An aerial photograph of a winding asphalt road in a mountainous region. The road is partially covered with snow, particularly in the lower and outer curves. A cyclist wearing a blue and red jersey is riding along the road, casting a long shadow. The surrounding landscape features snow-dusted slopes, evergreen trees, and a stone retaining wall along the edge of the road. The sky is bright and clear.

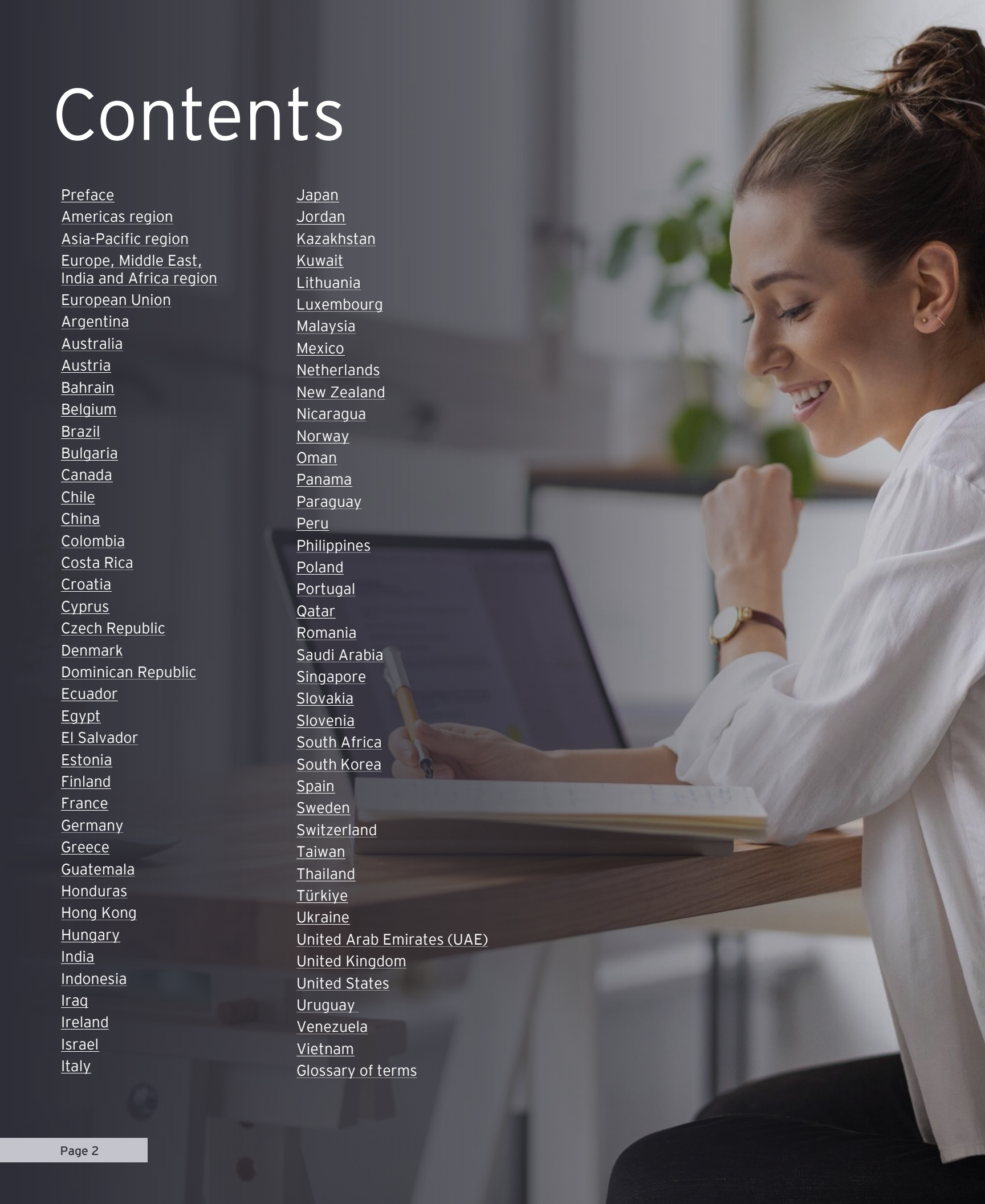
The outlook for  
global tax policy  
and controversy  
in 2024:  
jurisdiction reports



Building a better  
working world

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# The 2024 EY Tax Policy and Controversy Outlook jurisdiction reports

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Major intertwined tax developments continue to evolve and it's the companies that see the whole picture in real time that will navigate successfully.

Marna Ricker, EY Global Vice Chair of Tax.

Around the world, governments are actively evaluating and implementing tax reforms developed in global discussions, advancing local policy changes and strengthening tax enforcement. The EY article *How to find certainty amid tax policy transformation* offers a global perspective on these changes. In the following pages, local EY policy and controversy leaders share the top developments in their jurisdictions and their expectations for the coming year.

Highlights for each jurisdiction include:

- ▶ Major issues to watch in 2024
- ▶ Key tax policy, enforcement and controversy developments that occurred in 2023
- ▶ Expectations for key tax policy, controversy and enforcement developments in 2024
- ▶ Pending legislative matters
- ▶ Tax transparency developments
- ▶ Significant audit focus areas and audit process developments

The *2024 Tax Policy and Controversy Outlook* is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents. The content is current as of 10 January 2024, with exceptions noted.





# Americas

## EY key contacts

### Tax policy:

[Jorge Libreros](#), [Jose Murillo](#)

### Tax controversy:

[Kiara Rankin](#)

## Key issues to watch in 2024

- ▶ Tax reforms
- ▶ Increasing digitalization of tax administration
- ▶ Tax enforcement and enhanced tax audits
- ▶ Adoption of international tax standards

## Key drivers of tax policy change

- ▶ Pressure to adopt international tax standards, particularly from the OECD Inclusive Framework, OECD Global Forum on Transparency and the EU
- ▶ Control inflation
- ▶ Need to raise revenue and reduce budget deficits
- ▶ Federal elections occurring in Mexico and the US
- ▶ There is pressure to change tax provisions in order to be removed from the EU list of noncooperative jurisdictions (Panama) or to avoid being listed (Uruguay).
- ▶ Tax reform is ongoing in Brazil (CIT), Chile (CIT, transparency) and Ecuador (VAT).
- ▶ Additional guidance is expected on recent reforms in Brazil (indirect) and the US (green measures and CIT).

## Significant tax policy development trends in 2023

- ▶ Brazil implemented transfer pricing rules that follow OECD guidelines. Other jurisdictions in the region will be affected.
- ▶ Brazil enacted indirect tax reform that is still undergoing court challenges.
- ▶ Costa Rica amended the foreign-sourced income exemption regime to be removed from the EU list of noncooperative jurisdictions for tax purposes.
- ▶ Ecuador enacted an optional tax increase for taxpayers seeking tax stability as well as a variety of investment and employment incentives and tax debt penalty and interest amnesty.

## Significant tax policy development trends expected in 2024

- ▶ Businesses and governments are closely watching the implementation and impacts of Pillar Two in other jurisdictions. Of particular concern are the impacts on free trade zones.

## Developments in tax transparency requirements

- ▶ Increase in cooperative compliance programs, such as the Cooperative Compliance Program (CONFIA, for its Portuguese acronym) in Brazil.

## Top tax enforcement or tax controversy development trends in 2023

- ▶ More frequent and intense audits
- ▶ Focus on transfer pricing
- ▶ Uncertainty in rules

## Top tax enforcement or tax controversy development trends expected in 2024

- ▶ Increased digitalization and modernization of the tax authority, including the use of information sharing and AI
- ▶ Increased litigation in Brazil as new measures are implemented, with the hope for decreased litigation after issues are settled



# Asia-Pacific

## EY key contacts

**Tax policy:**  
Matt Andrew

**Tax controversy:**  
Martin Caplice

### Key issues to watch in 2024

- ▶ Continued focus on tax governance by tax administration
- ▶ Domestic implementation of Pillar Two
- ▶ Adjustments to tax incentives and adoption or enhancement of nontax incentive regimes considering Pillar Two impact
- ▶ Application of new technologies to strengthen tax administration
- ▶ Tax audit focus on arrangements that lack commercial substance

### Key drivers of tax policy change

- ▶ Many jurisdictions under pressure to collect tax shortfalls or to collect income to reduce national debt; many jurisdictions expected to pursue strong audit measures
- ▶ Focus on implementation of international tax standards, such as:
  - ▶ Pillar Two global minimum tax
  - ▶ Multilateral Competent Authority Agreement (MCAA) on the Exchange of CbCR and on Automatic Exchange of Financial Account Information
  - ▶ Implementing and maximizing exchange of information mechanisms
  - ▶ Joining Global Tax Forum and implementation of Inclusive Framework minimum standards to be removed from the EU list of noncooperative jurisdictions for tax purposes
- ▶ Automation of tax administration, including e-invoicing
- ▶ Continued focus on the design and implementation of specific anti-avoidance measures
- ▶ Continue considering options to change tax incentives that qualify under Pillar Two
- ▶ Continued focus on indirect tax rate and base expansion
- ▶ Adoption of Inclusive Framework minimum standards by jurisdictions in order to be removed from the EU list of noncooperative jurisdictions for tax purposes

### Developments in tax transparency requirements

- ▶ Adoption or expansion of e-invoicing regimes by some jurisdictions to drive increased tax transparency

### Top tax enforcement or tax controversy development trends in 2023

- ▶ Tax administrations sought to promote trust through tax governance programs, involving mandatory and voluntary assessments of an organization's tax governance. Several jurisdictions, including Australia, Malaysia, New Zealand and Singapore, currently have these programs, with more expected to follow. Japan refreshed its Japan Compliance Assurance Programme, a process via which super-large companies can seek nonbinding certainty in real time.

### Top tax enforcement or tax controversy development trends expected in 2024

- ▶ Broader adoption of tax governance focused programs by a wider group of jurisdictions
- ▶ Continued focus on payments to low- or no-tax jurisdictions
- ▶ Continued focus on tax compliance automation by tax authorities, including adoption and expansion of invoicing programs
- ▶ Regional cooperation among tax authorities, including via OECD, UN and other groups

### Significant tax policy development trends in 2023

- ▶ Jurisdictions spent significant time working through options to implement Pillar Two and domestic minimum tax options, such as the QDMTT.
- ▶ Jurisdictions made widespread changes to existing tax incentives programs to offset the impacts of Pillar Two; such changes must fit within the Pillar Two framework for incentives.
- ▶ Jurisdictions continued to roll out packages of anti-avoidance measures, with a strong focus on topics such as intangibles, embedded royalties and offshore disposal gains.

### Significant tax policy development trends expected in 2024

- ▶ Implementation of the Pillar Two: continued focus on Pillar Two by jurisdictions, codification and implementation by tax administrations spread across 2024 and 2025



# Europe, Middle East, India and Africa

## EY key contacts

**Tax policy:**  
Jean-Pierre Lieb

**Tax controversy:**  
Charles Ménard

### Key issues to watch in 2024

- ▶ EU regulation implementations (Pillar Two – Public CbCR – DAC7 – E-reporting VAT measures)
- ▶ Public deficits and inflation regulation
- ▶ Sustainability and climate change taxes
- ▶ Increase and strengthening tax audits; amendments to controversy procedures

### Key drivers of tax policy change

- ▶ Focus on anti-avoidance: increasing tax collection, stronger anti-avoidance enforcement, international cooperation and information exchange
- ▶ Corporate tax and local business incentives
- ▶ New incentive plans for sustainability and climate change issues
- ▶ Administrative advancements: digitalization of reporting procedures, new e-audits and modernizing tax compliance

### Significant tax policy development trends in 2023

- ▶ Amendments of corporate tax rules and granting new preferential regimes (tax deductions, tax rate reductions)
- ▶ New incentive plans (R&D incentives and tax credits, freelancers tax measures, local business incentives)
- ▶ Sustainability and climate change new incentive regimes
- ▶ Windfall and temporary taxes (oil and gas and electricity sectors)

### Significant tax policy development trends expected in 2024

- ▶ Pillar Two rules implementation
- ▶ VAT reforms (substantive changes to VAT obligations, VAT rate changes)
- ▶ New windfall taxes (oil, gas, electricity sectors)
- ▶ Excise duty reforms

### Developments in tax transparency requirements

- ▶ EU DAC7 reporting obligations implementation
- ▶ Public CbCR implementation
- ▶ EU VAT CESOP Directive rules implementation
- ▶ Implementation of OECD global tax transparency

### Top tax enforcement or tax controversy development trends in 2023

- ▶ Increased tax audits and debt recovery
  - ▶ Digitalizing collection procedures
  - ▶ E-audits
  - ▶ Focus on tax fraud
- ▶ New tax fraud and tax audit measures
  - ▶ Improve audits
  - ▶ Strengthen administration powers
- ▶ Adjusting and strengthening transfer pricing measures

### Top tax enforcement or tax controversy development trends expected in 2024

- ▶ EU regulation implementations (Pillar Two, Public CbCR, CESOP, DAC7)
- ▶ Development of coordinate and joint audits
- ▶ Continue transfer pricing rules enforcement
- ▶ Enhanced fight against withholding tax fraud



# European Union

## EY key contacts

**Tax policy:**  
Marlies de Ruiter, Maikel Evers

**Tax controversy:**  
Marlies de Ruiter

### Key issues to watch in 2024

- ▶ The evolving geopolitical and economical landscape and its impact on the EU as a bloc
- ▶ European Parliament elections in June and replacement of the European Commission by the end of the year
- ▶ The perspective of the European Council, which brings together the political leaders of the Member States (MS), on the EU's attractiveness for investments in the green transition and digitalization
- ▶ The MS' implementation of the Green Deal and Pillar Two

### Key drivers of tax policy change

- ▶ Changes following from the strategic autonomy policy, which requires self-sufficiency of the EU in certain areas, such as energy production
- ▶ The need for additional tax revenue due to budget challenges resulting from high levels of debt and interest
- ▶ Changes to the tax system due to new political preferences, such as scaling down of tax incentives for fossil fuel production and introduction of lifestyle taxes
- ▶ Positioning to be relevant as an industrial force in the mid- to long-term, seeking to match the funds available for investment in other blocs when it comes to the green and digital transition
- ▶ Significant changes in the transparency and reporting environment in response to sustainability initiatives, new public reporting rules and Pillar Two introduction

### Significant tax policy development trends expected in 2024

- ▶ Questions related to Pillar Two entry into effect in the EU
- ▶ Final decision on Pillar One and its effects on digital taxes
- ▶ Focus on tax reporting, including a review of reporting obligations to governments as defined by the Directive on Administrative Cooperation
- ▶ A multi-stakeholder dialogue on the attractiveness of the EU internal market as an investment location

### Developments in tax transparency requirements

- ▶ Entry into effect of the public CbCR obligations as of 22 June 2024 (earlier in some MS)
- ▶ Debated expected on what the Corporate Sustainability Reporting Directive means for public tax reporting
- ▶ Institutional investors from Europe will continue to push for good tax governance and public tax reporting

### Top tax enforcement or tax controversy development trends in 2023

- ▶ The draft TP Directive includes proposals to prevent disputes and resolve such disputes more expeditiously.

### Top tax enforcement or tax controversy development trends expected in 2024

- ▶ Intensified dialogue between business and European institutions on tax challenges and how to enhance tax certainty
- ▶ Negotiations on the TP directive with the aim to come to an agreement



# Argentina

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## EY key contacts

**Tax policy:**  
Ariel Becher

**Tax controversy:**  
Jorge Lapenta

## Key issues to watch in 2024

- ▶ Inflation reduction
- ▶ Public deficit reduction
- ▶ Economy deregulation
- ▶ Tax reform

## Key drivers of tax policy change

- ▶ Government focus on stabilizing and deregulating the economy
- ▶ Government focus on reducing inflation, with decreasing the public deficit to zero as the main driver
- ▶ Tax enforcement and enhance of tax audits

## Significant tax developments in 2023

- ▶ In 2023, Argentine tax policy was driven by the presidential elections.
- ▶ Specific regimes required certain taxpayers to make tax payments in advance or postpone the computation of tax credits.
- ▶ Just before the presidential elections, by the end of 2023, a significant individual income tax reduction was enforced for employees. The new government, on the contrary, is intending to repeal such reduction to help decrease the public deficit.

## Significant tax developments expected in 2024

- ▶ The government issued Decree “of necessity and urgency” 70/2023, which abrogates and amends several laws, aimed at de-regulating the economy.
- ▶ The government sent a bill to Congress containing a series of tax reforms, including a tax moratorium regime, a voluntary declaration of assets, some reductions in tax on personal assets, and a special “large investments incentive regime” with significant tax grants and reductions for new significant investments.
- ▶ A second bill of tax reforms is expected.

## Significant legislative activity that could include tax

- ▶ The main highlights of the previously mentioned bill are the following:
  - ▶ Establishment of a tax moratorium regime for debts related to taxes, custom duties and social security obligations payable up to 30 November 2023, with interest reduction and fine elimination
  - ▶ Establishment of a regime of regularization of assets situated in Argentina and abroad
  - ▶ Establishment of certain changes regarding the tax on personal assets, reducing it progressively and encouraging the payment in advance of the tax for years 2023 to 2027, with certain benefits
  - ▶ Increase in export duties
- ▶ A second bill is in process to increase the income tax applicable to individuals related to the income obtained from their personal work. This initiative would reverse the reliefs granted at the end of 2023.
- ▶ Tax treaties signed prior to 2019 and yet pending ratification have been recently sent to Congress for approval (Japan, Türkiye, China and Luxembourg).

## Developments in tax transparency requirements

- ▶ The bill sent to Congress contains certain measures aiming at disclosing tax matters to the public. Among others, it requires sellers to disclose amount of tax responsibility in the invoices and requires free services to include the wording “free service financed by the taxes paid by taxpayers.”



# Argentina

## Expectations for tax policy

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**Significant tax reform prospects are unclear.** Although the recently elected president has announced his intention to reduce taxes and change the tax system, since an urgent balance of public accounts is needed, there has been no announcement yet of such a significant tax reform.

**Elections** took place in 2023 and the new government took office on 10 December 2023.

**R&D incentives** are expected to stay the same; however, since government needs deficit reduction, the elimination of some regimes cannot be disregarded.

**Other business incentives are expected to increase.** The bill already sent to the Legislative Branch contains a special large investments incentive regime with a series of relevant tax benefits.

### Corporate taxes

- ▶ No significant corporate tax changes occurred in 2023 due to the electoral process.

### Taxes on digital business activity

- ▶ Transactions that imply payments in foreign currency are expected to be more heavily taxed, and this shall have a direct impact on digital business activities.

### Taxes related to climate change or sustainability

- ▶ This subject was not included in the Argentine agenda during 2023.
- ▶ The new administration has already issued public statements indicating that environmental matters will not be targeted as priority objectives.

### Windfall taxes

- ▶ No windfall taxes were applied during 2023 and are not currently expected to be applied during 2024.

### VAT/GST or sales taxes

- ▶ No major changes took place during 2023 and none are currently expected for 2024.

### Personal taxes

- ▶ The reductions granted in 2023 are expected to be repealed, thus increasing the tax on salary income.
- ▶ The tax on personal assets is expected to decrease.



# Argentina

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Discussions on legality of advance payments imposed by the prior government
- ▶ Adjustment for inflation, adjustment of tax losses

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Increase in tax audits
- ▶ Focus on transfer pricing matters

**Tax audits in Argentina in 2024 are generally expected to increase in number and intensity.**

### Top audit issues:

1. Intercompany loans (recategorization of debt into equity)
2. Transfer pricing matters
3. Intercompany charges

### Changes in tax audit approaches or methods

- ▶ The new administration has designated new tax authorities, and it is still uncertain how they are going to conduct the audits.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ More communication between the area in charge of the MAP resolution and the local tax authorities is expected, and this could have a direct impact on the prevention and resolution of tax disputes.
- ▶ If approved by the Legislative Branch, the tax moratorium regime included in the aforementioned bill could reduce litigations, close existing disputes and avoid new ones.

### Tax governance approach/processes developments for business taxpayers

- ▶ This is also uncertain, considering the new authorities have taken office just recently.

### Digital tax administration developments

- ▶ No changes are currently expected.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	35%	35%	–	Same	Same
PIT	35%	35%	–	Same	Same
VAT/sales	21%	21%	–	Same	Same

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This information is current as of 10 January 2024.



# Australia

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## Key issues to watch in 2024

- ▶ **Pillar Two implementation** – Pillar Two was announced as effective from 1 January 2024 but is unenacted and stakeholders are awaiting draft legislation for consultation.
- ▶ **Budget deficit reduction** – More fiscal restraint is expected given concerns with potential budget deficits and persistent inflation pressure.

## Key drivers of tax policy change

- ▶ Government focus on avoiding budget deficits: A key focus of government has been on repairing the budget deficit, including by confirming that MNEs pay their “fair share of tax” and by increasing superannuation tax for individuals with balances of >\$3 million.
- ▶ Increased Australian Taxation Office (ATO) funding: Additional funding for key tax compliance programs (Personal Income Taxation Compliance Program, Shadow Economy Program, GST Compliance Program, Phoenix Taskforce and the Tax Avoidance Taskforce) signals increased ATO audit activity and potentially increased tax revenue.
- ▶ Ongoing drive for greater transparency in tax disclosures: A key focus of the government has been to enhance tax transparency and disclosures of MNEs.
- ▶ Implementation of the OECD’s Model Rules: Implementation of Pillar Two with 15% minimum tax is part of the government’s key multinational tax integrity plan.

## Significant tax developments in 2023

- ▶ Thin capitalization, introduced and passed by the House of Representatives, includes a new default 30% of tax EBITDA rule and reintroduction of debt deduction creation rules. The proposed amendments were referred

## EY key contacts

**Tax policy:**  
Tony Merlo, Alf Capito

**Tax controversy:**  
Fiona Moore

- ▶ **Multinational tax integrity plan** – Enactment of 2022 election measures announced in the 2022-23 budget and related guidance.
- ▶ **Greater transparency in tax disclosures** – Public CbCR is effective from 1 July 2024, and additional consultation is expected.
- ▶ **Increased funding for audit programs** – Several task forces and compliance programs received additional funding.

to inquiry by the Senate economics committee, with the committee report due by 5 February 2024. The start date for the debt deduction creation rules was deferred until income years commencing on or after 1 July 2024.

- ▶ Denying deductions for payments relating to intangibles and royalties paid to low- or no-tax jurisdictions: The government consulted on exposure draft law and stakeholders are awaiting the bill’s introduction (applicable from 1 July 2023).
- ▶ Consultation on public CbCR (applicable from income years commencing on or after 1 July 2024) occurred.
- ▶ A bill was introduced enacting public company financial statement disclosures of subsidiaries information, including tax residency (applicable from financial years commencing on or after 1 July 2023).
- ▶ A bill to cap allowable Petroleum Rent Resource Tax (PRRT) deductions for offshore liquefied natural gas at 90% of PRRT assessable receipts was introduced in November 2023. Further PRRT changes are being consulted on.
- ▶ Company distributions to shareholders funded by certain capital raising activities are made un-frankable from 28 November 2023.

## Significant tax developments expected in 2024

- ▶ Enactment of the final thin capitalization law is expected following a report by the Senate economics committee inquiry into proposed amendments with the report due 5 February 2024. ATO guidance on key issues is to be developed.
- ▶ The legislative process for implementation of Pillar Two is expected to apply the IIR and QDMTT for income years commencing on or after 1 January 2024 and the UTPR for income years commencing on or after 1 January 2025.
- ▶ Legislation to deny deductions for intangibles and royalties paid to low- or no-tax jurisdictions is paused until Pillar Two legislation progresses.
- ▶ An expansion is expected of general anti-avoidance rules to WHT reduction and other schemes that reduce Australian tax where the dominant purpose is to reduce foreign tax. It would be applicable for income years commencing on or after 1 July 2024.
- ▶ The ATO is applying WHT and DPT to embedded royalties, including litigation through courts. Legislative changes following the recent federal court case are possible, depending on likely appeal.
- ▶ There is a PRRT consultation on further proposals, including amendments to anti-avoidance rules with law expected to be introduced.

## Significant legislative activity that could include tax

- ▶ Amending income tax residency rules for individuals – completed recent consultations on proposed changes to the rules
- ▶ Amending income tax residency rules for corporates – waiting for consultation on previous Government's announcement
  - ▶ Updates to ATO practical compliance approach concerning the central management and control test were made in 2023.
- ▶ Board of Taxation's review of the tax treatment of digital assets and transactions – report to government due upon completion
- ▶ Board of Taxation's review into CGT rollovers – government response still pending

## Developments in tax transparency requirements

- ▶ Financial statement disclosure by listed and unlisted Australian public companies of information on all subsidiaries, including country of tax residence, is expected to be enacted in early 2024 and effective from financial years starting on or after 1 July 2023.
- ▶ Public reporting by significant global entities of certain tax information on a country-by-country basis, for disclosure by the ATO, is effective from income years commencing on or after 1 July 2024 is pending. Further consultation is expected on new exposure draft law before introduction of the law.
- ▶ Consultation has commenced on a public beneficial ownership register to publicly disclose information on who owns, controls and receives benefits from a company and other entity regulated under the Corporations Act (phase 1) or other legal vehicles, such as trusts (phase 2), operating in Australia.
- ▶ Expanded application of the corporate tax transparency report (income threshold for application reduced) applies from 2024 reporting (for 2023 income year).
- ▶ Further transparency measures are expected, in light of the government's commitments to boost MNEs' tax transparency.

# Australia

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** are not occurring in 2024; the federal election must be called before September 2025.

**R&D tax incentives** are expected to stay the same. The government has yet to release their response to the Board of Taxation's review of the R&D tax incentive's dual-agency administration model.

**Other business incentives** are expected to stay the same. Business incentives have been rolled back since the end of the pandemic, and some concessional regimes, such as the patent box regime, have been reversed. However, incentives to encourage clean energy uptake could be announced.

### Corporate taxes

- ▶ The standard rate is to remain at 30% and at 25% for "base rate entities" for entities with less than AUD50 million of aggregated turnover.
- ▶ New measures may potentially be introduced in the May 2024 Budget (no announcements yet) in line with the government's focus on tax integrity and tax revenue.

### Taxes on digital business activity

- ▶ Australia applies GST on digital supplies and has a diverted profits tax and avoided PE (multinational anti-avoidance law) unilateral measures with treaty override. No digital services tax or virtual PE deeming provisions have been implemented.

- ▶ Board of Taxation review of the tax treatment of digital assets and transactions is continuing with completion expected in early 2024. The purpose of this review is to consider the policy framework for taxation of digital assets and if any changes are required to taxation laws or their administration, with recommendations for consideration by the government.

### Taxes related to climate change or sustainability

- ▶ Australia does not impose a carbon tax or any other climate change-related tax that promotes carbon emissions abatement. No additional taxes are under active consideration.

### Windfall taxes

- ▶ No developments are currently expected.

### VAT/GST or sales taxes

- ▶ As GST is collected at the federal level before it is distributed to the states and territories, any change to the system requires agreement between the states and territories. As such, any changes to the GST rate of 10% is highly unlikely to occur.

### Personal taxes

- ▶ Legislated personal income tax rate reductions from 2024/25: The government has committed to deliver the legislated "Stage 3" personal income tax cuts, including reducing marginal tax rate tiers from 6 to 4 (to be 0%, 19%, 30% and 45%), and adjusting thresholds, including to increase the threshold for highest rate from AUD180,000 to AUD200,000.

# Australia

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Thin capitalization (current rules)
- ▶ Intangibles and royalties deduction denial
- ▶ ATO Tax Avoidance Taskforce to focus on public and multinational businesses generally
- ▶ Several task forces and compliance programs received additional funding
  - ▶ For example, the ATO Tax Avoidance Taskforce received extra funding in the 2022-23 Budget (October) and extended the task force for a further year from 1 July 2025.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Thin capitalization and debt deduction creation new law
- ▶ Intangibles and royalties deduction denial new law
- ▶ Transparency measures
- ▶ Pillar Two
- ▶ Private equity transactions

**Tax audits in Australia in 2024 are generally expected to increase in number and/or intensity.**

### Top audit issues

1. Transfer pricing, particularly with respect to related-party financing and intangibles, and in-bound distributors
2. The general anti-avoidance rule
3. Diverted profits tax
4. Ability to reconcile financial data with disclosures – prevalent in TP and GST, but also other areas

### Changes in tax audit approaches or methods

- ▶ The ATO's issuance of statutory notices has increase.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ New Administrative Review Tribunal (replacing the Administrative Appeals Tribunal)
- ▶ Implementation of recommendations following ATO's APA review

### Tax governance approach/processes developments for business taxpayers

- ▶ The ATO's justified trust program top 100 and top 1,000 program focus is on testing that a company's tax governance and tax controls are in place.
- ▶ The ATO top 500 and next 5,000 are assurance programs for privately owned and wealthy groups.
- ▶ Tax reviews are increasingly granular in data production requirements.

### Digital tax administration developments

- ▶ The ATO continues to invest in digital capacity and has a current strategy spanning 2022-2025.
- ▶ The strategy focuses on four key pillars:
  - ▶ Evolve digital maturity
  - ▶ Continue to deliver and leverage the right digital platforms
  - ▶ Deliver personalized optimal experiences for clients and people
  - ▶ Collaborate with partners to build connected and trusted ecosystems
- ▶ Transition to a new ATO data center and expansion of robotic process automation program are underway.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	30% (25% base rate entity)	30% (25% for base rate entity)	–	Higher	Higher
PIT	45% (excluding Medicare levy of 2%)	45% (excluding Medicare levy of 2%)	–	Same	Same
VAT/sales	10%	10%	–	Same	Same

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# Austria

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## Key issues to watch in 2024

- ▶ Election in fall 2024

## Key drivers of tax policy change

- ▶ Implementation of Pillar Two global minimum taxation by Minimum Taxation Reform Act
- ▶ Government's focus on reducing the budget deficit and stimulus in an inflationary environment
- ▶ Ongoing drive for greater transparency in tax disclosures

## Significant tax developments in 2023

- ▶ Minimum Taxation Reform Act: implementation of global minimum taxation in Austria
- ▶ Start-Up Promotion Act: new employee participation model, extension of possibility of granting additional tax-free bonuses due to inflation
- ▶ Company Law Amendment Act: introduction of the Flexible Corporation (FlexCo) as new legal form for companies; reduction of minimum nominal capital for limited liability companies and minimum annual corporation tax
- ▶ Non-Profit Reform Act: expansion of the list of beneficiary organizations and extension to all nonprofit and charitable organizations

## Significant tax developments expected in 2024

- ▶ No significant tax developments are currently expected in 2024.

## EY key contacts

**Tax policy:**  
Markus Schragl, Melanie Raab

**Tax controversy:**  
Markus Schragl, Melanie Raab

## Significant legislative activity that could include tax

- ▶ No significant legislative activity is currently expected in 2024.
- ▶ Potential legislative activities in an inflationary environment have to be considered.

## Developments in tax transparency requirements

- ▶ Beneficial ownership register: Companies will have to disclose information on who owns and controls a company as beneficial owner.
- ▶ The Ministry of Finance has released an updated guidance document on the interpretation and application of the rules of DAC6 in Austria, as required by the federal law on the mandatory automatic exchange of information concerning cross-border arrangements in the field of taxation.
- ▶ With the local DAC7 legislation, the mandatory automatic exchange of information on reporting platform operators in the field of taxation was introduced. DAC7 expands the automatic exchange of information and reporting obligations to cover certain transactions through digital platforms. Additionally, it modifies existing regulations with the aim of improving administrative cooperation in the exchange of information regarding, for instance, joint audits, information requests and data breaches.
- ▶ EU law on cooperation between administrative authorities in the field of taxation, including the following:
  - ▶ Automatic information exchange
  - ▶ Spontaneous information
  - ▶ On request information
  - ▶ Exchange of rulings

# Austria

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** are occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ Corporate tax rate: The standard corporate tax rate was reduced from 25% to 24% in 2023 and further reduced to 23% as of 2024.
- ▶ The minimum annual corporation tax for companies decreases from EUR1,750 to EUR500 as of 2024.

### Taxes on digital business activity

- ▶ The digital services tax is regulated in the Austrian Digital Tax Act 2000 and in an ordinance issued by the Federal Minister of Finance.
- ▶ Austria levies a DST on online advertising services as of 1 January 2020, e.g., advertisements placed on a digital interface, in particular in the form of banner advertising, search engine advertising and comparable advertising services. The delivery of digital content, e.g., software or streaming, is out of scope of the DST.
- ▶ Online advertising services are subject to the DST if and insofar as they are provided by online advertisers in Austria for remuneration.
- ▶ Austria has agreed that as part of Pillar One, Austria will withdraw all unilateral measures on all companies and refrain from imposing new unilateral measures.
- ▶ The Austrian DST will remain in place until Pillar One comes into effect; however, a specific credit is provided for the local (Austrian) DST incurred in the transition period between 1 January 2022 and the date of Pillar One coming into force.

### Taxes related to climate change or sustainability

- ▶ Austria does not impose a carbon tax or any other climate change-related tax that promotes carbon emissions abatement.

- ▶ Tax sustainability reporting is mandatory for public interest entities with total assets in excess of EUR20 million or revenues in excess of EUR40 million and with more than 500 employees. Taxpayers may choose to voluntarily disclose tax sustainability reports.

### Windfall taxes

- ▶ Austria intends to increase the windfall tax imposed on oil and gas companies. The tax would apply if the pre-energy crisis profit level is exceeded by 10% instead of the current excess threshold of 20%.
- ▶ Austria currently levies a solidarity contribution on surplus profits of oil and gas companies at a rate of 40% for the profits made between 1 July 2022 and 31 December 2022 in the 2023 fiscal year. The contribution applies to the profit exceeding 120% of average taxable profits between 2018 and 2021.
- ▶ Companies that can prove investments in the transition to renewable energy resources between 31 December 2021 and 1 January 2024 may deduct 50% of the respective investment costs (with a maximum of 17.5%) from the crisis contribution amount. This results in an effective minimum rate of 33% of the solidarity contribution. The solidarity contribution is not deductible for corporate tax purposes.

### Value added tax

- ▶ Any changes to the VAT rates are unlikely to occur in 2024.
- ▶ VAT exemption applies for photovoltaic modules as of 1 January 2024

### Personal taxes

- ▶ Further inflation relief for taxpayers (the act for 2024 entered into force on 23 December 2023): Starting from 1 January 2023, Austria abolished cold progression. The respective law makes sure that regular inflation adjustments for income tax brackets and social benefits. This automatic adjustment is set at 2/3 of the annual inflation rate, with the remaining 1/3 determined annually by government resolution.
- ▶ The Ministry of Finance has announced that the tax-exempt amount for personal income tax for 2024 will be increased from EUR11,693 to EUR12,500 to mitigate the effects of inflation.



# Austria

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Pillar Two: Minimum Taxation Reform Act – implementation of global minimum taxation
- ▶ Digital Platform Reporting Act (DAC7 declarations)

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ No significant developments are currently expected for 2024.

**Tax audits in Austria in 2024 are generally expected to stay the same in number and intensity.**

### Top audit issues

1. Transfer pricing
2. VAT
3. Research and development premium

### Changes in tax audit approaches or methods

- ▶ Changes in tax audit approaches or methods are not currently expected for 2024.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ Changes to dispute prevention or dispute resolution tools or programs are not currently expected for 2024.

### Tax governance approach/processes developments for business taxpayers

- ▶ The approach by the tax governance is in general:
  - ▶ Accompanying inspections
  - ▶ Random audit selections
  - ▶ Post-filing assessments
  - ▶ Advance tax rulings and advance pricing agreements
- ▶ Developments regarding horizontal monitoring and tax control systems:
  - ▶ Horizontal monitoring generally applies for larger corporations and is subject to the requirement of good tax conduct based on the previous tax behavior over the last five years.
  - ▶ The participating companies must have a proper internal corporate tax control system and be tax reliable shown by timely tax filing and tax payment.
  - ▶ The aim of horizontal monitoring is to make sure that the amounts for the respective tax type are correctly reported and that the correct amount of tax due is paid on time based on verifiable documentation, accompanying controls and ongoing exchange with the tax authorities.

### Digital tax administration developments

- ▶ Submission of tax notifications and requests electronically via FinanzOnline, e.g., reorganization notifications, ruling requests
- ▶ DAC7 declarations: automatic exchange of information on reporting platform operators
- ▶ E-invoicing for cross-border business-to-business transactions

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	24%	23%	-4%	Lower	Lower
PIT	55%	55%	–	Same	Same
VAT	20%	20%	–	Same	Same

The 2024 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.

This information is current as of 20 February 2024.



# Bahrain

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## EY key contacts

**Tax policy:**  
Ali AlMahroos

**Tax controversy:**  
Ali AlMahroos

### Key issues to watch in 2024

- ▶ Corporate income tax beyond the oil and gas sector
- ▶ Pillar Two implementation
- ▶ Introduction of e-invoicing in Bahrain

### Key drivers of tax policy change

- ▶ Bahrain's cooperation with the OECD initiative to address harmful tax practices
- ▶ Bahrain's commitment to the implementation of the BEPS Inclusive Framework (BEPS IF) minimum standards
- ▶ Ongoing drive within the GCC region to introduce and refine local tax regimes in line with global leading practices
- ▶ Multiple Parliamentary discussions with the Bahraini government (legislative and executive branches) around the introduction of corporate income tax

### Developments in tax transparency requirements

- ▶ In line with the BEPS minimum standard requirement, Bahrain has introduced CbC reporting requirements. Looking ahead, it is anticipated that Bahrain may implement TP documentation and related compliance requirements, as part of the introduction of corporate income tax.
- ▶ Bahrain became a signatory to the Multilateral Competent Authority Agreement on the exchange of CbC reports, which provides a mechanism for the automatic exchange of CbC reports among members on a nonreciprocal basis.
- ▶ As part of Bahrain's commitment to the BEPS IF, especially Action 5 (countering harmful tax practices), Economic Substance Requirements in Bahrain were introduced in 2019.
- ▶ To enhance transparency, the Bahraini government has enacted the Ultimate Beneficial Ownership disclosure rules for all commercial registrations registered in the Kingdom of Bahrain with the Ministry of Industry and Commerce.
- ▶ The Central Bank of Bahrain (CBB) and the Ministry of Industry and Commerce regularly announce to their respective licensees the Common Reporting Standard and the Foreign Account Tax Compliance Act reporting window. The CRS and FATCA reports shall be submitted through the International Tax Information Exchange System (ITIES) portal.

### Significant tax developments in 2023

- ▶ The National Bureau for Revenue (NBR) announced the expansion of the Digital Stamps Scheme. Starting from 24 December 2023, the possession, trade, supply or sale of specified tobacco products without a valid and activated digital stamp in the local market will be strictly prohibited.

### Significant tax developments expected in 2024

- ▶ The anticipated introduction of corporate income tax beyond the oil and gas sector
- ▶ The anticipated introduction of e-invoicing in Bahrain

### Significant legislative activity that could include tax

- ▶ It is anticipated that the Bahraini government will present a corporate tax law to the legislative branch during Q1 2024.
- ▶ There has been a significant uplift in projected tax revenue, which could result in widening the tax base. This could mean either the introduction of a new tax regime or the further development of an existing tax base.

# Bahrain

## Expectations for tax policy

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**Significant tax reform** is expected in 2024.

### Corporate taxes

- ▶ With Bahrain's commitment to the OECD and the BEPS IF, it is expected that Bahrain will introduce corporate income tax or minimum tax in the near future.

### Taxes on digital business activity

- ▶ The current VAT legislation covers the tax treatment of activities that fall under digital business. No tax policy shifts that are not already in place are expected.

### Taxes related to climate change or sustainability

- ▶ The CBB has released an ESG requirements module. This module provides guidelines on the reporting requirements for ESG factors. While there is no tax, all listed companies, banks, financing companies, insurance firms, and category 1 and 2 investment firms shall start the reporting of these requirements from financial year 2024.

### Windfall taxes

- ▶ Bahrain does not impose a windfall tax.

### VAT/GST or sales taxes

- ▶ While the NBR has been issuing regular guidance around the applicability of VAT, the precedence relating to practice and interpretation of the legislation by the NBR remains unclear in certain areas.
- ▶ Bahrain is part of the GCC VAT framework. Its VAT policies are similar to policies adopted by neighboring GCC member countries.
- ▶ The standard rate of VAT increased from 5% to 10%, effective from 1 January 2022.

### Customs

- ▶ Bahrain is part of the GCC Customs Union. The GCC Common Customs Law allows for the free movement of goods manufactured within the GCC Member States without custom duties. As of July 2022, any exports from Bahrain into Saudi Arabia must fulfill the proof-of-origin to determine if the products were manufactured in Bahrain to avail the custom duty exemption.

### Personal taxes

- ▶ There is no personal income or wage tax in Bahrain.

### Other

- ▶ For Bahraini nationals, there is a year-on-year increase in social insurance rates. Employer contributions will continue to increase by 1% annually until it reaches 20% in 2028 while the employee contributions will remain stable at 8%.
- ▶ For expatriates, the employee contribution is 1% (unemployment insurance) and the employer contribution is 3% (occupational hazards) with no increases currently expected.
- ▶ Bahrain levies a 2% levy on the value of the property on the transfer or registration of real estate. The levy is reduced to 1.7% if it is paid within 60 days of the transaction date.
- ▶ Hotels and restaurants that are classified as "tourist" restaurants by the Ministry of Tourism are subject to a 5% levy. Usually, this 5% levy, along with a 10% (optional) service charge is passed on by the restaurants and hotels to the customers.

# Bahrain

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ The NBR has been focusing on onsite audits and inspections for VAT and excise tax.
- ▶ This resulted in reporting several violations that required the imposition of administrative fines in accordance with the VAT Law and Excise Tax Law, in addition to monitoring several suspicions of VAT and excise tax evasion that required the precautionary closing of several businesses.
- ▶ The NBR will also take legal action against violating businesses and refer those who are proven to have committed evasion crimes to the competent authorities to initiate a criminal case against them.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Corporate income tax beyond the oil and gas sector
- ▶ Pillar Two minimum tax

**Tax audits in Bahrain in 2024 are generally expected to increase in number and intensity.**

### Top audit issues

1. Refunds: Seeking refund of VAT from the NBR usually results in tax audit before approval of refunds.
2. Identified (hybrid services) sectors: The sectors that are predominantly providing exempt and taxable supplies are more likely to be selected for an audit by the NBR, e.g., financial services.
3. Large taxpayers: An increase in the level of operations of a business could trigger an audit from the NBR.

### Changes in tax audit approaches or methods

- ▶ The NBR is expected to continue with regular audits of businesses with the intent to increase the level of compliance from taxpayers in Bahrain.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ Bahrain introduced MAP guidance. MAP can be initiated with respect to transfer pricing cases, anti-abuse provision claims, multilateral disputes and multi-year resolution cases.

