rates are the highest allowed. For taxpayers in a tax loss position, a decrease in the depreciation rates could be analyzed.

Alternative minimum tax

There is not an alternative minimum tax in Mexico.

Asset impairment

Impairments are allowed under Mexican GAAP. However, impairments are not deductible for income tax purposes.

Check that no tax deduction from impairment of the assets is being taken by the company. Furthermore, confirm that impairment adjustments are not from obsolescence of fixed assets, because a tax deduction may be included.

Goodwill

Any amount paid in excess of the fair market value of the real estate is considered as goodwill, which is non-deductible for Mexican tax purposes. In addition to the amount being not deductible, the depreciation as well as any interest related to the goodwill will also become non-deductible.

Check if there is an amount related to goodwill, if such amount is being deducted, and whether the related amounts to depreciation and interest are being deducted.

Non-deductibility of payments made to preferred tax regimes

Any type of payments made by a Mexican taxpayer to a non-Mexican resident that is a) a related party or b) through a structured agreement, would not be deductible for income tax purposes if such income obtained by the non-Mexican resident is subject to a preferred tax regime (PTR) under Mexican rules. Some exemptions to this rule would apply subject to certain requirements.

A PTR would be deemed to exist when the income is not subject to taxation in a foreign jurisdiction or if the effective tax due and paid in the foreign jurisdiction is lower than the 75% of the 30% corporate income tax rate that would be due and paid under Mexican rules (lower than 22.5% under Mexican rules).

Check if payments are made to a PTR and determine the corresponding deductibility for Income Tax Purposes. Support with contemporary documentation would be relevant

Classification of real estate acquisition

Real estate must be classified for both book and tax purposes as inventory or fixed assets, depending on whether it is acquired for subsequent sale or for development. This will impact the way in which the real estate is deducted: as cost of goods sold (inventory) or via depreciation (fixed assets).

Review how the real estate is classified and determine how it must be deducted and whether this classification makes sense with respect to the business.

Thin capitalization rules

Interest derived from debts granted by foreign related parties of the taxpayer that exceed three times its shareholders equity will not be deductible (several special rules apply).

Review the thin capitalization position of the company and also the computation to determine the non-deductible interest, if this is the case.

Limitation on deducting net interest expense

The Mexican tax laws provide a in limitation on the deduction of interest expense. Net interest arising from all financing cannot exceed 30% of an adjusted taxable income (ATI) as defined in the Mexican Income Tax Law. ATI is calculated similarly to EBITDA. Interest expense that exceeds this threshold can be carried forward in the following ten years.

Additionally, financing activities derive in a taxable or deductible annual inflationary adjustment (AIA). Also, financing activities carried out in different exchange rates would derive in a taxable gain or deductible loss.

Review the debt position of the company and the computation to determine any non-deductible interest, as well as review the effect in the AIA and the foreign exchange gain or loss.

Investments in Mexico through foreign transparent vehicles and foreign transparent vehicles deemed as Mexican tax residents

Mexican domestic legislation disallows to look-through transparent entities or vehicles to determine their tax implications from its income obtained in Mexico (even if their owners consider such income as taxable on its residence jurisdictions), except otherwise is stated under a tax treaty.

An exemption rule was enacted for public investment funds to the extent that certain requirements are met (some registrations and reporting will apply with the Mexican tax authorities for this purpose).

Also, it has now been established that transparent entities or vehicles whose effective place of management is located in Mexican territory would be considered as Mexican residents for tax purposes.

Review and analyze in detail the characteristics of the investment vehicle to confirm if this provision would apply and, if applicable, confirm if there is an exemption that can apply to the relevant investment structure.

Reportable schemes

Tax advisors have the obligation to disclose to the Mexican tax authorities certain listed reportable schemes described in the Mexican Federal Tax Code that were carried out with the purpose to obtain a direct or indirect tax benefit for taxpayers. In some instances, the taxpayer will be the party obligated to report the transactions.

The reporting requirements apply not only to transactions carried out as of 1 January 2021 (date in which provisions regarding reportable schemes became effective) but also to previously implemented transactions that continue to have tax benefits post-2020.

Prepare an inventory of transactions that may fall in the definition of reportable schemes and if any, ensure that the informative returns are duly filed.

General anti-abuse rule (GAAR)

A general anti-abuse rule (GAAR) is included in the Mexican Federal Tax Code. This provision is applicable for Income Tax, VAT and Excise Tax purposes where the Mexican tax authorities may reclassify the tax effects of legal acts when a) there is a lack of business purpose and b) a tax benefit is obtained (directly or indirectly). A test comparing the economic benefit versus the tax benefit must be carried out and if the latter is higher, the Mexican tax authorities would assume that there is a lack of business purpose on the transaction. The re-classification of tax effects would be to the ones that would be obtained to the economic benefit expected to be obtained by the taxpayer.