### Digital tax administration developments

- ▶ Anticipated introduction of e-invoicing in Bahrain in 2025

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	46% <sup>1</sup>	46% <sup>1</sup>	–	Same	Same
PIT	N/A	N/A	–	N/A	N/A
VAT/sales	10% <sup>2</sup>	10% <sup>2</sup>	–	Same	Same

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This information is current as of 28 January 2024.

<sup>1</sup> Currently applicable on the oil and gas sector only.

<sup>2</sup> In some cases, VAT rate at 0% and VAT exemption may apply.



# Belgium

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## EY key contacts

**Tax policy:**  
**Bart Desmet**

**Tax controversy:**  
**Bruno Cardoen**

## Key issues to watch in 2024

- ▶ BEPS Pillar Two implementation
- ▶ Third action plan against tax fraud
- ▶ New measures to address VAT gap, including e-invoicing
- ▶ Increased tax enforcement

## Key drivers of tax policy change

- ▶ Belgium presidency of the Council of the European Union – first semester 2024 – key tax priorities:
  - ▶ Curbing tax evasion, avoidance, aggressive planning and harmful tax competition
  - ▶ Support of ViDA, BEFIT, Unshell and SAFE initiatives
  - ▶ Explore usefulness of more unified tax rules
- ▶ Ongoing development of a broader tax reform:
  - ▶ Modernizing and simplifying the tax system, making it more efficient, fair and neutral
  - ▶ While focusing on limiting the budget deficit, protecting the buying power of households, increasing employment and reducing taxes on labor costs, supporting climate ambitions, entrepreneurship and investments, and digitalization of the tax administration
- ▶ Fair taxation on international level, transparency and implementation of robust anti-fraud measures
- ▶ Harmonized increased tax compliance and e-audits

- ▶ VAT:
  - ▶ Temporary reduced VAT rates
  - ▶ New rules on the VAT reverse charge mechanism on immovable property
  - ▶ Revision of the statute of limitations

## Significant tax developments expected in 2024

- ▶ Pillar Two implementation in line with the EU directive, including:
  - ▶ Introduction of QDMTT and IIR and a transitional CbCR Safe Harbor as well as a transitional UTPR Safe Harbor
  - ▶ Amendments to certain existing provisions, a.o. to the R&D tax credit regime to meet the definition of a "Qualified Refundable Tax Credit"
- ▶ CFC rules will be further tightened (application of Option A ATAD instead of Option B)
- ▶ Reform of the investment deduction regime
- ▶ Modifications to the Cayman tax regime
- ▶ Reform of the withholding tax exemption regime
- ▶ Deduction of VAT: changed VAT obligations for qualifying mixed taxpayers and partial taxable persons and for companies in real estate
- ▶ Draft e-invoicing legislation and practical implementation details
- ▶ Increased excises on tobacco and e-liquids

## Significant tax developments in 2023

- ▶ Corporate taxation:
  - ▶ Limitation of the combined use of certain tax attributes (per taxable period) to EUR1 million, increased by 70% of the taxable profit exceeding the amount of EUR1 million
  - ▶ Tax shelter for video games
  - ▶ Limitation on R&D tax credit, if a company also claims the 80% payroll withholding tax exemption for R&D employees
- ▶ Personal taxation:
  - ▶ Reform of the copyright and software tax regime
  - ▶ Broadened scope of the special tax regime for inbound taxpayers and researchers

## Significant legislative activity that could include tax

- ▶ Implementation of public CbCR obligations (except for domestic Belgian companies subject only to the Belgian tax regime)

# Belgium

## Expectations for tax policy

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### Developments in tax transparency requirements

- ▶ DAC7 reporting obligation: seller information to be reported to the authorities by 31 January 2024
- ▶ Expansion of reporting obligations for payments to tax havens: short-term debts to also be considered
- ▶ Expats: As a control measure, mandatory filing of an electronic record, detailing salaries paid and the corresponding amounts of employee costs
- ▶ Obligation to report the amount of annual rent paid in an annex to the income tax return

**Significant tax reform** is not expected in 2024.

**Elections** are occurring in 2024. European, federal and regional elections are scheduled to be held in Belgium on 9 June 2024. Provincial and municipal elections will be organized on 13 October 2024. Results of elections are not expected to bring significant tax change in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to increase (temporary increased bicycle allowance, exemption to transfer wage withholding tax in case of natural disasters).

### Corporate taxes

- ▶ Pillar Two: global minimum taxation of 15%
- ▶ Temporary increase of minimum taxable basis for tax year 2024 is reversed for 2025 (30% of the profits above EUR1 million will be part of the minimum taxable base instead of 60%)
- ▶ Tightening of the CFC rules, applying Option A of the ATAD instead of Option B
- ▶ Temporary increased bicycle allowance
- ▶ Nondeductibility of regional taxes on gaming and betting and automatic entertainment devices
- ▶ Sharpening of anti-abuse rules combatting international tax evasion, deductibility of certain cross-border expenses can be challenged by the Belgian tax authorities

### Taxes on digital business activity

- ▶ Only if no solution will be found internationally, a digital tax will be considered at the European level or, if necessary, at the Belgian level.

### Taxes related to climate change or sustainability

- ▶ Professional diesel is becoming more expensive
- ▶ Implementation CBAM regulation: functioning of mechanism in transition period and impact on scope
- ▶ Single-Use Plastics Directive: Belgium's intent to implement the directive by means of a Royal Decree (expected)

### Windfall taxes

- ▶ Windfall tax for the oil and gas sector

### VAT/GST or sales taxes

- ▶ VAT rates: 6% for home demolition and reconstruction for individuals, one-year extension of the lower rate of 6% for heat pumps, 6% for houses older than 10 years
- ▶ Rate increase to 21% for the installation of solar panels
- ▶ Reduced VAT on electricity and natural gas for nonbusiness
- ▶ E-invoicing

### Personal taxes

- ▶ Modified Cayman tax regime
- ▶ Temporary tax credit in case of an increased bicycle allowance
- ▶ Simplification of the federal mobility budget
- ▶ Exemption to transfer wage withholding tax in case of natural disasters
- ▶ Nondeductibility of regional taxes on gaming and betting and automatic entertainment devices
- ▶ Modification of the tax-free minimum amounts for dependents
- ▶ Modified flexi-job scheme

### Other

- ▶ Introduction of a progressive compensatory inheritance tax on nonprofit organizations (instead of a flat rate)
- ▶ Increased registration duties on long-term leases and rights to build
- ▶ Additional tax for Specialized Real Estate Investment funds
- ▶ Nondeductibility of the banking tax for financial institutions, collective investment undertakings and insurance companies
- ▶ Increased excises on tobacco and e-liquids

# Belgium

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Second action plan focusing on measures against international and complex fraud, granting tax authorities more power, extending the investigation, assessment and retention periods and the period for filing an administrative appeal
- ▶ Further efforts to increase the number of participants in the Co-operative Tax Compliance Programme (CTCP) for large companies, e-audits and joint tax audits
- ▶ Focus on tax and social fraud in an integrated way with full commitment to international cooperation and data exchange
- ▶ End of the Unique Liberation Declaration quarter (ULD quarter) procedure that allowed Belgian resident taxpayers who have not declared certain income to regularize their tax situation
- ▶ More efforts on digitalization and voluntary payment of taxes

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Continuation of the 2023 policy and initiatives

**Tax audits in Belgium in 2024 are generally expected to increase in number and/or intensity.**

### Top audit issues

1. Tax audits on nonprofit organizations (subject to legal entity income tax and being exempt from corporate income tax) and special corporate income tax regimes
2. Increased number of tax audits in the football sector, in particular tax audits on financial transactions between football clubs and sports agents
3. VAT audits focusing on the presence of a fixed establishment in Belgium
4. Tax audits on the reporting of foreign movable income, based on CRS documentation

### Changes in tax audit approaches or methods

- ▶ Announced third action plan against tax and social fraud with an expansion of the general anti-abuse provision, providing tax authorities more power against abusers of favorable regimes or tax breaks
- ▶ Increased number of requests from VAT authorities to taxpayers to agree on extension of statute of limitations

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ Arbitration procedure can be applied in case of disputed cadastral income for a foreign property
- ▶ Administrative guidance regarding the use of MAP and the resolution by the Advisory Commission
- Guidance expected by means of a comprehensive circular letter on existing dispute procedures available to taxpayers

### Tax governance approach/processes developments for business taxpayers

- ▶ CTCP large companies, e-audits and joint tax audits
- ▶ Focus on tax and social fraud in a more integrated way with full commitment to international cooperation and data exchange

### Digital tax administration developments

- ▶ Ongoing digitalization of the tax administration: enhanced electronic filing of tax returns, electronic reporting obligations (DAC6, DAC7, fee forms, application forms for tax incentives) and digitalization of customs and excise procedures
- ▶ Integration between the various digital tools and user friendliness
- ▶ New administrative approach to cope with digital evolutions, technological and organizational challenges and complex tax legislation by disconnecting from a specific technology, such as the e-Box
  - ▶ Target deadline of 1 January 2025 is moved to 1 January 2028.
- ▶ E-invoicing as of 1 January 2026 (subject to parliamentary approval) and modernization of the VAT chain and collection of VAT debts, including introducing digital systems and automation, postponed until 1 January 2025

## Summary of tax rate and base changes

Tax type	Top 2022 rate	Top 2023 rate	% rate change	Overall base changes	Combined effect
CIT	25%	25%	–	Same	Same
PIT	50%	50%	–	Same	Same
VAT/sales	21%	21%	–	Same	Same

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This information is current as of 28 November 2022.



# Brazil

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## Key issues to watch in 2024

- ▶ Judgment of relevant tax matters in the Brazilian Supreme Court
- ▶ Increase in disputes between tax authorities and taxpayers

## Key drivers of tax policy change

- ▶ Brazilian tax reform: indirect taxes
- ▶ Brazilian new legislation for CIT (tax incentive taxation)
- ▶ Possibility to tax dividends

## Significant tax developments in 2023

- ▶ Approval of Brazilian tax reform: The first phase of reform focused on the change in constitutional rules about indirect tax legislation. The main rule replaces the current five VAT taxes with two main taxes – Goods and Services Tax (IBS, for its Portuguese abbreviation) and Contribution on Goods and Services (CBS, for its Portuguese abbreviation) – and one Selective Tax (IS, for its Portuguese abbreviation) charged on products that impact health and the environment and will have the same rules that apply throughout the territory. There is a lack of detail about the State Contribution and the Tax on Industrial Products in the Manaus Free Trade Zone (IPI ZFM, for their Portuguese abbreviations), which are to be defined by the complementary law.
- ▶ The new transfer pricing rules based on OECD principles were optional for companies in 2023 but are mandatory in 2024.
- ▶ Several decisions were made by the Supreme Court related to tax matters, including taxation of state tax benefits for CIT purposes, changes in res judicata decision against a Supreme Court position, federal VAT related to financial companies. More relevant decisions are expected in 2024 (e.g., Economic Intervention Contribution (CIDE) constitutionality – relevant matter for tech companies).

## EY key contacts

### Tax policy:

Rodrigo Munhoz, Gustavo Carmona, Ademir Bernardo

### Tax controversy:

Rodrigo Munhoz, Ademir Bernardo, Daniel Guerrissi

- ▶ Changes in tax legislation

## Significant tax developments expected in 2024

- ▶ Development of a program to increase tax transparency and litigation reduction: At the end of 2023, the government established the Self-Regularization Program, by Law #14.740/23. This allows the taxpayer to pay tax debts with discounts of interests and penalty and the possibility to use NOLs in some circumstances. This program is open until 1 April 2024.

## Significant legislative activity that could include tax

- ▶ Taxation of state tax incentives may develop.
- ▶ Next steps for tax reform: In 2024, the Congress and Senate will discuss the Complementary Law and the details for the application of new legislation. Additionally, the government has 90 days from 21 December 2023 to present a CIT reform proposal. In this new project, Pillar Two impacts will likely be discussed, as well as tax dividends and other items.

## Developments in tax transparency requirements

- ▶ Tax Transparency Program (CONFIA, for its Portuguese abbreviation): The program is a type of relationship between companies and tax authorities, based on cooperation, law security and transparency. The main goal of the program is establishing a dialogue between tax authorities and taxpayers, enhance the tax compliance in companies and reduce the controversy related to tax matters.



# Brazil

## Expectations for tax policy

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**Significant tax reform** is expected in 2024 but the effects will occur after 2026.

**Elections** are occurring in 2024 at the local level.

**R&D incentives** are expected to decrease.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ Discussion is beginning about changes in CIT, possibly including tax on dividends, state tax benefits taxation and changes in Interests on net equity.
- ▶ It is possible that Pillar Two will be discussed to balance the changes of the CIT and tax dividends regime and the minimum taxation in the companies. The government has 90 days from 21 December 2023 to present the proposal to Congress.
- ▶ Application of new transfer pricing rules will align with OECD rules.
- ▶ In tax reform, the government states intention to reduce tax incentives and focus on specifics and sector incentives. A reduction of the benefit of incentives is expected.

### Taxes on digital business activity

- ▶ The CIDE is a specific tax on digital business activity, no changes are currently expected.

### Taxes related to climate change or sustainability

- ▶ Tax reform created the IS that will be charged on products that impact health or the environment (e.g., alcoholic drinks and tobacco).

### Windfall taxes

- ▶ None

### VAT/GST or sales taxes

- ▶ In the first phase of tax reform already approved, the main rule indicates the replacement of the current five VAT taxes by two main taxes – IBS and CBS – and one specific tax (IS) charged by products that impact health and the environment and will have the same rules that apply throughout the territory.

### Personal taxes

- ▶ Currently dividends are excluded from taxation and the CIT reform could establish tax on them.
- ▶ The government established a new regime for taxation of the offshore funds. Previously, these funds were taxed at the end of the investment and the new regime involves periodic taxation of this revenue.

### Other

- ▶ Tax transactions and ESG approach: Brazil has been developing legislation about tax transactions over the last years. Recently, the government included ESG aspects to be evaluated in tax transaction requests. This is an important change in the legislation that represents the ESG agenda in changes to tax law.



# Brazil

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Corporate restructure
- ▶ Taxation on state benefits

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Taxation on state benefits
- ▶ New transfer pricing rules

**Tax audits in Brazil in 2024 are generally expected to increase in number and intensity.**

### Top audit issues

1. Corporate restructures
2. Transfer pricing new rules
3. Taxation on state tax benefits

### Changes in tax audit approaches or methods

- ▶ Cross-check of the information between tax authorities
- ▶ Data analytics analysis
- ▶ Teams specialized by sector

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ CONFIA

### Tax governance approach/processes developments for business taxpayers

- ▶ We expect tax authorities will continue enhancement of tax corporate governance requirements.
- ▶ Tax reviews will become more granular in data production requirements.
- ▶ Tax authorities will continue with the electronical cross-checks and using specialized teams by sector

### Digital tax administration developments

- ▶ Cross-check of the information between tax authorities
- ▶ Data analytics analysis
- ▶ Teams specialized by sector

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	34%	34%	–	Higher	Higher
PIT	27.5%	27.5%	–	Same	Same
VAT/sales	28%	28%	–	Same	Same

The 2024 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.

This information is current as of 10 January 2024.



# Bulgaria

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## EY key contacts

**Tax policy:**  
Milen Raikov

**Tax controversy:**  
Milen Raikov

## Key issues to watch in 2024

- ▶ Implementation of SAF-T in Bulgaria
- ▶ Pillar Two implementation
- ▶ CBAM
- ▶ Windfall taxes

## Key drivers of tax policy change

- ▶ Enhancing voluntary tax compliance and the collection of public liabilities is a top government priority. Actions in this regard might include changes in the reporting obligations (such as the introductions of SAF-T) as well as more focused tax audit procedures.

## Significant tax developments in 2023

- ▶ Implementation of Pillar Two
- ▶ Introduction of windfall taxes in the energy sector
- ▶ Changes in VAT legislation allowing VAT optimization for future periods and VAT refund for past periods in cases of scrapped goods
- ▶ Introduction of bad debt relief in the VAT legislation

## Significant tax developments expected in 2024

- ▶ Introduction of SAF-T

## Significant legislative activity that could include tax

- ▶ Introduction of different types of taxes and public liabilities on the energy and gas market:
  - ▶ A cap of the energy price imposed on energy producers
  - ▶ A solidarity contribution imposed on companies and PEs operating in gas, coal, crude oil and refining businesses
  - ▶ A contribution imposed on the electricity traders – extended for 2024, no changes in the mechanism

## Developments in tax transparency requirements

- ▶ Introduction of SAF-T effective as of 2025
- ▶ CESOP implementation as of 1 January 2024
- ▶ DAC7 implementation

# Bulgaria

## Expectations for tax policy

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**Significant tax reform** is expected in 2024, addressing the introduction of SAF-T, Pillar Two and CBAM.

**Elections** most probably will occur in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ Pillar Two rules entered into force as of 1 January 2024. Bulgaria has enacted a domestic top-up tax aiming to achieve an effective tax rate of 15% for constituent entities situated in Bulgaria that are part of multinational or local groups within the scope of these provisions.
- ▶ Although the domestic top-up tax regime generally follows the OECD's GloBE model rules and the EU's directive on global minimum taxation, Bulgaria has introduced certain restrictions, such as a partial substance-based income exclusion and others.
- ▶ Other changes are not currently expected.

### Taxes on digital business activity

- ▶ No significant changes are currently expected.

### Taxes related to climate change or sustainability

- ▶ The rules of the CBAM regulation entered into force on 1 October 2023, the Bulgarian administration has nominated the Executive Environment Agency (ExEA), which is part of the Bulgarian Ministry of Environment and Water (MoEW), as a competent authority that will be engaged with the compliance monitoring of the newly introduced EU rules.
- ▶ Currently the ExEA is developing the technical aspects with regard to their obligation for provision of special authorization (as part of the EU requirements) for the purposes of the proper reporting in the CBAM Transitional Registry managed by the EU Commission.
- ▶ There are currently no specific acts adopted on local levels.

### Windfall taxes

- ▶ The application of windfall taxes in the energy sector were extended to 2024.
- ▶ First introduced as a temporal measure applicable for 2023, the taxes take the form of so-called special purpose contributions, which are public liabilities. Generally, the calculation mechanism of these contributions follows the rules provided by Regulation 2022/1854.

### VAT/GST or sales taxes

- ▶ The application of some reduced VAT rates is extended for 2024.
- ▶ Bad debt relief was introduced in the VAT legislation. This includes specific rules governing reducing of the taxable base in case of full or partial nonpayment of the price of supply of goods or services as well as the requirements allowing for such reducing.
- ▶ Changes were also made in the VAT legislation allowing that when the VAT credit is deducted upon the acquisition of certain goods and then these goods are scrapped (as they are no longer usable) no correction of the utilized VAT credit is required. This allows input VAT corrected for past periods to be requested for refund or no VAT correction in such cases to be performed in the future.

### Personal taxes

- ▶ No significant changes are currently expected.

# Bulgaria

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Increase in controversy related to VAT refunds with full or partial nonpayment of the remuneration for supply of goods or services
- ▶ Bulgarian courts allowance of bad debt relief for past periods (when no explicit local legislation was in place)
- ▶ Transfer pricing tax audits
- ▶ Transactions with foreign entities in the context of WHT, mostly related to the interpretation of the beneficial owner concept

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Transfer pricing tax audits
- ▶ Correction of deducted VAT on scrapped goods

**Tax audits in Bulgaria in 2024 are generally expected to stay** the same in number and/or intensity.

### Top audit issues

1. Bad debt relief (VAT)
2. Transfer pricing
3. Intercompany charges and transactions with foreign entities

### Changes in tax audit approaches or methods

- ▶ More complex tax audits are expected, for example, audits that focus on requalification of transactions for tax purposes or challenges of the economical logic behind certain actions of the taxpayers.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No significant changes are currently expected.

### Digital tax administration developments

- ▶ Introduction of SAF-T

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	10%	15%	–	Same	Higher
PIT	10%	10%	–	Same	Same
VAT/sales	20%	20%	–	Same	Same

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# Canada

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## Key issues to watch in 2024

- ▶ Pillar Two implementation (through the proposed Global Minimum Tax Act)
- ▶ Implementation of a series of five clean economy investment tax credits (ITCs)

## Key drivers of tax policy change

- ▶ Cost of living, inflation and rising debt servicing costs
- ▶ US November election and possible regime change
- ▶ Status of the federal minority government
- ▶ Implementation of the OECD/G20 BEPS 2.0 globally

## Significant tax developments in 2023

- ▶ Introduction of additional clean economy ITCs
- ▶ Consultation on Canada's transfer pricing rules
- ▶ Modernization of the general anti-avoidance rule (GAAR)
- ▶ Enactment of enhanced mandatory disclosure rules
- ▶ Enactment of technical amendments to the foreign affiliate rules
- ▶ Revised excessive interest and financing expenses limitation (EIFEL) rules
- ▶ Introduction of a 2% tax on repurchases of equity
- ▶ New position paper on safe income calculations

## Significant tax developments expected in 2024

- ▶ Scientific Research and Experimental Development (SR&ED) review consultations
- ▶ Details on the clean electricity ITC
- ▶ Revised Global Minimum Tax Act proposals (e.g., to include undertaxed profit rule component)
- ▶ Revised transfer pricing rules
- ▶ Second package of hybrid mismatch arrangement rules
- ▶ Possible matching or reciprocal treatment with other countries' domestic content requirements for certain clean economy ITCs

## EY key contacts

**Tax policy:**  
Fred O'Riordan, Yves Plante

**Tax controversy:**  
Paul Mulvihill

- ▶ Increased tax disclosures (through enacted revised mandatory disclosure rules)
- ▶ Digital services tax coming-into-effect date (timing to be determined by the Cabinet and still subject to considerable uncertainty)

## Significant legislative activity that could include tax

- ▶ Expected adoption of proposed Bill C-59, which includes Canada's DST, revised EIFEL rules, the first package of hybrid mismatch arrangement rules, the tax on repurchases of equity, the denial of the intercorporate dividend deduction for certain dividends received by financial institutions, GAAR modernization, and two out of five clean economy ITCs (i.e., the carbon capture, utilization, and storage ITC; and the clean technology ITC)
- ▶ Expected adoption of draft legislative proposals from 4 August 2023, technical amendments regarding foreign affiliates
- ▶ Expected adoption of draft legislative proposals from 20 December 2023, two additional clean economy ITCs (i.e., the clean technology manufacturing ITC and the clean hydrogen ITC) and an international shipping exemption
- ▶ Expected adoption of pending draft legislative proposals from 9 August 2022 regarding tax-deferred advantage for investment income earned by Canadian-controlled private corporations (CCPCs) (and substantive CCPCs) through controlled foreign affiliates

## Developments in tax transparency requirements

- ▶ Enacted expansion of the mandatory disclosure rules regarding reportable transactions, and requirement to disclose designated notifiable transactions and reportable uncertain tax treatments

# Canada

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024 (although it has been recommended).

**A federal general election** is not likely in 2024.

Although the governing Liberal Party has a minority of seats and so could be defeated; the New Democratic Party is supporting it under the terms of a Supply and Confidence Agreement. Unless these terms are no longer met, the next (mandated, fixed-date) general election will not be until 20 October 2025.

At the provincial level, elections will occur in October 2024 in British Columbia, New Brunswick and Saskatchewan.

**Federal R&D incentives** are expected to stay the same until results from the consultations are known.

**Other business incentives (other than clean economy ITCs)** are expected to stay the same, subject to any new announcements in the federal or provincial budgets.

### Corporate taxes

- ▶ See previous page.

### Taxes on digital business activity

- ▶ As previously mentioned, Bill C-59 includes a domestic DST (that is applicable in respect of revenue earned as of 1 January 2022), but no effective date has been announced (it is to be set by the governor-in-council, but it cannot be earlier than 1 January 2024).

### Taxes related to climate change or sustainability

- ▶ As already announced, the fuel charge rates have been increased to \$65/ton of carbon dioxide equivalent (CO<sub>2</sub>e) in 2023 and will reach \$170/ton by 2030. However, a regulatory temporary relief was announced in the fall of 2023 relating fuel oil for use exclusively in eligible heating activities – it remains to be seen if such relief will open the door to further changes.
- ▶ The enacted phase-out of the temporary 50% reduction in corporate income tax rate for zero-emission technology manufacturers is proposed in Bill C-59 to be extended by three years (i.e., to 2034).
- ▶ See previous page for the series of clean economy ITCs put forward by the government.

### Windfall taxes

- ▶ No significant changes are currently expected.

### VAT/GST or sales taxes

- ▶ No significant changes are currently expected.

### Personal taxes

- ▶ Various amendments (e.g., increase in the flat rate from 15% to 20.5%) have been proposed in the 2023 federal budget to the alternative minimum tax (AMT) regime. Draft legislative proposals to that effect were released on 4 August 2023. Revised amendments are expected to be released in 2024.
- ▶ Intergenerational business transfers have been strengthened as announced in the 2023 federal budget and included in Bill C-59.

# Canada

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Introduction of mandatory disclosure rules in the Income Tax Act, effective after 21 June 2023
- ▶ Department of Finance consultation on reform of transfer pricing rules

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Continued focus on transfer pricing
- ▶ Increased enforcement of withholding regulations on services payments and nonresident employee remuneration
- ▶ Continued focus on underground economy countermeasures

**Tax audits in Canada in 2024 are generally expected to increase in number and/or intensity.**

### Top audit issues

1. Transfer pricing
2. Interest deductibility
3. Government incentives

### Changes in tax audit approaches or methods

- ▶ Increased intensity of withholding tax enforcement
- ▶ Review of information received under new mandatory disclosure rules expected to directly result in audit enquiries

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ Increased willingness of the Canadian Competent Authority to resolve cases without full relief of double taxation, especially where arbitration is yet to be implemented
- ▶ Significant backlogs in Canada Revenue Agency (CRA) appeals' resolution of taxpayers' filed objections

### Tax governance approach/processes developments for business taxpayers

- ▶ Introduction of enhanced mandatory disclosure rules effective 21 June 2023

### Digital tax administration developments

- ▶ CRA continues its digital transformation initiative first announced in 2020

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT <sup>1</sup>	31%	31% <sup>1</sup>	–	Same	Same
PIT <sup>2</sup>	54.8%	54.8% <sup>2</sup>	–	Same	Same
VAT/sales <sup>3</sup>	15%	15% <sup>3</sup>	–	Same	Same

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<sup>1</sup> Combined federal/provincial corporate tax rates vary by province and territory. The highest rate in 2024 is in Prince Edward Island and the lowest rate (23%) is in Alberta.

<sup>2</sup> Combined federal/provincial personal income tax rates vary by province and territory. The highest rate in 2024 is in Newfoundland and Labrador and the lowest rate (44.5%) is in Nunavut Territory.

<sup>3</sup> Combined rates vary by province and territory, ranging from a low of 5% in Alberta (where only the federal rate is applied) to a high of 15% in each of the four Maritime provinces (5% plus 10%) in 2024.





# Chile

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## EY key contacts

**Tax policy:**  
Victor Fenner

**Tax controversy:**  
Janice Stein

## Key issues to watch in 2024

- ▶ New tax reform bill with focus on tax evasion and avoidance, investment incentives and public expenditure efficiency measures
- ▶ Pillar Two rules expected in tax reform bill
- ▶ Chile – US double taxation agreement to enter into effect
- ▶ Coop-compliance plan to be implemented by local tax authority

## Key drivers of tax policy change

- ▶ Chile has shown the lowest growth figures in the region after the COVID-19 era, while the government requires additional revenue to fulfill its program and quell social discontent.
- ▶ As a result of the above, key tax policy measures are to be greatly focused on investment and SMEs' incentives, tax evasion or avoidance and economic informality.
- ▶ A series of corruption scandals in 2023 (in both the private and public sector, including the Chilean tax authority and the financial markets regulator) has sparked discussion about compliance in general, as well as audit and control capabilities in institutions and companies alike.

## Significant tax developments expected in 2024

- ▶ The new tax reform bill is expected to be presented to Congress and likely split into two separate bills – one bill referring to measures against tax evasion and avoidance and state reform and the other with income tax changes and investment incentives, along with Pillar Two rules. There is great uncertainty on whether both bills will be passed.
- ▶ The Chile-US Treaty became effective as of 1 January 2024.
- ▶ The Chilean tax authority is expected to include cooperative compliance as part of its 2024 strategy.
- ▶ New tax transparency measures are expected.

## Significant legislative activity that could include tax

- ▶ New tax reform bill(s)

## Developments in tax transparency requirements

- ▶ Increased reporting obligations for nonprofits
- ▶ Tax reform bill also to include:
  - ▶ Final beneficiaries registry
  - ▶ Bank secrecy exceptions
  - ▶ Cooperative compliance

## Significant tax developments in 2023

- ▶ Approval in both the US and Chilean Congresses of the DTT between both countries.
- ▶ A new tax reform bill was announced (after the original 2022 bill was rejected by Congress in March), including state expenditures and transparency reform, investment and SMEs' incentives, R&D incentives, a corporate tax rate decrease (from 27% to 25%) and measures against tax evasion and avoidance, among many others.
- ▶ A new mining royalty law entered into effect.
- ▶ The stock exchange capital gains exemption was eliminated and replaced by a 10% specific tax.
- ▶ The government announced that Chile would introduce Pillar Two rules.

# Chile

## Expectations for tax policy

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**Significant tax reform** is expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to increase (if the tax reform bill is passed).

**Other business incentives** are expected to increase.

### Corporate taxes

- ▶ The tax reform bill would include multiple CIT changes, including:
  - ▶ The corporate tax rate would decrease from current 27% to 25% (albeit with the possibility of a 1% additional surcharge, unless certain productivity expenditures are made, which could be credited against said 1%).
  - ▶ Certain tax exemptions could be eliminated, though which have not been specified.
  - ▶ The tax authority is expected to be granted powers to centralize audits on the entire corporate tree of large taxpayers, irrespective of the location of each entity within the country.
  - ▶ Enhanced transfer pricing adjustments regulation is expected.
  - ▶ A “Tax Credit Fund” for companies could be introduced, whereby investment projects with multiplier effect may apply to be granted up to USD20 million in tax credit.
  - ▶ New transitory “instantaneous” depreciation rules are expected, whereby new investment projects may depreciate instantly 50% of fixed assets’ acquisition value.

### Taxes on digital business activity

- ▶ No changes are currently expected.

### Taxes related to climate change or sustainability

- ▶ Even though the government did announce, in 2023, that green and corrective taxes would be introduced, the latest announcements on the new bill did not include them.

### Windfall taxes

- ▶ No changes are currently expected.

### VAT/GST or sales taxes

- ▶ A new anti-abuse rule is expected in real estate deals for VAT purposes.

### Personal taxes

- ▶ The new bill will likely include a tax raise for high-earning individuals.

### Other

- ▶ General anti-abuse rules are expected to be updated as to allow for administrative application.
- ▶ Several anti-avoidance measures are expected in the new bill.

# Chile

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ In a major initiative against tax fraud, Chilean authorities have arrested 55 people, in what is being called the country's largest ever tax evasion case.
- ▶ The Chilean IRS published the report on tax noncompliance, *Estimation of the Compliance Gap in VAT and Corporate Income Tax*. Among the report's findings is that the noncompliance gap from companies reached 6.5% of GDP in the period from 2018 to 2020. In addition, VAT tax noncompliance reached 18.4%, about 1.8% of GDP. In corporate tax, tax noncompliance reached 51.4%, making the average gap reach 4.7% of GDP.
- ▶ More cases of application of the GAAR, which came into force in 2015, are beginning to be known.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Cases are expected to increase as enforcement plans are to collect more taxes.

**Tax audits in Chile in 2024 are generally expected to increase in number and/or intensity.**

### Top audit issues

1. Transfer pricing
2. Intercompany and intragroup services
3. VAT

### Changes in tax audit approaches or methods

- ▶ Segments such as corporate groups, high net worth individuals, and multinationals and audits through cross-checking of information received greater focus.
- ▶ In the new tax reform bill, the reduction of informality will be sought, affecting platforms for the sale of foreign goods to the simplified VAT rules implemented for digital services.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ The Public Prosecutor's Office and the IRS signed a collaboration agreement to strengthen the investigation and prosecution of tax crimes, organized crime, corruption and money laundering.
- ▶ In the new tax reform bill, a modification on the lifting of banking secrecy is expected, establishing a unified procedure for business groups.

### Tax governance approach/processes developments for business taxpayers

- ▶ Companies are expected to update their crime prevention model, adapting them to the incorporation of new economic crimes, especially tax crimes.
- ▶ The new tax reform bill proposes to establish an electronic domicile as the general notification procedure, in line with the implementation of the digital transformation law.

### Digital tax administration developments

- ▶ The Digital Government Division will be transferred to the Ministry of Finance, promoting the development of an integrated platform of digital public services.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	27%	27%	–	Same	Same
PIT	40%	40%	–	Same	Same
VAT/sales	19%	19%	–	Same	Same

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# China Mainland

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## EY key contacts

**Tax policy:**  
Shirley Shen

**Tax controversy:**  
William Zhang

## Key issues to watch in 2024

- ▶ Pillar Two implementation
- ▶ VAT Law
- ▶ Customs Duty Law
- ▶ Fully Digitalized E-invoice and Golden Tax Phase IV System implementation

## Key drivers of tax policy change

- ▶ 2023 China Government Work Report
  - ▶ To refine preferential tax policies, continue with the current measures (such as tax cuts, tax refunds and tax deferrals), and optimize them where necessary
- ▶ Under the work plan for legislation of the National People's Congress of People's Republic of China, 2023
  - ▶ VAT Law and Customs Duty Law entered the legislative process in 2023
- ▶ Belt and Road Initiative (BRI) cooperation and collaboration, the 10th anniversary
  - ▶ To further enhance the cooperation mechanism of taxation in BRI, actively participate in the formulation of international tax rules, continuously expand and improve China's tax treaty network, e.g., entered into new tax treaty with Senegal and Cameroon
- ▶ China National Fiscal Work Conference, 2023
  - ▶ To actively and cautiously plan a new round of fiscal and taxation system reform to improve the modern budget system, optimize the tax structure and perfect the fiscal transfer payment system
- ▶ China National Tax Work Conference, 2023
  - ▶ To accelerate the establishment for a new system of tax services and provide refined, intelligent and tailor-made services
  - ▶ To transition from "Fapiao-based tax administration" to "data-based tax administration"
- ▶ Special Additional Deductions raise the deduction standard on care expenses for children under three years old and children's education from RMB1,000 to RMB2,000 per month and raise the deduction standard on expenses for supporting the elderly from RMB2,000 to RMB3,000 per month respectively, effective from 1 January 2023.

## Significant tax developments expected in 2024

- ▶ To improve the PIT system, by expanding the proportion of the middle-income group, strengthening the taxation adjustment and supervision of high-income individuals
- ▶ To improve the CIT system by supporting scientific and technological innovation as well as key industrial chains, optimizing the tax rules to cope with Pillar Two
- ▶ Continue to expand the treaty network

## Significant legislative activity that could include tax

- ▶ According to Legislative Plan of the 14th National People's Congress' Standing Committee, several tax laws are listed as tier one, i.e., being deliberated and passed in 2024 or later, which include the:
  - ▶ VAT Law
  - ▶ Customs Duty Law
  - ▶ Consumption Tax Law

## Developments in tax transparency requirements

- ▶ No new specific transparency requirements occurred in 2023 or are expected in 2024.

## Significant tax developments in 2023

- ▶ R&D super deduction in China became permanent for all eligible companies from 1 January 2023.

# China Mainland

## Expectations for tax policy

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**Significant tax reform** is expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** may increase to attract more foreign direct investments and promote cross-border e-commerce.

**Regional preferential tax policies:**

- ▶ Hainan Free Trade Port
- ▶ Western Region
- ▶ Nansha Area of Guangdong Free Trade Zone (FTZ)
- ▶ Lin-gang Special Area of the China (Shanghai) FTZ
- ▶ Guangdong-Macau Comprehensive Collaboration Zone in Hengqin (Hengqin Zone)
- ▶ Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone

### Corporate taxes

- ▶ Corporate tax rates remain the same.
- ▶ There is a 120% super deduction for R&D expenses of integrated-circuit, machine-tool firms.
- ▶ Small and micro enterprises with annual taxable income not exceeding RMB1 million will have their taxable income reduced by 25% and be subject to CIT at 20% from 1 January 2023 to 31 December 2024.

### Taxes on digital business activity

- ▶ No specific DSTs are applied in China.

### Taxes related to climate change or sustainability

- ▶ There are environment protection tax, resource tax, cultivated land occupation tax and other tax policies for environment protection in China.
- ▶ "Guidelines for Preferential Tax Policies to Support Green Development" issued in 2022, is still applicable to look up summarized prevailing preferential tax policies.

### Windfall taxes

- ▶ China does not currently impose windfall taxes.

### VAT/GST or sales taxes

- ▶ New tax incentive: Advanced manufacturing enterprises, machine-tool firms and integrated-circuit firms are eligible for VAT super input tax credits at 5%, 15% and 15%, respectively, during the period from 1 January 2023 to 31 December 2027.
- ▶ Many tax incentives have been extended to 2027:
  - ▶ Small-scale taxpayers whose monthly sales amount is less than RMB100,000 yuan (inclusive) are exempted from VAT.
  - ▶ For the taxable sales revenue of small-scale taxpayers to which a 3% levy rate applies, VAT will be levied at a reduced levy rate of 1%.
  - ▶ For pre-payment VAT items to which the pre-levy rate of 3% applies, a reduced pre-levy rate of 1% will apply.
- ▶ Further clarification is expected on implementation details for consumption tax for certain refined oil products, starting from 6 June 2023

### Personal taxes

- ▶ Multiple PIT incentives have been extended:
  - ▶ Certain qualified nontaxable benefits applicable to expatriate's foreign employees will be extended until the end of 2027.
  - ▶ The preferential tax treatment for an annual one-off bonus will be extended until the end of 2027.
  - ▶ PIT favorable treatment for stock option income from listed companies was extended until the end of 2027.

### Other

- ▶ Customs duty
  - ▶ A provisional import tax rate lower than the most-favored nation (MFN) tariff rate applies to 1,020 items from 1 January 2023.
  - ▶ The MFN tax rate was reduced on 62 types of information technology products on 1 July 2023.
  - ▶ China's overall tariff level will decrease from 7.4% to 7.3% after this adjustment.
- ▶ Stamp duty
  - ▶ Stamp duty rate for stock trading was reduced from 0.1% to 0.05%, starting from 28 August 2023.
- ▶ Vehicle Purchase Tax (VPT)
  - ▶ VPT exemptions for new energy vehicles (NEVs) purchased between 1 January 2024 and 31 December 2025, and the exemption amount for each new energy passenger car shall not exceed RMB30,000.
  - ▶ The VPT levied on NEVs for purchased between 1 January 2026 to 31 December 2027 is halved, of which the tax reduction amount for each new energy passenger car shall not exceed RMB15,000.

# China Mainland

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Trial implementation of the Golden Tax Phase IV System
- ▶ Expansion of the pilot scope for electronic invoices to nationwide
- ▶ Draft amendments to the Tax Administration Law submitted for deliberation to the Standing Committee of the National People's Congress

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Continuous optimization of the Golden Tax Phase IV System and electronic invoices will effectively enhance the tax authorities' regulatory capabilities.
- ▶ Policies related to structural cutting of taxes and fees will be implemented.

**Tax audits in China in 2024 are generally expected to increase in number and/or intensity.**

### Top audit issues

1. "Tax planning" in bad faith, regarding related-party transactions
2. Issuance (and acceptance) of false invoices
3. Illegal enjoyment of preferable tax policies

### Changes in tax audit approaches or methods

- ▶ A new type of tax administration system has been established based on "credit + risk" and with "double randomness and one openness" as the basic means.
- ▶ The tax risk identification function of the Golden Tax Phase IV System is utilized to effectively enhance the efficiency of tax audits.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	25%	25%	–	Same	Same
PIT	45%	45%	–	Same	Same
VAT/sales	13%	13%	–	Same	Same

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ Currently, China's tax governance policy is advancing from single tax department audits to multi-departmental joint audits. The State Council Information Office held a regular State Council policy meeting on 16 November 2022, regarding the implementation of a series of tax support policies.
- ▶ The meeting stated that the mechanism for joint crackdown on tax evasion by the tax, police, procuratorate, and central bank, among the six departments, has been increasingly improved and has achieved significant results. The data sharing and joint combat cooperation mechanism of the six departments will be further strengthened.
- ▶ Along with the implementation of the Golden Tax Phase IV System, the sharing of big data allows multiple departments to cooperate with each other. It is considered a major development direction for tax governance in China.

### Digital tax administration developments

- ▶ The launch of the Golden Tax Phase IV System and the trial implementation of electronic invoices are digital tax governance tools being implemented in China. Relying on the construction of the Golden Tax Phase IV System, the tax authorities will create more in-depth monitoring tools and powerful early warning systems, imposing more rigorous requirements for enterprises' tax compliance management.

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# Colombia

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## EY key contacts

**Tax policy:**  
[Catalina Sandoval Tristancho](#),  
[Margarita Salas](#)

**Tax controversy:**  
[Margarita Salas](#), [Ana Maria Barbosa](#)

## Key issues to watch in 2024

- ▶ Tax reform with eventual, gradual reduction of the CIT rate
- ▶ Colombia’s leadership in CEPAL (Comisión Económica para América Latina y el Caribe, in Spanish) for environmental taxes and the Fiscal Cooperation Platform for Latin America
- ▶ Entry into force of the minimum income tax rate of 15%
- ▶ Smart Custom Duties Policy to foster domestic industry
- ▶ Regulatory developments on land issues
- ▶ “Healthy taxes” implementation and possible additional measures
- ▶ New mayors and governors’ governmental period and implementation of their proposals regarding the territorial tax regime

## Key drivers of tax policy change

- ▶ Tax pressure due to constitutional court decision on the deductibility of royalties
  - ▶ The government needs to recompose the national tax revenue lost for said decision.
- ▶ Need to improve territorial finances
- ▶ Evident need in Latin America to make the region more competitive from a tax perspective
- ▶ Implementation of new tax codes by capital municipalities in which property and turnover tax rates may be increased
- ▶ Government’s focus on reducing the budget deficit and subsidies in an inflationary environment
  - ▶ A key focus of government has been to make sure multinationals pay their “fair share of tax” and are transparent about their tax paid.
- ▶ Court rulings regarding unconstitutionality of tax reform
- ▶ Audits approach based on information coming from Invoices and information provided by third parties
- ▶ intensification of taxation of extractive industries at both national and local levels

## Significant tax developments expected in 2024

- ▶ National tax reform with an increase in the taxation of individuals
- ▶ Tax regulation on environmental issues

## Significant legislative activity that could include tax

- ▶ National tax reform announced
- ▶ Territorial tax reform under discussion
- ▶ Adoption of the arbitration for tax purposes

## Developments in tax transparency requirements

- ▶ Increased reporting obligations

## Significant tax developments in 2023

- ▶ Implementation of tax reform approved in 2022 by the national government
- ▶ Entry into force of new taxes (single use plastic tax, healthy taxes, significant economic presence, minimum tax rate, among others)

# Colombia

## Expectations for tax policy

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**Significant tax reform** is expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same in 2024; changes to be applied from 2025 could be expected (if tax reform is approved).

### Corporate taxes

- ▶ The standard CIT rate is to remain at 35%.
- ▶ The minimum rate of taxation of 15% for income tax purposes will enter into effect.
- ▶ The general tax rate of 35% for free trade zones regarding income different to exports will enter into force. According to the Constitutional Court ruling, this rule is limited to new free trade zones and those with expiring qualification. Changes to be applied since 2025 could be expected (if tax reform is approved).

### Taxes on digital business activity

- ▶ Entry into force of the Significant Economic Presence (SEP), under which nonresidents who sell goods or provide certain services to customers or users located in Colombia, may trigger a SEP and, therefore, be obliged to pay taxes in Colombia either via: (i) a 10% withholding tax or (ii) by filing an income tax return and apply a 3% rate on the gross income obtained in the country.

### Taxes related to climate change or sustainability

- ▶ New tax regulation on environmental issues is expected.

### Windfall taxes

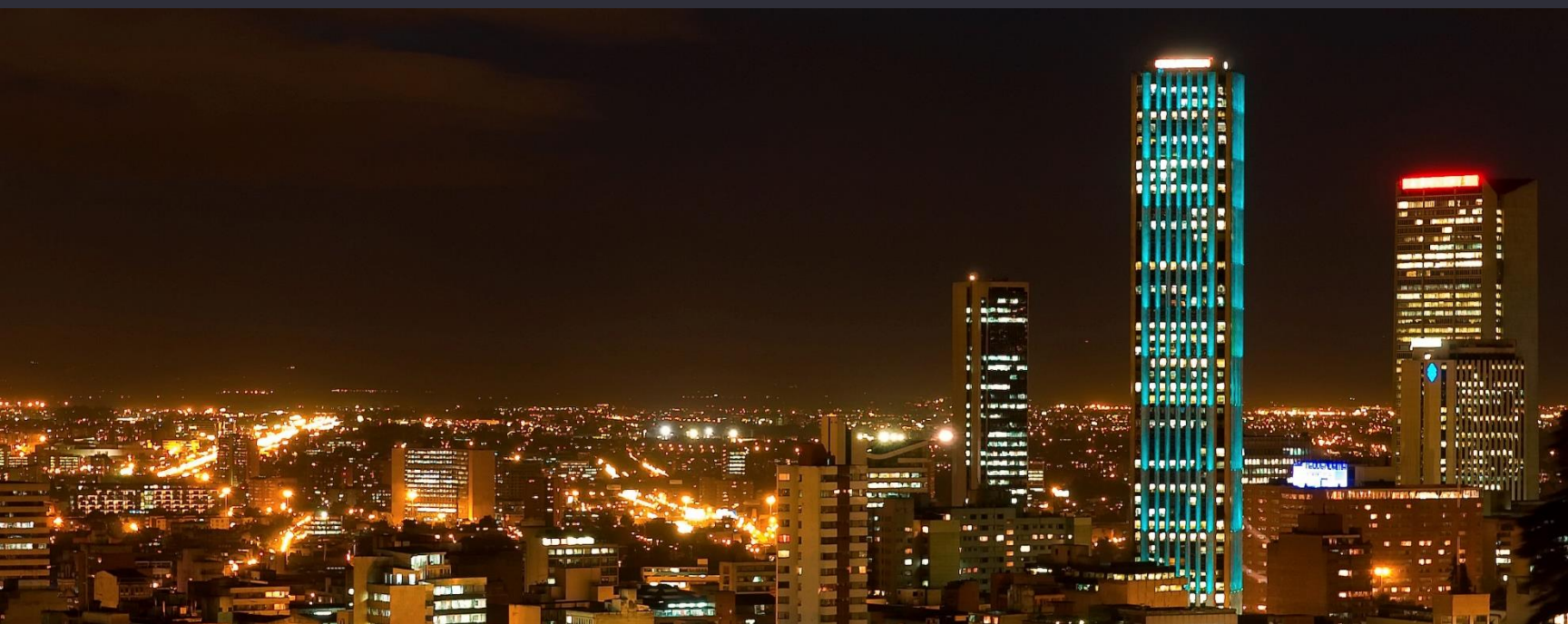
- ▶ The standard windfall tax rate remains at 15%

### VAT/GST or sales taxes

- ▶ VAT/GST are expected to stay the same.

### Personal taxes

- ▶ Modification of the income tax for Individuals may be expected.





# Colombia

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Electronic invoice audits; penalties on omissions broadly publicized
- ▶ Lawsuits seeking unconstitutionality of many tax reform sections
- ▶ More audits based in information coming from invoices and information provided by third parties

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Tax audits are expected to increase due to fiscal pressure and expenditures plans requiring the collection of more taxes.
- ▶ There is discussion of and possible approval of arbitration for tax discussions.

**Tax audits in Colombia in 2024 are generally expected to increase in number and intensity.**

### Top audit issues

1. Transfer pricing
2. New healthy and environmental taxes
3. Electronic invoice
4. Payments abroad

### Changes in tax audit approaches or methods

- ▶ The Colombian tax authority has increased the number of auditors, and thus, a broader audit process is expected.
- ▶ Complex tax audits are expected mainly focused on large taxpayers.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ Staff increase in the tax authority and increase of audit programs may be expected.
- ▶ Tax authorities are studying new APAs.
- ▶ There is more interest from tax authorities in MAPs.
- ▶ Approval of tax arbitration is possible.

### Tax governance approach/processes developments for business taxpayers

- ▶ Improvements in e-invoice

### Digital tax administration developments

- ▶ Tax for Significant Economic Presence entry into force on 1 January 2024
- ▶ Use of third-party data and data provided by e-invoices to support audits
- ▶ More challenges of refunds

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	35%	35%	–	Same	Same
PIT	39%	39%	–	Same	Same
VAT/sales	19%	19%	–	Same	Same

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# Costa Rica

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## Key issues to watch in 2024

- ▶ Implementation of Pillar Two
- ▶ Significant income tax law reform

## Key drivers of tax policy change

- ▶ The implementation of Pillar Two, its impact on the Free Trade Zone Regime, and the redesign of tax and nontax incentives to maintain the country's competitiveness and attraction of foreign direct investment
- ▶ Pressure from international organizations, such as the OECD, Global Forum, IMF or EU, to adopt international tax standards or changes to domestic legislation to fulfill commitments made
- ▶ Discussions in Congress about a comprehensive reform to the income tax law
- ▶ Transformation toward a more cooperative approach in the tax authority's relations with large taxpayers

## Significant tax developments in 2023

- ▶ In February 2023, Costa Rica was added to Annex I (prohibited list) of the EU's list of noncooperative jurisdictions in tax matters after failing its commitment to abolish or amend the harmful aspects of the foreign-source income exemption regime.
- ▶ In October 2023, Costa Rica made the amendments necessary to be removed from the list. The law clarifies the scope of the territoriality principle under the income tax law and introduces a new foreign-source passive income regime.
- ▶ On 17 October 2023, Costa Rica was delisted from the EU's Annex I but included in Annex II, pending the implementation of the Global Forum recommendations regarding the automatic exchange of information in due time.

## EY key contacts

### Tax policy:

Rafael Sayagués, Luis E. Ocando,  
Daniel Quesada

### Tax controversy:

Rafael Sayagués, Randall Oquendo

- ▶ Improvement in tax collection and greater control on taxpayers

## Significant tax developments expected in 2024

- ▶ Tax developments will depend on whether or not a significant tax reform to the income tax law is approved, which includes transitioning from a schedular income tax system to a global income tax system.
- ▶ Increased activity is expected around the country's position on Pillar Two and its local implementation.

## Significant legislative activity that could include tax

- ▶ Pillar Two implementation
- ▶ Significant income tax reform

## Developments in tax transparency requirements

- ▶ Expected implementation of the Global Forum recommendations regarding the automatic exchange of information

# Costa Rica

## Expectations for tax policy

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**Significant tax reform** may occur in 2024. A bill was already submitted to the Congress by the Executive Branch. It's likely that the Executive Branch will send a new bill or incorporate modifications to the already filed bill before the Congress.

**Elections:** Presidential elections are not occurring in 2024. Local government elections are occurring in 2024, but they do not have a significant impact on tax matters.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ As the peak of revenue collection following the implementation of the 2019 tax reform is reached, the government is now looking for opportunities to thoroughly discuss comprehensive reforms to the tax system and continue improving tax collection.
- ▶ Changes are anticipated if a significant tax reform is approved that would modify the income tax law entirely, transitioning from a schedular income tax system to a global income tax system.

### Taxes on digital business activity

- ▶ There is a VAT withholding tax applicable on intangible goods and cross-border digital services when they are purchased through credit or debit cards issued by Costa Rican financial entities.

### Taxes related to climate change or sustainability

- ▶ There are no taxes nor initiatives strictly related to climate change or sustainability. However, Costa Rica has always been a country committed to both issues, so it is likely that initiatives in that direction may be proposed in the future.

### Windfall taxes

- ▶ Costa Rica does not currently impose any windfall taxes.

### VAT/GST or sales taxes

- ▶ No significant changes are expected. However, there is strong political pressure for periodic reviews of tax exemptions, including VAT exemptions, to determine their validity or the need for modification or elimination.

### Personal taxes

- ▶ Changes are anticipated if a significant tax reform is approved that would modify the income tax law entirely, transitioning from a schedular income tax system to a global income tax system.



# Costa Rica

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ There was a slowdown in tax audits and cases filed before the Administrative Tax Court, as a consequence of the tax administration conducting fewer tax audits. However, the ones carried out were more extensive and intensive.
- ▶ During 2023, the tax administration continued to focus on topics such as transfer pricing, intercompany transactions, cross-border transactions, withholding taxes and deductible expenses.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ The tax administration will continue to conduct intensive audits to improve tax collection.
- ▶ Control actions can be expected to focus on specific taxpayer groups, such as large taxpayers who have reported losses or zero profits on their corporate income tax returns.

**Tax audits in Costa Rica in 2024 are generally expected to** stay the same in number and intensity.

### Top audit issues

1. Transfer pricing
2. Deductible expenses
3. CIT withholding taxes

### Changes in tax audit approaches or methods

- ▶ In practice we have noticed a decrease in the number of tax audits. However, the tax administration maintains that despite this, more intensive audits are being carried out, which has helped to improve tax collection. To some extent, this could also be related to the new cooperative compliance approach used by the tax administration.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ Although the tax administration has adopted a more cooperative approach toward large taxpayers, there are currently no developments in tax governance approach or processes. However, as the tax administration continues to deepen its commitment toward a cooperative compliance approach, it is expected that tax governance programs will be implemented.

### Digital tax administration developments

- ▶ The tax administration already has many process and services digitalized. Additionally, it is in the process of modernizing its IT systems, which will allow for a better management and greater control over taxpayers. This process is underway, so progress and results will be known once is completed.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	30%	30%	–	Same	Same
PIT	25%	25%	–	Same	Same
VAT/sales	13%	13%	–	Same	Same

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# Croatia

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## EY key contacts

### Tax policy:

Maša Šarić, Tamara Korkutović

### Tax controversy:

Maša Šarić, Dora Bračun Leko

## Key issues to watch in 2024

- ▶ Pillar Two
- ▶ Further harmonization with the EU VAT Directive
- ▶ Further adjustments due to introduction of Euro as official currency in Croatia
- ▶ Elimination of city surtax

## Key drivers of tax policy change

- ▶ More fiscal autonomy for local governments
- ▶ International activities and OECD/EU influence
- ▶ Harmonization and full implementation of EU regulations

## Significant legislative activity that could include tax

- ▶ Changes in the Personal Income Tax Act and Social Security Contributions Act
- ▶ Changes in the VAT Act (i.e., further harmonization with the EU VAT Directive)
- ▶ Changes in the Act on Local Taxes (e.g., elimination of the surtax and introduction of tax on holiday homes)

## Significant tax developments in 2023

- ▶ In 2023, the Republic of Croatia became the 20th member of the Eurozone. Croatia adopted the Euro on 1 January 2023.
- ▶ Various tax acts were revised regarding implementation of the Euro (CIT, PIT, VAT).
- ▶ Introduction of the Additional Corporate Income Tax (extra profit tax) as a one-time tax applicable for results in year 2022.
- ▶ There is continuous harmonization with the EU legislation to counter tax avoidance practices.

## Developments in tax transparency requirements

- ▶ Public country-by-country reporting is required as of 1 January 2024.
- ▶ The Act on Administrative Cooperation in the Field of Taxation has been amended implementing the following:
  - ▶ Implementation of automatic exchange of information regarding the arrangements for avoiding the common reporting standard and nontransparent offshore structures
  - ▶ Implementation of DAC7 provisions
  - ▶ Implementation of CESOP

## Significant tax developments expected in 2024

- ▶ Implementation of Pillar Two
- ▶ Changes in payroll tax calculations due to the elimination of city surtax, increase of the personal allowance amount, changes in the calculation of social security contribution amounts and changes in various nontaxable amounts

# Croatia

## Expectations for tax policy

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**Significant tax reform** is expected in 2024.

**Elections** for President and Parliament are occurring in 2024. Parliament elections will occur between the end of August and mid-September; however, the final date is still not confirmed. The first round of presidential elections will take place by the end of December 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ Introduction of a fixed date for the payment of corporate income tax
- ▶ Termination of withholding tax on tax and business consulting and market research services
- ▶ Allows for application of the withholding tax exemption on interest and royalties between related companies of different EU Member States, even before the end of the 24-month period of holding shares, with an appropriate guarantee
- ▶ Possible extension of application of withholding tax exemptions on interest, royalties, dividends and profit shares, under certain conditions, to transactions with companies that are residents of the EEA (Norway, Iceland and Liechtenstein)
- ▶ Withholding tax rate increase from 20% to 25% when paying compensations to residents of noncooperative jurisdictions according to the EU list
- ▶ Increase of the nontaxable amount of donations

### Taxes on digital business activity

- ▶ No developments are currently expected.

### Taxes related to climate change or sustainability

- ▶ The use of renewable energy sources is stimulated by the abolition of VAT for supplies and installation of solar panels.

### VAT/GST or sales taxes

- ▶ There is the possibility of output VAT adjustments in relation to bad debts.
- ▶ To prevent VAT fraud, especially from nonresidents operating in other Member States, payment service providers are required to collect detailed information on cross-border payments.

### Personal taxes

- ▶ Increase of the personal allowance
- ▶ Determination of personal income tax rates by local self-government units
- ▶ Termination of the city surtax
- ▶ Increase of tax rates applied on final personal income
- ▶ Tax treatment of tips
- ▶ Increase in nontaxable amount of donations
- ▶ Equalizing the tax treatment of income from capital gains arising from the allocation and option purchase of business shares with that of allocation or option purchase of shares

# Croatia

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Republic of Croatia became the 20th member of the Eurozone and adopted the Euro as its official currency.
- ▶ Various tax acts were changed with regard to the implementation of Euro (CIT Act, PIT Act, VAT Act, etc.)
- ▶ Introduction of the additional CIT (extra profit tax) as a one-time tax applicable for 2022.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Implementation of Pillar Two
- ▶ Various changes to tax acts

**Tax audits in Croatia in 2024 are generally expected to stay the same in number and/or intensity.**

### Top audit issues

1. Transfer pricing and deductibility of costs
2. Deemed income based on an assessment of sufficient profitability that is not based on TP but rather tax authority's evaluation of taxpayers' business models
3. VAT carousel frauds

### Changes in tax audit approaches or methods

- ▶ There were no changes in tax audit approach or methods.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ Business facilitation through introduction of new tax online services

### Digital tax administration developments

- ▶ The tax authorities offer services online to both legal and natural persons through the online portal – ePorezna. Many services are already available on ePorezna, which taxpayers can use without going to the tax administration.
- ▶ The Ministry of Finance developed a mobile application (mPorezna) that allows taxable persons to have access to their data, communicate with tax authorities, submit reports and get information.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	18%	18%	–	Same	Same
PIT	30%	35.4%	+18%	Same	Higher
VAT/sales	25%	25%	–	Same	Same

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# Cyprus

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## EY key contacts

**Tax policy:**  
Philippos Raptopoulos

**Tax controversy:**  
Simos Simou

## Key issues to watch in 2024

- ▶ Pillar Two implementation
- ▶ Transfer pricing legislation implementation
- ▶ Compliance with the Cyprus Recovery and Resilience Fund (RRF)
- ▶ VAT on immovable property amendments
- ▶ Introduction of green taxes (water, carbon, tourism, landfill)

## Key drivers of tax policy change

- ▶ Issuance of new guidance notes and FAQs relating to the practical implementation of the new transfer pricing legislation, introduced as of 1 January 2022.
- ▶ As EU jurisdictions begin to implement Pillar Two, the government will be able to observe practical issues relating to the implementation of the new minimum tax.
- ▶ To comply with the requirements of the RRF, Cyprus will issue guidance notes on the implementation and application of withholding taxes for payments to jurisdictions included in the EU's list of noncooperative jurisdictions.

## Significant tax developments expected in 2024

- ▶ Practical application of the rules on transfer pricing
- ▶ Practical application of the Pillar Two rules
- ▶ Green taxation introduction and mitigation measures
- ▶ Increase of social insurance contribution rates for employees and employers as of January 2024

## Significant legislative activity that could include tax

- ▶ Issuance of circular on controlled foreign company rules
- ▶ Issuance of circular on the practical application of the new withholding tax rules

## Significant tax developments in 2023

- ▶ Introduction of the transfer pricing legislation and issuance of FAQs
- ▶ Introduction of rules on withholding taxes for noncooperative jurisdictions
- ▶ Consultation for the implementation of the Pillar Two legislation

## Developments in tax transparency requirements

- ▶ First reporting on DAC7 and CESOP expected in the first quarter of 2024
- ▶ Ongoing monitoring and information requests by the tax authorities in relation to DAC6
- ▶ Public CbCR rules expected to be enacted within 2024



# Cyprus

## Expectations for tax policy

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**Significant tax reform** not expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ No major changes are currently expected in terms of the corporate tax rate other than the Pillar Two implementation impact for those companies that are affected.

### Taxes on digital business activity

- ▶ The introduction of new taxes on digital business activity are expected to follow and be aligned to any relevant EU legislative initiatives.

### Taxes related to climate change or sustainability

- ▶ Carbon taxes on fossil fuels and high-emitting industries
- ▶ Water taxation on selected activities
- ▶ Landfill taxes and pay as you throw levies

### Windfall taxes

- ▶ No changes are currently expected.

### VAT/GST or sales taxes

- ▶ VAT on immovable property changes regarding buildings disposal

### Personal taxes

- ▶ No major changes currently expected in terms of personal taxes
- ▶ Increase of social insurance contribution rates for employees and employers as of January 2024

### Other

- ▶ Tourism tax per accommodation night



# Cyprus

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ The Cypriot tax authorities continue to perform routine audits for large taxpayers. In addition, they perform tax examinations to companies applying for voluntary examination (e.g., obtaining a tax clearance certificate as part of a company's liquidation or legal migration).
- ▶ Examinations are also spawned by refund requests.
- ▶ The authorities carry out sectoral examinations from time to time. With respect to collection mechanisms, the Commissioner has certain powers that must be observed by taxpayers.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Transfer pricing challenges expected to arise
- ▶ VAT data to be used in direct tax audits and vice versa

**Tax audits in Cyprus in 2024 are generally expected to increase in number and intensity.**

### Top audit issues

1. The introduction of transfer pricing legislation is expected to increase attention on transfer pricing matters. Previously, only intragroup financing transactions have been covered.
2. Disallowance of deductions are expected to remain as one of the most frequent challenges made by the tax authorities within the process of a tax examination.

3. VAT treatment is expected to be a top issue, with focus on FinTech, immovable property transactions, payment processing systems, holding or financing companies, missing trader fraud, loyalty schemes, input VAT recovery and EU Emission Trading System implications

### Changes in tax audit approaches or methods

1. Utilization of data via their new Tax For All digital portal
2. Recruitment of additional officers to handle joint direct and indirect tax (VAT)

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ We expect tax authorities will continue enhancement of tax corporate governance requirements.
- ▶ Tax reviews will become more granular in data production requirements.

### Digital tax administration developments

- ▶ A new tax portal (Tax For All) was introduced in 2023.
- ▶ Per the RRF, there is a commitment to digitize the tax administration.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	12.5%	12.5%	–	Same	Same
PIT	35%	35%	–	Same	Same
VAT/sales	19%	19%	–	Same	Same

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# Czech Republic

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## EY key contacts

**Tax policy:**  
Lucie Říhová

**Tax controversy:**  
Radek Matušík

### Key issues to watch in 2024

- ▶ BEPS 2.0 Pillar Two implementation
- ▶ Budget deficit reduction
- ▶ Major reform of tax and accounting law
- ▶ Greater transparency in financial reporting

### Key drivers of tax policy change

- ▶ BEPS 2.0 Pillar Two implementation
- ▶ Focus on anti-avoidance measures
- ▶ Robust transfer pricing enforcement
- ▶ Cancellation of unsystematic tax exemptions
- ▶ Healthy public finance

### Significant legislative activity that could include tax

- ▶ Nothing is currently expected.

### Developments in tax transparency requirements

- ▶ Public CbCR rules are implemented and applicable for accounting periods starting on or after 22 June 2024.

**Significant tax reform** is already approved for 2024.

**Elections** to the European Parliament, Regional Elections and Senate Elections are occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Significant tax developments in 2023

- ▶ Windfall tax implementation
- ▶ Cancellation of electronic evidence of revenues
- ▶ Increase in obligatory VAT registration threshold (from CZK1m to CZK2m).

### Significant tax developments expected in 2024

- ▶ Large tax reform is taking place in the Czech Republic, effective on 1 January 2024. The reform includes changes in tax rates (CIT and VAT), changes in budget allocation of tax revenues toward state budget and limits to selected tax exemptions.
- ▶ BEPS 2.0 Pillar Two has been implemented. The QDMTT is applicable as of 1 January 2024.

# Czech Republic

## Expectations for tax policy

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### Corporate taxes

- ▶ The corporate income tax rate is increased to 21% (from the previous 19%).
- ▶ Businesses now have the option to keep accounting records in a currency other than the Czech currency (EUR, USD, GBP).
- ▶ Businesses now have the option to treat unrealized exchange rate differences as tax non-efficient. Exchange rate differences would then be taxed only in the period in which they are realized.
- ▶ The Accounting Act introduced a new obligation (for selected entities) to prepare and make available an income tax report. This is an implementation of the obligations arising from the European Directive on public CbC reporting.
- ▶ The Accounting Act also introduced a new obligation to prepare and make available a sustainability report.
- ▶ A new limit of CZK2 million was introduced on the deductibility of passenger cars.
- ▶ Certain changes in tax treatment of expenses related to employees' benefits (such as meal allowances or nonmonetary benefits) are newly applicable.

### Taxes on digital business activity

- ▶ Consideration of a digital tax is currently on hold. The Czech Republic is involved in BEPS 2.0 Pillar One implementation.

### Taxes related to climate change or sustainability

- ▶ Domestic legislation implementing EU CBAM has been approved. The first related obligations for importers were due as of 1 October 2023.

### Windfall taxes

- ▶ For years 2023-2025, a windfall tax applies to companies with significant activities in electricity and gas production; the trade, banking, extraction and production of fossil fuel; and distribution of petroleum and coke products.

### VAT/GST or sales taxes

- ▶ The reduced VAT rate is unified to 12% (from the previous 10% and 15%). The standard VAT rate remains at 21%.
- ▶ There are various changes in application of the standard and reduced VAT rate, including to beverages; certain transport means; newspapers and magazines; medical and diagnostic equipment; and certain services such as municipal waste collection, cleaning and hairdressing services, and shoe and clothing repairs.
- ▶ Books are newly exempt from VAT.
- ▶ The input VAT deduction limitation for passenger cars is now set to CZK420,000 (i.e., from a maximum purchase price of CZK2 million).

### Personal taxes

- ▶ The higher (23%) tax rate threshold is going to be decreased to equal to 36 times of average salary, rather than 48 times of average salary.
- ▶ Various changes and new limitations in the taxation of employees' benefits are effective as of 1 January 2024.
- ▶ Certain personal tax allowances were canceled.
- ▶ A cap on the capital gain tax exemption is set at CZK40 million per tax year, effective from 1 January 2025.

### Other

- ▶ The excise duty on tobacco, including heated tobacco products, and alcohol will increase significantly in 2024 and over the following years.
- ▶ The real estate tax, gambling tax and energy taxes are also expected to be changed during calendar year 2024.

# Czech Republic

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ There has been an increase in tax audits after a decline during the COVID-19 pandemic.
- ▶ Czech tax authorities continue to focus on the use of data analytics for tax audits.
- ▶ There are discussions about the frequency and manner of how anti-avoidance rules (GAAR, beneficial owner, etc.) are applied by the Czech tax authorities.
- ▶ Czech tax authorities frequently focus on Czech manufacturers (typically in automotive industry) who are in a loss-making position because of the COVID-19 pandemic or difficult conditions in the industry.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ A continued focus on TP rules enforcement and anti-avoidance measures application using data analytics as the starting point for tax audits.
- ▶ Given some important tax policy changes (windfall tax implementation, limitations of tax exemptions, increased tax rates), tax authorities may be increasingly focused on potential avoidance of new rules.

**Tax audits in the Czech Republic in 2024 are generally expected to** stay the same in both number and intensity.

### Top audit issues

1. Transfer prices – TP set-up, cost + margin
2. Withholding tax – beneficial ownership declaration
3. Incentives and R&D – eligible costs, administrative requirements
4. Disallowance of expenses from services – insufficient documentation that the costs were incurred in order to generate, maintain and assure taxable income
5. VAT – carousel frauds, documentation to support input VAT claim

### Changes in tax audit approaches or methods

- ▶ No developments are expected for 2024.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No developments are expected for 2024.

### Tax governance approach/processes developments for business taxpayers

- ▶ No developments are expected for 2024.

### Digital tax administration developments

- ▶ The Digital Tax bill was not approved before the elections in 2021 and the initiative was then abandoned. Currently, the Czech Republic is involved in BEPS 2.0 Pillar One implementation instead.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	19%	21%	2%	Higher	Higher
PIT	15%, 23%	15%, 23%	–	Higher	Higher
VAT/sales	10%, 15%, 21%	(0%), 12%, 21%	Varies	Varies	Varies

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# Denmark

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## Key issues to watch in 2024

- ▶ Tax reform for individuals

## Key drivers of tax policy change

- ▶ Reduce personal taxation to encourage more people to work more hours and more years

## Significant tax developments in 2023

- ▶ The Danish Parliament passed Bill No. L 5 implementing Pillar Two into Danish law.
- ▶ The IIR is applicable for financial years beginning on 31 December 2023 or thereafter, whereas the UTPR is applicable for financial years beginning on 31 December 2024 or thereafter. However, the UTPR is applicable from 31 December 2023 in relation to a low-tax constituent entity that is resident in a country that has elected to not to apply the IIR and the UTPR for six consecutive fiscal years beginning from 31 December 2023.
- ▶ The Danish parliament has enacted Bill No. 70 under which Denmark will apply a cultural levy on on-demand audiovisual media service providers from 1 January 2024. A basic rate of 2% and a surcharge of 3% on Danish revenues will apply. The levy is applicable to services providers established in an EU Member State.
- ▶ On 1 June 2023, the Danish Parliament passed Bill No. L 73, expanding the scope of tax liability for nonresident companies and individuals engaged in activities outside of Denmark's sea territory (12 nautical miles) but within Denmark's Exclusive Economic Zone (EEZ). The new rules applied beginning 1 July 2023.

## EY key contacts

**Tax policy:**  
Jens Wittendorff

**Tax controversy:**  
Justin Breau

## Significant tax developments expected in 2024

- ▶ Tax reform for individuals is expected. The current political agreement would increase the income tax deduction given to people in employment. The top tax would be reduced from 15% to 7.5% for income between DKK618,400 and DKK750,000, and the top tax for income exceeding DKK2,500,000 would be increased from 15% to 20%. Implementation is expected in 2025 and 2026.

## Significant legislative activity that could include tax

- ▶ No changes are currently expected.

## Developments in tax transparency requirements

- ▶ The Danish Parliament passed a bill on 1 June 2023 implementing EU Directive 2021/2101 on public CbC reporting. The reporting requirement applies to financial years starting on or after 22 June 2024. The report must be published no later than 12 months after the financial year-end.

# Denmark

## Expectations for tax policy

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**Significant tax reform** is expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to increase.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ Implementation of Pillar Two

### Taxes on digital business activity

- ▶ From 1 January 2024, Denmark began applying a cultural levy on on-demand audiovisual media service providers. A basic rate of 2% will apply on Danish revenues and a surcharge of 3% in specified situations. The levy is applicable to services providers established in an EU Member State.

### Taxes related to climate change or sustainability

- ▶ Beginning in 2025, Denmark will phase in a green tax on plane tickets. The tax will apply to flights departing from Denmark, but not to connecting flights. The tax is intended to help the industry reach 100% sustainable fuel use for domestic flights by 2023.
- ▶ The current tax-free allowance on electric cars is extended through 2025. A gradual phasing out of tax discounts for zero-emission vehicles will occur until the end of 2030.

### Windfall taxes

- ▶ No windfall taxes have been or are currently expected to be introduced.

### VAT/GST or sales taxes

- ▶ Effective 1 January 2024, Denmark began applying new rules on local reverse charge for wholesale supplies of telecommunications services.

### Personal taxes

- ▶ No changes are currently expected.



# Denmark

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ A new law taking effect in Denmark on 1 July 2023 expanded the government's ability to tax those participating in activities more than 12 nautical miles offshore but within the country's EEZ.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ No changes are currently expected.

**Tax audits in Denmark in 2024 are generally expected to stay the same in number and intensity.**

### Top audit issues

1. Transfer pricing
2. R&D deduction
3. Withholding taxes

### Changes in tax audit approaches or methods

- ▶ No changes are currently expected.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ No changes are currently expected.

### Digital tax administration developments

- ▶ No changes are currently expected.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	22%	22%	–	Same	Same
PIT	56%	56%	–	Same	Same
VAT/sales	25%	25%	–	Same	Same

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# Dominican Republic

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## EY key contacts

**Tax policy:**  
Luis E. Ocando, Daniel Quesada

**Tax controversy:**  
Rafael Sayagues, Randall Oquendo

## Key issues to watch in 2024

- ▶ Implementation of electronic invoicing
- ▶ Application of VAT to digital services rendered from abroad
- ▶ Amendment of the Dominican Tax Code
- ▶ Extension of application of payment facilities law

## Key drivers of tax policy change

- ▶ Tax evasion and avoidance by multinational corporations
- ▶ Digital business
- ▶ Formalization of individuals and legal entities not registered as taxpayers
- ▶ Significant number of taxpayers with debts pending from payment and in litigation stage

## Significant tax developments expected in 2024

- ▶ Enactment of regulation regarding the procedure for the application of VAT to digital services provided through the internet that are used, consumed or captured in the Dominican Republic, and are provided by foreign providers, not domiciled or resident in the Dominican Republic
- ▶ Enactment of the Law amending Title I of the Tax Code of the Dominican Republic

## Significant tax developments in 2023

- ▶ Enactment of Law No. 51-23 allows tax debts for fiscal years and periods prior to 2015, which meet certain requirements, to be declared automatically under statute of limitation, as well as an abbreviated procedure for tax audits, payment facilities and amnesty for tax debts.
- ▶ Enactment of Law No. 32-23 on Electronic Invoicing regulates the mandatory use of electronic invoicing, establishes the electronic invoicing tax system, including entry deadlines and the conveniences granted to taxpayers who use this system in an early stage.
- ▶ General Norm No. 07-2023 regulates the tax treatment applicable to air, sea and land transport services of cargo and people, with respect to income tax, VAT, and the operations of their agents and representatives in the country.
- ▶ General Rule No. 6-2023 designates as VAT withholding agents, the acquiring companies, payment system administrators, payment aggregators and electronic payment institutions, in transactions paid by credit cards, debit cards or any other electronic payment instrument.
- ▶ Enactment of Law 57-23 establishes tax incentives for national and international civil aviation.

## Significant legislative activity that could include tax

- ▶ Draft Law amending Title I of the Tax Code of the Dominican Republic, which aims to update general rules, procedures and tax penalties, for the relations between taxpayers and the tax administration, and their rights and obligations

## Developments in tax transparency requirements

- ▶ Nonfinancial public enterprises will be required to use the Financial Management Information System (SIGEF for its acronym in Spanish) for the execution of their budgets, with the purpose of making transparent the administration of public resources.

# Dominican Republic

## Expectations for tax policy

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**Significant tax reform** is expected in 2024.

**Elections** are occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

**Corporate taxes** are expected to stay the same.

### Taxes on digital business activity

- ▶ For 2024, the enactment of the regulation regarding the procedure for the application of VAT to digital services is expected, in relation to the digital services provided through the internet by foreign providers, that are used, consumed or captured in the Dominican Republic.

### Taxes related to climate change or sustainability

- ▶ Dominican Republic imposes the Contribution for Management and Co-processing of Solid Waste based on the annual income of the taxpayer.
- ▶ For 2024, a contribution amount is established for each metric ton of liquefied petroleum gas, which will be deposited in the Special Solidarity Fund for prevention and reconstruction in the provinces impacted by the effects of climate change.

### Windfall taxes

- ▶ No significant developments are currently expected.

### VAT/GST or sales taxes

- ▶ The enactment of the regulation regarding the procedure for the application of VAT to digital services is expected; this regulation would provide for the application of VAT to digital services in the Dominican Republic.

### Personal taxes

- ▶ For 2024, the Dominican Tax Authority will not apply the inflation adjustment to the scale established for income tax of natural persons residents or domiciled in the country, established in Article 296 of the Dominican Tax Code, Law No. 11-92 and its amendments.

### Other

- ▶ During fiscal year 2024, the exemption provided for in Article 2 of Law No. 96-88 and its amendments, regarding the importation of slot machines, parts, spare parts and accessory equipment is suspended, as well as any other mechanical, electrical or electronic devices used in these games.
- ▶ For 2024, it is established that the charge of two RD\$2.00 per gallon for the consumption of regular and premium gasoline and diesel, dictated in Law No. 253-12 on the Strengthening of the State's Collection Capacity for Fiscal Sustainability and Sustainable Development, will be carried out by the customs authority when fuel is imported, prior to customs clearance.



# Dominican Republic

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Exchange of information by the tax administration with other jurisdictions and the use of international taxation tools
- ▶ Improvements in transfer pricing guidelines between affiliates
- ▶ Strengthening of the fight against tax evasion and avoidance by multinational corporations

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Review by the tax administration of tax exemptions to confirm proper use
- ▶ Traceability of cross-border exports by the tax administration
- ▶ Streamlining the collection of debts from taxpayers by the tax administration

**Tax audits in the Dominican Republic in 2024 are generally expected to** stay the same in number and/or intensity.

### Top audit issues

1. Income tax deductions and income not declared
2. Withholding taxes on remittances abroad
3. VAT issues
4. Transfer pricing

### Changes in tax audit approaches or methods

- ▶ No significant changes are currently expected.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No significant changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ For 2024, the tax administration will implement a series of administrative measures with the aim of preventing tax evasion, and allow the formalization of new taxpayers, enabling reach to more than 75,000 new registered individuals and legal entities, not including salaried employees.

### Digital tax administration developments

- ▶ For 2024, the tax administration will implement a series of administrative measures regarding the improvement of the digital computer systems of the tax authority, as well as the digital computer systems of the customs authority.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	27%	27%	–	Same	Same
PIT	25%	25%	–	Same	Same
VAT/sales	18%	18%	–	Same	Same

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# Ecuador

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## EY key contacts

**Tax policy:**  
Fernanda Checa

**Tax controversy:**  
Fernanda Checa, Santiago Andrade

## Key issues to watch in 2024

- ▶ Tax remission
- ▶ Income tax self-withholding for major taxpayers
- ▶ Additional deduction for hiring young employees
- ▶ Income tax exemption in free trade zones

## Key drivers of tax policy change

- ▶ The last tax amendments created an opportunity for a tax remission, offering taxpayers who catch up with their tax debts a 100% exemption on interest, fines and surcharges (deadline 21 July 2024).
- ▶ Major taxpayers are obliged to make a monthly income tax self-withholding, which will be applied on the total taxable income generated during that month.
- ▶ The deduction for CIT in advertising, sponsorship and promotion expenses, destined to athletes, low-income students, and educational entities, will be deductible by an additional 150%. This measure aims to encourage investment in key sectors for social and economic development.
- ▶ A deduction is introduced for the generation of new jobs. Companies that employ young people between 18 and 29 years of age, as well as ex convicted persons or their spouses, will benefit from significant deductions. This incentive seeks to boost employment in vulnerable groups and contribute to labor inclusion.

## Significant tax developments in 2023

- ▶ The outflow tax was progressively reduced until reaching 3.5% for FY24.
- ▶ The direct application of the DTT without a maximum amount is allowed.

## Significant tax developments expected in 2024

- ▶ VAT increase, if approved
- ▶ Application of the self-withholding

## Significant legislative activity that could include tax

- ▶ A bill was sent to the National Assembly to increase the VAT to 15%.

## Developments in tax transparency requirements

- ▶ No transparency treaties are expected to be signed by Ecuador in 2024.

# Ecuador

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to be the same.

**Other business incentives** are expected to increase.

### Corporate taxes

- ▶ The corporate tax rate will remain at 25%. That can be increased 3% if:
  - ▶ The company has shareholders whose corporate structure has failed to comply with its duty to inform to the Internal Revenue Service (IRS)
  - ▶ Within the ownership there is a resident in a tax haven, jurisdiction of lower taxation or preferential tax regime and the beneficial owner is a tax resident of Ecuador
- ▶ A tax stability system was introduced that may benefit all taxpayers. Taxpayers who increase their effective income tax rate by 2% will not be affected by any future tax reforms for up to five years.
  - ▶ This stability can be waived if a more favorable law is subsequently created, but the taxpayer will not be entitled to a refund of the amount paid in previous tax periods.
  - ▶ To use this benefit, the taxpayer must comply with at least the effective tax rate of the sector to which they belong established by the IRS through regulations.

### Taxes on digital business activity

- ▶ Only VAT is applicable for digital services, which applies on the importation of digital services, and the triggering event will be verified at the time of payment by the Ecuadorian resident, in favor of a nonresident providing the digital services.

### Taxes related to climate change or sustainability

- ▶ For CIT, deductions for investment in machinery, equipment or technologies to generate own energy from non-conventional renewable sources, qualify for an additional 100% deduction.
- ▶ Implementation of cleaner production practices in business also qualify for an additional 100% deduction.
- ▶ Generation of own energy from renewable sources, such as solar or wind, which contribute to reducing environmental impact and emissions, qualify for the 100% deduction.

### Windfall taxes

- ▶ No developments are currently expected.

### VAT/GST or sales taxes

- ▶ A bill sent by the President to the National Assembly, to increase VAT to 15%, is pending discussion.

### Personal taxes

- ▶ The income tax base for individual was updated for FY24. However, the personal deductions will not vary from FY23.

# Ecuador

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Deferred taxes
- ▶ Administrative, technical and assistance payments to related parties
- ▶ Royalty payments

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Deferred taxes
- ▶ Administrative, technical and assistance payments to related parties
- ▶ Royalty payments

**Tax audits in Ecuador in 2024 are generally expected to increase in number and/or intensity.**

### Top audit issues

1. Proof of substance over form
2. Transfer pricing
3. Royalties

### Changes in tax audit approaches or methods

- ▶ No changes are currently expected.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ Mediation was incorporated in FY23, which has been used by several taxpayers to avoid the judicial system; however, the responses by the IRS are taking longer than expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ Tax authorities are expected to continue enhancement of tax corporate governance requirements.

### Digital tax administration developments

- ▶ The digital platform of the IRS is in continuous improvement, almost all tax obligations are submitted through this portal.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	25%	25%	–	Same	Same
PIT	37%	37%	–	Higher	Higher
VAT/sales	12%	15% (if approved)	–	Same	Same

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# Egypt

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## EY key contacts

### Tax policy:

Hossam Nasr, Ahmed Aboelfotouh

### Tax controversy:

Ahmed El-Sayed

## Key issues to watch in 2024

- ▶ Foreign exchange restrictions and limitations of availability of foreign currency affecting international transactions
- ▶ Tax authority digital agenda
- ▶ Recent tax updates (CIT, investment incentives, payroll income tax (PIT))
- ▶ The application of WHT and the DTT provisions

## Key drivers of tax policy change

- ▶ The amendments to Egyptian tax law became more in line with the OECD model tax convention aiming to prevent tax avoidance and tax evasion.
- ▶ Given that the primary income for the government in Egypt is generated from the withheld taxes, the tax authority has started using digitalized portals to control transactions and monitor revenues and expenditures of taxpayers.
- ▶ The tax authority's strategies for automation result in a high number of tax assessments.
- ▶ Monthly payroll should be uploaded by employers to the tax authority portal. This will be implemented in phases (batches).
- ▶ Interest payments on loans for a period that exceeds the three years are no longer exempted from WHT except for governmental bodies and existing loans before the amendment with at least one interest payment made before 16 June 2023.

## Significant tax developments in 2023

- ▶ Electronic invoices, from 1 July 2023, and e-receipts, from 1 January 2025, are mandatory for input VAT deductibility and cost deductibility purposes.
- ▶ Guidelines were introduced for the simplified offshore vendor registration relating to remote and electronic services for VAT purposes.
- ▶ Changes in the PIT where an additional increase in the top progressive tax rate (i.e., up to 27.5%) and an increase of personal exemption (increased to EGP15,000/year) were implemented.
- ▶ Pursuant to the amendments relating to PIT, the first tax bracket has been expanded to cover from EGP0 to EGP30,000 and the second tax rate bracket that covered EGP15,000 to EGP30,000 was cancelled.

## Significant tax developments expected in 2024

As introduced by the amendments of Law No. 30 of 2023 (Amending Law):

- ▶ The current thin capitalization ratio is 4:1 for FY 2023; however, under the new law, the ratio will decrease gradually starting from FY 2024 where the ratio shall be 3:1 and will decrease again to be 2:1 from FY 2028.
- ▶ The non-principal employer is required to withhold 10% as an initial payroll tax settled by the principal employer and remit it to tax authority within the first 15 days of each month, effective from 1 January 2024.

## Significant legislative activity that could include tax

- ▶ No major legislative activity that involves tax is currently expected in 2024.

## Developments in tax transparency requirements

- ▶ There are no current developments.