Check if any of the transactions to be carried out by the Mexican taxpayers satisfy the GAAR requirement.

Transfer pricing

Mexican income tax regulations require that taxpayers conducting transactions with related parties (i.) determine the price or value of such transactions at arm's length conditions and, (ii.) secure the corresponding contemporaneous documentation. Otherwise, the tax authorities may determine the price or value that would have been used by independent parties in comparable transactions.

In connection with BEPS Action 13 (country-by-country reporting (CbCR), local legislation aimed to comply with such reporting obligations. In this regard, Mexican local entities with taxable income of MXN 1,062,919,860 (i.e. approximately USD 53 million), among other scenarios, are obliged to submit local files and master files, and country-by-country filing if worldwide consolidated revenues are equal or greater than MXN 12 b (i.e. USD 640 million) on 31 December of the following year in which the obligation is triggered. Penalty for non-filing is MXN 220,400 and may lead to disqualification from entering into contracts with Mexican public sector and cancelation of the taxpayer importer registry. The master and country-by-country fillings shall be submitted non later than on 31 December of the immediately following year of the corresponding fiscal year. Local file shall be submitted no later than 15 May of the immediately following year of the corresponding fiscal year.

Analyse if the mark up currently used can be adjusted based on the transfer pricing study.

Pension fund exemption

Mexican tax law establishes a tax exemption regime for foreign pension and retirement funds investing in Mexican real estate. Such regime grants tax exemptions on interest, leasing income and capital gains, if certain rules are complied with. Please note that income tax exemptions for foreign pension funds in connection with the sale of real estate or shares (which value is comprised in more than 50% of immovable property located in Mexico), should be available to the extent the real estate property was leased for at least a minimum period of four years before the transaction takes place.

Specific analysis of the structures involving foreign pension funds should be carried out in order to apply the tax exemption granted by the Mexican Income Tax Law. Moreover, documentation to support the exemptions is required so it is strongly recommended to secure it on a contemporaneous fashion.

Mexican REITs

A special tax regime is granted for publicly traded Mexican REITs providing certain advantages, such as the no obligation to file monthly advanced income tax payments (among other tax benefits). In addition, the Mexican tax rules enacted a new type of REIT for developing hydrocarbon related activities in Mexico (known as REIT-E) that also provides tax benefits.

Due to the 2020 tax reform in Mexico, income tax benefits for private REITs are no longer available and some rules have been included to regulate the taxation of deferred gains in the context of private REITs.

Creditable VAT for specific business transactions

VAT paid on strictly indispensable costs and expenses which are deductible for Income Tax purposes should only be creditable when the taxpayer carries out taxable activities. For VAT purposes, for example, the sale of land, houses and dwellings is VAT exempt. Therefore, VAT may be a cost for those real estate companies performing VAT exempt activities, as paid VAT will not be creditable.

Also, VAT paid on expenses and investments in pre operative period can be credited either 1) on the first VAT return filed after starting to carry out business activities or 2) request a VAT return in the following month of that in which preoperative expenses and investments are made, according to an estimation of the proportion of the business activities to be carried out by the taxpayer that will be VAT taxed at a 16% or 0% rate.

Finally, regarding VAT crediting, the Mexican Supreme Court recently issued a ruling establishing that VAT paid through settlement of debt is non creditable. This ruling is binding jurisprudence and was published in the Official Gazette of the Federal Judiciary (Semanario Judicial de la Federación) on 12 May 2023.

Tax incentive for real estate developers

Taxpayers engaged in construction and sale of immovable property projects may elect to take a deduction for income tax purposes on the acquisition cost of land in the fiscal year that the land is acquired to the extent that this option is applied for a minimum period of five years for all the land being part of its inventory. Review all requirements for the exercise of this option.

Labor Outsourcing

Employee outsourcing and insourcing are prohibited practices in Mexico. Mexican labor legislation only allows the provision of specialized services, as long as the contractor that will provide the specialized services is registered under the Mexican Secretary of Labor public registry for specialized services providers, and the specialized services or work to be provided by the contractor are out of the scope of the client's business purposes or economic activities.

4 Nicaragua

Tax Law reforms

In Nicaragua the tax legislation has been reformed several times, most recently in 2019. The reforms included changes to Income Tax, Income and Capital Gains Tax, Value Added tax, Salary Withholding, Minimum Definitive Payment, and tax filing and payment deadlines.