# Egypt

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to increase. On 25 July 2023, Egypt enacted Law No. 160 of 2023, amending Investment Law No. 72 of 2017 to enhance incentives for foreign investors, distribute investments and broaden eligibility for project management. These amendments align with the government's goal of fostering a favorable investment environment, effective from 26 July 2023.

Law No. 160 allows for the possibility of extending the applicability of the special incentives until 2026.

### Corporate taxes

- ▶ The thin capitalization ratio under the new law shall decrease gradually starting from FY 2024 where the ratio shall be 3:1 and will decrease again to be 2:1 from FY 2028.

### Taxes on digital business activity

- ▶ No changes are currently expected in 2024.

### Taxes related to climate change or sustainability

- ▶ No changes are currently expected in 2024.

### Windfall taxes

- ▶ Egypt does not currently impose windfall taxes.

### VAT/GST or sales taxes

- ▶ No changes are currently expected in 2024.

### Personal taxes

- ▶ Effective from the 1 January 2024, the non-principal employer should withhold 10% from the monthly remuneration paid to the resident employees and remit it to the tax authority within the first 15 days of each month.





# Egypt

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

The tax authority introduced digital initiatives to make sure that taxpayers comply with tax regulations as follows:

- ▶ Implementation of the e-payroll
- ▶ Implementation of the e-inspections
- ▶ Implementation of e-invoices and e-receipts

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Decrease in the debt-to-equity ratio to 3:1 effective from year 2024: If the debt exceeded such ratio, the excess interest shall be added back to the taxable pool leading to an increase in taxes to be paid by the taxpayers.

**Tax audits in Egypt in 2024 are generally expected to stay the same in number and/or intensity.**

### Top audit issues

1. Absence or insufficiency of documents and analysis (mandated to have e-invoices and e-receipts for cost deductibility purposes)
2. Forex gain and loss tax treatment
3. Noncompliance with the submission of the required transfer pricing documents leading to TP adjustments
  - ▶ The Large Taxpayers Center has formed a TP Committee to initially assess the need of involving the specialized TP unit.
  - ▶ Most corporate tax assessments include a deemed TP adjustment.

4. WHT and application of tax treaties.

- ▶ At the time of inspection, it should be noted that the Egyptian tax authority requires taxpayers to provide a ruling to support the application of tax treaty relief. However, if the taxpayer did not provide the ruling to the tax inspector, the absence of the ruling shall result in a WHT of 20% to be applied on the total gross amount related to services stipulated in Article 56 of Income Tax Law No. 91 of 2005 and, accordingly, deny the tax treaty benefit.

### Changes in tax audit approaches or methods

- ▶ No changes are currently expected. Changes took place in FY 2023 (i.e., e-inspections, e-invoices, e-receipts and e-payroll).

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ No changes are currently expected.

### Digital tax administration developments

- ▶ No changes are currently expected.
- ▶ Digital reforms are in place that involve the modernization of the tax administration systems in Egypt. For example, the tax authority has implemented the digitalized e-ruling for the purpose of facilitating the process of nonresident vendor application for a tax refund.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	22.5%	22.5%	–	Same	Same
PIT	27.5%	27.5%	–	Same	Same
VAT/sales	14%	14%	–	Same	Same

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# El Salvador

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## EY key contacts

### Tax policy:

Luis E. Ocando, Daniel Quesada

### Tax controversy:

Rafael Sayagués, Randall Oquendo

## Key issues to watch in 2024

- ▶ Increased tax audit process
- ▶ High level of information requested in tax audit
- ▶ Increased proof to justify expense deductions
- ▶ Increased audits of intercompany operations and international transactions

## Key drivers of tax policy change

- ▶ Correcting public finances imbalance and achieving a trend toward fiscal sustainability
- ▶ Improving the allocation of resources, while protecting investment and social spending
- ▶ Implementing a progressive tax policy to generate sufficient income in a sustained way to finance public spending and public investment
- ▶ Efficiency and equity in tax administration and customs
- ▶ Strengthening, modernizing and innovating the processes and services oriented to the satisfaction of taxpayers
- ▶ The International Convention on the simplification and harmonization of customs procedures (as amended), of the World Customs Organization (WCO), known as the Revised Kyoto Convention was ratified on 29 September 2023, with the aim of eliminating existing divergences between customs procedures and contributing to the development of trade.

incorporated are the production, processing, transformation or commercialization of food for human consumption or animal feed. Sugar is also incorporated as a raw material and, to the activity of cultivation, processing and commercialization, unprocessed food under natural or artificial systems.

- ▶ The International Convention on the simplification and harmonization of customs procedures (as amended), of the World Customs Organization (WCO), known as the Revised Kyoto Convention was ratified on 29 September 2023, with the aim of eliminating existing divergences between customs procedures and contributing to the development of trade.

## Significant tax developments expected in 2024

- ▶ The implementation of electronic invoicing for small and medium taxpayers

## Significant legislative activity that could include tax

- ▶ Amendments to the Commercial Code

## Developments in tax transparency requirements

- ▶ Report every beneficial owner regarding any type of company

## Significant tax developments in 2023

- ▶ Electronic invoicing implementation began.
- ▶ The government approved the Promotion of Innovation and Technological Manufacturing Law, which seeks to strengthen the country's competitiveness and sustainable economic development by promoting innovation and the manufacturing of technology developed in the national territory.
  - ▶ The law plans to promote the growth of a skilled labor force to generate advanced technological products and services that promote the incorporation of El Salvador into the global technological supply chain.
- ▶ Amendments to the Free Trade Zones and Commercialization Law were published, focusing on expanding the scope of the benefits to more activities, in addition to regulating extensions of these zones and waste management. Among the new activities

# El Salvador

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** are occurring on 4 February 2024 to elect the president, vice president and all 60 deputies of the Legislative Assembly.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### **Corporate taxes**

- ▶ No changes are currently expected.

### **Taxes on digital business activity**

- ▶ No changes are currently expected.

### **Taxes related to climate change or sustainability**

- ▶ No changes are currently expected.

### **Windfall taxes**

- ▶ No changes are currently expected.

### **VAT/GST or sales taxes**

- ▶ No changes are currently expected.

### **Personal taxes**

- ▶ No changes are currently expected.



# El Salvador

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Electronic Invoicing
- ▶ An increase in tax authority funding
- ▶ Increased amount of tax audit processes
- ▶ Increased amount of information requested in tax audit processes
- ▶ Increased amount of proof to justify deductibility of expenses by taxpayers
- ▶ Increased number of audits related to intercompany operations and international transactions

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Proof to justify deductibility of expenses by taxpayers
- ▶ Audits related to intercompany operations and international transactions

**Tax audits in El Salvador in 2024 are generally expected to** increase in number and/or intensity.

### Top audit issues

1. Auditing of COVID-19 support and stimulus measures
2. Adjustment of operations made with credit notes
3. Denial of tax refunds requested by non-domiciled entities
4. Deductibility of expenses by taxpayers
5. Intercompany operations and international transactions
6. Inventory reports compliance with all legal requirements

### Changes in tax audit approaches or methods

- ▶ There has been an increase in audits and in the amount of information requested by tax authorities during an audit process. The tax authorities have especially been requiring proof to justify the deductibility of expenses by taxpayers.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ Mandatory or voluntary program(s) that test a company's tax governance or tax controls may occur in 2024.

### Digital tax administration developments

- ▶ Electronic invoicing

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	25%-30%	25%-30%	–	Same	Same
PIT	10%-30%	10%-30%	–	Same	Same
VAT/sales	13%	13%	–	Same	Same

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# Estonia

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## Key issues to watch in 2024

- ▶ New motor vehicle tax

## Key drivers of tax policy change

- ▶ The Estonian government's taxation strategy is to transition tax responsibility from income to consumption and promote more environmentally sustainable activities by taxing the use of natural resources and pollution of the environment.
- ▶ A primary objective is to maintain simplicity and transparency of the tax system, minimizing exceptions and disparities wherever possible.
- ▶ Deriving from the main principles of Estonian tax policy, the focus is on:
  - ▶ Facilitating a robust and stable tax system
  - ▶ Upholding broad tax base with lower rates
  - ▶ Establishing optimal tax burden and structure
  - ▶ Confirming transparency with limited exceptions

## Significant tax developments in 2023

- ▶ Several significant amendments have been made to the Estonian tax legislation, taking an effect in years 2023 to 2025. The changes manifest an upward trend in various taxations applicable to corporations, individuals, and specific goods and services.
- ▶ The standard VAT rate increased from 20% to 22% starting January 2024. In 2025, the VAT rate will increase for accommodation services from 9% to 13%, and for press publications from 5% to 9%.
- ▶ Starting from 2024, payment service providers are required to store data on cross-border payments by payee and transmit this data quarterly to the tax authority.
- ▶ Income tax will increase for both corporations and natural persons from 20% to 22% in 2025. The lower income tax rate of 14%, applicable to regularly distributed profits of companies and nonresidents' permanent establishments, will be abolished from 2025, and, simultaneously, the withholding of 7% income tax on dividends paid to natural persons will cease.

## EY key contacts

**Tax policy:**  
Ranno Tingas

**Tax controversy:**  
Hedi Wahtramäe

- ▶ BEPS 2.0 GloBE developments

- ▶ The tax rate for advance income tax payments of credit institutions will increase from 14% to 18% from 2025.
- ▶ A natural person will no longer have the right to deduct certain exemptions from their taxable income from January 2024. However, the basic exemption is set to increase to EUR700 per month from 2025.
- ▶ The implementation of the ATAD2 Directive (Council Directive 2017/952) is clarified, which pertains to anti-hybrid mismatch rules, effective from January 2024.
- ▶ A collective investment vehicle hybrid exemption was introduced retroactively from 1 January 2023.
- ▶ The excise duty on commodities like alcohol and tobacco products will increase by 5% annually in 2024-2026. Additionally, tax rates on various forms of gambling are planned to increase between 2024 and 2026.

## Significant tax developments expected in 2024

- ▶ On 18 January 2024, the government approved and sent to the Parliament a legislative proposal that would introduce a motor vehicle tax in Estonia. The draft law has been subject to active debates, and the criteria and tax rates underlying taxation have changed on several occasions.
- ▶ In general, the future tax will consist of two parts: (1) annual tax and (2) registration fee, which both depend on the vehicle's environmental impact (weight, CO<sub>2</sub> emissions, etc.). Discussions over the details are expected to continue in 2024 and the vehicle tax is planned to be implemented starting from 2025.

# Estonia

## Expectations for tax policy

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### Developments in tax transparency requirements

- ▶ The European Council Directive amending Directive 2011/16/EU on administrative cooperation in the field of taxation (DAC7) has been implemented to Estonian legislation. For the first time, EU and non-EU digital platform managers are obliged to forward information on the income earned in 2023 to the tax authorities by 31 January 2024.

**Significant tax reform** is not expected in 2024.

**Elections** to the European Parliament will take place in June 2024. The outcome of these elections is not expected to have direct implications for the current government; however, it may potentially instigate policy shifts and changes in the political landscape.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ Legislation regarding implementation Pillar Two is expected to be adopted in 2024. According to the draft law, Estonia will elect to delay the application of the IIR and the UTPR.
- ▶ No other significant changes expected in 2024.
- ▶ With the tax package adopted in 2023, the corporate tax rate increases from 20% to 22% in 2025.
- ▶ The 14% income tax rate on regularly distributed profits will be abolished from 2025, and thus, 2024 will be the last year when this lower corporate income tax rates can be used on cash-based distributions.

### Taxes on digital business activity

- ▶ No significant developments are currently expected.

### Taxes related to climate change or sustainability

- ▶ No significant developments are currently expected.

### Windfall taxes

- ▶ No significant developments are currently expected.

### VAT/GST or sales taxes

- ▶ With the tax package adopted in 2023, reduced VAT rates will increase in 2025.
- ▶ Collection of certain payment data in the European CESOP will be applicable starting from 2024.
- ▶ No additional significant changes are expected in 2024.

### Personal taxes

- ▶ No significant tax law developments expected in 2024.
- ▶ Limitations to certain tax deductions and exemptions will apply from 2024 in line with the tax package adopted in 2023.

### Other

- ▶ Continuing discussions on motor vehicle tax with an aim to enforce the new tax from 2025.

# Estonia

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Attention in tax audits on transfer pricing issues and concealed profit distribution in the form of loans provided by subsidiary to the parent company
- ▶ New rules regarding construction places to reduce tax frauds
- ▶ Adoption of DAC7

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Tax authorities are expected to pay particular attention to “debt-push-down” transactions, reinforcing their commitment to fairness in tax collection by proposing new guidelines that clarify the tax implications and requirements for these transactions.
- ▶ Increased scrutiny is expected in tax audits regarding transfer pricing matters and specifically hidden profit distribution situations where loans are provided by subsidiaries to parent companies.
- ▶ The implications of CESOP will likely be addressed, recognizing the need to clarify the guidelines as digital cross-border services continue to proliferate.

**Tax audits in Estonia in 2024 are generally expected to increase.**

### Top audit issues

1. Capital gains taxation and eligibility to treaty benefits
2. Corporate restructurings
3. Deemed profit distribution

### Changes in tax audit approaches or methods

- ▶ No significant changes are currently expected.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No significant changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ No significant developments are currently expected.

### Digital tax administration developments

- ▶ No significant developments are currently expected.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	20%	20%	–	Same	Same
PIT	20%	20%	–	Same	Same
VAT/sales	20%	22%	10%	Higher	Higher

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# Finland

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## EY key contacts

**Tax policy:**  
Jukka Lyijynen

**Tax controversy:**  
Jukka Lyijynen

## Key issues to watch in 2024

- ▶ Pillar Two implementation
- ▶ Health and sustainability taxes
- ▶ Changes in the scope of (reduced) VAT rates
- ▶ Changes to VAT adjustment liability rules on real estate investments
- ▶ Budget deficits

## Key drivers of tax policy change

- ▶ A focus on avoiding tax evasion in a manner that does not cause excessive administrative burden
- ▶ Taxation of dividend distributions from non-listed entities to private persons will remain the same as before
- ▶ Tax level on capital gains will remain the same
- ▶ Sustainability
- ▶ EU legislation
- ▶ Changes to VAT adjustment liability rules on real estate investments
- ▶ Changes in excise duty rates (and other excise duty legislation)

## Significant tax developments expected in 2024

- ▶ Decision on Pillar Two implementation
- ▶ Decrease of the general transfer tax rates related to transfers of shares and real estates
- ▶ Tax level on dividends from non-listed entities to private persons and capital gains to remain the same
- ▶ Earned income level to decrease slightly
- ▶ Finnish expatriate tax regime beneficial tax treatment to be extended to seven years from the current four years
- ▶ Transfer tax relief for first time home buyers to be abolished
- ▶ Transfer tax rates to decrease (shares 2% → 1.5% and real property 4% → 3%)
- ▶ Decision on changes in the scope of reduced VAT rates

## Significant tax developments in 2023

- ▶ R&D incentives were enacted, including an additional deduction for increases in R&D expenses.
- ▶ International real estate investors became subject to more extensive taxation on direct and indirect disposals of real estates and companies that own predominantly real property.

## Significant legislative activity that could include tax

- ▶ Decision on Pillar Two implementation

## Developments in tax transparency requirements

- ▶ Tax legislative requirements remain on the same level as before.
- ▶ CbC reports will become public in the future.
- ▶ Developments on real-time reporting of VAT are waiting for clarity on EU level legislative changes (e.g., on the VAT on Digital Age package).



# Finland

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** for the president will occur in 2024.

**R&D incentives** are expected to increase.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ CIT level will remain the same.
- ▶ The taxation of dividend distributions from non-listed entities to private persons will remain the same.
- ▶ The government recognizes that any possible actions to deter tax avoidance must not cause unproportional administrative burden.

### Taxes on digital business activity

- ▶ No significant sector-specific tax developments are expected for 2024.

### Taxes related to climate change or sustainability

- ▶ Excise duties (also health taxes) can be subject to some sustainability-related changes. For example, for energy taxes the policy trend is to try to balance between climate change and budget needs.
- ▶ Changes to the Finnish Excise Tax on Beverages (toward more health-based taxation) are currently waiting for EU approval. EU approval could trigger new development of a wider health tax.
- ▶ The EU CBAM is being implemented also on the national level.
- ▶ A new mining and mineral resources tax was implemented, effective as of 1 January 2024.

### Windfall taxes

- ▶ A new temporary profit tax on the electricity and fossil fuels industries was implemented, effective mainly for tax year 2023 (and potentially for 2024).

### VAT/GST or sales taxes

- ▶ No significant tax reforms for VAT are expected for 2024.
- ▶ Changes to VAT adjustment liability rules for real estate investments are expected to be proposed in early 2024.
- ▶ Changes in the scope of reduced VAT rates are expected to be proposed in early 2024.
- ▶ Certain other changes are expected, such as implementation of changes to EU-level VAT legislation.

### Personal taxes

- ▶ Earned income tax liability most likely will continue to decrease slightly from the current level.

### Other

- ▶ The real estate tax level is expected to continue to rise.

# Finland

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ The number of tax inspections is expected to gradually recover to the same level as before the COVID-19 era.
- ▶ At least for VAT and other indirect taxes, the trend of tax inspectors initiating tax audits via more informal “visits” (instead of communicating already at the beginning of starting the tax audit) has continued.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ The number of tax inspections is expected to gradually continue recovering to the same level as before the COVID-19 era.
- ▶ The corporate income tax level is expected to remain competitive internationally.

**Tax audits in Finland 2024 are generally expected to stay the same in number.**

### Top audit issues

1. Transfer pricing
2. Group internal debt push downs
3. VAT (especially input VAT recovery, for example on overhead costs or by parent and holding companies; also application of VAT exemptions)
4. Scrutiny of utilization of insurance products to postpone taxation for private persons
5. Tax procedural rules for self-assessed taxes (e.g., VAT)

### Changes in tax audit approaches or methods

- ▶ The trend of an increased number of virtual tax inspections is expected to continue.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No significant changes are expected.
- ▶ The trend of an extended number of dispute resolutions instead of court appeals is likely to continue.

### Tax governance approach/processes developments for business taxpayers

- ▶ There are no general tax governance rules in Finland.
- ▶ Tax authorities will continue to pay attention to tax governance issues of MNEs that have agreed to enter the Enhanced Customer Cooperation regime of the Finnish revenue.

### Digital tax administration developments

- ▶ Digital tax audits are expected to continue.
- ▶ The trend of filing documents with the tax authority is expected to continue to increase.
- ▶ Tax authorities continue to try to limit the use of paper filings and develop its portals to support e-filing.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	20%	20%	–	Same	Same
PIT	56.75%	56.75%	–	Same	Same
VAT/sales	24%	24%	–	Same	Same

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# France

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## EY key contacts

### Tax policy:

Charles Ménard, Jean-Pierre Lieb

### Tax controversy:

Charles Ménard, Jean-Pierre Lieb,  
Morgan Vail, Agnès Serero

## Key issues to watch in 2024

- ▶ Pressure from the members of Parliament to increase tax on high-net-worth individuals and real estate

## Key drivers of tax policy change

- ▶ Public debt evolution that could trigger increase in taxes
- ▶ Development of taxes applicable to specific industry sector (e.g., Telecom, media and technology)

## Significant tax developments in 2023

- ▶ Finance Bill for 2024 transposed the Pillar Two directive into domestic law.
- ▶ The Finance Act for 2023 introduced a progressive repeal of the corporate value-added contribution (CVAE, for its French acronym). The Finance Bill for 2024 amended that repeal. Instead of being abolished as of 2024 as initially scheduled, the CVAE tax rate will be gradually reduced (i.e., 0.28% in 2024, 0.19% in 2025, 0.09% in 2026) and completely abolished in 2027. The 2024 Act also included a reduction in the value-added capping of the "Contribution économique territoriale" (CET).
- ▶ Reform of the Young Innovative Companies scheme occurred in 2023.

## Significant tax developments expected in 2024

- ▶ Possible tax increase on high-net-worth individuals
- ▶ Possible tax increase on real estate

## Significant legislative activity that could include tax

- ▶ A housing law based on a Parliamentary report and pressure from local bodies could include tax measures.
- ▶ The Finance Bill for 2025 is generally expected in December 2024.

## Developments in tax transparency requirements

- ▶ The tax authorities introduced an experimental compensation system for whistleblowers, which enables the recovery of evaded taxes. The Finance Bill for 2024 provides for this compensation to be made permanent.
- ▶ As part of a drive to reinforce the administration's ability to detect tax infractions, the tax authorities are authorized to carry out active investigations on the internet under a pseudonym.
- ▶ The place where tax audits are carried out can be decided by the tax authorities in order to improve the physical conditions under which external tax audits are carried out, as well as to reinforce the safety of tax officials.
- ▶ Transfer pricing controls by the tax authorities would be facilitated by reducing the threshold required to initiate the documentary obligation (Finance Bill for FY24).
- ▶ The statute of limitation was extended from three to six years to allow the tax authorities to review valuation of "intangibles whose pricing is difficult to assess" (Finance Bill for FY24).
- ▶ The general introduction of mandatory electronic billing has been postponed.

# France

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same but will be completed by a Green Industry Tax Credit.

**Other business incentives** are expected to increase.

### Corporate taxes

- ▶ Following the progressive reduction of the corporate income tax rate in recent years, the corporate income tax rate is now stable at 25%.
- ▶ The tax rules applicable to income from participations received from a company established in another EU Member State by a parent company with which it would qualify to form an integrated group if it were established in France, would be amended to comply with EU law. This would result in an extension of the scope of application of the 1% share of expenses and charges (QPFC, for its French acronym) for a company that is not a member of the tax consolidation group, by choice of a European subsidiary.
- ▶ Article 4 of the Finance Bill for 2024 implements into domestic law Directive (EU) 2022/2523 of 15 December 2022 aimed at achieving a worldwide minimum level of taxation of 15% for multinational and large domestic groups of companies in the EU, known as Pillar Two.

### Taxes on digital business activity

- ▶ A tax is introduced on online services making phonographic recordings or music videos available to the public. The tax is based on the amount of the price collected, excluding VAT, and the associated advertising and sponsorship revenues. An allowance would apply for access to content-sharing services created by private users.

### Taxes related to climate change or sustainability

- ▶ A new tax credit is introduced to promote investment in strategic sectors for the energy transition. The tax credit is subject to a prior agreement. Eligible investments are those made in specific activities linked to the production of batteries, solar panels, wind turbines or heat pumps.
- ▶ The Finance Bill for 2024 provides for a four-year extension of the two tax credits available to credit institutions and finance companies that grant zero-rate loans to finance the purchase or renovation of older homes.

### VAT/GST or sales taxes

- ▶ The Finance Bill for 2024 contains several measures to prevent VAT fraud, including a change in the rules on distance selling of imported goods to prevent VAT fraud due to territorialization (with new representation requirements, for example).
- ▶ The bill also provides for a reform of the basic VAT exemption system, with effect from 2025.

### Personal taxes

- ▶ To neutralize the effects of inflation for individual taxpayers, the Finance Bill for 2024 provides for indexation of the income tax scale brackets, as well as the associated thresholds and limits, in line with the rise in consumer prices.

# France

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Adjustment of the obligation to conserve accounting records
- ▶ Adaptation of the disclosure obligation provided for depositories of public documents

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Intensive use of international administrative assistance to collect data before and during tax audits
- ▶ Tax offenses turning into criminal offenses
- ▶ Focus on French subsidiaries of MNCs

Tax audits in France in 2024 are generally expected to increase in number and/or intensity.

### Top audit issues

1. Transfer pricing and other international tax issues
2. R&D tax credit
3. Transactions involving intangibles

### Changes in tax audit approaches or methods

- ▶ The place where tax audits are carried out could be decided by the tax authorities in order to improve the physical conditions under which external tax audits are carried out, as well as to reinforce the safety of tax officials.
- ▶ The tax authorities introduced an experimental compensation system for whistleblowers, which will enable the recovery of evaded taxes. The Finance Bill for 2024 provides for this compensation to be made permanent

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ The tax authorities are still encouraging SMEs and MNCs to join dedicated programs (so-called "relation de confiance +" and "service partenaire des entreprises") to develop a trusted relationship.

### Digital tax administration developments

- ▶ On an experimental basis, the French tax authorities can use computerized and automated data processing to collect content that is freely accessible on the websites of online platform operators, and that is clearly made public by their users, in order to detect certain tax offenses.
- ▶ Tax officers would be authorized to carry out active investigations on the internet under a pseudonym.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	25%	25%	–	Same	Same
PIT	45%	45%	–	Same	Same
VAT/sales	20%	20%	–	Same	Same

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# Germany

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## Key issues to watch in 2024

- ▶ Implementation of the Growth Opportunities Act
- ▶ Budget planning process
- ▶ Annual Tax Act 2024
- ▶ Introduction of the EU plastic levy
- ▶ Introduction of a digital interface for accounting data

## Key drivers of tax policy change

- ▶ The German government, in general, is bound to meet the requirements of the constitutional debt brake. After years of using special rules that allowed for additional debt during the pandemic and the energy crisis, borrowing would only be possible within narrow limits in the near future under the current rules. The debt brake was significantly strengthened when the Federal Constitutional Court ruled that certain practices to circumvent the debt brake were unconstitutional, which forced the government to reassess budgetary planning for the coming years. While the Social Democrats and the Greens are demanding to use the same special rules as in recent years to highly increase federal debt, the Free Democrats and Finance Minister Lindner support a strict application of the debt brake. The outcome of the debate on the debt brake will significantly impact the federal budget and tax policy in the coming years.
- ▶ Germany struggles to resume an economic growth path after the repeated crisis of recent years. To remain an attractive business location despite the adverse effects of the energy crisis, the federal government planned to introduce a law which focuses increasing the competitiveness of the German companies (Growth Opportunities Act). However, the bill was blocked by the upper house, and it remains unclear if a revised bill could be adopted in early 2024. If the bill fails, a new debate on an economic stimulus package, including tax measures that might arise during 2024, is likely.

## Significant tax developments in 2023

- ▶ BEPS 2.0 Pillar Two implementation bill
  - ▶ implementation of the Global Minimum Tax is closely aligned with the requirements of the EU Directive on the OECD Model Rules.

## EY key contacts

**Tax policy:**  
Roland Nonnenmacher

**Tax controversy:**  
Peter Jung

- ▶ Future Financing Act
  - ▶ The act modernized and facilitated access to the German capital market and improved framework for employee share plans.
- ▶ Implementation of public CbCR
  - ▶ The law obliges German-based MNEs to publicly disclose country-specific income tax information, if their revenue exceeds a total of EUR750 million for each of the last two consecutive financial years.
- ▶ Implementation of the EU Conversion Directive
  - ▶ The directive facilitates cross-border mergers, demergers and changes of legal form.

## Significant tax developments expected in 2024

- ▶ Growth Opportunities Act
  - ▶ The act focuses on the areas of loss offsetting, investment and research incentives, including enhanced tax depreciation opportunities as well as a more attractive taxation for partnerships. It also contains counter-financing measures, especially concerning interest deductions and new mandatory disclosure rules covering certain domestic tax arrangements.
- ▶ Annual Tax Act 2024
  - ▶ Mostly technical adjustments expected, but the bill could be amended with elements of the Growth Opportunities Act and other relevant content, such as government reaction to finance court decisions.

## Developments in tax transparency requirements

- ▶ Public country-by-country reporting will come into effect for business years starting after 21 June 2024.
- ▶ Mandatory disclosure rules for certain domestic tax arrangements may be introduced.

# Germany

## Expectations for tax policy

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**Significant tax reform** is possible in 2024.

- ▶ The Growth Opportunities Act proposes several corporate tax changes. The current centers around incentives for climate protection and research and development, substantially increased utilization of loss carryforwards, interest deductibility, and more. It is not yet clear if the bill will be adopted and if it will be cut down in upcoming negotiations.

**Elections** are occurring on state level in 2024.

- ▶ In September 2024, state elections will take place in Saxony, Thuringia and Brandenburg. This might alter the composition of the Federal Council.
- ▶ The EU-Parliament is elected in June 2024.

**R&D incentives** are expected to increase.

- ▶ The maximum base is to be tripled to up to EUR12 million and extended to also cover the acquisition and production costs of depreciable movable fixed assets used in a qualifying R&D project. For SMEs, the R&D allowance will be increased to 35% (Growth Opportunities Act, if adopted).

**Other business incentives** may increase.

- ▶ If the Growth Opportunities Act is adopted in its current form, the following incentives could be altered:
  - ▶ An increase of the tax loss carryback of EUR10 million up to and including 2025. From 2026, the maximum amount of EUR5 million applies. The tax loss carryback period would be extended to up to three years.
  - ▶ For loss carryforwards, the percentage limit up to which losses brought forward above EUR1 million may be offset against current income may increase from the current 60% to 75% in the years 2024 to 2027. Thereafter, the percentage of 60% may apply again.
  - ▶ The depreciation rules could be expanded with a focus on movable assets (such as machinery), residential buildings and low-value assets.

### Corporate taxes

- ▶ Reform of the interest deduction limitation, e.g., adjustment of the stand-alone escape rule. Instead of a separate interest deduction limitation, a rule is introduced for cross-border financing relationships and financing services (Growth Opportunities Act, if adopted).

### Taxes on digital business activity

- ▶ No changes are currently expected.

### Taxes related to climate change or sustainability

- ▶ Companies within the EU that import products such as iron, steel, cement, aluminum, electricity, fertilizers and hydrogen in their pure or processed form from non-EU countries are subject to the CBAM rules. Companies were required to submit a CBAM report for the first time by 31 January 2024, containing information on the import volume as well as the direct and indirect CO<sub>2</sub> emissions emitted in other EU countries and the carbon price paid in the third country.
- ▶ The Single-Use Plastics levy will apply for goods released on the market from 2025. The levy will be paid by businesses that place a product in the market with first payment to be made in 2025.

### Windfall taxes

- ▶ The EU solidarity contribution was only levied for the years 2022 and 2023. From 2024, no EU windfall taxes will be collected.

### VAT/GST or sales taxes

- ▶ Mandatory issuance of electronic invoices for domestic BtB sales is generally applicable as of 2025. If the Growth Opportunities Act fails, the e-invoicing rules may become part of another bill, because its introduction was agreed in the coalition agreement.
- ▶ The VAT for the sale of food in restaurants is raised again to 19% as of 1 January 2024. This had previously been temporarily reduced as a support measure during the pandemic and the energy crisis.
- ▶ As of 1 April 2024 (or 1 March 2024 if the Growth Opportunities Act is adopted in its current form), the normal VAT rate applies again to the supply of gas.

### Personal taxes

- ▶ The personal income tax brackets have been increased to account for inflation for the 2024 tax period.

### Other

- ▶ Increase of the lump-sum allowances, e.g., for meals and for company events (Growth Opportunities Act, if adopted)

# Germany

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- Findings in an external audit, which have been incontestably implemented in a tax assessment prompt the obligation to notify and correct. A new paragraph 4 in section 153 of General Fiscal Code extends this requirement to a change in the tax bases in another declaration submitted by or for the taxpayer that was not the subject of the external audit. This can lead to a situation, in which a correction due to a tax audit of a previous year can directly trigger adjustments in all subsequent tax declarations.

### Top tax enforcement or tax controversy development expectations for 2024

- Introduction is planned of clear regulations on participation in international risk assessment procedures, as already in the OECD (ICAP) and EU (European Trust and Cooperation Approach).

Tax audits in Germany in 2024 are generally expected to stay the same in number and intensity.

### Top audit issues

- The tax auditors make more and more use of the digital data available to them, opening new ways of auditing, e.g., identifying potential areas of investigation.
- Missing or ineffective tax compliance policies and controls can lead to a lack in oversight of tax positions and inaccuracies or omissions in tax returns.
- German VAT law imposes many formal requirements when it comes to documentation of tax-exempt supplies, such as exports or intra-community supplies. In many cases failure in meeting these requirements lead to significant additional tax charges.

- The disallowance of accruals and capitalization of expenses are prevailing areas of adjustments in German tax audits often spurred by sector-specific knowledge of the tax auditors.
- In the light of increased interest rates, discussions in tax audits will start to evolve around the interest rate barrier and the definition of what payments qualifies as interest.

### Changes in tax audit approaches or methods

- If companies have an effective Tax Compliance Management System (Tax Control Framework) in a current tax audit, relief (reduction of certain fields in the tax audit) may be granted by the tax authorities for future tax audits.

### Changes to dispute prevention or dispute resolution tools or programs

- Implementation of the EU Mutual Assistance Directive for joint audits.

### Tax governance approach/processes developments for business taxpayers

- No developments are expected for 2024.

### Digital tax administration developments

- With the DAC7 Implementation Act, Section 147b of the German Fiscal Code (AO) introduced an authorization for the Federal Ministry of Finance, with the approval of the Federal Council, to standardize digital interfaces. The Federal Ministry of Finance published a draft regulation on the digital interface for accounting data. The regulation defines a uniform standard with which accounting data is to be transmitted to the tax authorities as part of an external audit or cash register inspection.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT*	approx. 30%	approx. 30%	–	Same	Same
PIT**	45% (+5.5% SSC)	45% (+5.5% SSC)	–	Same	Same
VAT/sales***	19%/7%	19%/7%	–	Same	Same

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\* Top federal CIT rate (15%) + solidarity surcharge (5.5% of CIT) and trade tax (local): 7%-19.25%. The combined CIT and Solidarity Surcharge is 15.825%.

\*\* Progressive PIT (max. 45%) + solidarity surcharge (5.5% of wage tax). The combined burden of PIT and Solidarity Surcharge is 47.48%, no solidarity surcharge for low- and middle-income taxpayers.

\*\*\* Breakdown of VAT/sales: normal or reduced VAT rate.





# Greece

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## EY key contacts

### Tax policy:

Stefanos Mitsios, Konstantina Galli

### Tax controversy:

Tassos Anastasiadis

## Key issues to watch in 2024

- ▶ Pillar Two implementation
- ▶ DAC7 implementation
- ▶ CbCR Directive implementation
- ▶ Increased enforcement to address tax evasion
- ▶ Sustainability taxes

## Key drivers of tax policy change

- ▶ Tackle tax evasion and smuggling
- ▶ Attract new investments and support Greek exports
- ▶ Improve the transactional relationships between the tax administration and the taxpayers

## Significant tax developments in 2023

- ▶ Income tax exemption on interest derived from Greek government bonds and treasury bills, already provided for individuals, was extended to also cover Greek legal entities.
- ▶ New tax law (L.5073/2023) introduced, inter alia:
  - ▶ New income tax calculation for freelancers, based on presumptions or deemed income
  - ▶ Reduction of tax on the sale of shares registered in a regulated market or a multilateral trading facility from 0.2% to 0.1% on the sale price, starting from 2 January 2024
  - ▶ Reduction of the capital duty rate from 0.5% to 0.2% imposed on any share capital increases, starting from 1 January 2024
  - ▶ The ban of cash transactions on sale purchase agreements of real estate property, which may only be conducted via payment of the consideration through electronic means, as of 12 December 2023
  - ▶ The resilience against climate crisis duty, replacing the accommodation tax imposed on hotel and short-term property stays
  - ▶ Penalties related to omission and late transmission of data to the digital platform of e-books (myDATA)
- ▶ Implementation of CBAM and issuance of guidelines by the Tax Administration

## Significant tax developments expected in 2024

- ▶ BEPS 2.0 Pillar Two implementation is awaiting transposition into Greek legislation.

## Significant legislative activity that could include tax

- ▶ BEPS 2.0 Pillar Two implementation is expected to be introduced via a draft bill in the forthcoming months.
- ▶ Generally, tax provisions may be inserted into Greek legislation anytime during the tax year; however, usually a tax law is introduced at the end of each tax year.

## Developments in tax transparency requirements

- ▶ Public CbCR Directive implementation: The rules will apply for financial years beginning on or after 22 June 2024 and refer to the disclosure of income tax data by multinational companies to the Business Registry and the financial statements submission by companies or loan borrowers to the Bank of Greece.
- ▶ CESOP rules (Directive EU 2020/284) will be implemented, applying certain requirements for payment service providers to combat cross-border VAT fraud.

# Greece

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ The standard rate remains at 22%.
- ▶ Pillar Two may affect taxation of parent entities and members of MNE groups located in Greece and large-scale domestic groups under specific conditions.

### Taxes on digital business activity

- ▶ Taxes on digital business activity are not currently expected to be imposed in 2024.

### Taxes related to climate change or sustainability

- ▶ The Resilience Against Climate Crisis Duty was introduced and replaces the previous hotel tax.
- ▶ CBAM rules have been introduced.

### Windfall taxes

- ▶ Windfall taxes are not expected to be imposed in 2024.

### VAT/GST or sales taxes

- ▶ The reduced VAT Rate of 13% was introduced on a permanent basis for the supply of non-alcoholic beverages and carbonated waters. On-site consumption of these goods is subject to the standard VAT rate of 24%. Coffee, cocoa, tea, chamomile and other beverages are excluded from the abovementioned rule and are subject to the reduced VAT rate of 13% until 30 June 2024, regardless of their place of consumption.
- ▶ After 31 December 2023, the following services are subject to reduced VAT rates indefinitely:
  - ▶ 6% for cinema tickets
  - ▶ 13% for zoo entrance tickets, gym services
  - ▶ 13% for dance schools' services (that are not subject to a VAT exemption)

### Personal taxes

- ▶ The tax reduction for taxpayers with children increased.
- ▶ Progressive taxation was introduced for lump sum amounts and annuities received by employees participating in group pension plans and institutions for occupational retirement provision.



# Greece

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Transfer pricing appears to be a main area of tax controversy focus.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ The main focus is expected to be on tackling tax evasion of freelancers (based on the recently introduced Law L.5073/2023) and via the enforcement of universal implementation of e-books and the imposition of penalties for any violations or discrepancies.

Tax audits in Greece in 2024 are generally expected to increase in number and intensity.

### Top audit issues

1. Cases whose five-year statutory limitation period expires in 2024
2. Tax evasion cases
3. Cases for which the period for submission of income tax return expired within the last three years
4. Tax refund cases, especially in VAT

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ The envisaged use of AI by the tax authorities (e.g., smart agents to respond to taxpayers' queries, education platforms to inform taxpayers about their tax compliance obligations, data mining applications and applications drawing a taxpayer's profile in order to detect tax evasion and tax avoidance, etc.) may assist in dispute prevention.

### Changes in tax audit approaches or methods

- ▶ The cases in which tax authorities may assess income tax by applying indirect tax audit methods were amended and additionally include:
  - ▶ Cases where there is a significant mismatch between economic data declared (e.g., sales, stock)
  - ▶ Cases where the gross profit rate is unjustifiably different over consecutive years
  - ▶ Cases where losses are declared for at least three consecutive tax years and the means of financing of the entity is not evident

### Tax governance approach/processes developments for business taxpayers

- ▶ New income tax calculation method for freelancers, based on presumptions or deemed income (L.5073/2023)

### Digital tax administration developments

- ▶ An automated audit system of property was enacted (BANCAPP, from the system's Greek name) to be used for the taxable income determination for all the persons under a tax audit through the crosschecking of the data deriving from bank accounts and relevant transactions.
- ▶ Mandatory e-invoicing within 2024 is under approval by European Commission.
- ▶ Universal implementation of e-books (myDATA) with the purpose of making sure that:
  - ▶ Declared revenues are not lower than those deriving from the electronic information.
  - ▶ Tax documents not transmitted electronically to the myDATA platform are not taken into account, both for income tax and VAT purposes.
- ▶ Mandatory issuance of e-delivery notes
- ▶ Expected implementation of business intelligence and data analytics systems by the tax administration

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	22%	22%	–	Same	Same
PIT	44%	44%	–	Same	Same
VAT/sales	24%	24%	–	Same	Same

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# Guatemala

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## EY key contacts

### Tax policy:

Luis E. Ocando, Daniel Quesada

### Tax controversy:

Rafael Sayagues, Randall Oquendo

## Key issues to watch in 2024

- ▶ Newly elected central-left President and divided Congress; changes in tax authority expected
- ▶ Tax reform
- ▶ Increasing tax audits

## Key drivers of tax policy change

- ▶ Based on political proposals made during the campaign, it is expected that the new government's focus will be fighting corruption at all levels.
- ▶ There is an ongoing drive for more transparency in tax disclosures.
- ▶ The tax administration has an increasing focus on data governance and the use of information technology for tax audits and facilitation of tax compliance.

## Significant tax developments expected in 2024

- ▶ Tax transparency measures
- ▶ Tax disclosure measures
- ▶ Comprehensive tax audits of corporate groups, focusing on intercompany transactions, both local and cross-border
- ▶ Increase of the pre-controversy "settlement agreements" with taxpayers
- ▶ Continuing digitalization of all tax compliance matters and procedures

## Significant tax developments in 2023

- ▶ Improvement of customs procedures (transparency, reduction of time and paperwork, automatization and digitalization of most customs procedures)
- ▶ Enforcement of transfer pricing rules and international exchange of information
- ▶ Tax transparency measures
- ▶ Reduction of time for tax controversy processes, through pre-controversy "settlement agreements" with taxpayers; a measure that significantly increased tax collection in 2023

## Significant legislative activity that could include tax

- ▶ Tax reform enforcing transparency, disclosure of financial information, detection of economical groups to fight tax arbitrage derived from the existence of different income tax regimes in the country (7% on revenue vs. 25% on profits)
- ▶ Reforms to make possible the disclosure of final beneficial owners for tax purposes

## Developments in tax transparency requirements

- ▶ Digitalization of accounting records and tax documents
- ▶ Interinstitutional (local and foreign) agreements for exchange of information
- ▶ Transparency and voluntary disclosure of information
- ▶ Digitalization of accounting records plus the obligation to use electronic invoices
- ▶ Tax return modifications to include extensive financial information

# Guatemala

## Expectations for tax policy

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**Moderate tax reform** is possible in 2024, a bill submitted to Congress in 2023 could be discussed and approved in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ Corporate tax regimes and rates: 7% on revenue or 25% on profits – are expected to remain the same.
- ▶ The Superintendency of Tax Administration (SAT, for its Spanish abbreviation) continues with a very drastic policy of criminal prosecution of cases considered tax evasion through the application of the conciliatory meeting figure, with taxpayers. In this meeting, the case that is going to be considered “tax fraud” is explained to the taxpayer. If the taxpayer accepts the amount of the claim, the SAT closes the case and does not initiate the criminal procedure. This policy is expected to be implemented specifically regarding transfer pricing matters.

### Taxes on digital business activity

- ▶ The SAT has been working on the review of the taxation rules applicable to digital business activities in Guatemala – a country that follows the territorial source taxation principle – to conclude if a tax reform is needed.

### Taxes related to climate change or sustainability

- ▶ No changes are currently expected.

### Windfall taxes

- ▶ The new government has not announced a proposal.

### VAT/GST or sales taxes

- ▶ The VAT rate remains the same at 12%.
- ▶ Due to the implementation of electronic invoicing, auditing of VAT is expected to increase during 2024.

### Personal taxes

- ▶ Personal taxes remain the same with tax brackets ranging from 5% to 7%.



# Guatemala

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Requirements of information regarding specific transactions, with a precise focus in intercompany transactions, or inconsistencies reported in tax return by taxpayers are becoming more common. This policy significantly increased tax collection during 2023.
- ▶ Audits became more specific, due to the use and management of data technology by the SAT.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ An increase of conciliatory meetings (settlement agreements) with taxpayers to avoid a tax controversy procedure
- ▶ Specific audits using data governance

**Tax audits in Guatemala in 2024 are generally expected to** increase in number and intensity.

### Top audit issues

1. Intercompany transactions (local transactions of corporate groups)
2. Transfer pricing
3. Income tax and VAT (deductible expenses and tax credits)

### Changes in tax audit approaches or methods

- ▶ Specific transactions audits and requirement for documentation of such transactions in a very short period (three working days)
- ▶ Multiple simultaneous tax audits to corporate groups
- ▶ International exchange of information by request to foreign tax administrations

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ Increase of conciliatory meetings

### Tax governance approach/processes developments for business taxpayers

- ▶ No changes are currently expected.

### Digital tax administration developments

- ▶ Electronic Invoice
- ▶ Digitalization of tax records and taxpayers' data
- ▶ Data governance

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	7% on revenue or 25% on profits	7% on revenue or 25% on profits	–	Same	Same
PIT	7%	7%	–	Same	Same
VAT/sales	12%	12%	–	Same	Same

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# Honduras

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## Key issues to watch in 2024

- ▶ Tax reform Bill on Tax Justice

## Key drivers of tax policy change

- ▶ A territorial tax system has been in effect in Honduras since 2017, even though income tax law has not been amended to reflect this change.
- ▶ The tax authority increases tax collection efforts every year, especially in election years.
- ▶ Special customs and tax regimes are being reviewed to attract foreign investment.

## Significant tax developments in 2023

- ▶ Electronic filing became available for more tax administration procedures.

## EY key contacts

### Tax policy:

Luis E. Ocando, Daniel Quesada

### Tax controversy:

Rafael Sayagués, Randall Oquendo

## Significant tax developments expected in 2024

- ▶ An electronic invoicing platform is to be implemented by the tax authority.
- ▶ Electronic filing is expected to be available for more tax administration procedures.
- ▶ VAT is supposed to become applicable to digital services.

## Significant legislative activity that could include tax

- ▶ Possible tax reform Bill on Tax Justice filed before national congress

## Developments in tax transparency requirements

- ▶ The Bill on Tax Justice aims to eliminate bank secrecy for tax and customs purposes.

# Honduras

## Expectations for tax policy

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**Significant tax reform** is expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to decrease.

### Corporate taxes

- ▶ Corporate income tax 25%
- ▶ Plus, a 5% solidarity contribution tax over total income of HNL1,000,000.00 (approx. USD40,000)

### Taxes on digital business activity

- ▶ VAT is supposed to become applicable to digital services, as announced on various occasions by the tax authority.

### Taxes related to climate change or sustainability

- ▶ No changes are currently expected.

### Windfall taxes

- ▶ Contribution for Care of Social Programs and Conservation of Road Heritage

### VAT/GST or sales taxes

- ▶ 15%
- ▶ 18% for special transactions (i.e., alcohol, cigarettes, first class airline tickets)

### Personal taxes

- ▶ Personal income tax top rate: 25%





# Honduras

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Stronger audits

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ A higher number of information requests being sent to business taxpayers.
- ▶ An electronic invoicing platform is to be implemented by the tax authority.
- ▶ VAT is supposed to become applicable to digital services.
- ▶ Electronic filing expected to be available for more tax administration procedures.

**Tax audits in Honduras in 2024 are generally expected to stay the same in number and/or intensity.**

### Top audit issues

1. Deductibility of expenses
2. Depreciation rules
3. Withholdings applied to payments abroad
4. Use of invoices, receipts and other tax documents
5. Transfer pricing rules (i.e., arm's-length principle, intercompany loans, permanent establishment)

### Changes in tax audit approaches or methods

- ▶ No changes are currently expected.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ No changes are currently expected.

### Digital tax administration developments

- ▶ Electronic filing expected to be available for more tax administration procedures.
- ▶ An electronic invoicing platform is to be implemented by the tax authority.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	25%	25%	–	Same	Same
PIT	25%	25%	–	Same	Same
VAT/sales	15%/18%	15%/18%	–	Same	Same

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# Hong Kong SAR

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## EY key contacts

**Tax policy:**  
[Patrick Kwong](#)

**Tax controversy:**  
[Wilson Cheng](#)

## Key issues to watch in 2024

- ▶ Pillar Two implementation and domestic top-up tax
- ▶ Budget deficits
- ▶ Refined foreign-sourced income exemption (FSIE) regime

## Key drivers of tax policy change

- ▶ Implementation of Pillar Two globally
- ▶ Government focus on reducing deficits and encouraging investment

## Significant tax developments in 2023

- ▶ Introduction of FSIE regime
- ▶ Introduction of tax incentive for family office
- ▶ Modified approach to issuance of Certificate of Resident Status
- ▶ Reduction of Stamp Duty rate on Hong Kong stock transfer from 0.13% to 0.1%, ad valorem rate of Part 1 of Scale 1 from 15% to 7.5%, and Buyer's Stamp Duty from 15% to 7.5%
- ▶ Proposed enhancements of the existing aircraft leasing preferential tax regime

## Significant tax developments expected in 2024

- ▶ Introduction of tax certainty scheme for disposal gains on equity interests effective from 1 January 2024
- ▶ Refined FSIE regime effective from 1 January 2024
- ▶ Introduction of patent box regime
- ▶ Enactment of legislation related to Pillar Two implementation and domestic top-up tax
- ▶ Enactment of legislation to provide for tax deductions for spectrum utilization fees payable by mobile network operators on radio spectrum acquired in the future

## Significant legislative activity that could include tax

- ▶ Adoption of risk-based capital regime for Hong Kong insurers
- ▶ Introduction of a company re-domiciliation regime

## Developments in tax transparency requirements

- ▶ No changes are currently expected.

# Hong Kong SAR

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ Two-tiered profits tax rate for corporations remains the same:
  - ▶ 8.25% on assessable profits up to HKD2,000,000
  - ▶ 16.5% on any part of assessable profits over HKD2,000,000
- ▶ Two-tiered profits tax rate for unincorporated businesses remains the same:
  - ▶ 7.5% on assessable profits up to HKD2,000,000
  - ▶ 15% on any part of assessable profits over HKD2,000,000

### Taxes on digital business activity

- ▶ Hong Kong does not impose any special taxes related to digital business activity.

### Taxes related to climate change or sustainability

- ▶ Hong Kong has charging schemes on certain types of waste disposal, sewage and effluent, as well as usage of plastic bags, which are mandatory charges at a specific calculation basis imposed on users (e.g., HKD1 per plastic bag used).
- ▶ Charging for municipal solid waste is expected to be effective within 2024.

### Windfall taxes

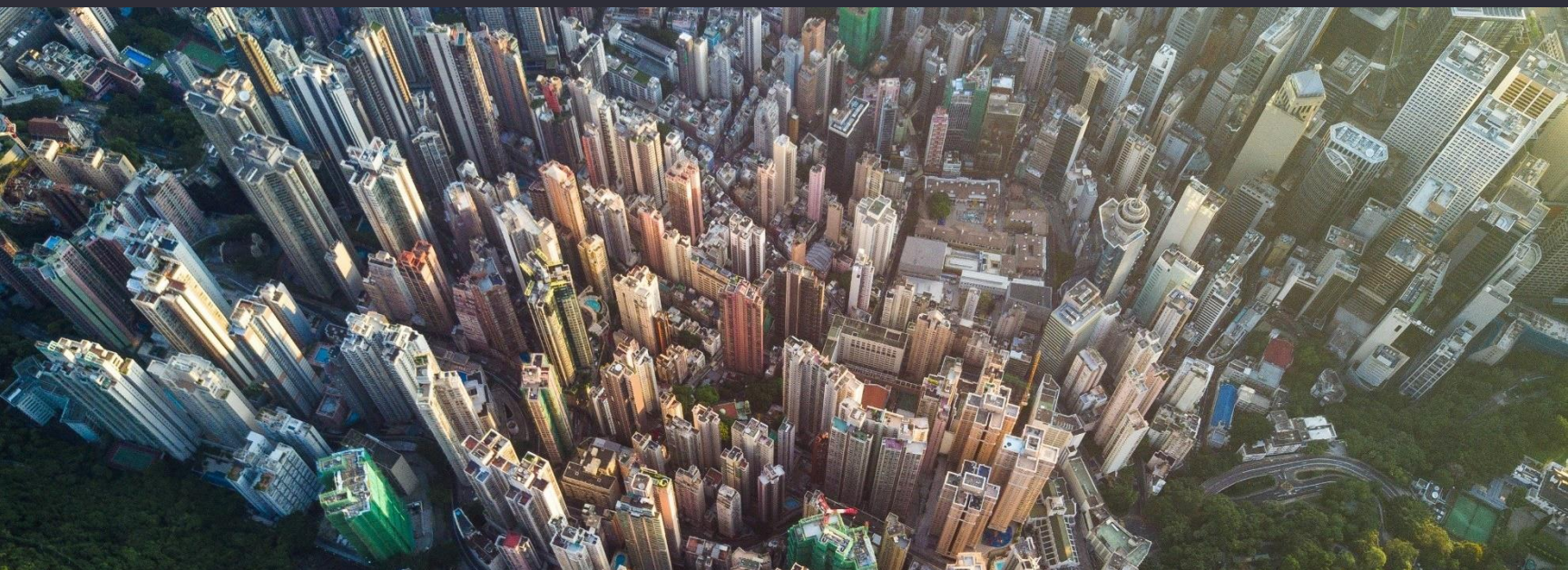
- ▶ Hong Kong does not impose any windfall taxes.

### VAT/GST or sales taxes

- ▶ Hong Kong does not impose any VAT/GST or sales taxes.

### Personal taxes

- ▶ Increase in child allowance and additional child allowance for each child born to HKD130,000



# Hong Kong SAR

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Enactment of the refined FSIE regime on passive income

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Stringent exemption requirements for Hong Kong's foreign-sourced passive income
- ▶ Strengthening of transfer pricing regulations and transfer pricing documentation requirement

**Tax audits in Hong Kong in 2024 are generally expected to** stay the same in number and/or intensity.

### Top audit issues

1. Transfer pricing – in relation to headquarter and management services transactions, as well as issues related to intellectual properties
2. Offshore or unreported profits
3. Interest deduction, especially on intercompany financing transactions

### Changes in tax audit approaches or methods

- ▶ No changes are currently expected.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ No changes are currently expected.

### Digital tax administration developments

- ▶ Voluntary e-filing of profits tax returns from April 2023
- ▶ Mandatory e-filing for supplementary forms and other forms
- ▶ Provision of IRD iXBRL Data Preparation Tools to taxpayers free of charge

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	16.5%	16.5%	–	Same	Same
PIT	15%	15%	–	Same	Same
VAT/sales	0%	0%	–	Same	Same

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# Hungary

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## EY key contacts

**Tax policy:**  
[Robert Heinczinger](#)

**Tax controversy:**  
[Gergely Sera](#), [Marton Horanyi](#)

## Key issues to watch in 2024

- ▶ Global minimum tax implementation
- ▶ Increased digitalization in VAT
- ▶ Effects of termination of the Tax Treaty concluded with the US
- ▶ Circular economy

## Key drivers of tax policy change

- ▶ Increasing the competitiveness of Hungary after the implementation of the global minimum tax
- ▶ Implementation of a circular economy action plan by improving waste management partly through tax regulations
- ▶ Mitigating the effects of termination of the tax treaty with the US
- ▶ Mitigating the adverse effect inflation had on the economy
- ▶ Restoring budgetary balance
- ▶ Easing administrative requirement with further digitalization

## Significant legislative activity that could include tax

- ▶ Introducing circular economy regulations based on the EU regulations – some of the measures also include tax, but the initiative is far wider

## Developments in tax transparency requirements

- ▶ e-VAT: From 2024, the tax authority will use the currently available data and prepare the draft VAT returns for all taxpayers.
  - ▶ In the future, there are three different ways to fulfil the VAT return obligation:
    - ▶ Using the relevant form
    - ▶ Amending or completing the draft return prepared by the tax authority
    - ▶ Approval of the VAT return prepared by the tax office
  - ▶ E-receipt will be introduced from 2025:
    - ▶ The bill includes the mandatory content of the e-receipt.
    - ▶ The bill contains strict data protection measures.
    - ▶ The e-receipt will be issued once it appears in the e-receipt system operated by the tax authority.
    - ▶ Significant IT and tax process developments are needed to apply the e-receipt system.

## Significant tax developments in 2023

- ▶ A circular economy action plan was introduced, which has a significant financial responsibility for taxpayers.
- ▶ The government introduced further types of windfall and extra profit taxes concerning certain sectors (pharma, airline).
- ▶ The government modified the personal income tax rules related to trusts.

## Significant tax developments expected in 2024

- ▶ Implementing the e-VAT and e-receipt regulations
- ▶ Modification of personal income tax rules due to the termination of the tax treaty concluded with the US

# Hungary

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to change.

**Other business incentives** are expected to decrease the same.

### Corporate taxes

- ▶ Besides the currently accessible and widely used R&D tax credit, the legislator introduced a new R&D tax credit. The new regime is a combination of tax credit and direct cash grant. This new R&D tax credit will be a qualified refundable tax credit from a Global Minimum Tax (GMT) perspective.
- ▶ As of 31 December 2023, the social contribution tax credit and the corporate tax credit for research and development activities cannot be claimed at the same time.
- ▶ Reported shareholdings are not subject to capital gains tax (participation exemption). All corporate taxpayers will have a one-off opportunity to report non-reported shareholdings to the Hungarian tax authority by the deadline for filing their annual corporate income tax return. If the reporting is made and 1.8% of the capital gains is paid as a special tax, the capital gains will be exempt of capital gains taxation upon subsequent disposal.
- ▶ Royalty and interest payments made to countries on the EU's list of non-cooperating countries and territories, or which are classified as having a zero or low tax rate, will not be deductible.
- ▶ The system of tax incentives for energy efficiency investments and renovations will be reformed. The amendments introduce the concept of an "alternative investment or renovation," which must be taken into account when determining the amount of tax relief available.

### VAT/GST or sales taxes

- ▶ From 1 January 2024, taxable persons will be able to submit their VAT returns via the e-VAT system and machine-to-machine data service in addition to the traditional VAT return forms currently in use.
- ▶ E-VAT and e-receipts will be introduced.

### Taxes related to climate change or sustainability

- ▶ A CO<sub>2</sub> quota tax was introduced, with companies receiving a free allocation of emission allowances.
- ▶ New payment obligations will be introduced to cover the additional costs arising from the new circular economy regulations.

### Global minimum tax

- ▶ The bill transposes EU Directive 2022/2523 and the related OECD rules into Hungarian law, closely following the wording of the Directive.
- ▶ Hungary has introduced a QDMTT. Consequently, MNE Group members liable to QDMTT in Hungary should be exempt from further GMT payment obligations with respect to Hungary in other jurisdictions.
- ▶ Hungary will introduce IIR as of 2024 and UTPR as of 2025.

### Personal taxes

- ▶ Significant changes are made to limit the effects of the termination of the US-Hungary Double Tax Treaty.

### Other

- ▶ The tax on utility lines will be phased out in two steps.
- ▶ The suspension of the advertising tax is extended for a further year until 31 December 2024.

# Hungary

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ The Hungarian tax authority employs a broad range of digital tools, including AI-based tools, during tax audits and compliance checks.
- ▶ These tools enhance the efficiency of selecting taxpayers for tax audits year on year.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Tax enforcement procedures are expected to become more challenging for taxpayers.
- ▶ More administrative responsibility is expected due to the windfall and extra surplus taxes in certain sectors.

### Tax audits in Hungary in 2024 are generally expected to increase in number and/or intensity.

### Top audit issues

1. Transfer pricing: The Hungarian tax authority (HTA) is more likely to scrutinize taxpayers that realized loss in the respective year or have been in a loss-making position for several years.
2. VAT refunds and issues: VAT refund requests and data-reporting system-based mismatches will likely still continue to be one of the main focuses of tax audits.
3. Local business tax (LBT) deduction: Municipalities are actively auditing LBT deductions. It is not uncommon for market consultants to be hired as auditors because the employees of the municipalities do not have the necessary qualifications. Therefore, taxpayers should prepare for increased attention.

### Changes in tax audit approaches or methods.

- ▶ A lower number of, but more focused, tax audits are expected.
- ▶ The local business tax authority is becoming more active in tax audits.
- ▶ The tax authorities set short deadlines to the taxpayers for providing declarations and documents during tax audits.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ Taxpayers are subject to stricter reporting requirements, and the tax authorities investigate closely whether the taxpayers comply with the requirements.

### Digital tax administration developments

- ▶ Further improving e-invoicing tools for taxpayers
- ▶ Implementing digital data submission requirements in VAT
- ▶ Wider usage of AI guided tools by the tax authority

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	9%	9%	Same	Same	Same
PIT	15%	15%	Same	Same	Same
VAT/sales	27%	27%	Same	Same	Same

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# India

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## EY key contacts

**Tax policy:**  
[Ganesh Raj](#)

**Tax controversy:**  
[Rajan Vora](#)

## Key issues to watch in 2024

- ▶ Tax policy reforms by the newly elected government
- ▶ BEPS Pillar One and Pillar Two implementation – Domestic rules

## Key drivers of tax policy change

- ▶ Enhancing economic growth, encouraging investments
  - ▶ Incentivizing domestic manufacturing, promoting exports, encouraging green energy and mobility
  - ▶ Incentivizing micro, small and medium entrepreneurs
- ▶ Expanding the tax base, maintaining tax rate stability and curbing tax evasion through data sharing and intelligent enforcement
- ▶ Rationalizing the income tax law, GST law and rates
- ▶ Leveraging technology to make tax administration simpler, more transparent and accountable for ease of compliance
- ▶ Minimizing disputes
- ▶ Collaborating internationally to end tax avoidance
- ▶ The full budget will be presented by the new government in July 2024. Tax developments will depend on the tax policy approach of the new government.
- ▶ If the incumbent government gets re-elected, then some issues that may be addressed in continuing agenda are:
  - ▶ Implementation of Pillar Two and cohesive steps toward Pillar One
  - ▶ Capital gains tax regime may be simplified
  - ▶ Reduction of pendency of tax litigation

## Significant legislative activity that could include tax

- ▶ Reform on taxation of nonprofit organizations
- ▶ Possibility of new government looking at new simplified direct tax code

## Significant tax developments in 2023

- ▶ Revamp of existing personal concessional tax regime (CTR) to encourage more taxpayers to opt for this scheme
- ▶ Specific provision introduced in the income tax law for “*Taxation of online games*”
- ▶ Tax incentives to International Financial Service Centre (IFSC), such as “Exemption to non-residents on income from Offshore Derivative Instruments (ODIs)” and “ship leasing activity”
- ▶ Custom duty rationalization to promote Make in India

## Developments in tax transparency requirements

- ▶ India does not have any specific tax transparency requirements for taxpayers. However, the government has been proactively taking measures to achieve transparency, such as:
  - ▶ Faceless assessments and appeals were introduced in 2020 to reduce the interface between tax authorities and taxpayers, have greater transparency and use data analytics and AI for selection of cases for scrutiny.
    - ▶ Entire tax administration up to the first level of appeal is now faceless
  - ▶ Additions to taxpayer’s reported incomes are made strictly on data collected through different sources and made available to the taxpayer for rebuttal.

## Significant tax developments expected in 2024

- ▶ India will hold its General Elections in April-May 2024. As such, only an “Interim Budget” or “Vote on Account” is expected before then and no significant legislative tax developments. The government may announce its **policy intent on some issues, including BEPS Pillar Two.**



# India

## Expectations for tax policy

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**Significant tax reform** may occur in 2024.

**General elections** are scheduled in April to May 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same:

- ▶ The government has shared an intent to phase out incentives and maintain lower tax rates.
- ▶ However, new incentives may be expected to encourage setting up more activities in the IFSC.

### Corporate taxes

- ▶ The following rates are now applicable to companies for the financial year 2023-24:
  - ▶ Domestic company that opts for lower tax rate without claiming any incentives – 25.17%
  - ▶ New manufacturing companies set up or registered on or after 1 October 2019 and that commence manufacturing up to 31 March 2024 – 17.16%
  - ▶ Domestic company that does not opt for lower tax rate and chooses to avail current incentives and deductions – based on turnover different tax rates apply – 26% to 34.95%
- ▶ Considering the buoyant tax revenue collection in 2023, it is likely that the newly elected government will continue its policy of stability in tax rates and increasing the taxpayer base.

### Taxes on digital business activity

- ▶ India continues to be actively involved in discussions on Pillar One and Pillar Two. Considering implementation of Pillar Two in other countries, India may also follow suit in 2024.
- ▶ In line with the **if** consensus, India may need to do away with unilateral digital tax measures like the equalization levy (EL) and provisions for significant economic presence (SEP). However, at this juncture, there is no official statement from the government to this effect.
- ▶ Issues like the EL, SEP provisions and new compliances are dependent on the progress of Pillar One. The Indian government is currently holding consultations on various aspects under the two pillars.

### Taxes related to climate change or sustainability

- ▶ India does not have an explicit carbon tax. However, taxes on fuels (e.g., coal, petrol, diesel) are considerably high. These act as an implicit carbon tax.
- ▶ At the sub-national level, some states impose a vehicle tax or green tax.
- ▶ India will likely discuss the issue of CBAM applicability on exports with EU and other countries.

### Windfall taxes

- ▶ A windfall profit tax on domestic crude oil production began 1 July 2022 and is reviewed on a regular basis.
- ▶ The windfall tax was levied as special additional excise duty. It is aimed at absorbing the super profits earned by domestic crude oil producers (who choose to export fuel to reap benefits of skyrocketing global prices while affecting domestic supplies).

### VAT/GST or sales taxes

- ▶ The government's focus is on improving compliance, increasing revenue and providing more clarity to taxpayers. The coming months may see greater focus on:
  - ▶ GST rate rationalization
  - ▶ Decriminalization of GST law
  - ▶ Legislative reform for GST laws to create more certainty and simplification in doing business
  - ▶ Expeditious dispute resolution
  - ▶ Rationalization of audit and assessment

### Personal taxes

- ▶ The government policy has been to impose a higher tax on HNWIs while providing a respite to middle- and lower-income taxpayers.
- ▶ In Budget 2020, a simplified CTR was introduced. It offered lower tax rates to taxpayers in lieu of all the incentives and deductions. In Budget 2023, the income tax slabs under CTR were revised. Tweaks were made to encourage more and more taxpayers (even super-rich taxpayers) opt for CTR.

# India

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ The last two budgets introduced many new withholding tax provisions that have cast new obligations and compliance burden on taxpayers.
- ▶ In addition, the government has increased the use of technology and data intelligence through information tracking, taxpayer profiling and bringing more taxpayers in the tax net.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Increased number of investigations and assessments based on sharing of information and data among government authorities
- ▶ Faceless tax administration, including both assessments and appeals
- ▶ Greater focus on collection of information by increasing withholding taxes requirements

### Tax audits in India in 2024 are generally expected to increase in number and/or intensity.

### Top audit issues

1. Treaty benefit – Denial of treaty benefit to a taxpayer in absence of valid tax residency certificate; beneficial ownership test or based on interpretation of treaty provisions due to difference in language between domestic tax provisions and treaty provisions
2. Disallowance of profit-linked deduction – challenge the claim of tax incentives provided to taxpayers for undertaking activities of a particular nature or in a particular operation zone and definition of activities provided under each of the tax incentive provisions
3. Business restructuring – Focus on global structuring – focus on sale of India business – challenging valuation under transfer pricing – challenge taxability of profit distribution (grant of exemption in certain criteria prescribed under ITL)
4. Benchmarking of financial instruments like CCDs, FCCBs, OCDs, etc.
5. Intra-group charges – Taxability of foreign companies in India (DTAA vs. Act) – Benchmarking of intra-group charges from Indian TP perspective – challenging need-benefit test

### Changes in tax audit approaches or methods

- ▶ No changes are currently expected.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ Budget 2023 announced the deployment of 100 Joint Commissioners for the disposal of small appeals pending before CIT (Appeals). The coming months may see active operationalization of the 100 Joint Commissioners.
- ▶ Expediting APAs is a priority for government. 516 APAs were concluded through 31 March 2023. The process of concluding APAs could be expedited further.

### Tax governance approach/processes developments for business taxpayers

- ▶ India does not have any tax governance related requirements. Broadly, there are three reporting requirements in India: (a) preparation of tax audit report, (b) reporting related-party transactions under transfer pricing and (c) complying with CbCR regulations.
- ▶ Accordingly, companies comply with the above requirements. Some subsidiary companies that are headquartered out of India may undertake tax governance practices as per the guidance laid out by their parent entities.

### Digital tax administration developments

The following initiatives are expected to continue in 2024:

- ▶ A focus on taxpayer outreach, faceless processes, revamped national website and other digital initiatives to create an overall improved taxpayer experience, enabling speedy return processing and refunds
- ▶ Enhancing the efficiency and integrity of the GST by leveraging data analytics and artificial intelligence; a focus on implementing a risk rating system of registrants, verification to prevent fraudulent entries, geo-tagging of business locations, system-based suspension of registrations for non-filers, and risk-based processing of refund applications
- ▶ Technological advancements under customs like ICEGATE 2.0 and the anonymized escalation mechanism

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	34.9% (statutory rate 30% plus cess and surcharge) 25.17 (CTR of 22% plus cess and surcharge)	34.19% (statutory rate) 25.17% (CTR)	–	May expand	Same
PIT	42.7%	39% (CTR)	-3.7%	May expand	Lower
VAT/sales tax/GST	Four tax slabs of 5%, 12%, 18% and 28% under GST	Four tax slabs of 5%, 12%, 18% and 28% under GST	–	May expand	Same

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# Indonesia

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## EY key contacts

**Tax policy:**  
Yudie Paimanta

**Tax controversy:**  
Yudie Paimanta

### Key issues to watch in 2024

- ▶ BEPS 2.0 Pillar Two implementation
- ▶ Sustainability taxes, e.g., carbon tax
- ▶ Increase in national tax revenue budget
- ▶ Increased tax enforcement

### Key drivers of tax policy change

- ▶ Enforcement of tax compliance to boost national tax revenue collection
- ▶ Implementation of “Renewal of the Core Tax Administration System” to create an integrated tax information system using a large database
- ▶ Discussion on planning to implement Pillar Two and interaction with existing tax incentives

### Significant legislative activity that could include tax

- ▶ Due to the 2024 general elections, there is uncertainty as to the make up of the parliament and the government to be formed by the new President.

### Developments in tax transparency requirements

- ▶ The Ministry of Finance and the Indonesian Tax Authority (ITA) are generally moving toward improving tax transparency but there are no concrete proposals in this area at present to our knowledge.

**Significant tax reform** is not expected in 2024 but subject to the result of the 2024 general elections.

**Elections** for President and Parliament are to take place in February 2024 (with a potential second round of the Presidential election to take place in June 2024).

**R&D incentives** are expected to stay the same.

**Other business incentives** are under review in the context of Pillar Two – there are some uncertainties.

### Significant tax developments in 2023

- ▶ Issuance of implementing regulations related to enactment of Law on Harmonization of Tax Regulation, such as tax treatment on benefits-in-kind provided to employees.
- ▶ Intensification of pre-tax audit approach through issuance of SP2DK (Request for Explanation of Data and Information)

### Significant tax developments expected in 2024

- ▶ Expansion of tax base, more focus on HNWIs and their relevant group of entities, as well as digital economy
- ▶ Implementation of Pillar Two
- ▶ Potential changes in tax policy to be made by the new government because of the 2024 general elections
- ▶ Potential increase in tax controversy, particularly on transfer pricing, driven by pressure to collect more tax revenue

# Indonesia

## Expectations for tax policy

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### Corporate taxes

- ▶ The CIT rate is expected to remain the same at 22%.
- ▶ No significant changes are expected unless Pillar Two is implemented.

### Taxes on digital business activity

- ▶ Even though the government will focus on the digital economy, significant changes on tax regulations around digital business are not expected. If Pillar One does not proceed, the authorities appear prepared to implement unilateral rules on cross-border digital supplies.

### Taxes related to climate change or sustainability

- ▶ The government has enacted the Carbon Trading Bourse that is in line with de-carbonization commitment to achieve net-zero emissions in 2060 or sooner. However, the implementation of the carbon tax is not yet effective as of the end of 2023.

### VAT/GST or sales taxes

- ▶ The existing 11% VAT rate will have to increase to 12% by 2025 at the latest, based on current tax law.

### Personal taxes

- ▶ Significant changes on personal taxes are not expected; however, the ITA will more focus on HNWI.



# Indonesia

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ More implementation of electronic tax administrative procedures
- ▶ Issuance of SP2DK as a strategic priority
- ▶ With the application of e-filing system, big data and information generated and used by the ITA in strategizing to conduct tax audits

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Potential intensification of exchange of information mechanism with other countries
- ▶ Potential rewrite of the core transfer pricing regulations
- ▶ Potential increase in tax controversy, mostly on transfer pricing, driven by pressure to collect more tax revenue
- ▶ Potential changes in tax policy to be made by the new government after the 2024 general elections

**Tax audits in Indonesia in 2024 are generally expected to increase in number and/or intensity.**

### Top audit issues

1. Transfer pricing, especially cross-border transactions
2. Deductibility of expenses – availability of relevant supporting documents
3. Indirect approach of tax audit through various detailed reconciliation mechanisms

### Changes in tax audit approaches or methods

- ▶ There has been an Intensification of the pre-tax audit approach through issuance of SP2DK.
- ▶ Tax authorities are maximizing the use of information gained from exchange of information mechanisms.
- ▶ In the absence of tax regulation clarity on documents to support deductions, there have been more cases where the taxpayer must provide extensive and detailed data, information and documentation – even those that are not possessed by taxpayer but by a related entity.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ The ability to undertake multilateral APAs was recently introduced in Indonesia.
- ▶ Implementing regulations are yet to be issued for BEPS 2.0 in Indonesia and there have been no adaptations to the General Tax Provisions and Procedures law regarding BEPS 2.0. It is difficult to predict what approaches might be taken to the resolution of future disputes. It may be that the normal audit, objection and tax court appeal process would apply.

### Tax governance approach/processes developments for business taxpayers

- ▶ With the coming 2024 general elections, no significant developments are expected.

### Digital tax administration developments

- ▶ Currently, the ITA has implemented “Renewal of the Core Tax Administration System” (PSIAP) to arrive at an integrated taxation information system using a large database.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	22%	22%	–	Same	Same
PIT	5%-35%	5%-35%	–	Same	Same
VAT/sales	11%	11%	–	Same	Same

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# Iraq

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## Key issues to watch in 2024

- ▶ Income tax self-assessment method
- ▶ New Social Security Law (SSL)

## Key drivers of tax policy change

- ▶ There is a push by the government for more efficient, decentralized tax auditing processes through the adoption of a self-assessment method. This aims to reduce time and streamline tax procedures for businesses, while promoting more accurate tax auditing.
- ▶ To improve compliance and reduce corruption, the government plans a full review and reform of the tax administration, such as by increasing penalties for tax evasion and revising tax exemption statuses.
- ▶ There is considerable effort for the automation of the tax system, aiming to improve efficiency, reduce errors and enhance compliance. The General Commission for Taxes (GCT) plans to fully digitalize the tax auditing and payment process to improve efficiency and transparency.
- ▶ The government and GCT are working together, considering taxpayer input, to update legislation and modernize Iraqi tax practices. Amendments are expected to be made to update laws, introduce VAT and diversify non-oil revenue streams to promote a relevant and progressive system.

## Significant tax developments in 2023

- ▶ In a move toward modernization, the GCT introduced a self-assessment method for CIT that allows businesses to compute, report and pay their own tax liabilities.
- ▶ The tax authority has introduced changes in the process of recording and issuing WHT certificates. These new measures allow for more thorough documentation thus enhancing transparency, compliance and ease of tax administration for both the taxpayer and the GCT.

## EY key contacts

**Tax policy:**  
[Mustafa Abbas](#) , [Nizar El Salem](#)

**Tax controversy:**  
[Mustafa Abbas](#) , [Nizar El Salem](#)

- ▶ Amendment of Instruction No. 5 of 2011
- ▶ Digitalization of payment processes

- ▶ Amendments to social security laws: Law Number 18 of 2023 is expected to result in more balanced benefits for both employers and employees by enhancing workers' protections while maintaining reasonable costs for employers.
- ▶ A point of sales (POS) system was introduced and promoted by the GCT.

## Significant tax developments expected in 2024

- ▶ Full implementation of reforms and new tax legislation
- ▶ Amendment of Instruction No. 5 of 2011 – Clarification of Contractual Activities by Ministry of Oil's Specialized Companies
- ▶ Payment portal roll out at the Department of Retirement and Social Security (DRSS)

## Significant legislative activity that could include tax

- ▶ The Board of Supreme Audit is expected to oversee the development of a comprehensive audit and financial policy.
- ▶ Formation of a high-level intragovernmental committee to spearhead and oversee tax reform and related legislation is expected.

## Developments in tax transparency requirements

- ▶ Digital authentication via QR codes is being utilized by the GCT when issuing No Objection Letters and Release of Retention Letters for a secure and reliable tax environment.

# Iraq

## Expectations for tax policy

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**Significant tax reform** is expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ The Ministry of Oil is set to delineate which O&G companies' contractual activities qualify as petroleum operations (upstream activities) based on industry technical standards. This distinction is pivotal due to the significant variations in tax rates, ranging from 15% to 35%.
- ▶ Following the previous year's changes, 2024 will see the full implementation of recent CIT self-assessment reforms, alongside longer-term legislative changes. This includes the development and introduction of VAT laws.
- ▶ The government is expected to ask the Ministry of Finance and GCT to draft new tax legislation for parliamentary consideration in the second half of 2024.

### Taxes on digital business activity

- ▶ Introduction of government budget in 2024 is expected to allow for the tax audit of social media content creators and businesses. No instructions have been issued as of yet.

### Taxes related to climate change or sustainability

- ▶ The possible introduction of tax incentives for sustainable energy production in business operations is still being discussed. No instructions have been issued.

### VAT/GST or sales taxes

- ▶ A reduction of the custom duty and the introduction of a VAT are possible.

### Personal taxes

- ▶ Upon the announcement of the new SSL at the end of 2023, we expect to see the widescale application of the new law.
- ▶ The DRSS plans a full adoption of digital payment methods in the second half of 2024. This comes with the introduction of a new portal and efforts are being made to make sure there is a smooth transition.
- ▶ Under the new SSL, freelancers are able to register with the DRSS and unemployment benefits are being afforded to those who meet the DRSS's requirements.



# Iraq

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Income tax self-assessment legislation
- ▶ New SSL
- ▶ POS introduced at the GCT and DRSS

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Implementation of new SSL
- ▶ New tax legislation in second half of 2024

Tax audits in Iraq in 2024 are generally expected to increase in number and intensity.

### Top audit issues

1. With the elimination of deemed tax in the audit process, taxpayers now have full control over bookkeeping and compliance. As this is a recent shift, the operation of the self-assessment method in the latter stages of the audit process remains to be seen, particularly when the GCT requests supporting documents for the submitted books.
2. Many companies remain noncompliant with WHT expectations and liabilities. This remains a challenge and it is unclear how the GCT plans to approach this issue.
3. There are persisting concerns about the inconsistent application and varying rates of capital gains tax, leading to uncertainty for taxpayers and posing potential compliance challenges during audits.

### Changes in tax audit approaches or methods

- ▶ Self-assessment method – Businesses will independently calculate, report and remit their own tax liabilities based on their income and the applicable tax laws.
- ▶ Categorization of contractual activities in petroleum operations – Income from upstream activities will continue to be taxed at a rate of 35%, and income from non-petroleum operations will now be taxed at a rate of 15%.

### Tax governance approach/processes developments for business taxpayers

- ▶ Introduction of the self-assessment method

### Digital tax administration developments

- ▶ E-payments are planned to be introduced via a new portal system being developed by the DRSS, and it is expected to be rolled out in the latter half of 2024.
- ▶ Cash payments are expected to be phased out in favor of e-payment and POS methods by the GCT by the latter half of 2024.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	35%	35%	–	Same	Same
PIT	15%	15%	–	Same	Same
VAT/sales	NA	NA	–	NA	NA

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# Ireland

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## Key issues to watch in 2024

- ▶ Pillar Two implementation
- ▶ VAT modernization
- ▶ Participation exemption
- ▶ Share-based remuneration
- ▶ Increased enforcement
- ▶ Increased R&D credits

## Key drivers of tax policy change

- ▶ Annual fiscal budget 2024
- ▶ Implementation of OECD's BEPS 2.0 Pillar Two 15% minimum effective tax rate and introduction of an Irish QDMTT
- ▶ Inflationary pressure and housing shortage
- ▶ Climate change

## Significant tax developments in 2023

- ▶ Increase in R&D tax credits available
- ▶ Restriction to withholding exemptions applying to certain payments of interest, royalties or the making of a distribution on or after 1 April 2024

## EY key contacts

**Tax policy:**  
[Joe Bollard](#)

**Tax controversy:**  
[Enda Jordan](#)

## Significant tax developments expected in 2024

- ▶ A participation exemption for foreign-sourced dividends is expected in Finance Act 2024.
- ▶ A top-up tax was introduced (Pillar Two) for companies with over EUR750 million global annual turnover in at least two of the preceding four years.
- ▶ Enhanced reporting requirements for employers (untaxed benefits and expenses) should be effective in 2024.

## Significant legislative activity that could include tax

- ▶ Finance Bill 2024 – October 2024

## Developments in tax transparency requirements

- ▶ Implementation of Public CbCR into Irish law, applying to accounting periods commencing on or after 22 June 2024
- ▶ Enabling legislation for BEPS 2.0 – Pillar Two in Finance (No. 2) Act 2023

# Ireland

## Expectations for tax policy

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**Significant tax reform** is expected in 2024.

**Elections** are not expected to occur in 2024.

**R&D incentives are increasing.** The R&D tax credit increased to 30% and the first-year repayment limit doubled to EUR50,000.

**Other business incentives** are expected to increase.

### Corporate taxes

- ▶ The standard rate on trading profits remains at 12.5%.
- ▶ Pillar Two is expected to be implemented with a 15% minimum effective tax rate with an Irish QDMTT for businesses with annual turnover greater than EUR750 million.
- ▶ There is a consultation on the introduction of a participation exemption for foreign-sourced dividends to take effect at the beginning of 2025.

### Taxes on digital business activity

- ▶ A consultation ongoing to enhance VAT reporting in 2024.

### Taxes related to climate change or sustainability

- ▶ In October 2023, the carbon tax increased to EUR56 per ton of Co<sub>2</sub>.
- ▶ An Infrastructure, Climate and Nature Fund will be set up with a EUR14 billion package invested by 2030.

### Windfall taxes

- ▶ No changes are currently expected in 2024.

### VAT/GST or sales taxes

- ▶ Modernization of VAT invoicing and reporting system

### Personal taxes

- ▶ Key Employee Engagement Programme (KEEP; employee share options) scheme extended to 31 December 2025 and lifetime limit increased to EUR6 million
- ▶ Mortgage interest relief brought in for 2024 only, applicable at standard rate of income tax
  - ▶ Max value of EUR1,250 per property
- ▶ Consultation on share-based remuneration
- ▶ Consultation on personal pension fund threshold



# Ireland

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Revised Code of Practice for Revenue Compliance Interventions – May 2022
- ▶ Focus on tax risk and governance

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Cross-border audits
- ▶ Increased enforcement

Tax audits in Ireland in 2024 are generally expected to increase.

### Top audit issues

1. Corporation tax – transfer pricing, R&D, capital vs. revenue
2. VAT – reverse charge, disallowables, incorrect rates
3. Employment tax – benefits, expenses and contractor vs. employee

### Changes in tax audit approaches or methods

- ▶ Irish revenue will conduct targeted compliance management activities
- ▶ Increased use of technology

### Tax governance approach/processes developments for business taxpayers

- ▶ Cooperative Compliance Framework currently in place for large taxpayers
- ▶ Pilot scheme in place for medium taxpayers

### Digital tax administration developments

- ▶ Enhanced reporting requirements for employers – untaxed benefits and expenses
- ▶ VAT modernization

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT (trading – excluding BEPs 2.0)	12.5%	12.5%	–	Same	Same
PIT	55%	55.1%	0.18%	Higher	Higher
VAT/sales	23%	23%	–	Same	Same

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# Israel

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## EY key contacts

**Tax policy:**  
Kfir Nahum

**Tax controversy:**  
Kfir Nahum

### Key issues to watch in 2024

- ▶ VAT commencing March 2024, the Israel Tax Authority (ITA) to assign numbers to invoices in transactions between dealers as part of its work against fictitious invoices
- ▶ Pillar Two implementation
- ▶ Each tax year, the ITA publishes a list of additional reportable transactions, which every taxpayer is required to declare on when submitting its tax return; to date, the list for 2023 is not yet published

### Key drivers of tax policy change

- ▶ Israeli governments usually tend to legislate laws that attract multinational corporations to centralize their R&D operations in Israel. For example, in 2017 Israel enacted a preferred tax regime for technological enterprises, which centralize their IP and R&D in Israel. To date, this tax regime is BEPS-compatible.
- ▶ Israeli governments usually tend to adopt BEPS recommendations in the various fields. For example, since Israel has signed the MLI, as well as enacted legislation to align its transfer pricing rules with BEPS Action 13 requirements (Local File, Master File, and CbCR).
- ▶ Israeli governments usually address the “brain drain problem” to attract former Israelis who left the jurisdiction to come back to Israel.
- ▶ Israeli governments usually aim to circumvent the use of illicit money, including the prevention of money laundering and tax evasion.
- ▶ **Israeli high-tech: “Angels Law” grants tax benefits to investors:** The Israeli legislator promulgated a new Angels Law at the end of July 2023 with the goal of preserving Israel as an attractive hub for investments in high-tech companies by granting various tax incentives (this temporary order will remain in effect until the end of 2026). The tax benefits include:
  - ▶ Tax credit for investing in Israeli high-tech startups
  - ▶ Deducting the sum of investment in an Israeli high-tech startup from the capital gain derived from the sale of shares of other high-tech company
  - ▶ Recognizing an investment in shares of an Israeli high-tech company as a deductible expense in the current tax year
  - ▶ Tax exemption on interest income of foreign financial institution in respect of loans granted by it to Israeli high-tech companies

### Significant tax developments in 2023

- ▶ **Tax reliefs:** The ITA has published a series of wartime tax reliefs. These include inter alia donations and various extensions of the deadlines for filing periodic VAT, withholding tax, tax advances as well as for filing tax returns and capital declarations for 2022.
- ▶ **“Swords of Irons” compensations:** Due to the damages caused by the war in Israel, the Knesset has approved a compensation outline for businesses. The outline prescribed in the temporary order applies to indirect economic damages caused to businesses during the war period. The outline classifies the volumes of compensation according to annual operating turnovers reported by businesses to the VAT authorities.
- ▶ **Investments via SAFE as a tax event:** For the first time, the ITA has announced its position regarding investments via simple agreements for future equity (SAFEs). The guidelines determined that, under particular circumstances, the investment is to be considered an advance on a share investment account. That being the case, no tax event will transpire, and no tax withholding obligation will apply when exercising the SAFE into shares.
- ▶ **The ITA has issued updated guidance on MAP, in line with BEPS principles.**

# Israel

## Expectations for tax policy

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### Significant tax developments expected in 2024

- ▶ Besides the VAT invoices assignment legislation stated above, no major changes are currently expected.