Books vs. tax depreciation

For accounting purposes, the assets can be depreciated using different methods according to the company policies.

The tax depreciation must be computed using the straight-line method. Depending on the type of assets. Taxpayers under the Temporary Admission for Active Processing (TAP) regime may establish to their convenience a different depreciation rate (i.e. accelerated depreciation) through a request before the tax authorities. Used fixed assets acquired abroad may also be subject to a different depreciation rate.

Alternative minimum tax

In Nicaragua there is a minimum income tax, which can range from 1% to 3% of the gross taxable income.

Asset impairment

Impairments are permitted under GAAP and IFRS; however, these are not deductible for income tax purposes.

Goodwill

Defined as the excess paid over book value in the acquisition of an entire business, may be included as part of the deductible cost for capital gain tax purposes in a future sale, provided that the purchase price was intended to be subject to the applicable capital gain tax.

Classification of real estate acquisition

Real estate must be classified for both accounting and tax purposes as inventory or fixed assets, depending on whether it is acquired for subsequent sale or for development. This classification affects how the property is deducted: as a cost of goods sold (inventory) or through depreciation (fixed assets), in this latter case, excluding the value of land.

Thin capitalization rules

Currently, the Nicaraguan tax system does not impose any form of thin capitalization rules.

Limitation on deducting interest expense

The Nicaraguan tax law establishes that interest accrued or paid in the tax period for liabilities to generate taxable income will be deductible up to the amount resulting from applying the average active interest rate of the national banking system at the date the loan was obtained.

This limitation does not include loans made by financial institutions regulated or not by the competent authorities.

Permanent establishment (PE)

This term means a place through which a non-resident taxpayer wholly or partially carries on business, including, inter alia, the following: a place of management; a branch; an office or agent; a factory; a workshop; and a mine, an oil or gas well, a quarry, or any other place of extraction of natural resources.

Such definition also includes a building site or construction or installation project or connected supervision activities, but only if its duration exceeds six months; and the performance of consultancy services, if they exceed six months within an annual period. A PE may also be created where a person other than an agent of independent status acts on behalf of a non-resident taxpayer if:

- this person has in Nicaragua authority to habitually conclude contracts or undertake acts in the name of the non-resident taxpayer,
- or even though this person does not have such authority, this person habitually maintains in Nicaragua a warehouse of goods or merchandise from which this person regularly delivers goods or merchandise in the name of the non-resident taxpayer.

These PE rules will not apply to a branch or PE of non-resident taxpayers operating business activities of marine and air transportation of cargo and passengers, as well as land cargo transportation.

Transfer pricing

Transactions between a resident and a non-resident related party must be carried out in accordance with the arm's length principle.

Social Security

Social security contributions exist at 7% for employees and 21.5% for employers with 50 or less employees and 22.5% if greater than 50 employees and are determined on the gross salaries and wages.

The employer must also pay 2% of its payroll, monthly, for Training Tax (INATEC).

Corporate-Tax credits and incentives

Foreign tax credit

The Nicaragua tax system does not recognize any form of foreign tax credit.

Temporary Admission System Law

Companies that directly or indirectly export at least 25% of total production (not less than USD 50,000 per year) may apply for the application of the Temporary Admission System.

This system allows both the entry of goods into the national customs territory, and the local purchase of goods and raw materials without having to pay any taxes or import duties.

5 United States

US economy and 2025/2026 outlook

The US economy posted an estimated 1.6% annualized growth rate in the first half of 2025. After contracting by 0.6% in Q1 amid tariff-driven disruptions and elevated import activity, the economy rebounded with a 3.8% annualized expansion in Q2, supported by stronger consumer spending and a reversal in trade dynamics.

The US economy is anticipated to stabilize at an approximate 1.5% to 1.8% growth rate for the second half of 2025 through 2026. Contributing to this stabilization are the projected reductions in interest rates, which were decreased in September 2025 by 25 basis points with the potential for two additional cuts later in 2025 and two more in 2026.

Inflation has hovered in the 2.5% to 3% range for much of 2025 and is expected to continue this trend for the second half of the year. Tariffs are expected to contribute to inflation in the short run, with inflation rates projected to stabilize near 3%. The Congressional Budget Office (CBO) expects the effect of tariffs on inflation to be temporary, with inflation easing in 2026. Alongside the collateral impact of tariff uncertainty is unemployment, which CBO expects to hover in the 4.2% to 4.5% range through 2025 and 2026.