### Significant legislative activity that could include tax

- ▶ No major legislative activity is currently expected.

### Developments in tax transparency requirements

- ▶ Israel has enacted legislation to align its TP rules with BEPS Action 13 requirements (Local File, Master File, and CbCR) which applied commencing in FY2022.
- ▶ No additional developments are expected in 2024.

**Significant tax reform** is not expected in 2024.

**Elections** are not expected to take place in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ Corporate tax rate: The standard rate is to remain at 23%.
- ▶ The ITA has finalized an international tax reform package. There is no clarity on the timeline for the legislation of the proposals made within this package. The main proposals refer to the following international tax aspects:
  - ▶ Foreign tax credit rules
  - ▶ CFC rules
  - ▶ Anti-hybrid rules
  - ▶ "Exit" tax
  - ▶ Tax residency of individuals
  - ▶ MDR
  - ▶ Other reporting requirements
- ▶ The "Angels Law" grants tax benefits to investors in high-tech companies.

### Taxes on digital business activity

- ▶ We are aware that the ITA is willing to tax multinational corporations' digital activities in Israel. In 2016, the ITA published a tax circular addressing the Israeli taxation of nonresident companies selling goods or providing services through the internet to Israeli customers. The Circular covers the CIT liability as well as the VAT liability of these digital companies. The Circular represents the ITA's interpretation of the law and has not a legal binding effect for the courts.

### Taxes related to climate change or sustainability

- ▶ No significant developments are currently expected.

### Windfall taxes

- ▶ No significant developments are currently expected.

### VAT/GST or sales taxes

- ▶ Commencing in March 2024, the tax authority will assign numbers to invoices in transactions between dealers as part of its work against fictitious invoices.
- ▶ The VAT rate might increase to 18% in 2025.
- ▶ No other significant developments are currently expected.

### Personal taxes

- ▶ No significant developments are currently expected.

# Israel

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ It appears that the tax officers make efforts to involve more representatives from the ITA professional departments during the tax audits (such as transfer pricing specialists, etc.).
- ▶ The number of cases in which the ITA imposes a deficit fine on companies increased.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Considering the establishment of the Ra'anana unified tax office in 2021, we expect more tax audits that combine CIT and VAT aspects.

**Tax audits in Israel in 2024 are generally expected to stay the same in number and/or intensity.**

### Top audit issues

- 1. Incentives and tax benefits:** Tax officers usually focus on examining the preferred tax status of the corporate taxpayers, where relevant.
- 2. Transfer pricing and IP-related issues:** The ITA usually challenges taxpayers with respect to their chosen transfer pricing methodology, and subsequently, Israeli companies performing important development functions under a cost-plus arrangement are at risk of being assessed a greater return based on the value of their contributions.
- 3. Employees related expenses:** The ITA claims that a portion of certain items (such as company events, travel expenses, meals, gifts) is spent for the benefit of the employees themselves and, therefore, should have been included as in-kind benefits as part of the employees' salary.

- 4. Intellectual property:** Exposures from post-acquisition IP migrations – almost any post-acquisition restructuring that involves a change to the existing IP or business model is reviewed by the ITA with specific focus on capital gains and IP valuation.
- 5. Employee equity compensation:** Tax officers tend to challenge the applicability of tax benefits available under Section 102 of the Israeli Tax Ordinance.

### Changes in tax audit approaches or methods

- ▶ No major changes are currently expected.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No major changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ No major changes are currently expected.

### Digital tax administration developments

- ▶ No major changes are currently expected.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	23%	23%	–	Same	Same
PIT	Up to 50% (including 3% surplus tax)	Up to 50% (including 3% surplus tax)	–	Same	Same
VAT/sales	17%	17%	–	Same	Same

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# Italy

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## Key issues to watch in 2024

- ▶ Ongoing broad reform of Italian tax system
- ▶ Pillar Two implementation
- ▶ Penalty protection for hybrid mismatch
- ▶ Simplification of CFC rules

## Key drivers of tax policy change

- ▶ Legal certainty: enhancement of the voluntary tax compliance introducing a more effective cooperation with the Italian Tax Authority (ITA)
- ▶ Alignment with international tax law: Pillar Two, CFC rules, new tax residence definition
- ▶ Attractiveness for foreign investments and foreign individuals: tax relief for the re-shoring of economic activities, tax relief for workers moving their tax residence

## Significant tax developments in 2023

- ▶ In August 2023 Italian Parliament approved the Enabling Law, providing a broad reform of the Italian tax system and delegating authority to the government to implement the principles.
- ▶ Budget Law 2023 introduced several measures, such as the limited deduction of costs incurred with prohibited jurisdictions; 6%-9% substitutive tax on undistributed dividends from low-tax subsidiaries; 26% taxation on capital gains realized by nonresidents on indirect transfers of Italian real estate; step-up of Italian participations held by nonresident entities; permanent establishment exemption for investment management activities and tax amnesty measures.
- ▶ The Italian Constitutional Court will decide on the legitimacy of the "extra-profits taxation" applied for FY 2022.
- ▶ Entry into force of sugar and plastic taxes is postponed until 1 July 2024.
- ▶ The domestic participating exemption (PEX) regime was extended to the disposal of qualifying participation held by foreign entities that: (i) are resident in the EU or EEA and allowing an adequate exchange of information, (ii) do not have a PE in Italy and (iii) are subject to corporate income tax in their state of residence.

## EY key contacts

**Tax policy:**  
Giacomo Albano

**Tax controversy:**  
Maria Antonietta Biscozzi

- ▶ Review of tax residence rules for individuals and legal entities
- ▶ New litigation and tax assessments rules
- ▶ New cooperative compliance regime

## Significant tax developments expected in 2024

- ▶ Tax reform

## Significant legislative activity that could include tax

Among the several measures provided by the tax reform, the most significant are:

- ▶ Pillar Two regulations in line with the EU Pillar Two directive: The rules provide for the application of a "top-up" tax to make sure a 15% minimum tax rate on income derived from each jurisdiction where the group operates, which is collected based on either the IIR or UTPR and the QDMTT. The new rules enter into force as from 2024, with the UTPR effective for financial years starting on or after 31 December 2024. An implementing decree will be issued soon.
- ▶ A penalty protection is introduced for taxpayers who prepare a documentary set, suitable for compliance with the hybrid misalignment regulations if the ITA is properly notified. The existence of such a documentation will exclude the application of the penalty for unfaithful income tax return ordinarily ranging between 90% and 180% of the higher assessed taxes.
- ▶ The tax residency rules will be revised for individuals and companies, aligning domestic provisions with international leading practices and DTTs signed by Italy.

## Developments in tax transparency requirements

- ▶ The reform aims to enhance a preventive dialogue between the taxpayers and the ITA, e.g., adoption of a tax control framework with some penalty reductions, increase of the benefits of a cooperative compliance regime and introduce a Biennial Preventive Agreement.

# Italy

## Expectations for tax policy

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**Significant tax reform** is currently ongoing. Many of the legislative decrees to implement the reform have already been approved, including:

- ▶ Legislative decree on cooperative compliance
- ▶ Legislative decree on tax litigation
- ▶ Legislative decree on amendments to the bill of taxpayers' rights
- ▶ Legislative decree involving new rules for personal income taxes
- ▶ Legislative decree on the international taxation matter

Others are still in draft, including on the new tax assessments rules, VAT, new tax collection procedures, tax penalties, business tax and tax regime of extraordinary transactions.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to decrease. The Notional Interest Deduction was repealed. The tax credit for the purchase of high-tech assets is expected to remain unchanged compared to FY23.

### Corporate taxes

- ▶ Rationalization of tax loss regimes: the Enabling Law calls for a comprehensive rationalization of the rules on the use of tax losses in case of corporate reorganizations and where a tax consolidation regime is in force.
- ▶ Review of interest expense limitation: the Enabling Law calls for a de minimis threshold and possibly further amendment of the general rule limiting the deduction of interest in accordance with the provisions of the EU ATAD 1.

### Taxes on digital business activity

- ▶ There are increased tax regulations for crypto holders and providers.
- ▶ No change is expected for the 3% Italian DST applicable to large multinationals (over EUR750 million global turnover) providing certain digital services within Italian territory.

### Taxes related to climate change or sustainability

- ▶ The "Ecobonus" tax deduction for all energy upgrades carried out on existing structures has been extended until 31 December 2024, allowing a deduction of 50% or 65% of the expenses.
- ▶ "Green Bonus" is a deduction from personal income tax of 36% applied up to a maximum of EUR5,000 of expenses (including VAT) per housing unit, for expenses related to interventions aimed at the arrangement of terraces, gardens and, in general, green areas of private buildings.
- ▶ As of 1 January 2024, the green tax credit (so-called "Superbonus") will be reduced to 70% (previously 110%) in certain cases or fully revoked in other cases.

### Windfall taxes

- ▶ The 50% windfall tax on enterprises engaged in certain electricity, natural gas and oil business shall not be due after FY23.
- ▶ The 40% windfall tax due on Italian banks or Italian branches of foreign banks shall not be due after FY23.

### VAT/GST or sales taxes

- ▶ The Enabling Law sets out proposals for an extensive revision of the VAT system to make the Italian rules in line with EU regulations. This implies the future introduction of new territoriality rules, pro-rata deduction criteria and VAT deduction rules in real estate.
- ▶ As of 1 January 2024, electronic invoicing will also be mandatory for taxpayers who do not exceed EUR25,000 in revenue or compensation, previously exempted from such an obligation.

### Personal taxes

- ▶ Income tax bracket reform:
  - ▶ The brackets are reduced from four to three by merging the first two.
  - ▶ For incomes up to EUR28,000, the tax rate will be 23%
  - ▶ The no-tax area threshold is extended for income up to EUR8,500
- ▶ **Tax relief for workers:** an exemption from income taxes on 50% of the total income (up to yearly EUR600,000) is recognized for employed or self-employed workers with high qualifications and specialization requirements transferring the tax residence in Italy for at least four years.



### Top tax enforcement or tax controversy developments in 2023

- ▶ The Supreme Court has recently clarified the difference between nonexistent tax credits and tax credits not due, which gave rise to many disputes.
- ▶ There is now the option for the parties of a tax litigation to provide testimony in written form.
- ▶ There is now the possibility for the judge (and not only for the parties) to propose the judicial conciliation.
- ▶ Professional judges were introduced in the tax jurisdiction.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ A more extensive digitalization of the tax process
- ▶ Exclusion of taxpayer litigation expense reimbursement, even in case of victory of the dispute, where the crucial documents were not filed during the tax audit but only during the process
- ▶ Introduction of the possibility to appeal the decision accepting or rejecting the request to suspend the tax collection before the tax court of first degree
- ▶ Prohibition to produce new documents and evidence in the second-degree litigation
- ▶ Introduction of judicial conciliation, even before the Supreme Court, benefitting from a penalty reduction of 40%

**Tax audits in Italy in 2024 are generally expected to increase in number and/or intensity.**

### Top audit issues

1. Transfer pricing
2. VAT frauds
3. VAT and other tax credits
4. Abuse of law
5. Application of reduced WHT

### Changes in tax audit approaches or methods

- ▶ According to the new provisions reported in the bill of taxpayers' rights, any tax deed (with very few exceptions) implying higher taxes or penalties, must be previously discussed between the ITA and the taxpayer, under penalty of annulment of the deed. The taxpayer will receive a draft of the tax deed and may rely on a 60-day term to counter-argue the findings reported therein. Where the tax authority decides to notice the final deed, it must explain the reasons why it did not agree with the arguments raised.

- ▶ Based on the draft of an implementing decree of the tax reform, the taxpayer may benefit from a reduction of the penalties at 1/6 in case it complies with all the findings raised during a tax audit, provided that a communication is sent to the ITA by 30 days from the receipt of the report finalizing the tax audit.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ APA and MAP procedures are unchanged.

### Tax governance approach/processes developments for business taxpayers

- ▶ The reform aims to enhance a preventive dialogue between the taxpayers and the ITA, e.g., adoption of a tax control framework with some penalty reductions, increase of the benefits of a cooperative compliance regime and introduce a Biennial Preventive Agreement.
- ▶ Cooperative compliance: The new regime aims to strengthen cooperation between taxpayers and the ITA by reducing the threshold for access and simplifying access requirements. The main benefits are the reduction of the deadline for the issuance of tax assessments and the elimination of administrative and certain criminal penalties if the relevant tax risks are fully disclosed in advance and properly certified. In certain conditions, the regime may even cover FYs prior the access to the regime.
- ▶ Biennial Preventive Agreement: Based on the draft of a decree, the ITA and taxpayers may agree on the quantification of the income attributable to the taxpayers for the following two FYs for income tax purposes (VAT is excluded). If the taxpayer accepts the income and net production value calculated by the ITA, in return, they receive a premium treatment (including the reduction of the deadline to issue a tax assessment).

### Digital tax administration developments

- ▶ The ITA has a goal to reduce tax evasion through innovative techniques relating to data analysis, artificial intelligence, machine learning and text mining.
- ▶ The reform provides for the use of digital technologies, also supported by artificial intelligence, to obtain, through full interoperability between databases, the availability of relevant information and guarantee its timely use to identify the control activity toward the taxpayers at higher tax risk.
- ▶ The reform has renewed the rules for the filing of tax ruling: In certain cases, the filing of a ruling has been prevented by a request of opinion, which is managed by the Revenue Agency through AI and only where the system is not able to provide the answer, the claimant may file a ruling request.

# Italy

## Summary of tax rate and base changes

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Tax type	Top 2022 rate	Top 2023 rate	% rate change	Overall base changes	Combined effect
CIT	24%*	24%*	–	Same	Same
PIT	43%*	43%*	–	Same	Same
VAT/sales	22%	22%	–	Same	Same

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\* Except for banks and other financial institutions subject to 3.5% higher tax rates



# Japan

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## Key issues to watch in 2024

- ▶ Introduction of production tax credits
- ▶ Introduction of an innovation box

## Key drivers of tax policy change

- ▶ Support salary increases to overcome price increases and inflation
- ▶ Strengthen domestic supply and a startup ecosystem
- ▶ Responding to the global platform economy

## Significant tax developments in 2023

- ▶ Introduction of an invoice regime for consumption tax purposes, where suppliers are required to issue qualified invoices to buyers for consumption tax purposes
- ▶ Review of research and development tax credits

## Significant tax developments expected in 2024

- ▶ Introduction of production tax credits, where tax credits are available based on the sales of designated strategic products
- ▶ Introduction of an innovation box, where an income deduction is available to royalty and capital gain income out of qualified patents and software
- ▶ Introduction of digital platformer taxation for consumption tax purposes, where large digital platformers are obligated to pay consumption tax in lieu of digital service providers
- ▶ Strengthening tax credits for salary increases, i.e., higher tax credit rates for higher salary raises

## EY key contacts

**Tax policy:**  
Koichi Sekiya, Satoru Araki

**Tax controversy:**  
Taichi Haraguchi

- ▶ Introduction of digital platformer taxation for consumption tax purposes
- ▶ Strengthening tax credits for salary raise, i.e., higher tax credit rates for higher salary raise

## Significant legislative activity that could include tax

- ▶ A 2024 tax policy reform agenda is expected to pass Parliament by March 2024.

## Developments in tax transparency requirements

- ▶ No significant changes are currently expected.

# Japan

## Expectations for tax policy

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**Significant tax reform** is expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to increase.

### Corporate taxes

- ▶ Strengthening tax credits for salary raises
- ▶ Introduction of production tax credits, where tax credits are available based on the sales of designated strategic products
- ▶ Introduction of an innovation box, where income deduction is available to royalty and capital gain income out of qualified patents and software

### Taxes on digital business activity

- ▶ Introduction of digital platformer taxation for consumption tax

### Taxes related to climate change or sustainability

- ▶ Stricter conditions to apply for carbon-neutral tax credits or special depreciation

### Windfall taxes

- ▶ Japan does not impose windfall taxes.

### VAT/GST or sales taxes

- ▶ Introduction of digital platformer taxation for consumption tax
- ▶ National tobacco tax to be raised by JPY3 per cigarette; timing has not been decided

### Personal taxes

- ▶ Additional fixed amount tax credits for national personal income tax and local personal inhabitant tax



# Japan

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Refund of consumption taxes
- ▶ Cross-border transactions
- ▶ Non-filing of tax returns

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Refund of consumption taxes
- ▶ Cross-border transactions
- ▶ Qualified invoice régime of consumption taxes

Tax audits in Japan in 2024 are generally expected to increase in number and/or intensity.

### Top audit issues

1. Fraudulent consumption tax refunds
2. Cross-border transactions, including transfer pricing
3. Withholding tax on payments overseas

### Changes in tax audit approaches or methods

- ▶ The National Tax Agency (NTA) is using remote methods for tax audits.
- ▶ The NTA is putting additional resources to taxpayers identified as high-risk, noncooperative or low-governance.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ The Tokyo Regional Taxation Bureau launched "J-CAP," an extension of an existing program in October 2023, whereby super-large enterprises can conduct an advance, nonbinding consultation on novel or complex transactions.

### Tax governance approach/processes developments for business taxpayers

- ▶ No significant changes are currently expected.

### Digital tax administration developments

- ▶ In June 2023, the NTA updated their masterplan on the digital transformation of tax administration, adding "enhancing the digitization of businesses" as one of the pillars.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	23.2%	23.2%	–	Lower	Lower
PIT	45%	45%	–	Lower	Lower
VAT/sales	10%	10%	–	Higher	Higher

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# Jordan

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## Key issues to watch in 2024

- ▶ E-invoicing enforcement

## Key drivers of tax policy change

- ▶ Fiscal sustainability
- ▶ Economic growth and development
- ▶ Compliance with international standards

## Significant tax developments in 2023

- ▶ The national e-invoicing portal was introduced by the Jordanian tax authority, marking an important milestone in the country's journey toward digital transformation. This advancement aligns with the government's vision for economic modernization.
- ▶ On 15 January 2023, the new Investment Environment Law No. 21 of 2022 (the New Investment Law) came into effect, replacing the old Investment Law No. 30 of 2014. The New Investment Law emphasizes the significance of the industrial sector and economic activities and provides reduced tax rates and exemptions for registration in the Jordanian Development and Private/Free Zones subject to limitations. An Investment Committee has been established to address investor concerns and validate procedures, formalities and decisions made by relevant authorities. These changes aim to create a favorable investment climate and stimulate economic growth, particularly in the industrial sector, in Jordan.

## EY key contacts

**Tax policy:**  
Ali Samara, Mohammad Allouzi,  
Razan Halaby

**Tax controversy:**  
Ali Samara, Mohammad Allouzi,  
Razan Halaby

## Significant tax developments expected in 2024

- ▶ Improve the tax authority's electronic platform
- ▶ Enhance the efficiency of tax collection to curb the elevated debt level

## Significant legislative activity that could include tax

- ▶ Jordan does not currently have major legislative activity that impacts its tax policy.

## Developments in tax transparency requirements

- ▶ The Jordanian tax authority remains dedicated to continually enhancing its e-invoicing portal. This would result in advancing transparency and tax revenue accumulations. However, the schedule for these improvements is yet undetermined.

# Jordan

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**R&D incentives** are not applicable in Jordan.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ Corporate tax rate: standard rates to remain the same at 35% for banks, 24% for telecommunication, insurance and reinsurance, financial intermediation companies, companies that generate and distribute electricity, and companies that undertake mining raw material activities, and at 20% for all other sectors.
- ▶ A 10% rate is applied to the net income of Jordan companies' foreign branches and net income realized by residents of Jordan from foreign sources if such income is generated from Jordanian monies or deposits.
- ▶ A national contribution at rates ranging from 1%-7% (depending on the sector of operations) also applies to taxable income.
- ▶ There are currently no changes to Jordan's tax legislation that are being considered by the Jordanian government.

### Taxes on digital business activity

- ▶ Jordan does not have a specific tax regime applicable to digital business activities. The standard 16% GST applies on goods purchased through digital services and imported into the country.

### Taxes related to climate change or sustainability

- ▶ Jordan does not impose a carbon tax or any other climate change-related tax that promotes carbon emissions abatement.

### Windfall taxes

- ▶ Jordan does not impose windfall taxes.

### VAT/GST or sales taxes

- ▶ A change to Jordan's GST legislation is unlikely to occur in 2024. Currently, a standard GST rate of 16% is applicable to the supply of goods and services inside Jordan and the importation of goods and services from outside Jordan or from free zones, special zones and development zones. This is the general rule unless the activity or type of goods being imported into Jordan is specifically exempt or subject to a different rate under legislation.

### Personal taxes

- ▶ There are no changes being proposed by the government with respect to personal income taxes in Jordan. Accordingly, the rates, which are applied progressively on any income incurred in or from Jordan, for any natural person regardless of the place of payment, will remain the same.



# Jordan

## Expectations for tax enforcement and tax controversy

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### Top tax enforcement or tax controversy developments in 2023

- ▶ In 2023, the Jordanian tax authority initiated the roll out of a national e-invoicing portal. However, this system is currently still in its trial phase, providing taxpayers the opportunity to familiarize themselves with the portal and help identify any potential problems before it is officially implemented.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ No changes are currently expected in 2024.

**Tax audits in Jordan in 2024 are generally expected to increase in number and/or intensity.**

### Top audit issues

- ▶ Taxpayer compliance with transfer pricing rules

### Changes in tax audit approaches or methods

- ▶ Changes in tax audit approaches or methods are not expected.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ Changes to dispute prevention or dispute resolution tools or programs are not expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ No changes are currently expected.

### Digital tax administration developments

- ▶ The tax authority in Jordan remains committed to enhancing its e-invoicing portal and is contemplating the establishment of a legal structure to oversee the execution of e-invoicing. This would boost transparency and optimize tax revenue collection. However, the timeframe for these improvements is still uncertain.

## Summary of tax rate and base changes

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Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	35%	35%	–	Same	Same
PIT	30%	30%	–	Same	Same
VAT/sales	16%	16%	–	Same	Same

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This information is current as of 10 January 2024.





# Kazakhstan

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## EY key contacts

### Tax policy:

Erlan Dosymbekov,  
Dinara Tanasheva, Roman Yurtayev

### Tax controversy:

Dinara Tanasheva, Roman Yurtayev

## Key issues to watch in 2024

- ▶ Pillar Two impact
- ▶ New tax code (effective 2025)
- ▶ Introduction of the Universal Declaration

## Key drivers of tax policy change

- ▶ Government seeking to increase revenues and attract foreign investments to Kazakhstan
- ▶ Digitalization of the tax administration in Kazakhstan
- ▶ Stimulating the development of important sectors of the economy
- ▶ Prevent the deliberate fragmentation of organizations in order to reduce tax responsibility
- ▶ Transition to the service model of tax administration

## Significant tax developments in 2023

- ▶ New rules on VAT refund
- ▶ Application of withholding tax on dividends (previously domestic tax exemption was available)
- ▶ CIT limitation on the deductions of intangible services purchased from related nonresident entities registered in jurisdictions included in the list of states with preferential taxation

## Significant tax developments expected in 2024

- ▶ Greater transparency in bank transfers
- ▶ Introduction of mandatory employer pension contributions (at employers' cost)

## Significant legislative activity that could include tax

- ▶ The President of the Republic of Kazakhstan instructed that a new tax code should be adopted, aimed at achieving fair, transparent and predictable taxation. Goals include:
  - ▶ Update the tax administration
  - ▶ Reach maximum possible digitalization of tax control

## Developments in tax transparency requirements

- ▶ From 2024, banks will transmit data on transfers of individual entrepreneurs. Those who have received transfers from 100 different persons, monthly, for three consecutive calendar months will be subject to control for identification of undeclared income for tax purposes.
- Starting from 2024, heads, founders and participants of legal entities, and individual entrepreneurs, as well as their spouses, will have the obligation to submit tax return under the Universal Declaration. The declaration process is divided into two stages:
  - ▶ Step 1 – Filing a tax return of assets and liabilities on form 250.00 (hereinafter referred to as the TR 250.00) with information as of 31 December 2023\*
  - ▶ Step 2 – Ongoing filing of tax return on income and assets on form 270.00 (hereinafter – TR 270.00) with information about and property as of 31 December of the reporting year, and on income received during reporting year

\* In cases where an individual received income that should be reported (not taxed at the source of payment, foreign income, etc.), along with TR 250, an individual should submit personal income tax return form 240.

# Kazakhstan

## Expectations for tax policy

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It is expected that during 2024 a new tax code will be developed, coming into force from 1 January 2025.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ Starting from 2023, the deductions for intangible services purchased from related nonresident entities are capped to 3% of taxable income. The restriction applies to the acquisition costs of the following: management, consulting, auditing, design, legal, accounting, advocacy, advertising, marketing, franchising, financial (except for interest expenses), engineering, agency services, royalties and rights to use intellectual property items. The rule applies only to transactions with jurisdictions included in the list of states with preferential taxation.

### Taxes on digital business activity

- ▶ In 2024, a single rate for calculating fees for digital mining was introduced. Previously, rates were set depending on the price per 1 kilowatt-hour of consumed electric energy. Starting from 2024, the calculation of digital mining will now be carried out at a rate of 2 tenge per 1 kilowatt-hour of consumed electric energy for the reporting period.
- ▶ Nonresident entities engaged in e-commerce sales of goods and providing digital services to Kazakhstan individuals (BtC) are subject to VAT in Kazakhstan. According to the legislation, such nonresident entities are required to register conditionally in Kazakhstan as VAT payers and pay VAT liabilities to Kazakhstan. The VAT rate is 12% on the amount of goods and services sold.

### Taxes related to climate change or sustainability

- ▶ Kazakhstan does not impose a carbon tax or any other climate change-related tax that promotes carbon emissions abatement.

### Windfall taxes

- ▶ Kazakhstan does not impose any windfall taxes.

### VAT/GST or sales taxes

- ▶ New VAT refund rules came into force for nonresident entities engaged in e-commerce sales of goods and providing digital services.

### Payroll taxes

- ▶ Starting from 2024, employers are required to make professional payments to employees engaged in jobs with harmful working conditions and meeting certain criteria. This payment will not be considered as income of an individual.
- ▶ Starting from 2024, a new payroll charge would be paid by the employers. Key aspects:
  - ▶ The employers are responsible for the payment of Obligatory Employer Pension Contribution (OEPC) at their own cost.
  - ▶ The applicable rate in 2024 is 1.5% of employees' gross income. It is expected that the rate will be gradually increased each year up to 5% by 2028.
  - ▶ This is applicable only for the income of employees born after 1 January 1975.
  - ▶ The monthly gross income for calculation of these contributions is limited by one minimum monthly salary (minimum) and 50 minimum monthly salaries (maximum), which is KZT85,000 (minimum) and KZT4,250,000 (maximum) per month in 2024.

# Kazakhstan

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Risk-based approach for selection of taxpayers for tax audits
- ▶ Simplified VAT refund procedures for certain categories of taxpayers

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ New VAT refund rules
- ▶ Re-classification of payments for services into royalties
- ▶ Reduction of the deadline for submitting documents at the request of the inspector during the tax audit (from 30 to five working days)

**Tax audits in Kazakhstan in 2024 are generally expected to** increase in number.

### Top audit issues

1. VAT refund
2. Re-classification of payments for services into royalty
3. TP control
4. Challenging deductions for purchase of goods, works, services from suppliers absent at the place of registration, recognized as false enterprises or bankrupt, registration recognized as invalid
5. Challenges of deductibility of intra-group charges
6. Challenges of beneficial owners for withholding tax purposes

### Changes in tax audit approaches or methods

- ▶ Revision of approaches to tax audits by planning tax audits based on a new risk management system
- ▶ Expected introduction of e-audit in 2024
- ▶ Introduction of the possibility of filing a complaint on notification of the results of the audit – sent through the portal of “electronic government”

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ Changes to dispute prevention or dispute resolution tools or programs are not expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ A pilot project on tax prudence will be put into effect from 1 January 2024 to 1 January 2025.
- ▶ The purpose of the project is:
  - ▶ To test the information system “Register of business partners” established on behalf of the President of the Republic of Kazakhstan to support bona fide entrepreneurs
  - ▶ Taxpayers’ due diligence on the audit reliability and integrity of contractors

### Digital tax administration developments

- ▶ Interactions with the taxpayer occur through the Taxpayer’s Office, including electronic issuance of a tax audit report and electronic delivery of notifications, such as suspension notifications and requests for documents.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	20%	20%	–	Same	Same
PIT	10%/20%	10%/20%	–	Same	Same
VAT/sales	12%	12%	–	Same	Same

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# Kuwait

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## EY key contacts

### Tax policy:

[Ahmed Eldessouky](#)

### Indirect tax:

[Aamer Bhatti](#), [Mitul J Patel](#)

### Tax controversy:

[Ahmed Eldessouky](#), [Nitesh K Jain](#),  
[Amit Arora](#)

## Key issues to watch in 2024

- ▶ Introduction of a business profits tax for local companies in line with Pillar Two implementation, expected to apply in 2025
- ▶ Introduction of excise tax

## Key drivers of tax policy change

- ▶ Kuwait aims to position itself as a compliant and responsible member of the global economic community by adopting Pillar Two rules. The implementation of Pillar Two rules would require that businesses operating in Kuwait are subject to a minimum global tax rate, reducing the incentive for profit shifting and aggressive tax planning.
- ▶ The Kuwait government is proposing to introduce business profits tax on the profits of the local companies. Currently, only foreign companies operating in Kuwait are subject to corporate income tax. This marks a major policy shift in Kuwait's tax landscape, aimed primarily at diversifying the economy away from its traditional reliance on oil revenues. The move is also seen as a step toward creating a more equitable tax system, where businesses contribute more significantly to the national revenue.
- ▶ Kuwait is considering the introduction of an excise tax, which would be levied on specific goods considered harmful to health or the environment. This includes items like tobacco, tobacco products, e-cigarettes and liquids used in the e-cigarettes, soft drinks, sweetened drinks and energy drinks. The introduction of an excise tax aligns with global health and environmental objectives and reflects Kuwait's commitment to promoting public health and sustainable practices.

## Significant tax developments in 2023

- ▶ Kuwait has taken a significant step by joining the OECD's Inclusive Framework on BEPS. This membership underscores Kuwait's commitment to international cooperation in tackling tax avoidance and harmonizing tax policies globally.

## Significant tax developments expected in 2024

- ▶ Introduction of a business profits tax and excise tax

## Significant legislative activity that could include tax

- ▶ No further legislative activity is expected that could include tax.

## Developments in tax transparency requirements

- ▶ Currently, there are no specific transparency requirements in Kuwait. Since Kuwait has joined the OECD's Inclusive Framework on BEPS, more transparency requirements are expected to be introduced.

# Kuwait

## Expectations for tax policy

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**Significant tax reform may occur in 2024 with the** introduction of a business profits tax, which may supersede the current tax regulations introduced in 2008. Kuwait is also considering the introduction of an excise tax.

**Elections** are not occurring in 2024.

**R&D incentives** are not present.

**Other business incentives** are expected to stay the same. Companies licensed under the Kuwait Direct Investment Promotion Law can benefit from tax, customs and other incentives provided under the law. However, certain criteria should be met on yearly basis.

### Corporate taxes

- ▶ Only foreign companies that operate in Kuwait (either directly or through shareholding in Kuwaiti or GCC entities) are subject to CIT.
- ▶ The CIT is applicable at a flat rate of 15%.

### Taxes on digital business activity

- ▶ There are no specific rules to tax digital businesses. However, digital businesses are considered as normal businesses and taxed accordingly.

### Taxes related to climate change or sustainability

- ▶ Kuwait does not have carbon tax or any other climate change-related taxes at present.

### Windfall taxes

- ▶ There is no windfall tax in Kuwait.

### VAT/GST or sales taxes

- ▶ There is no VAT or sales tax in Kuwait.

### Personal taxes

- ▶ There is no personal income tax in Kuwait.

### Other taxes

The following taxes are also applicable in Kuwait:

- ▶ Kuwaiti closed shareholding companies are subject to zakat at 1% on adjusted profit.
- ▶ Companies listed on the Kuwait Stock Exchange are subject to National Labor Support Tax (NLST) at 2.5% on adjusted profit.
- ▶ The Kuwait Foundation for the Advancement of Science (KFAS) is levied at 1% on profit.



# Kuwait

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ There were no significant developments in 2023.

### Top tax enforcement or tax controversy development expectations for 2024

- Pillar Two rules adoption and implementation

**Tax audits in Kuwait in 2024** are expected to remain the same in number and/or intensity.

### Top audit issues

- ▶ Denial of tax treaty benefit on offshore operations, especially if the entity operates as part of a joint venture
- ▶ Deferral of revenue and costs restricted only to the first year of operation, even if there is a significant mismatch between revenue and costs (applicable on project or contract-related operations), deferral is generally challenged by the Kuwait Tax Authority (KTA)
- ▶ Restriction under the Executive Rule of the deductibility of subcontract costs (including equipment rental, manpower hiring and similar expenses) to the related revenue
- ▶ Disallowance of costs incurred outside of Kuwait as well as expenses paid through cash
- ▶ Disallowance of expenses for noncompliance with the 5% retention requirements

### Changes in tax audit approaches or methods

- ▶ KTA carries out a compulsory tax inspection before issuing a tax assessment. While there have been discussions to carry out selective tax inspections, its implementation is not certain yet.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ KTA has started to review the mutual agreement procedure applications where a taxpayer considered that the actions of KTA resulted in taxation not in accordance with the provisions of the double taxation avoidance agreement.

### Tax governance approach/processes developments for business taxpayers

- ▶ There were no significant developments in 2023.

### Digital tax administration developments

- ▶ As part of the reform to be brought in by the new business profit tax in Kuwait, it is expected that Kuwait will implement a digital tax administration system. More information is expected in the future.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	15%	15%	–	Same	Same
PIT	–	–	–	Same	Same
VAT/sales	–	–	–	Same	Same

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# Lithuania

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## EY key contacts

**Tax policy:**  
Irmantas Misiūnas

**Tax controversy:**  
Leonas Lingis

## Key issues to watch in 2024

- ▶ Postponed tax reform
- ▶ Amendments on the Law on Immovable Property Tax
- ▶ Development of energy and green taxation
- ▶ Efforts by tax authorities to improve tax administration and digital compliance

## Key drivers of tax policy change

- ▶ The Lithuanian government seeks to change the tax laws for a fairer tax system, to further promote investments in business innovations and waive exemptions that do not create much value to the economy and society.
- ▶ The government's focus on the shadow economy is intended to reduce administrative responsibilities for taxpayers and improve transparency in tax disclosures.
- ▶ The implementation of Pillar Two has been postponed for five years.
- ▶ The Russian Federation was included in a national list of noncooperative jurisdictions for tax purposes.

## Significant tax developments in 2023

- ▶ The VAT rate for catering services and take-away meals increases from 9% to 21% as of 1 January 2024.
- ▶ Starting from 2024, payment service providers are required to store data on cross-border payments by payee and transmit this data quarterly to the tax authorities.
- ▶ The Parliament of the Republic of Lithuania has adopted the temporary solidarity tax on banks until 31 December 2024.
- ▶ The excise duty rates on alcohol, tobacco and energy products were raised, and some important exemptions have been waived due to the government policy toward climate neutrality.
- ▶ Corporate tax reliefs for film productions and investment projects incentives have been extended until 31 December 2028.

## Significant tax developments expected in 2024

- ▶ The Parliament of the Republic of Lithuania has introduced the changes on the Law on Immovable Property Tax. It is foreseen that the first (main) property will not be subject to this tax. However, second and other properties may be subject to the tax on immovable property, the rate of which may fluctuate from 0.5% to 4% depending on the district municipality and value of the property. The changes are planned to be implemented starting from 2025.

## Developments in tax transparency requirements

- ▶ DAC7 was adopted in 2023.

# Lithuania

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Several elections** are occurring in 2024. The presidential election will take place on 12 May 2024. The European Parliament elections will take place 6-9 June 2024. The Lithuania Parliament elections will take place on 13 October 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ As the European Commission announced it had sent letters of formal notice to nine Member States that failed to notify national measures transposing the Minimum Taxation Directive (including the Republic of Lithuania), there is a possibility that the implementation of Pillar Two will be accelerated.

### Taxes on digital business activity

- ▶ No significant developments are currently expected in 2024.

### Taxes related to climate change or sustainability

- ▶ CBAM will proceed.
- ▶ During the calendar year some excise duties exemptions and reliefs might be waived to achieve climate neutrality and for purposes of green taxation.

### Windfall taxes

- ▶ No significant developments are currently expected in 2024.

### VAT/GST or sales taxes

- ▶ No significant developments are currently expected in 2024.

### Personal taxes

- ▶ No significant developments are currently expected in 2024.
- ▶ From January 2024 tax-free income is set at EUR747 for persons (except persons with limited working capacity) whose monthly income related to the employment relationship does not exceed EUR924 (annual tax-free amount: EUR8,964). In 2023, it was EUR840 and EUR7,500, respectively.
- ▶ For persons (except persons with limited working capacity) whose monthly income related to the employment relationship exceeds EUR924 but does not exceed EUR2,167 (2023: EUR 1,926), the tax-free income amount will be calculated according to the formula: monthly tax-free income = 747 - 0.5 × (monthly related income related to employment relationships: EUR 924).
- ▶ The approved size of average monthly salary (AMS) for 2024 is EUR1,902.70 (2023: EUR1,684.90). AMS in Lithuania is used to calculate social security contribution base and PIT tax brackets. For 2024: 20% PIT rate applies for total annual employment income amount, not exceeding the threshold of 60 AMS, i.e., EUR114.162 (2023: EUR101,094). A 32% PIT rate applies on employment-related income exceeding the threshold of 60 AMS.



# Lithuania

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Temporary solidarity tax on banks
- ▶ Increase in excise duty rates on alcohol, tobacco and energy products, waiver of certain exemptions
- ▶ Inclusion of the Russian Federation on national list of noncooperative jurisdictions for tax purposes
- ▶ DAC7

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Benefits in kind for the usage of company cars
- ▶ Implementation of CESOP

**Tax audits in Lithuania in 2024 are generally expected to stay the same in number and/ or intensity.**

### Top audit issues

1. Income-in-kind taxation
2. Transfer pricing
3. Restructuring and goodwill
4. Application of 0% VAT rate and input VAT deduction
5. Rules on thin capitalization
6. Dividend and interest taxation

### Changes in tax audit approaches or methods

- ▶ Higher use of SAF-T-based audits

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No significant developments are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ No significant developments are currently expected.

### Digital tax administration developments

- ▶ Due to the significant VAT gap, the tax authorities have plans to acquire and install new software for its internal use and create analytical models based on AI, to modernize the data analytics and achieve the early identification of tax risks.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	15%	15%	–	Same	Same
PIT	32%	32%	–	Same	Same
VAT/sales	21%	21%	–	Same	Same

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This information is current as of 10 January 2024.



# Luxembourg

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## EY key contacts

**Tax policy:**  
Bart Van Droogenbroek

**Tax controversy:**  
Hélène Crepin

## Key issues to watch in 2024

- ▶ Pillar Two implementation
- ▶ Amendment of controversy procedures
- ▶ Changes to the investment tax credit
- ▶ Implementation of transfer pricing documentation
- ▶ Tax policy of new government

## Key drivers of tax policy change

Following the elections of October 2023, the new government announced the following:

- ▶ Supporting the purchasing power of households through various measures, such as adaptation of the tax brackets, simplification of the taxation of benefits in kind and more advantageous deductions for special expenses
- ▶ Supporting enterprises through a decrease of tax rates to align them to the OECD average, tax credits for investments in sustainable and digital transition and in R&D, and a review of the taxation of the transfer of enterprises with the aim to promoting their sustainability
- ▶ Stimulating the construction of housings through inter alia an increase of accelerated depreciation for housings built for rental purposes, a decrease of the tax rate applicable to capital gains on sales of housings, and tax incentives for enterprises putting housings at the disposal of their employees
- ▶ Sustaining the development and diversification of the financial sector through an appropriate legal framework, possible reduction of the subscription tax applicable to actively managed Undertakings for Collective Investments in Transferable Securities – Exchange Traded Funds (UCIS-ETFs) and to investment funds investing in sustainable economic activities

## Significant tax developments in 2023

- ▶ Modernization of Luxembourg investment fund toolbox, including new exemptions from subscription tax for European Long-Term Investment Funds (ELTIFs) and Undertakings for Collective Investment reserved for investors in the framework of a Pan-European Pension Product (PEPP)
- ▶ Adoption of a law introducing new recordkeeping and reporting requirements for payment service providers and providing for the exchange of the data collected with the other EU Member States and the centralization of such data in a European database (CESOP)

## Significant tax developments expected in 2024

- ▶ Revising personal income tax brackets to reduce tax on low- and middle-income earners
- ▶ Extending the scope of the VAT reverse charge mechanism to specific supplies of goods to combat fraud and aligning Luxembourg with international standards
- ▶ Implementing Pillar Two rules
- ▶ Modernizing and expanding existing investment tax credit to encourage digital transformation and ecological and energy transition
- ▶ Implementing transfer pricing documentation for entities meeting certain criteria (Master File and Local File)

# Luxembourg

## Expectations for tax policy

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### Significant legislative activity that could include tax

- ▶ In addition to the above pending legislation, the 2024 Budget Law that will be released in the first quarter of 2024 may include additional tax provisions.

### Developments in tax transparency requirements

- ▶ The Public CbCR Directive was implemented with first application to financial years starting on or after 22 June 2024.
- ▶ The automatic and mandatory exchange of information reported by Platform Operators (DAC7) was enacted.
  - ▶ The law also introduced some generic changes to the existing legislation on administrative cooperation in tax matters and amended the laws on CRS and MDR.
- ▶ In a joint statement with 47 other jurisdictions, Luxembourg announced its intention to implement the OECD's global tax transparency framework for the reporting and exchange of information with respect to crypto assets by 2027.

**Significant tax reform** is not expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to increase.

**Other business incentives** are expected to increase.

### Corporate taxes

- ▶ While standard rates are likely to remain unchanged for 2024, a reduction is nevertheless contemplated in the mid-term.
- ▶ The IIR and the QDMTT apply for financial years starting on or after 31 December 2023. If an MNE's ultimate parent entity is in a jurisdiction that, pursuant to the Minimum Tax Directive, delays implementation of the IIR, the UTPR will apply for financial years starting on or after 31 December 2023, otherwise it will apply for financial years starting on or after 31 December 2024.

### Taxes on digital business activity

- ▶ There is currently no intention to take any unilateral domestic measures.

### Taxes related to climate change or sustainability

- ▶ Luxembourg's carbon tax is set to gradually increase over the next three years.

### Windfall taxes

- ▶ EU Regulation 2022/1854 on emergency intervention to address high energy prices is applicable without the need to transpose it into domestic law. However, a law is currently being processed that aims to clarify certain details on the mandatory cap on market revenues foreseen by said regulation.

### VAT/GST or sales taxes

- ▶ The scope of the VAT reverse charge mechanism was extended to specific supplies of goods to combat fraud and align Luxembourg with international standards.
- ▶ The 1% reduction of most VAT rates that was effective throughout 2023 expired. Effective 1 January 2024, the former VAT rates of 17%, 14% and 8% are reinstated.
- ▶ There are new reporting obligations on Payment Services Providers under the CESOP law.
- ▶ Changes are expected to the VAT treatment of directors' fees following the judgment of the Court of Justice of the European Union in the TP case.

### Personal taxes

- ▶ Adjustment of the personal income tax brackets
- ▶ New tax credit to compensate CO<sub>2</sub> tax costs for low-income earners

# Luxembourg

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ There were no significant developments in 2023.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Implementation of new transfer pricing documentation requirements
- ▶ Pending legislation amending some rules in tax controversy matters
- ▶ Enforcement of VAT following the effectiveness of CESOP

**Tax audits in Luxembourg in 2024 are generally expected to** stay the same in number and/or intensity.

### Top audit issues

1. Transfer pricing
2. Foreign permanent establishments
3. Deduction of expenses

### Changes in tax audit approaches or methods

- ▶ No developments are currently expected.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ A draft law is currently pending before parliament that introduces a provision dedicated to requests for bilateral or multilateral APAs. The application formalities and the decision process are detailed in a Grand-Ducal regulation that has not been adopted yet.

### Tax governance approach/processes developments for business taxpayers

- ▶ No developments are currently expected.

### Digital tax administration developments

- ▶ The new government is committed to continue its efforts to digitize tax administrations. Digital exchanges with tax authorities will be encouraged and administrative procedures will be digitized, also using AI.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	24.94%	24.94%	–	Same	Same
PIT	45.78%	45.78%	–	Same	Lower due to adaptation of tax brackets
VAT/sales	16%	17%	1%	Same	Higher

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This information is current as of 10 January 2024.



# Malaysia

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## EY key contacts

**Tax policy:**  
Amarjeet Singh

**Tax controversy:**  
Amarjeet Singh

## Key issues to watch in 2024

- ▶ BEPS 2.0 Pillar Two implementation, effective 1 January 2025
- ▶ Fiscal, tax and economic reforms to reinvigorate economic growth
- ▶ Greater transparency in tax disclosures
- ▶ Broadening tax base and increasing tax revenue

## Key drivers of tax policy change

- ▶ Implementation of Pillar Two for accounting periods beginning on or after 1 January 2025
- ▶ Introduction of tiered incentive system (outcome-based approach), whereby investors will enjoy incentives that commensurate with their commitments to Malaysia
- ▶ Key tax measures to increase government revenue collections, such as introduction of CGT and high-value goods tax (HVGT), an expansion of taxable service scope for service tax purposes and an increase in the rate of service tax from 6% to 8% (except for certain types of services)
- ▶ Ongoing drive for greater transparency in tax disclosures
- ▶ The Finance Act, gazetted on 29 December 2023, legislates the Budget 2024 proposals that were announced in October 2023. Key highlights include:
  - ▶ CGT will be payable on disposals of unlisted shares in Malaysia-incorporated companies from 1 March 2024. Further, from 1 January 2024, CGT would apply on the disposal of shares in foreign-incorporated companies with significant underlying Malaysian real property interest and gains or profits from the disposal of foreign assets that are received in Malaysia.
  - ▶ The GloBE IIR top-up tax and QDMTT rules are incorporated into Malaysian tax legislation.
  - ▶ Implementation of self-assessment system for real property gains tax will be effective 1 January 2025.
  - ▶ Implementation of e-invoicing is governed under the relevant Malaysian tax legislation.

## Significant tax developments in 2023

- ▶ The Inland Revenue Board (IRB) and the Royal Malaysian Customs Department (RMCD) relaunched their voluntary disclosure (VD) programs in June 2023. These programs will grant taxpayers full penalty relief for voluntary disclosures from 6 June 2023 to 31 May 2024.
- ▶ New transfer pricing rules empower the IRB to enforce TP regulations more effectively. The rules emphasize the importance of contemporaneous TP documentation, accurate delineation and robust comparability analysis. New APA rules have also been released.
- ▶ A Tax Corporate Governance (TCG) program will be introduced in two phases:
  - ▶ First phase (pilot project June 2022 to June 2024): IRB to conduct pilot project with participating organizations
  - ▶ Second phase (post-pilot): TCG program open to all organizations
- ▶ The mandatory e-invoicing implementation date for taxpayers with annual turnover or revenue exceeding MYR100 million (approximately USD21.13 million) will be extended from 1 June 2024 to 1 August 2024. Implementation of mandatory e-invoicing for other taxpayers will be undertaken in phases, with full implementation from 1 July 2025.

## Significant tax developments expected in 2024

- ▶ Detailed guidelines are expected to be released by the RMCD pertaining to the increase in the service tax rate as well as expansion of taxable services category.
- ▶ Enforcement activities are expected to be put in place by the relevant authorities to alleviate price increases with profiteering elements due to the above changes.

## Significant legislative activity that could include tax

- ▶ The Service Tax Order 2018 is expected to be amended to reflect the proposed increase of service tax rate to 8% and to include additional taxable services.
- ▶ New legislation on HVGT is to be released.

## Developments in tax transparency requirements

- ▶ Implementation of mandatory e-invoicing
- ▶ Relaunch of VD programs
- ▶ Implementation of TCG program

# Malaysia

## Expectations for tax policy

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**Significant tax reform** is expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to increase.

### Corporate taxes

- ▶ Introduction of CGT
- ▶ Implementation of the GloBE IIR top-up tax and QDMTT rules
- ▶ Introduction of tiered incentive system (outcome-based approach):
  - ▶ Investment tax allowance for existing companies with expired reinvestment allowance period (applicable for applications received from 1 January 2024 until 31 December 2028)
  - ▶ Tax incentive for Global Services Hubs (applicable for applications received from 14 October 2023 until 31 December 2027)

### Taxes on digital business activity

- ▶ Implementation of a 6% service tax on digital services provided by a foreign registered person to any consumer in Malaysia (i.e., based on the existing service tax legislation with effect from 1 January 2020). It was proposed that the service tax rate be increased to 8%, except for certain essential services, with effect from 1 March 2024.

### Taxes related to climate change or sustainability

- ▶ A further tax deduction of up to MYR300,000 (approximately USD65,182) will be given to companies that incur development and measurement, reporting and verification (MRV) expenditures in relation to the development of carbon projects.
- ▶ Various measures are proposed or extended to promote the green economy, such as proposed extension of incentive application period for Green Investment Tax Allowance and Green Income Tax Exemption until 31 December 2026.

### Windfall taxes

- ▶ The Malaysian government is reviewing an existing windfall tax (3% on palm oil prices above MYR3,000 (approximately USD650) per ton in peninsular Malaysia, and above MYR3,500 (approximately USD760) per ton in Sabah and Sarawak on the palm industry.

### VAT/GST or sales taxes

- ▶ The service tax rate will be increased from 6% to 8% except for certain essential services.

### Personal taxes

- ▶ The highest individual tax rate remains at 30% and is based on:
  - ▶ The taxpayer's residence status in Malaysia in a calendar year (i.e., a nontax resident would be taxed at a flat rate of 30% without consideration of any tax reliefs and rebates)
  - ▶ The taxpayer's income level where the chargeable income of the taxpayer exceeding MYR2 million (around USD0.4 million) per annum is subject to a tax rate of 30% (i.e., the highest amount in the graduated tax rates for tax residents)
- ▶ The following tax incentives and tax exemptions will take effect from year 2024 to attract and retain talent to work in Malaysia:
  - ▶ Tax rate of 15% on employment income for five consecutive years under the Returning Expert Program (extension to a previous incentive)
  - ▶ Special tax rate of 15% for a period of three consecutive years for three non-Malaysian citizens holding C-suite positions in the newly established Global Services Hub
  - ▶ Special income tax rate of 0% to 10% to be introduced for film production companies, actors or actresses, and production crew conducting film shoots in Malaysia
- ▶ Taxpayers who have previously under-reported their income (prior to tax year 2022) or have not reported their taxable income may take advantage of the ongoing VD program (ending 31 May 2024) to make those disclosures penalty-free.

### Others

- ▶ The Notification of Cessation of Employment (Form CP22A) is no longer required to be submitted for individuals retiring from the workforce if the individual's income is below the threshold or the income has been subjected to monthly tax deductions.
- ▶ The implementation of e-invoicing will also support the use of the Tax Identification Number (TIN), which will be mandatory for all documents and instruments to help broaden the income tax base of the country.

# Malaysia

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Relaunch of VD programs
- ▶ Implementation of TCG program
- ▶ New TP rules

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Implementation of mandatory e-invoicing
- ▶ Pillar Two

Tax audits in Malaysia in 2024 are generally expected to decrease in number and/or intensity.

### Top audit issues

- ▶ Corporate taxpayers with significant related-party transactions (both cross-border and onshore transactions) frequently receive attention.
- ▶ Adherence to tax incentive eligibility conditions is a focus area.
- ▶ The RMCD has been stringent in conducting post-importation audits. Examples of areas of review includes underpayment of duty or tax for imported goods, incorrect Tariff Code (HS Code) applied upon declaration, noncompliance with the valuation method for imported goods, incorrect or incomplete documentations when applying an exemption facility and upward adjustment arising from a transfer pricing adjustment.

### Changes in tax audit approaches or methods

- ▶ The relationship between taxpayer and IRB has gradually evolved into a more collaborative one under the cooperative compliance approach. The IRB expects taxpayers to be more transparent and cooperative when it comes to furnishing information and documents required, to “show, not tell” evidence to justify certain transactions or tax positions taken by taxpayers.

- ▶ The RMCD will perform a verification to understand the taxpayer first. If needed, this will be translated into a tax audit.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ New APA rules were introduced in May 2023. Under the rules, contemporaneous TP documentation must be prepared in accordance with the new TP Rules and must be submitted together with the request for the pre-filing meeting with respect to the APA application. Taxpayers can only seek a bilateral or multilateral APA for cross-border transactions with an associated person from countries that have an avoidance of DTA with Malaysia.

### Tax governance approach/processes developments for business taxpayers

- ▶ The TCG Framework and the Guidelines to the TCG Framework were published on 11 April 2022 (Guidelines updated on 27 July 2022) to assist companies in designing and operating their tax governance frameworks. This will provide greater certainty for taxpayers in meeting their tax compliance obligations and help expedite the resolution of tax issues.
- ▶ The e-TCC platform is for taxpayers to obtain a tax compliance certificate, which is a pre-condition for companies that wish to participate in government procurements.

### Digital tax administration developments

- ▶ Implementation of mandatory e-invoicing
- ▶ Mandatory use of e-services through MyTax Portal, starting from 1 September 2023 (full implementation from 1 January 2024)
- ▶ Mandatory use of the Malaysian Income Tax Reporting System for online submission of taxation worksheets, financial statements and audit supporting documents from 1 January 2025

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	24%	24%	Same	Same	Same
PIT	30%	30%	Same	Same	Same
VAT/sales	5% or 10% (sales)	5% or 10% (sales)	Same	Same	Same
	6% (service)	6% or 8% (service)	2% for certain services	Higher	Higher

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This information is current as of 11 December 2023.



# Mexico

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## Key issues to watch in 2024

- ▶ Federal and local elections
- ▶ Regulatory restrictions – government particularities or changes that affect taxpayers in Mexico

## Key drivers of tax policy change

- ▶ The government's fiscal policy considers three fundamental mechanisms:
  - ▶ The strengthening of revenue sources by combating tax evasion and avoidance, without increasing or creating new taxes
  - ▶ An efficient exercise of the public budget under a criterion of austerity and the fight against corruption
  - ▶ A responsible management of the debt policy that has allowed stable debt levels as a percentage of GDP
- ▶ In terms of income policy, both the Federal Income Law Initiative and the Mexican Administrative Tax Rules for 2024 do not propose any changes, justifying as a reason to grant legal certainty to obtain greater foreign investment, hoping to generate income through the fight against informality.
- ▶ It is not intended to create new taxes or increase the rates of existing taxes.
- ▶ The tax incentives contained in the Federal Income Law remain unchanged.

## Significant tax developments in 2023

- ▶ In March 2023, the OECD reported that Mexico deposited the instrument for ratification of the MLI to finalize the formal ratification and notification process.
- ▶ In March 2023, the Federal Supreme Court of Justice approved a criterion aimed to the extent that the civil compensation is not a VAT payment method, nor can it originate a request for a favorable balance or crediting; therefore, it is a way of determining the moment when the consideration for the services rendered and for which the obligation to pay the tax is understood to have been effectively collected.

## EY key contacts

**Tax policy:**  
Jorge Libreros

**Tax controversy:**  
Jorge Libreros

- ▶ Growth of tax collection due to continued federal government strategy of strengthening tax revenues

- ▶ In May 2023, an Agreement was published in the Official Gazette of the Federation, effective on 5 May 2023, delegating new faculties to the public officials of two units within the Tax Administration Service (SAT), with the purpose of enforcing UBO obligation. As a result of said Agreement, public officials are now authorized to conduct domiciliary visits and request reports, data or documents. As a result of such faculties, an intensified monitoring by the authority is expected in order to enforce the tax obligation.
- ▶ In October 2023, the government issued a decree granting tax benefits to key sectors of the export industry. This is in light of the nearshoring effect that seeks to avoid interruptions in the supply chain, placing Mexico in a more favorable condition to attract investment.

## Significant tax developments expected in 2024

- ▶ The MLI will enter into effect in Mexico with respect to taxes withheld at source at the beginning of the calendar year after the date of entering into force, which is 1 January 2024 as a result of the deposit of the instrument of ratification.
- ▶ Nearshoring activity is expected to increase given the tax benefits granted to the taxpayers.
- ▶ It is expected that Mexican tax authorities will continue with their strategy of strict compliance when performing audits for 2024.



# Mexico

## Expectations for tax policy

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### Significant legislative activity that could include tax

- ▶ It is expected that Mexico will start the implementation of Pillar Two of BEPS by means of new legislation. However, a specific date has not been announced by the Mexican government.

### Developments in tax transparency requirements

- ▶ There is interest from tax authorities to have more AEOI audits as well as to begin with UBO audits.

**Significant tax reform** is not expected in 2024.

**Elections** are occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to increase.

### Corporate taxes

- ▶ No changes are expected for 2024.

### Taxes on digital business activity

- ▶ Mexican and foreign legal entities are obliged to withhold income tax and VAT resulting from the services provided by Mexican individuals through their digital platforms. No changes are expected for 2024.

### Taxes related to climate change or sustainability

- ▶ Carbon credits are foreseen as a payment method in the Special Tax Law on Production and Services.

### Windfall taxes

- ▶ None

### VAT/GST or sales taxes

- ▶ No changes are expected for 2024.

### Personal taxes

- ▶ No changes are expected for 2024.



# Mexico

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ The guiding principles of the government's collection strategy in 2023 were:
  - ▶ Increasing collection efficiency
  - ▶ Reducing tax evasion and avoidance
  - ▶ Providing the best service to taxpayers

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Robust audits are expected for 2024.
- ▶ An increase in nearshoring activity is expected within key sectors of the export industry, such as semiconductors, automotive and pharmaceuticals, among others.

**Tax audits in Mexico in 2024 are generally expected to increase in number and/or intensity.**

### Top audit issues

1. CIT – salary withholding
2. Increased VAT refunds

### Changes in tax audit approaches or methods

- ▶ No changes are expected in tax authority approaches or methods.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No changes are expected for 2024.

### Tax governance approach/processes developments for business taxpayers

- ▶ No changes are expected for 2024.

### Digital tax administration developments

- ▶ No changes are expected for 2024.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	30%	30%	–	Same	Same
PIT	35%	35%	–	Same	Same
VAT/sales	16%	16%	–	Same	Same

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This information is current as of 10 January 2024.



# The Netherlands

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## Key issues to watch in 2024

- ▶ Tax policy strategy of the new government
- ▶ Pillar Two in force

## Key drivers of tax policy change

- ▶ The House of Representatives elections took place on 22 November 2023. A new coalition (and new coalition agreement with a possible new tax policy strategy) is not formed yet.
- ▶ The Minimum Tax Act 2024, based on the EU Directive dated 14 December 2022, following the OECD Pillar Two initiative to achieve a global minimum tax of 15% for multinational enterprises has entered into force as from 1 January 2024.
- ▶ As from 1 January 2024, the Tax Package 2024, consisting of 15 tax bills has entered into force. The Tax Package 2024 is mainly focused on restoring purchasing power. There are amendments regarding the business succession scheme (*bedrijfsopvolgingsregeling*) and adjustments of classification of (foreign) legal entities and partnerships, fiscal investment institutions, mutual funds and exempt investment institutions. There are also tax bills and measures to stimulate sustainability and further greening. It is expected that substantial interest-holders and high-net-worth individuals will pay more taxes in 2024 and further years.

## Significant tax developments in 2023

- ▶ Implementation of the 2023 Tax Plan Package
- ▶ Publication of knowledge group positions of the tax authorities
- ▶ Tax authority commitment for more transparency
- ▶ Publication of new and updated decrees on several tax issues (e.g., hybrids, mismatches, avoiding double taxation, yearly profit rules and earnings stripping)

## EY key contacts

**Tax policy:**  
Daniel Smit

**Tax controversy:**  
Roxana Bos Schepers

- ▶ Consequences of the Tax Package 2024

## Significant tax developments expected in 2024

- ▶ A new coalition has yet to be formed. The new coalition will formulate a new coalition agreement with a note on tax policy strategy likely as well. For an overview of possible coalitions and possible future tax policy, see [here](#) (overview also available in English).
- ▶ The complex income tax system and benefits system is expected to be changed so that labor will be taxed less and pollution or wealth will be taxed more.
- ▶ On 17 September 2024, the Tax Package 2025 will be published.

## Significant legislative activity that could include tax

- ▶ A new coalition has to be formed. The new coalition will formulate a new coalition agreement with a note on tax policy strategy likely as well.

## Developments in tax transparency requirements

- ▶ The Netherlands is a strong proponent of transparency and supports the initiatives that have been taken or have been proposed by the European Committee.
- ▶ Under the EU Public CbCR, public disclosure of income taxes paid and other tax-related information (such as a breakdown of profits, revenues and employees per country) becomes required for MNEs with a consolidated revenue exceeding €750 million in each of the last consecutive two years. This applies for both EU-based MNEs and non-EU based MNEs doing business in the EU through a branch or subsidiary. The rules will apply for financial years starting on or after 22 June 2024.

# The Netherlands

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** are not occurring in 2024 (assuming the biggest political parties agree to form a coalition after the outcome of the elections on 22 November 2023).

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same

### Corporate taxes

- ▶ The CIT rate remains the same (19% first €200,000 and 25.8% for the excess).
- ▶ An additional WHT was introduced on dividend to low-taxed jurisdictions, hybrid entities and in abusive structures (an extension to the WHT, that applies as of 1 January 2021). The WHT rate is equal to the headline CIT rate (25.8%).
- ▶ Additional measures against dividend stripping (2024) include shifting the burden of proof for the dividend WHT at the source and to credit the dividend WHT levied.
- ▶ Effective 2025, a new classification of (foreign) legal entities and partnerships will apply by using (a) a comparison method (main rule), which applies if there is sufficient comparison with Dutch legal entities and partnerships; and (b) two alternative methods – (i) fixed classification and (ii) symmetrical classification – if there is insufficient comparison. Furthermore, and accompanying the above, the “consent requirement,” which was an important condition historically required to consider Dutch (and comparable foreign) partnerships as transparent from a Dutch tax perspective, will be abolished.
- ▶ Fiscal investment institutions may no longer directly invest in Dutch real estate as per 1 January 2025.
- ▶ The regime of mutual funds and exempt investment institutions will only be available to entities that are an investment institution or undertakings for collective investment in transferable securities (UCITS) as referred to in the Financial Supervision Act. The aim is to only allow the regime to apply to institutional investors, effective in 2025.
- ▶ The Minimum Tax Act 2024, incorporating Pillar Two into domestic law, entered into force 1 January 2024. The rules apply to multinational groups and domestic groups with an annual turnover of at least €750 million. The Minimum Tax Act 2024 introduces a QDMTT, an IIR for reporting years starting on or after 31 December 2023 and an UTPR for reporting years starting 31 December 2024. Note that this is structured as a separate law, and therefore, it is not part of the Corporate Income Tax Act.

### Taxes on digital business activity

- ▶ The Netherlands does not have any specific direct or indirect taxes or rules on digital business activity. The Netherlands is in favor of international measures with regard to taxation of the digital economy and is expected to follow the OECD/EU policy in this respect.

### Taxes related to climate change or sustainability

- ▶ As from 1 January 2024, two tax bills concerning climate and sustainability entered into force with several (smaller) measures regarding environment taxes.
- ▶ There is considerable subsidy available for entrepreneurs who continue to invest in sustainable energy. These will remain as relevant as ever in 2024.

### Windfall taxes

- ▶ For the years 2023 and 2024, the government temporarily increased the royalties under the Mining Act for gas producers with extraction activities in the Netherlands (including the Dutch part of the Continental Shelf).

### VAT/GST or sales taxes

- ▶ There are no major changes regarding VAT/GST or sales tax.

### Personal taxes

- ▶ The rate in the first tax bracket (up to € 75,518) increased from 36.93% to 36.97%. The top rate remains at 49.5% (box 1).
- ▶ The personal income tax rate on substantial shareholding (box 2) is 24.5% for the first €67,000 income per taxpayer (€134,000 for tax partners) and 33% for the excess. Substantial shareholders should furthermore be aware of the measure to reduce excessive borrowing from their own company.
- ▶ The tax allowance for savings and investments (box 3) stays at €57,000 per person. The tax rate is 36% in 2024. A discussion to modify box 3 (as from 2027) is still ongoing. The Dutch Supreme Court might decide that the current system is not compatible with international principles.
- ▶ Rented real estate is regarded as investment capital by default for the purposes of the business succession schemes, which means that these facilities do not apply to them. There are several other measures announced to downgrade the business succession schemes in 2025.
- ▶ Special tax benefits exist whereby qualifying expatriates can receive a reimbursement of costs of 30% of their salary (irrespective of actual costs incurred). Based on the amendments, the salary basis to which the 30% is applied is capped. Further downgrade of the 30% facility is under discussion.

# The Netherlands

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ In principle, the tax authorities have a sophisticated electronic compliance and audit system. The tax authorities are generally known for their high quality, reliability, approachability and mostly provide a high degree of customer service.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ It is not expected that the tax authorities will shift their audit focus into new or different issues in 2024.
- ▶ It is likely that the tax authorities will continue to focus on tax fraud and prevention of tax avoidance and tax evasion.
- ▶ A special team of the tax authorities deals with Pillar Two issues.

**Tax audits in the Netherlands in 2024 are generally expected to** stay the same in number and/or intensity.

### Top audit issues

- ▶ Transfer pricing is the top audit issue. The tax authorities have shown interest in performing head-office audits (which include intragroup services and other activities performed by the head office) and in analyzing the commercial rationality as well as economic (functional or people) substance of transactions, in terms of alignment of risk assumption and the functional ability to manage those risks, accuracy of delineations of intercompany arrangements, and control over the DEMPE functions.
- ▶ Next to head-office activities, intangible transactions are often evaluated, as well as business reorganizations, centralized purchasing companies, captive insurance

companies and financial transactions (including loans, cash pooling arrangements, and intercompany guarantees).

- ▶ During these transfer pricing audits, the tax authorities appear to have a particular interest in the economic substance of the transaction, with a focus on functional contributions by the relevant entities and whether this represents behavior observed with third parties. As a result of the risk analysis, the tax authorities have also focused on transactions with entities in countries with low effective tax rates and specific deductions or losses. The tax authorities appear open to offer advance tax certainty through mechanisms such as bilateral, multilateral and unilateral APAs, etc.

### Changes in tax audit approaches or methods

- ▶ No major changes are expected in 2024. It is not known whether the tax authorities will launch any new audit approaches or methods.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No major changes are expected in 2024. It is not known whether the tax authorities will launch any new tools or programs to dispute prevention or resolution.

### Tax governance approach/processes developments for business taxpayers

- ▶ No major changes are currently expected.

### Digital tax administration developments

- ▶ No major changes are currently expected.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	25.8%	25.8%	–	Same	Same
PIT	49.5%	49.5%	–	Higher	Higher
VAT/sales	21%	21%	–	Same	Same

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# New Zealand

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## Key issues to watch in 2024

- ▶ Impact of change in government on tax policy reform
- ▶ Delivery of pre-election promised income tax reforms

## Key drivers of tax policy change

- ▶ The general election held in October has resulted in the formation of a new coalition government. We expect a refreshing of the tax policy work program in 2024, to better align to the coalition partner's policy priorities promised ahead of the election.
- ▶ New Zealand Treasury forecasts a weaker economy heading into 2024. Supporting taxpayers and businesses through challenging economic conditions likely means a focus on compliance cost minimization, social policy reforms and potentially lowering of overall tax liability.
- ▶ Increased investment into tax audit and enforcement activity is expected to fund the economic support.
- ▶ Work is expected to continue in 2024 to progress the New Zealand response to the Two Pillar solution, and potentially introduce a DST if there is insufficient progress on Pillar One proposals.

## Significant tax developments in 2023

- ▶ Introduction of various bills into Parliament to:
  - ▶ Adopt Pillar Two of the OECD's BEPS proposals into domestic law
  - ▶ Introduce a DST to apply only if insufficient progress is made toward implementation of the Pillar One proposals
  - ▶ Increase the tax rate applicable to trustees of trusts to 39% (up from 33% currently)
- ▶ Enactment of legislation to:
  - ▶ Implement the OECD information reporting and exchange framework applicable to certain digital platform providers
  - ▶ Apply GST to certain accommodation and transport services provided through electronic marketplaces
  - ▶ Improve the GST apportionment and adjustment rules
  - ▶ Ease compliance obligations for employers of cross-border workers

## EY key contacts

**Tax policy:**  
Paul Dunne, Sladjana Lines,  
Sarah-Jane Leslie

**Tax controversy:**  
Tori Sullivan

- ▶ Implementation of Pillar Two
- ▶ Increase tax enforcement and audit activity

## Significant tax developments in 2024

- ▶ The new government has an immediate focus on delivering already promised tax reforms, which include:
  - ▶ Income tax cuts for low- and middle-income workers via raised marginal tax rate thresholds
  - ▶ Removal of commercial building depreciation
  - ▶ Phased reinstatement of interest deductions applicable to residential land
  - ▶ Reduction in the period during which gains on the sale of certain residential land to be subject to income tax from 10 years to two years
- ▶ Details on Pillar Two implementation are expected.
- ▶ Consultation is expected on fringe benefit tax reforms aimed at improving compliance and enforceability of the FBT tax base.

## Significant legislative activity that could include tax

- ▶ Annual budget is set in May and is expected to include tax reforms with the aim of reducing the income taxes payable by low- and middle-income workers and increasing tax credits and other social support payments for families and children.
- ▶ Annual Tax Rates Bill for 2024/5 will be introduced during 2024, which can be expected to contain broad remedial reforms to improve existing settings, reduce compliance burdens and improve enforcement of existing tax bases.

## Developments in tax transparency requirements

- ▶ From the 2021-22 income year, New Zealand domestic trusts were subjected to expanded reporting requirements for the first time. Detailed information, including in relation to trust distributions and settlements, must be disclosed to Inland Revenue each year alongside trust income tax returns.
- ▶ From 1 April 2023, new reporting requirements apply to "payment service providers." The six monthly reports will provide merchants' aggregate sales figures to Inland Revenue.

# New Zealand

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to remain unchanged, though use of government grants to fund R&D is expected to reduce.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ Removal of tax depreciation on commercial buildings is expected from 1 April 2024, for 2024-2025 and later income years.
- ▶ A reduction in the period during which gains on the sale of certain residential land will be subject to income tax from 10 years to two years and is expected to be in place by 1 July 2024.
- ▶ Phased reinstatement of deductibility for interest costs incurred in relation to residential land investments. The law currently restricts these deductions with a phase out to zero over coming years. Timing of this change is still to be confirmed.

### Taxes on digital business activity

- ▶ Expected enactment of Pillar Two proposals with an application date that is dependent on the take-up of the rules in other jurisdictions
- ▶ Expected expansion application of GST to online gambling providers operating in New Zealand is expected

### Taxes related to climate change or sustainability

- ▶ The new coalition government has moved quickly to wind back certain sustainability focused taxes and levies within the first month of their term. For example, regional fuel taxes and levies applicable to certain combustion engine vehicles have now been repealed.
- ▶ New taxes focused on climate change or sustainability are not expected to be introduced in 2024.

### Windfall taxes

- ▶ No changes are currently expected.

### VAT/GST or sales taxes

- ▶ New GST rules applicable to certain accommodation and transport services provided through digital platforms were enacted, with general effect from 1 April 2024.
- ▶ GST apportionment rules were amended, with the majority of the reforms taking effect from 1 April 2023.
- ▶ No broad GST amendments are expected in 2024, other than minor remedial changes to existing rules and earlier referred to expansion of GST to online gambling operators.

### Personal taxes

- ▶ Personal income tax cuts are expected to be brought in mid-2024. The cuts are targeted at low- and middle-income earners but are expected to apply across the personal income tax base.

### Other

- ▶ Trustee tax rate is expected to be increased to 39%, up from the current 33% as of 1 April 2024. This will align the trustee rate to the top personal income tax rate, at 39%.

# New Zealand

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Inland Revenue expects all large taxpayers to document their tax policy and tax operations manuals setting out how the organization identifies, assesses and controls tax risk. Review of these tax governance framework documents continues to be a focus of Inland Revenue in risk reviews and audits.
- ▶ Completion of Inland Revenue's Business Transformation Program in June 2022 has resulted in the ability to make greater use of data analytics for investigation and audit case selection. Inland Revenue's new IT platform facilitates greater processing power and allows Inland Revenue to synthesize more data, faster.
- ▶ Increased resourcing has driven an increase in the level of transfer pricing review and audit activity.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Continued focus on tax governance for large enterprises
- ▶ Progress of proposed legislative reforms for implementation of the Pillar Two rules in New Zealand
- ▶ Progress of proposed legislative reforms to increase the trustee tax rate from 33% to 39% from 1 April 2024

### Tax audits in New Zealand in 2024 are generally expected to increase in number and intensity.

### Top audit issues

1. Transfer pricing
2. Cross-border financing activities and intangibles
3. Losses
4. Change in use of trusts in business structures and change in trust distributions

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	28%	28%	–	Lower	Lower
PIT	39%	39%	–	Lower	Lower
VAT/sales	15%	15%	–	Same	Same

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### Changes in tax audit approaches or methods

- ▶ Inland Revenue has begun asking taxpayers how long it has been since they have engaged a third party to test various tax types, such as GST and payroll, to make sure that the correct data is being captured. In instances where it has been over three years, Inland Revenue has been requesting that the taxpayer undertake this testing immediately.
- ▶ Inland Revenue's new digital capability and faster data processing is resulting in increased use of data analytics for case selection for review and audit purposes.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No notable changes over the past 12 months.

### Tax governance approach/processes developments for business taxpayers

- ▶ Inland Revenue's focus on tax governance has continued and is expected to expand during 2024.
- ▶ In particular, the scrutiny of tax strategy and tax control frameworks will become common practice in future significant enterprise compliance reviews and audits, starting in 2024.

### Digital tax administration developments

- ▶ Inland Revenue is expanding the use of new powers that allow for the regular collection of "bulk datasets" that the Commissioner considers necessary or relevant for administering or enforcing the revenue law. The information is expected to facilitate the use of broader audit analytics and early error detection by Inland Revenue.





# Nicaragua

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## EY key contacts

### Tax policy:

Luis E. Ocando, Daniel Quesada

### Tax controversy:

Rafael Sayagués, Randall Oquendo

## Key issues to watch in 2024

- ▶ Increased tax enforcement and tax audits

## Key drivers of tax policy change

- ▶ High tax collection through adjustments to tax returns

## Significant tax developments in 2023

- ▶ The Single Window for Foreign Trade of Nicaragua (VUCEN, by its acronym in Spanish) was created to allow companies to carry out procedures of external commerce easier.
- ▶ The government authorized the sale online of the electronic sealed paper to improve the administrative efficiency to solve the high demand of the physical sealed paper.

## Significant tax developments expected in 2024

- ▶ No significant developments are currently expected.

## Significant legislative activity that could include tax

- ▶ No developments are currently expected.

## Developments in tax transparency requirements

- ▶ No developments are currently expected.

**Significant tax reform** is not expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

## Corporate taxes

- ▶ No changes are currently expected.

## Taxes on digital business activity

- ▶ No changes are currently expected.

## Taxes related to climate change or sustainability

- ▶ No changes are currently expected.

## Windfall taxes

- ▶ No changes are currently expected.

## VAT/GST or sales taxes

- ▶ No changes are currently expected.

## Personal taxes

- ▶ No changes are currently expected.

# Nicaragua

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ No significant developments

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ A higher number of fiscal audits

**Tax audits in Nicaragua in 2024 are generally expected to increase in number and intensity.**

### Top audit issues

1. Fixed assets
2. Intercompany transactions
3. Deductibility of expenses

### Changes in tax audit approaches or methods

- ▶ Financial borrowers are frequently the focus of the tax authority in tax audits.
- ▶ Fixed assets are frequently examined to look for incorrect timing of depreciation.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ Businesses must update their corporate information before the tax authorities, including changes in the board of directors, shareholders, social capital or business name.

### Digital tax administration developments

- ▶ The sale online of the electronic sealed paper

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	30%	30%	–	Same	Same
PIT	30%	30%	–	Same	Same
VAT/sales	15%	15%	–	Same	Same

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# Norway

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## EY key contacts

**Tax policy:**  
Hanne Skaarberg Holen

**Tax controversy:**  
Hanne Skaarberg Holen

## Key issues to watch in 2024

- ▶ Implementation of Pillar Two
- ▶ Tax regimes for hydropower and wind power onshore
- ▶ Wealth tax and exit taxation for private owners
- ▶ Increase in use of indirect taxes

## Key drivers of tax policy change

- ▶ Increases in wealth tax and taxation of dividends have driven many high-net-worth individuals to migrate out of Norway.
- ▶ Implementation of targeted taxes relating to the use of land or natural resources to achieve a strong and non-shiftable tax base. Therefore, tax regimes targeting hydropower and wind power have been enacted.
- ▶ International developments, such as BEPS Pillar Two, will impact Norway.
- ▶ The post-COVID-19 state budget upholds certain “temporary” tax increases, such as the additional Social Security charges on higher salaries.
- ▶ Environmental tax adjustments, and particularly the EU implementation of CBAM, may impact Norwegian tax policies.

## Significant tax developments expected in 2024

- ▶ Implementation of BEPS Pillar Two is ongoing.
- ▶ The government has not yet stated their position in respect to implementation of the EU CBAM.
- ▶ A proposal is expected that will increase taxation of private use of assets held by a corporate entity (the monster tax), which should discourage companies from owning assets that may be used for private purposes, such as houses, cars, boats and aircrafts.

## Significant legislative activity that could include tax

- ▶ There is a significant push for renewable energy, which is currently being slowed down by unfavorable tax rules. In particular, the depreciation rules for hydropower plants give a disincentive to further investments to increase capacity of existing plants. However, at present we are not aware of any ongoing legislative activity to amend this.

## Developments in tax transparency requirements

- ▶ CbCR has been implemented and annual filings are required for larger sized multinationals. There are no new or additional general transparency initiatives currently being considered.
- ▶ There is a proposal to give the tax administration easier access to information from bank accounts.
- ▶ The Sovereign Wealth Fund (NBIM) has taken a proactive approach to include inter alia tax risk and tax compliance as part of their investment consideration.

## Significant tax developments in 2023

- ▶ Implementation of resource rent taxation on the fish farming industry effective from 2023
- ▶ Increase of resource rent tax rate on hydropower effective from 2023
- ▶ Implementation of resource rent taxation on onshore wind power effective from 2024

# Norway

## Expectations for tax policy

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### Significant tax reform is not expected in 2024.

The commission appointed for a potential general tax reform issued their report in December 2022. Some of the suggestions in the report related to resource rent taxes and had already been set in motion before the report was issued. Remaining suggestions, such as higher taxation of pensions and private homes and VAT on food, received little political enthusiasm and have not been proposed.

The introduction of resource rent taxation on the fish farming industry and wind power, as well as the increased resource rent tax on hydropower, were poorly received, and the current government has pledged to avoid similar tax increases during their remaining years in power.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to increase.

**Other business incentives** are expected to increase.

### Corporate taxes

- ▶ No significant amendments are currently expected in 2024.

### Taxes on digital business activity

- ▶ No significant amendments are currently expected in 2024.

### Taxes related to climate change or sustainability

- ▶ The EU CBAM mechanism is being considered. At present, the government's stated position is that such a mechanism, while binding within the EU, is not binding under the EEC agreement. Hence, they have not proposed implementation in Norway.

### Windfall taxes

- ▶ Starting from 28 September 2022, an excise duty was introduced on electrical power produced by large hydropower plants and later also by small hydropower plants and wind power farms. The duty was 23% of the price that exceeds NOK0.70 per kWh. The excise duty was abolished from 1 October 2023.
- ▶ No new windfall taxes are currently expected in 2024.

### VAT/GST or sales taxes

- ▶ No significant amendments are proposed, enacted or expected for 2024.

### Personal taxes

- ▶ No significant amendments are proposed, enacted or expected for 2024.



# Norway

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Increase in the degree of digitalization and requirements for automated tax filings (SAF-T)
- ▶ Proactive approach to compliance, including ongoing dialogue with largest taxpayers
- ▶ Strong focus on transfer pricing

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ During the COVID-19 era, tax administration resources were redirected to other areas, such as administering temporary relief measures. These resources are now back in ordinary business.
- ▶ We do not expect the backlog at the tax appeals board to improve significantly in 2024, as no measures have been taken to increase resources.
- ▶ The National Competent Authority continues to grow and provide solutions to double taxation based on tax treaties.

**Tax audits in Norway in 2024 are generally expected to stay the same in number and/or intensity.**

### Top audit issues

1. Transfer pricing
2. Cross-border restructurings
3. Broad cooperation with police and social security agencies to combat money laundering and undisclosed employment (arbeidslivskriminalitet)

### Changes in tax audit approaches or methods

- ▶ A strong focus continues on the petroleum tax, which accounts for a large share of tax revenues.
- ▶ Transfer pricing efforts have been coordinated in a tax office task force that covers both petroleum taxation and ordinary taxation.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ The Tax Appeals Board, set up in 2017, continues to have very extensive backlogs, with some cases taking several years. The tax appeal board tends to solve significant controversy cases.
- ▶ The use of MAP is increasing. Norway's National Competent Authority reports that almost all cases are solved on a timely basis, either through a MAP agreement or through unilateral relief.

### Tax governance approach/processes developments for business taxpayers

- ▶ Systems-based approach to achieve compliance

### Digital tax administration developments

- ▶ New and revised tax return format introduced as a pilot in 2022, shifting to topic-based tax filings
- ▶ Suggested legislation to increase the tax administration's direct access to information from bank accounts

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	22%	22%	–	Same	Same
PIT	47.4%	47.4%	–	Same	Same
VAT/sales	25%	25%	–	Same	Same

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# Oman

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## EY key contacts

### Tax policy and controversy

#### Direct tax:

[Alkesh Joshi](#), [Mohammed Raza](#),  
[Amit Bhatnagar](#)

### Tax policy and controversy

#### Indirect tax:

[Aamer Bhatti](#), [Mitul J Patel](#)

## Key issues to watch in 2024

- ▶ E-invoicing
- ▶ Developments in relation to BEPS Pillar Two rules in Oman

- ▶ Personal income tax

## Key drivers of tax policy change

- ▶ In the broader context of economic diversification, additional sources of tax revenue are being considered as well as measures to improve efficiency of collection.
- ▶ The government is actively trying to revitalize and revamp the country's tax regime for optimum collection of tax revenue.
- ▶ A DTT between Qatar and Oman has been signed and became effective from 1 January 2023. It is the first DTT agreement to be concluded by Oman with another GCC country.

## Significant tax developments in 2023

- ▶ A Royal Decree was issued giving authority to the Minister of Finance to decide on tax-exemption-related matters in Oman.
- ▶ The Oman Tax Authority (OTA) issued an amendment to the VAT Executive Regulations on refunds.
- ▶ OTA may soon require all taxpayers to submit the taxpayer checklist along with the VAT return (for now, only large taxpayers and nonresidents are required to submit it).
- ▶ OTA issued a number of VAT guides, which are available in the OTA portal.
- ▶ Assessment orders have been issued for several taxpayers for VAT returns filed in 2021 and 2022 and the OTA has requested additional information in many cases.

## Significant tax developments expected in 2024

- ▶ Guidelines in relation to Pillar Two implementation may be issued by the OTA.
- ▶ New tax legislation may arise relating to income from the renewables sector (especially in relation to the upcoming green hydrogen market).
- ▶ It is inferred from several pronouncements made by government officials that the implementation of personal income tax in Oman is under active consideration. This inference is based on the law concerning such a tax being presently under review by the relevant government authorities.
- ▶ The OTA is considering implementing e-invoicing in 2024, and the implementation will likely follow a phased approach, starting with large taxpayers.

## Significant legislative activity that could include tax

- ▶ No updates on this matter during 2023.

## Developments in tax transparency requirements

- ▶ No developments on this matter during 2023.

# Oman

## Expectations for tax policy

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**Significant corporate tax reform** is not expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are not expected to change.

**Other business incentives** are not expected to change.

### Corporate taxes

- ▶ While there is a greater degree of scrutiny at the time of tax audits of taxpayers in recent periods, there is no change or update specifically with respect to corporate income taxes in Oman. The corporate income tax rate is expected to be the same in 2024, at 15%.