As of September 2025, US tariff policy continues to be characterized by the implementation of broad tariff actions and may continue this trend into 2026. There continues to be escalations in targeted sectors such as steel, electronics, and autos under expanded “reciprocal” trade measures. These actions are intended to bolster domestic industries but are drawing retaliatory responses from key trade partners. New or increased tariffs may still arise, though legal and political pressures could limit their scope or timing.

Commercial real estate, like other industries, has been adversely affected by tariffs. Rising costs of key building materials have pressured returns, leading fund sponsors to delay capital deployment and prompting investors to defer or reduce new commitments amid uncertainty. This trend has been particularly pronounced among Canadian institutional investors reassessing their US real estate exposure.

The 2025 tax act

President Trump on 4 July 2025, signed into law the “One Big Beautiful Bill Act” (the Act). The Act permanently extends several provisions of the 2017 Tax Cuts and Jobs Act (TCJA) that were scheduled to expire at the end of 2025 and includes several other amendments, which could impact real estate fund sponsors and their investors. Both individuals and businesses should evaluate the below noteworthy provisions to assess their operational and structural strategies to develop long-term, tax-efficient investment strategies.

Below are some notable provisions of the Act:

- Section 199A – Qualified Business Income (QBI) deduction
  - The QBI deduction of 20% for pass-through business income and ordinary REIT dividends has been made permanent.
- Section 163(j) – Limitation on business interest
  - Adjusted taxable income will favorably revert to EBITDA for purposes of determining the 30% business interest expense limitation under Section 163(j) on a permanent basis.
- Section 168 – Bonus depreciation
  - As enacted under the TCJA, amended Section 168(k) allows 100% bonus depreciation for qualified property acquired and placed in service after 19 January 2025.
  - The Act also enacted Section 168(n), which now allows 100% bonus depreciation for qualified production property on an elective basis.
- Section 856(c)(4)(B)(i) – Real Estate Investment Trusts (REITs)
  - The Act restores the taxable REIT subsidiary threshold to 25% (from 20%) of a REITs' assets for tax years beginning after 31 December 2025.
- SALT deduction cap
  - The Act raises the TCJA cap with respect to the deduction limit on state and local taxes. This increase is from USD 10,000 to USD 40,000, for tax years from 2025 through 2029. However, the limit reverts to USD 10,000 in 2030 and is subject to phasedown limitations for high-income earners.
- Individual tax rate
  - The Act made permanent the TCJA individual tax rates, including the top individual tax rate of 37%.

It is worth highlighting some other provisions that were either left unchanged or were not included in the Act:

- Section1031 – Like-kind exchanges
  - The Act preserves Section 1031 without change despite speculation concerning potential changes.
- Section 1061 – Carried interest
  - Despite earlier proposals to tax carried interest, the favorable capital gains treatment for "carried interest" remains unchanged by the Act.

Cross-border provisional changes that may impact multinational businesses include, but are not limited to:

- Global Intangible Low-Taxed Income (GILTI)
  - The Act renamed GILTI to net CFC tested income (NCTI).
    - NCTI is computed without regard to the 10% qualified business asset investment deduction (QBAI).
    - The NCTI deduction is now 40% (previously was 50% of GILTI).
- Base Erosion and Anti-Abuse Tax (BEAT)
  - The tax rate increases on a permanent basis from 10% to 10.5%, for tax years beginning after December 31, 2025.
- Foreign-Derived Intangible Income (FDII)
  - FDII has been renamed foreign-derived deduction eligible income (FDDEI) and similar to NCTI, QBAI is eliminated from the computation as are interest and R&D expenses.
  - The FDDEI deduction is now 33.34% (previously was 37.5%).
- Section 958(b)(4) – Rules for determining stock ownership
  - The Act restored Section 958(b)(4) as it relates to downward stock attribution impacting the CFC status of foreign-owned stock.
  - In addition, the Act introduced Section 951B for foreign-controlled US shareholders and foreign controlled foreign corporations, which may further complicate income inclusion considerations from a US tax reporting perspective.

Qualified Opportunity Zones

The Act made notable changes to the Qualified Opportunity Zone (QOZ) regime for Qualified Opportunity Fund (QOF) investments beginning 1 January 2027. Most importantly, the program is now a permanent incentive, with new zones to be designated every 10 years, starting in 2026.

Capital gains deferred through QOF investments must be recognized upon the earlier of disposition or five years. If held for at least five years, 10% of the deferred gain may be excluded. As under prior law, gains on QOF investments held at least 10 years are exempt from tax, but for investments beginning in 2027, this exclusion is capped at 30 years.

Certain rural QOZs receive enhanced benefits. Investors in “qualified rural opportunity funds” may exclude 30% of deferred gains after five years, compared to the standard 10%. These funds also face a lower “substantial improvement” threshold, requiring only a 50% basis increase instead of doubling.

The Act also narrows the definition of eligible low-income communities by reducing the median family income threshold from 80% to 70% of the state or metropolitan median, which may limit future designations.

The Act also introduced new reporting requirements designed to increase transparency. QOFs must disclose detailed financial, property, and workforce data to the IRS and investors, with penalties of up to USD 50,000 for larger funds that fail to comply.

Retaliatory tax provisions (proposed Section 899)

- Overview
  - The proposed Section 899 tax provision were intended to counteract deemed unfair discriminatory taxes levied against US persons via punitive taxes on certain US-source income earned by non-US persons resident in "discriminatory" non-US countries.
    - The tax would have impacted "applicable persons" resident in discriminatory foreign countries, including any foreign government within the meaning of Section 892 as well as individuals, trusts, partnerships, and corporations.
    - Consequently, Section 892 benefits would have been made unavailable to any foreign government.
  - "Unfair taxes" were defined to include an undertaxed profits tax rule as determined under Pillar Two, digital services tax, diverted profits tax, and generally any other tax that disproportionately taxed US persons.
- US tax impact and economic considerations
  - In general, the proposed Section 899 would have imposed an annual increase on the applicable tax rates on US-sourced FDAP, ECI (including FIRPTA), and branch profits income (among other income categories) earned by applicable persons. In addition, there was a contemplated expansion to the scope and tax rate of BEAT.
  - The proposed tax provision could have imposed new burdens on cross-border transactions, complicated treaty relationships, and potentially diverted investment into the US real estate, venture capital, and private equity markets. Foreign governments and sovereign wealth funds benefiting from preferential US tax treatment could have been affected, potentially discouraging capital deployment into the United States.
- Future outlook
  - The Act was primarily intended to address debt ceiling concerns and impending TCJA expirations. In connection with the G7 agreement to remove US companies from OECD Pillar Two taxes, the Section 899 retaliatory tax was dropped from the legislation. Nonetheless, the provision remains part of ongoing political discussions and could reemerge in future legislation in coordination with the Trump administration pending progress in talks with the OECD and Inclusive Framework countries related to the G7 agreement.

Energy credits

The Inflation Reduction Act (2022) expanded energy tax credits to encourage renewable energy investment. The Act inserted a new set of rules referred to as Prohibited Foreign Entity (PFE) Restrictions aimed at reducing the influence of Prohibited Foreign Entities (PFEs) in the U.S. energy industry. These rules deny an energy credit to a PFE, a U.S. taxpayer (referred to as a Foreign-Influenced Entity (FIE)) that engages in certain transactions (including long-term contracts, licensing, and certain financial arrangements) with a PFE, or a U.S. taxpayer that includes material inputs sourced from a PFE into certain types of energy projects (those seeking to claim 45X, 45Y or 48E credits).

These changes require developer, sponsor, and supply chain diligence. Fund structures that rely on global capital or foreign component sourcing must now account for expanded disqualification risks tied to the PFE Restrictions. Beyond direct ownership, even indirect contractual or financing relationships can jeopardize access to credits, reshaping project economics and investor return profiles. The PFE Restrictions require the integration of enhanced compliance, documentation, and sourcing strategies into underwriting and deal execution to preserve eligibility for these critical incentives.

IRS workforce

The Internal Revenue Service (IRS) has reduced its workforce by an estimated 25% thus far in 2025, driven by a series of presidential executive orders and guidance of the Office of Personnel Management. This reduction in headcount was largely achieved by way of various voluntary programs the Treasury Department put forth, which included the following initiatives:

- Deferred Resignation Program (DRP) – allowed employees to resign but keep pay and benefits through 30 September 2025, or later for those eligible to retire by year end.
- Treasury Deferred Resignation Program (TDRP) – an expanded, agency-wide offer with similar incentives to the DRP for additional staff.
- Voluntary Early Retirement Authority (VERA) – allowed eligible employees to retire earlier than usual.
- Voluntary Separation Incentive Payment (VSIP) – this was a "buyout" structured incentive for certain employees for an amount of up to USD 25,000.

The IRS also engaged in formal terminations of employees that accounted for another portion of the overall headcount reduction. These initiatives concluded in July 2025, and as of August, the IRS has shifted focus from downsizing to rebuilding its workforce through new hires and reassignments. However, concerns remain that the staffing cuts could affect the upcoming 2026 filing season, with risks of delayed refund processing, reduced taxpayer service quality, and extended audit timelines.

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