### Taxes on digital business activity

- ▶ There is no separate digital business activity tax in Oman. From a VAT perspective, the OTA released the English Version of the Electronic Commerce guide. The guide provides guidance on the VAT treatment of the supply of goods and services related to e-commerce activities in Oman.

### Taxes related to climate change or sustainability

- ▶ No taxes of such nature are applied in Oman currently.
- ▶ New tax legislation relating to income from the renewables sector (especially in relation to the upcoming green hydrogen market) may be considered by the government going forward.

### Windfall taxes

- ▶ No taxes of such nature are applied in Oman.

### VAT/GST or sales taxes

- ▶ Changes to VAT rates are unlikely to occur in 2024.

### Personal taxes

- ▶ The Oman Annual Budget document for 2024 does not explicitly refer to personal income tax; however, it is inferred from several pronouncements made by government officials that the implementation of personal income tax in Oman is under active consideration. This inference is based on the law concerning such a tax being presently under review by the relevant government authorities.



# Oman

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ There is a significant increase in the extent and depth of investigation of tax returns. Also, as a part of their investigations, the OTA is increasingly requesting extensive documentation from the taxpayer.
- ▶ Several taxpayers have received assessment orders in relation to their VAT returns. The OTA has requested additional information from many taxpayers due to inadequacy or incompleteness of information submitted at the time of filing a tax return.
- ▶ There is an increasing focus on related-party transactions and transfer pricing requirements.
- ▶ Onsite investigations are being conducted by the OTA covering a larger taxpayer base to verify the information being submitted as part of the tax returns.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ It is expected that the OTA shall increase and expand field visits in 2024 to further scrutinize taxpayer compliance with VAT requirements.
- ▶ It is possible that the OTA may announce an intention to introduce e-invoicing during the year.

**Tax audits in Oman in 2024 are generally expected to increase in number and intensity.**

### Top audit issues

- 1. Transfer pricing:** Related-party transactions are scrutinized in detail by the OTA during assessment proceedings. In many cases, the OTA is requesting for transfer pricing reports for related-party transactions, although there are no defined TP guidelines or requirements set out in the Income Tax Law.
- 2. Tax losses:** There have been increased challenges from the OTA on companies incurring continuous losses over a number of years, where the OTA considers disallowing expenses to the extent of the tax losses in the absence of appropriate justification being presented for the nature and reasons for incurring losses.
- 3. Documentation and higher instances of state audit:** The OTA is increasingly requesting a higher volume of supporting documentation for a majority of expenses incurred by a taxpayer. There has also been an increase in the State Audit Department's scrutiny of assessment orders passed by the OTA. Taxpayers are required to be more diligent while filing returns and in providing supporting information.

### Changes in tax audit approaches or methods

- ▶ No changes are currently expected.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ No changes are currently expected.

### Digital tax administration developments

- ▶ E-invoicing

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	15%	15%	–	Same	Same
PIT	N/A	N/A	N/A	Same	Same
VAT/sales	5%	5%	–	Same	Same

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# Panama

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## EY key contacts

### Tax policy:

Luis E. Ocando, Daniel Quesada

### Tax controversy:

Rafael Sayagues, Randall Oquendo

## Key issues to watch in 2024

- ▶ Entry into force of the Tax Procedure Code

## Key drivers of tax policy change

- ▶ Complying with international standards regarding transparency and the exchange of information
- ▶ Implementing and monitoring minimum standards of the BEPS Action Plan
- ▶ Complying with the objectives to be removed from the EU list of noncooperative jurisdictions
- ▶ Analyzing and studying the possibility of including Pillar Two; focus on current regulations and the changes that must be made for its implementation

## Significant tax developments in 2023

- ▶ Transitory tax-recovery measures and abbreviated audit procedures
- ▶ Electronic Invoicing System of Panama implementation for Special Economic Regimes
- ▶ Equalization of tax benefits in the Colón Free Zone, inclusion of new activities and tax exemptions

## Significant tax developments expected in 2024

- ▶ Among the most significant advances in tax matters will be the entry into force of the Tax Procedure Code, which is expected to become effective in July 2024.
- ▶ Panama exchanged information automatically with 73 jurisdictions in accordance with the CRS MCAA.

## Significant legislative activity that could include tax

- ▶ The possibility of including Pillar Two of the OECD model is being considered, with analysis focusing on the current regulations and the changes that must be faced for its implementation. Currently, the intention of the Panamanian government is not public knowledge.

## Developments in tax transparency requirements

- ▶ Panama continued the exchange of information with the US in compliance with FATCA.
- ▶ Measures and recommendations were adopted related to the automatic exchange of tax information and the exchange of information by request carried out by the OECD.
- ▶ Panama has been removed from the Financial Action Task Force (FATF) gray list after complying with the requirements established by said agency.

**Significant tax reform is not expected in 2024.**

**Elections are expected to take place on 5 May 2024.**

**R&D incentives are expected to stay the same.**

**Other business incentives are expected stay the same.**

# Panama

## Expectations for tax policy

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### Corporate taxes

- ▶ The 25% rate under the ordinary tax regime is expected to stay the same.
- ▶ Special regimes are expected to remain the same regarding lower CIT rates for incentivized activities.

### Taxes on digital business activity

- ▶ Not currently expected

### Windfall taxes

- ▶ Panama does not currently impose any windfall taxes.

### VAT/GST or sales taxes

- ▶ The 7% rate for the transfer of movable property and services rendering is not expected to change.

### Taxes related to climate change or sustainability

- ▶ Exemption from several taxes for recycling activities
- ▶ Photovoltaic energy incentives (special regimes for the generation of electricity from renewable resources)
- ▶ Natural gas-based energy incentives (special regimes for the generation of electricity from renewable resources)
- ▶ Hydroelectric power incentives (special regimes for the generation of electricity from renewable resources)
- ▶ Million Hectare Alliance Incentives (i.e., reforestation activities)

### Personal taxes

- ▶ The standard rate of 25% is not expected to change.



# Panama

## Expectations for tax enforcement and tax controversy

### Taxes related to climate change or sustainability

- ▶ Exemption from several taxes for recycling activities
- ▶ Photovoltaic energy incentives (special regimes for the generation of electricity from renewable resources)
- ▶ Natural gas-based energy incentives (special regimes for the generation of electricity from renewable resources)
- ▶ Hydroelectric power incentives (special regimes for the generation of electricity from renewable resources)
- ▶ Million Hectare Alliance Incentives (i.e., reforestation activities)

### Personal taxes

- ▶ The standard rate of 25% is not expected to change.

### Top tax enforcement or tax controversy developments in 2023

- ▶ Special transitory procedure for abbreviated audits and management of tax debts in Panama
- ▶ Enactment of special treatment to declare the extinction ex officio of tax debts
- ▶ Enactment of tax-regularization measures

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ With the entry into force of the Tax Procedure Code in July 2024, it is expected that the administrative processes, as well as the controversies arising therefrom, will have unified and standardized guidelines to carry out the processes until their resolution.

**Tax audits in Panama in 2024 are generally expected to stay the same in number and/or intensity.**

### Changes in tax audit approaches or methods

- ▶ Implementation of abbreviated audit's procedures

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ Enactment of special treatment that allows the Panamanian Tax Authority to declare the extinction ex officio of tax debts that meet certain requirements

### Tax governance approach/processes developments for business taxpayers

- ▶ Tax components of previous economic stimulus measures were implemented (i.e., tax regularization processes).
- ▶ Modernization and digitalization of processes administrated by the Panamanian Tax Administration. The digitalization and modernization process has been ongoing since 2021.

### Digital tax administration developments

- ▶ So far there are no laws or significant changes on this matter. However, we understand that it could be a matter to be developed by the government in the next few years.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	25%	25%	0%	N/A	Same
PIT	25%	25%	0%	N/A	Same
VAT/sales	7%	7%	0%	N/A	Same

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This information is current as of 10 January 2024.



# Paraguay

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## Key issues to watch in 2024

- ▶ Creation of the National Directorate of Tax Revenue
- ▶ Continuous evolution of transfer pricing rules
- ▶ Hosting of the 17th meeting of the Global Forum on Transparency and Exchange of Information for Tax Purposes
- ▶ Improved tax control technology (Big Data)
- ▶ Implementation of tax measures to align to the OECD's standards
- ▶ Continuation of electronic invoicing implementation

## Key drivers of tax policy change

- ▶ A new tax regime was enacted in 2019 and the tax authority has continued to issue and publish administrative precedents related to the new tax regime to generate higher understanding of the tax reform.
- ▶ In 2023, the Executive Power enacted Law No. 7.143 to merge the internal tax authority and customs authority under one unified institution, the National Directorate of Tax Revenue (DNIT, for its acronym in Spanish). This measure will allow a greater synergy of the controls and procedures of the tax authority.
- ▶ New regulations on invoicing were issued creating new electronic tax documents that will be implemented throughout 2024, which will provide more information to the tax authority to enhance its controls.
- ▶ Aspects of the registration, data update and cancellation of the Paraguayan Tax ID (RUC) have been updated, including provisions of Law No. 6984/2022 "On Migrations." With this update, temporary residents are allowed to register as local taxpayers.
- ▶ A VAT exemption was established for the transfer of carbon credits.
- ▶ The electronic issuance of tax documents through the Integrated National Electronic Invoicing System (SIFEN) has been regulated and updated.

## Significant tax developments expected in 2024

- ▶ Initially, all new taxpayers, registered during 2024, were expected to issue all their tax documents electronically exclusively. Nevertheless, this provision has been suspended until 2025
- ▶ Pension and retirement regime reform
- ▶ Transfer pricing return to include CbCR notification

## Major legislative activity that could include tax

- ▶ Double Taxation Agreement between Paraguay and Spain (pending legislative enactment)
- ▶ New regulation on electronic invoicing dispositions

## EY key contacts

### Tax policy:

Gustavo Colman, Alvaro Hoeckle

### Tax controversy:

Gustavo Colman, Alvaro Hoeckle

# Paraguay

## Expectations for tax policy

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### Developments in tax transparency requirements

- ▶ Paraguay has been chosen as the site of the 17th Meeting of the Global Forum on Transparency and Exchange of Information for Tax Purposes to be held in 2024.
- ▶ In 2020, the Republic of Paraguay, through Law No. 6656/2020, approved the "Convention on Mutual Administrative Assistance in Tax Matters."

**Significant tax reform** is not expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ The CIT standard rate is to remain at 10%.
- ▶ There is continued regulation and implementation of the transfer pricing rules for purposes of adjusting the taxable income for corporate income tax purposes.

### Taxes on digital business activity

- ▶ Digital services are understood to be provided in the national territory, when they are effectively used or taken advantage of in the country. This occurs when any of the following are located in Paraguay: the IP address of the device used by the customer or the country code of the SIM card; the customer's billing address; the bank account used for remitting the payment; the customer's billing address available to the bank or the financial entity issuing the credit or debit card with which the payment is made.
- ▶ Digital services provided by foreign suppliers in the country are subject to the non-resident tax. The standard tax rate is 15%, applicable on the taxable base of 30%.
- ▶ VAT is also applicable to digital services, at the rate of 10%.

### Taxes related to climate change or sustainability

- ▶ In 2023, a VAT exemption was established for the transfer of carbon credits.

### Windfall taxes

- ▶ Paraguay does not impose any windfall taxes.

### VAT/GST or sales taxes

- ▶ It is expected that the general VAT rate will continue to be 10%. Items subject to the special 5% rate and exemptions will remain the same, subject to new provisions.

### Personal taxes

- ▶ With the issuance of Decree No. 8894/2023, temporary residents are allowed to register as local taxpayers.
- ▶ It is expected that in 2023, sanctions will be implemented on late submission of the obligation of monthly registration of income and expense documents for VAT taxpayers.

# Paraguay

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ The Supreme Court issued several precedents on cases related to input VAT refund for exporters.
- ▶ The tax authority has applied enhanced substance controls, applying controls to taxpayers and increasing tax compliance.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Older court cases related to the input VAT refund for exporters will be resolved by the Supreme Court, generating a greater number of administrative precedents.
- ▶ After the third year of enforcement of the transfer pricing law, the first controversies on this matter can begin.

**Tax audits in Paraguay in 2024 are generally expected to stay the same in number and/or intensity.**

### Top audit issues

1. Difference within determinative and informative tax returns
2. Detection of invoices related to unsubstantiated business activities that are being used for tax deduction purposes

### Changes in tax audit approaches or methods

- ▶ No developments are currently expected.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No developments are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ No developments are currently expected.

### Digital tax administration developments

- ▶ New regulations were issued to reach the electronic invoicing milestones established by the tax authority for 2025.
- ▶ The tax authority will make a free information program available to for small and medium taxpayers who adhere to electronic invoicing.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	10%	10%	–	Same	Same
PIT	10%	10%	–	Same	Same
VAT/sales	10%	10%	–	Same	Same
Dividends and profit tax	15%	15%	–	Same	Same

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# Peru

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## EY key contacts

**Tax policy:**  
David de la Torre

**Tax controversy:**  
Percy Bardales, Maria Eugenia Caller

## Key issues to watch in 2024

- ▶ Budget deficit reduction
- ▶ No reform expected from Congress; changes to arise from courts and the tax authorities
- ▶ Potential increase of tax audits
- ▶ New mandatory tax general judgements to be issued by the Peruvian Supreme Court

## Key drivers of tax policy change

- ▶ Need to achieve a budget deficit reduction
- ▶ Decrease of tax collections around 12% in 2023
- ▶ No significant tax reform currently expected during 2024
- ▶ Supreme Court issuance of mandatory general judgments in tax matters
- ▶ Continuation of policies for more transparency in tax disclosures
- ▶ Regulations were issued for the application of the Secured Overnight Financing Rate (SOFR) instead of the London Inter-Bank Offered Rate (LIBOR) regarding the determination of the withholding tax on interest from cross-border financing.
- ▶ New tax incentives for agro and textile industries are to be applied for years 2024 to 2028 (i.e., tax credit for profits reinvestment, accelerated depreciation, super deduction for new employees, reduction of health contribution rate).

- ▶ Interest on penalties will only apply once the fines are requested by the tax authorities and not when the infraction was committed.
- ▶ Interests applicable on tax refunds for undue payments will be calculated using basically the same interest rate that affected the tax debt that was unduly paid.
- ▶ The exemption for capital gains in centralized stock exchanges was not extended. Hence, during 2024, such transactions would be taxable.

## Significant tax developments in 2023

- ▶ Relevant precedents (mandatory tax general judgements) issued by the Supreme Court regarding:
  - ▶ Antidumping rights: After years of discussion, the Supreme Court concluded that they are not penalties and hence they are deductible for income tax purposes.
  - ▶ Proofs: Untimely filed proofs during the administrative procedure shall be analyzed by the judges and courts during the judicial procedure.
  - ▶ Statute of limitation: Significant changes in criteria for how the statute of limitation is computed and when it is suspended.
- ▶ Relevant precedents issued by the Constitutional Court (Full Chamber):
  - ▶ Interests cannot be applied by the tax authorities after the legal term to resolve the case has expired.
- ▶ Other significant judgements (not mandatory precedents yet) regarding mining activities:
  - ▶ Development expenses are deductible in three years and are not required to be calculated proportionally (33.3% per year).
  - ▶ Tailings ponds (*canchas de relaves*) can be depreciated within the term on which it is just considered an asset of the mine.

## Significant tax developments expected in 2024

- ▶ First transfer pricing case to be discussed at the Supreme Court level
- ▶ Constitutional Court to resolve significant tax cases regarding corporate tax, interests and penalties application

## Significant legislative activity that could include tax

- ▶ Eventually individual items related to certain incentives to attract sectorial investments may be developed.

## Developments in tax transparency requirements

- ▶ Continue developing and enacting final beneficiary rules
- ▶ Continue with transparency requirements focused on financial institutions

# Peru

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to increase following those granted for textile and agribusiness industries during 2023.

### Corporate taxes

- ▶ No significant general changes in tax rates or taxable base have taken place or are currently expected to take place, only tax incentives for specific sectors.
- ▶ Discussions are occurring on the nontaxation of interests and capital gains arising from repurchase options and exchange-traded funds of underlying sovereign bonds and bills of the Peruvian Public treasury.
- ▶ Cases are pending at the Supreme Court regarding exchange difference, cost and depreciation, intangibles amortization and transfer pricing. The outcomes of these cases could impact interpretations of the law applied for years open to tax review.

### Taxes on digital business activity

- ▶ No developments are currently expected.

### Taxes related to climate change or sustainability

- ▶ No developments are currently expected.

### Windfall taxes

- ▶ No developments are currently expected.

### VAT/GST or sales taxes

- ▶ Developments are expected on VAT digitalization procedures affecting not the tax level but how taxes are calculated.

### Personal taxes

- ▶ Continued enhancement of the exchange of information with other tax administrations
- ▶ Increased intensity of audits started

### Other

- ▶ The intensity of El Niño weather pattern may determine the need of special tax legislation for certain geographic zones or industries.





# Peru

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ New law applying interest on penalties only once the fines are requested by the tax authorities and not since the infraction was committed
- ▶ Relevant precedents (mandatory tax general judgements) issued by the Supreme Court, specifically those regarding proofs and the statute of limitations

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Significant cases are being decided regarding substance over form in existing laws. Potential new criteria or safe harbors are to be confirmed.

Tax audits in Peru in 2024 are generally expected to increase in number and intensity.

### Top audit issues

1. Transactions among related parties: expense and cost deductions and transfer pricing
2. Traceability of funds utilization in connection with interests' deductibility (dollar x dollar approach)
3. Tax accrual of revenues and expenses and costs
4. Amortization of intangibles (cost and timing)
5. Capital gains of cross-border transactions: tax cost of the transaction; as well as interpretations regarding anti-double taxation agreements

### Changes in tax audit approaches or methods

- ▶ Tax authorities are more intensely using information arising from exchange of information among tax authorities.
- ▶ Tax audits of individuals are starting.
- ▶ At the corporate level, audits are still being conducted not following a year sequence. This creates additional issues regarding:
  - ▶ Statute of limitations
  - ▶ Credit and loss carryforwards, especially regarding years past the statute of limitations
  - ▶ Temporary add backs and deductions affecting other years

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No developments are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ No developments are currently expected.

### Digital tax administration developments

- ▶ The authorities will continue with efforts on digitalization with a focus on VAT.
- ▶ VAT tax returns are to be created from electronic invoices, with the initial draft being proposed by the tax authorities to the taxpayer. However, this change has been postponed at least two times apparently due to technical issues that are still under review.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	29.5%	29.5%	–	Same	Same
PIT	5%-30%	5%-30%	–	Same	Same
VAT/sales	19%	19%	–	Same	Same

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# The Philippines

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## EY key contacts

**Tax policy:**  
Fabian K Delos Santos

**Tax controversy:**  
Jules E. Riego

## Key issues to watch in 2024

- ▶ Increased enforcement efforts
- ▶ Run After Fake Transactions (RAFT) program
- ▶ Payments to nonresident service providers

## Key drivers of tax policy change

- ▶ The collection target of the Bureau of Internal Revenue (BIR) for the year is PHP3 trillion (around USD54 billion). There was a 13.6% increase from 2023's targets of PHP263.9 trillion, so intensifying efforts by BIR to meet this target can be expected.
- ▶ The BIR will double their effort in implementing their RAFT program. The BIR started issuing Letters of Authority (in the latter part of 2023) to many taxpayers suspected of using commercial invoices to support fake purchases in the past, even including taxpayers whose prior years have already been audited by the BIR.
- ▶ Government priorities remain the same as in 2023 but with emphasis on tax enforcement and collection.

## Significant tax developments expected in 2024

- ▶ The Ease of Paying Taxes Act (Republic Act 11976) was signed into law by the Philippine President on 5 January 2024. The law includes adoption of the accrual method in reporting gross sales per VAT returns, paying and filing taxes anywhere, and a reduction of invoicing requirements for VAT refunds.
- ▶ Implementation of Revenue Regulation 16-2023 took effect on 11 January 2024, imposing 1% expanded withholding tax (EWT) on all online sellers by designating electronic marketplace operators and digital financial services providers as withholding agents.

## Significant legislative activity that could include tax

- ▶ Real Property Valuation Reform aims to improve efficiency in revenue collection by expediting automation of the real property tax valuation and assessment system.
- ▶ The Digital Services Tax Bill (Senate Bill 4122) proposes to impose 12% VAT on nonresident digital service providers (DSPs).
- ▶ The CREATE More Bill (House Bill 8968/CREATE to Maximize Opportunities for Reinvigorating the Economy) proposes to further rationalize fiscal incentives and clarify the VAT regimes for a business registered with various incentives promotion agencies.

## Developments in tax transparency requirements

- ▶ The Philippines joined the OECD/G20 Inclusive Framework on BEPS.

## Significant tax developments in 2023

- ▶ The BIR started its RAFT program, where in March 2023, the BIR filed criminal cases against sellers of fake receipts and committed to prosecute identified customers of the sellers of fake receipts.
- ▶ The BIR issued Revenue Memorandum Circular (RMC) 5-2024, expanding interpretation of a Supreme Court decision. According to this RMC, if a Philippine payor benefited by the service and the payor is from the Philippines, the payment to the nonresident service provider should be subject to final withholding tax (FWT) and final withholding VAT (FVAT). This exposes management fees, consultancy fees, technical services fees and the like (payable to nonresident foreign corporations) to risk being subjected to FWT and 12% FVAT.
- ▶ The BIR also launched a program against illegal cigarette and e-cigarette vendors. The BIR filed 69 tax evasion cases in May 2023 against vendors of untaxed, fake or smuggled cigarettes. The BIR also raided stores of illegal sellers and traders of vape products.

# The Philippines

## Expectations for tax policy

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**Significant tax reform** is expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to increase.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ No changes are currently expected to the standard 25% corporate income tax rate.
- ▶ There is a 2% minimum CIT on gross income imposed on the fourth taxable year following the year the corporation commenced its business operations.

### Taxes on digital business activity

- ▶ Implementation of Revenue Regulation 16-2023 took effect on 11 January 2024, imposing 1% EWT on all online sellers by designating electronic marketplace operators and digital financial services providers as withholding agents.

### VAT/GST or sales taxes

- ▶ No significant changes are currently expected.

### Personal taxes

- ▶ No significant changes are currently expected.



# The Philippines

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Creation of RAFT task force
- ▶ BIR application of RMC 5-2024

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Circularization of RMC 5-2024
- ▶ Continuation of RAFT enforcement

**Tax audits in the Philippines in 2024 are generally expected to** increase in number and intensity.

### Top audit issues

1. **Documentary support:** In 2023, the BIR started to require presentation of 100% documentary support for expenses, direct costs, discounts and rebates as deduction from sales or deduction from gross income. Previously, the production of documentary support for material transactions (sampling) was sufficient.
2. **Withholding tax compliance:** Closer scrutiny of support for compliance with withholding tax obligations is expected for all types of payments subject to withholding tax (withholding tax on compensation, creditable withholding tax, FWT and FVAT).

### Changes in tax audit approaches or methods

- ▶ Stricter
- ▶ More document-based

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No significant changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ Electronic invoicing system
- ▶ Online Registration and Update System (ORUS)

### Digital tax administration developments

- ▶ Pending digital tax services bill
- ▶ Implementation of 1% EWT on all online sellers registered with digital platforms.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	25%	25%	–	Same	Same
PIT	35%	35%	–	Same	Same
VAT/sales	12%	12%	–	Same	Same

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This information is current as of 11 January 2024.



# Poland

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## Key issues to watch in 2024

- ▶ The new government was established in December 2023.
- ▶ In 2024, the new cabinet may announce tax reform(s); however, no specific plans have been revealed so far.

## Key drivers of tax policy change

- ▶ The new ruling coalition may implement significant tax reforms.
- ▶ Currently, the direction of the reforms is not known.

## Significant tax developments in 2023

- ▶ Extension of due date for submitting transfer pricing documentation to 31 January 2024 for taxpayers falling between 30 November 2023 and 31 December 2023
- ▶ Entered into force: slim VAT 3
- ▶ Extension of solidarity contribution on surplus profits to coal producers

## Significant tax developments expected in 2024

- ▶ Potential significant tax reform(s) announcement(s) by the new cabinet in 2024
- ▶ Mandatory structured e-invoices from July 2024
- ▶ Introduction of depreciation incentive for SMEs from 1 January 2024

## Significant legislative activity that could include tax

- ▶ Not yet announced

## Developments in tax transparency requirements

- ▶ Not yet announced

## EY key contacts

**Tax policy:**  
[Zbigniew Liptak](#)

**Tax controversy:**  
[Michał Goj](#)

**Significant tax reform** is likely but has not been announced for 2024. Information below summarizes propositions of tax changes included in election programs of the parties that formed the new Polish government in December 2023. (Proposing party is in parentheses.)

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

## Corporate taxes

- ▶ No indication of potential changes

## Taxes on digital business activity

- ▶ Taxation of digital corporations (Lewica)

## Taxes related to climate change or sustainability

- ▶ No indication

## Windfall taxes

- ▶ Excess profit tax on fuel and energy companies (Lewica)

# Poland

## Expectations for tax policy

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### VAT/GST or sales taxes

- ▶ VAT reduction for the “beauty” sector to 8% (Koalicja Obywatelska)
- ▶ 0% VAT on public transport (Koalicja Obywatelska)
- ▶ Reduction of VAT on goods from 23% to 20% and services from 8% to 7% (Trzecia Droga)
- ▶ Reduction of the VAT rate: no details (Lewica)

### Personal taxes

- ▶ Exemption from income tax for those with monthly earnings up to PLN6k gross, including those with the status of business activity (Koalicja Obywatelska)
- ▶ Exemption from income tax for those receiving a monthly pension up to PLN5k gross (Koalicja Obywatelska)
- ▶ Raising the tax-free earnings amount to PLN60k (Koalicja Obywatelska)
- ▶ Cash PIT – entrepreneurs to pay income tax only after receiving the money from the invoice (Koalicja Obywatelska)
- ▶ Merging all separate taxes and payroll contributions into a single tax payment realized through a single transaction (Trzecia Droga)
- ▶ Family PIT (the more children, the lower the taxes) (Trzecia Droga)
- ▶ Simplification of the provisions of the income tax law in two acts: on PIT and CIT (Lewica)
- ▶ Introduction of a progressive PIT scale (Lewica)
- ▶ Increase in tax-deductible costs for employees (Lewica)

### Other

- ▶ Abolition of the capital gains tax (Belka tax) for savings and investments, including those from the Warsaw Stock Exchange (up to PLN100k, over one year) (Koalicja Obywatelska)
- ▶ “Vacation for entrepreneurs,” i.e., one month free of social security contributions; holiday pay equal to half of the minimum wage (Koalicja Obywatelska)
- ▶ VAT and PIT to be due only with respect to paid invoices (Trzecia Droga)
- ▶ Equal health insurance contribution for all instead of tax (Trzecia Droga)
- ▶ Suspension of social security contributions for small businesses in financial trouble (Trzecia Droga)
- ▶ Combating tax avoidance (Lewica)
- ▶ Remuneration for the period of incapacity for work – sick leave and sick pay – in the amount of 100% of the salary (Lewica)



# Poland

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ First judgements of the Supreme Administrative Court were issued in GAAR cases, mainly focused on intertemporal issues.
- ▶ Stabilization, at the level of tax authorities and administrative courts, of the ability for taxpayers to reclaim the overpayment in corporate income tax, regarding previously limited tax costs in expenditures for intangible services provided by affiliated entities.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Pillar Two regulations to be introduced

**Tax audits in Poland in 2024 are generally expected to stay the same in number and/or intensity.**

### Top audit issues

1. Fulfilling the obligations of a withholding tax remitter
2. Settlements with related entities (TP) – in particular in terms of determining the market level of remuneration and the reorganization and transfer of functions or brands within the group
3. Fulfilling the responsibilities of a PIT remitter – especially when tax efficiency solutions exist within the organization for the benefit of employees
4. VAT settlements – interest in so-called tax carousels, even if they occur outside the awareness of the specific taxpayer

### Changes in tax audit approaches or methods

- ▶ No indication of potential changes

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ A few more taxpayers have joined the Cooperative Compliance Programme (CCP) – by the end of 2023, 19 cooperation agreements have been signed. The CCP creates a cooperative relationship between the tax administration and large entities, fostering mutual trust, understanding and transparency that exceed the statutory obligations of taxpayers.
- ▶ There are also planned amendments to regulations regarding investment agreements (an agreement concluded between an investor and a tax authority concerning the tax consequences of a planned investment in Poland) with the aim to incentivize taxpayers to sign these agreements.

### Tax governance approach/processes developments for business taxpayers

- ▶ CCP

### Digital tax administration developments

- ▶ As of 1 July 2024 structured invoices are to become obligatory. Structured invoices are issued and received via the system of the Ministry of Finance – the National System of e-Invoices.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	19%	19%	–	Same	Same
PIT	32%	32%	–	Same	Same
VAT/sales	23%	23%	–	Same	Same

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# Portugal

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## EY key contacts

**Tax policy:**  
Luis Marques, Phelipe Frota

**Tax controversy:**  
Luis Marques, Phelipe Frota

## Key issues to watch in 2024

- ▶ BEPS 2.0 Pillar Two implementation
- ▶ Strengthen budget credibility
- ▶ Reinforcing and increasing income to tackle rising prices and interest rates
- ▶ General elections in March 2024
- ▶ Sustainability strategy to speed up the energy and climate transition
- ▶ Technology Hub (fast-growing technological ecosystem focused on innovation)

## Key drivers of tax policy change

- ▶ In 2023, the Portuguese economy returned to the growth trajectory observed prior to the COVID-19 pandemic. There was a state budget surplus in 2023.
- ▶ The government is focused on reducing the impact of prices and interest rates in an inflationary environment. The State Budget Law for 2024 has three pillars of actions:
  - ▶ Raising and valorizing income (especially for lower- and middle-class individuals)
  - ▶ Increasing investment
  - ▶ Protecting the prospects of the economy (by commitment to balanced public accounts, reduction in the weight of public debt and sustainability of Social Security)
- ▶ Substantial tax reforms are not expected in the short term. But in the State Budget Law for 2024, there is an initiative to capitalize the business community, which is an essential element of the economy's competitiveness and resilience.
- ▶ As other countries begin to implement Pillar Two, the government will be able to observe some of the practical issues that arise when introducing a minimum tax into national legislation.

## Significant tax developments in 2023

- ▶ Implementation of new windfall taxes: temporary solidarity contributions on the energy and food distribution sectors
- ▶ Elimination of the time limit to deduct tax losses from previous years (atemporal deduction)
- ▶ Creation of the Incentive to the Capitalization of Companies (Company Capitalization Tax Incentive) in line with Debt Equity Bias Reduction Allowance (DEBRA) initiative

## Significant tax developments expected in 2024

- ▶ Pillar Two Implementation is expected to occur in 2024.
- ▶ Based on the political potential changes from the general elections, no significant tax developments (just minor adjustments) are expected in 2024.

## Significant legislative activity that could include tax

- ▶ Key tax issues are usually discussed and legislated when the government presents the annual state budget bill.

## Developments in tax transparency requirements

- ▶ Enactment of public CbCR



# Portugal

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** are occurring on 10 March 2024 to elect a new government and members of Parliament. If there is a change of political party, a change in mentality and priorities is possible, thus significant fiscal reform is also possible over the next few years.

**R&D incentives** are expected to stay the same with minor adjustments to extend the tax deduction period, increase in the investment deduction for ecological products and change the scope of expenses for participation in investment funds.

**Other business incentives** are expected to increase with adjustments to make their application more effective of the incentive possible. Modifications were made to the Tax Incentive to Wage Increase.

- ▶ Modifications were made to the Tax Incentive to Wage Increase, the Tax Incentive for the Capitalization of Companies and the extraordinary support to expenses with electricity and gas.

### Corporate taxes

- ▶ The standard rate will remain at 21%.
- ▶ A reduced CIT rate of 12.5% is applicable to EUR50,000 of taxable income of startups.
- ▶ From 2023 onwards, the limit to deduct tax losses from previous years (atemporal deduction) was eliminated. However, the annual limit for the deduction from taxable income is reduced to 65% (previously 70%).
- ▶ The acquisition cost of goodwill acquired under a concentration of business activities may be deducted over a period of 15 years, prior to 2024 it is 20 years.
- ▶ The rates of autonomous taxation on charges made or supported on light passenger vehicles and certain goods vehicles are reduced.

### Taxes on digital business activity

- ▶ Since 2021, crypto assets and crypto coins are taxed for PIT and stamp duty purposes.
- ▶ There is discussion on legislating “tokenized” assets. The tokenization of real estate assets will be a key issue in the real estate sector.

### Taxes related to climate change or sustainability

- ▶ In 2024, a new windfall tax related to climate change and sustainability (green tax) is expected.
- ▶ A contribution on light and very light plastic bags was enacted.

- ▶ The expenses related to exclusively electric vehicles are not subject to autonomous taxation, regardless of the respective cost of acquisition, whenever they are used for public transport services, rented out on the normal course of the taxpayer’s activity or its use is taxed as employment income.

### Windfall taxes

- ▶ The contribution on the banking sector, the additional solidarity on the banking sector, the extraordinary contribution on the pharmaceutical industry and the extraordinary contribution to the energy sector remained unchanged in 2023.
- ▶ The temporary solidarity contributions on the energy and food distribution sectors came into force in 2022 and ceased in 2023.

### VAT/GST or sales taxes

- ▶ Only minor adjustments occurred in 2023 and no significant changes are currently expected in 2024.

### Personal taxes

- ▶ In 2023, a new withholding tax model was established so that an increase in gross income always corresponds to an increase in net income in the same month.
- ▶ In 2024:
  - ▶ The limits in each PIT tier will be adjusted for inflation.
  - ▶ The exemption will be increased for income from dependent work and business and professional income of taxpayers who meet the conditions for the “IRS Jovem” (Youth PIT).
  - ▶ The “Ex-residents program” extended the tax exclusion of 50% of income from dependent work and professional income to taxpayers who become tax residents in 2024 to 2026.
  - ▶ The regime for nonhabitual residents (NHR program) will now exclude pensioners and is now applicable to taxable persons who become resident in Portugal and have careers as higher education and scientific research teachers.
  - ▶ A PIT exemption will be created applicable to participation in company profits, by way of a balance sheet bonus, paid to employees, if the increase in the nominal value of fixed remuneration in 2024 is equal to or greater than 5%.
  - ▶ The income from the use of a permanent home located in Portugal, provided by the employer, for the period between 2024 and 2026 will be exempt from PIT and social security contributions.
  - ▶ The share plans tax regime will be extended to gains derived from plans implemented by entities recognized as startup that meet all the respective requirements and that have created the share plan in the year of incorporation or first year of activity.

# Portugal

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Declaration of illegality of the Road Service Contribution by the EU Court of Justice
- ▶ Unconstitutionality of the Extraordinary Contribution for the Energy Sector
- ▶ Business restructurings (namely the verification of the existence of valid economic reasons for the application of the tax neutrality regime)
- ▶ Permanent establishments inquiries
- ▶ Transfer pricing adjustments

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Continued controversy over the abovementioned contributions
- ▶ Exemption from municipal surtax
- ▶ Corporate restructuring (namely the verification of the existence of valid economic reasons for the application of the tax neutrality regime)

**Tax audits in Portugal in 2024 are generally expected to stay the same in number and intensity.**

### Top audit issues

- ▶ Transfer pricing: intercompany financing transactions, free capital on permanent establishments
- ▶ CIT: WHT rates, disallowance of deductions and interest deductions and limitations
- ▶ VAT: refunds upon importations of goods by nonresident entities, bad debts VAT recovery, local VAT reverse charge rules

- ▶ Business restructurings: the existence of valid economic reasons
- ▶ Substance and beneficial ownership, hallmarks and MDR issues

### Changes in tax audit approaches or methods

- ▶ The Portuguese Tax Authority (PTA) has demonstrated a more active approach to tax inspection (scope of inquiries and type of tax corrections) and regarding additional compliance and reporting obligations.
- ▶ The PTA has shown greater focus on the international information exchange between tax authorities.
- ▶ The main strategy of PTA is to promote voluntary compliance from taxpayers. Though audit methods have not changed, the PTA's approaches have been more direct, with a drive for open communication with taxpayers to reduce tax litigation. There is PTA guidance to reduce the level of litigations by accepting the interpretation from Superior Courts to stop disputes with taxpayers.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No recent changes to be noted

### Tax governance approach/processes developments for business taxpayers

- ▶ Delivery of the SAF-T accounting file to PTA, which contains several company's information, has been postponed (again) until 2025.

### Digital tax administration developments

- ▶ The PTA continues investing in the digitalization of its services, with increasing dematerialization.
- ▶ The project "Modernization of the PTA's asset information system infrastructure" was created and tenders have already been published for this purpose for 2024.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT*	21%	21%	0%	Same	Same
PIT**	48%	48%	0%	Same	Same
VAT/sales	23%	23%	0%	Same	Same

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This information is current as of 10 January 2024.

\* The rate can vary depending on where the taxpayer is located (Mainland or islands) and its size (SMEs), and municipal and state surcharges can also be added.

\*\* There is an additional solidarity tax rate for high income of 2.5% up to 5%.



# Qatar

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## Key issues to watch in 2024

- ▶ Pillar Two implementation

## Key drivers of tax policy change

- ▶ Pillar Two
- ▶ Broadening of tax base to support shift away from dependence on oil-and-gas industry-driven revenue
- ▶ Protecting Qatari businesses (established and present) from international competition
- ▶ Adhering to the GCC VAT Framework signed

## Significant tax developments in 2023

- ▶ On 2 February 2023, Qatar published Law No.11 of 2022 (Law) amending several provisions of the Income Tax Law No. 24 of 2018 in the *Official Gazette*. The amendments are effective from 2 February 2023 (i.e., the date of the publication of the Law in the *Official Gazette*).

## Significant tax developments expected in 2024

- ▶ Tax transparency measures
- ▶ A response strategy in addressing the Pillar Two
- ▶ The introduction of VAT

## EY key contacts

### Tax policy:

Ahmed F Eldessouky,  
Kevin McManus

### Tax controversy:

Roger Akl, Fareed Patel,  
Sherif Ismail

- ▶ Implementation of VAT

## Significant legislative activity that could include tax

- ▶ Qatar has signed numerous DTTs with other countries aimed at preventing double taxation, thereby fostering international trade and investment.
- ▶ Qatar has established several special economic zones, which offer tax incentives and benefits to encourage investment.
- ▶ Qatar has been working toward the implementation of the Pillar Two.

## Developments in tax transparency requirements

- ▶ Qatar has been implementing tax transparency measures in line with international standards set by the OECD and has recently passed an OECD confidentiality assessment under which Qatar can become a recipient of information under AEOI frameworks.

# Qatar

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024, but it is expected that legislation to implement VAT and the Pillar Two rules will be issued during 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to be the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ The standard corporate tax rate will remain at 10%. Companies engaged in petrochemical industries and petroleum operations are taxed at the rates specified in their agreements, provided that the tax rate is not less than 35% on their taxable income.
- ▶ Measures are expected to be announced during 2024 to introduce legislation to align with the Pillar Two rules.

### Taxes on digital business activity

- ▶ Qatar has not introduced specific taxes on digital business activities.

### Taxes related to climate change or sustainability

- ▶ Qatar does not impose a carbon tax or any other climate change-related tax that promotes carbon emissions abatement.

### Windfall taxes

- ▶ Qatar does not levy windfall taxes.

### VAT/GST or sales taxes

- ▶ Qatar has signed and ratified the GCC VAT Framework Agreement. However, VAT has not yet been implemented in Qatar.
- ▶ When implemented, the standard rate of VAT in Qatar is expected to be 5%.
- ▶ Qatar has also signed and ratified the GCC Common Excise Tax Agreement and has introduced excise tax on tobacco and tobacco derivatives, carbonated drinks, energy drinks and special- purpose goods as of 1 January 2019.

### Personal taxes

- ▶ Income tax is not imposed on employed individuals' salaries, wages and allowances.
- ▶ A self-employed individual may be subject to income tax if one derives qualifying income from sources in Qatar.

### Other

- ▶ Other taxes, such as financial transaction taxes, solidarity surcharges and taxation of cryptocurrency, are not expected in 2024.



# Qatar

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ No major tax enforcement or tax controversy developments occurred in Qatar in 2023.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ The introduction of VAT legislation
- ▶ Implementation of e-invoicing
- ▶ Increased focus on transfer pricing requirements compliance

**Tax audits in Qatar in 2024 are generally expected to increase in number and/or intensity.**

### Top audit issues

- ▶ Disallowance of deductions of interest, management fees and sponsorship fees, head office overhead expenses
- ▶ WHT assessments on offshore services
- ▶ Transfer pricing adjustments on intercompany financing transactions, headquarter and management services transactions, and high-value services transactions

### Changes in tax audit approaches or methods

- ▶ There were no major changes in tax audit approaches or methods in 2024.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ There are no major changes to dispute prevention or dispute resolution tools or programs.

### Tax governance approach/processes developments for business taxpayers

- ▶ The General Tax Authority and the General Authority of Customs have announced the initiation of interconnectivity between their e-services. This integration is part of the efforts to streamline procedures and provide more efficient services to business taxpayers.

### Digital tax administration developments

- ▶ The General Tax Authority launched a tax administration digital system, Dhareeba, which has been operational since 2020.
- ▶ The Dhareeba portal provides the General Tax Authority with digital channels to serve all its partners; the government, tax agents and the taxpayers. It has been designed to manage, calculate and review various types of taxes to help taxpayers identify the procedures related to their transactions and receive notifications on the progress of their operations.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	10%	10%	–	Same	Same
PIT	NA	NA	–	–	–
VAT/sales	NA	NA	–	–	–

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This information is current as of 10 January 2024.



# Romania

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## Key issues to watch in 2024

- ▶ Pillar Two implementation
- ▶ New taxes introduced as of 1 January 2024

## Key drivers of tax policy change

- ▶ Continue to improve legislation by transposing measures adopted at the European level into national law
- ▶ Improving and simplifying tax legislation, after dialogue with business
- ▶ Improving legislation to counteract tax evasions
- ▶ Preparing reforms in the fiscal field that will contribute to sustainable economic growth in the medium and long terms

## Significant tax developments in 2023

- ▶ The introduction, starting with 1 January 2024 of:
  - ▶ A minimum tax on turnover (MTT) of 1% for companies having a total turnover (computed based on a specific formula) of more than EUR50 million in FY23
    - ▶ MTT should be compared with the CIT, and the maximum of the two would be paid.
  - ▶ A special tax on turnover (computed based on a specific formula) for credit institutions, in addition to the CIT, and set to be 2% in FY24 and FY25 and 1% starting 1 January 2026
  - ▶ A special tax of 0.5% on turnover (computed based on a specific formula) for oil and gas companies that had a turnover of more than EUR50 million in FY23
    - ▶ This is in addition to the CIT and is set to be 0.5% for FY24 and FY25, while starting 1 January 2026 MTT would apply.
- ▶ Starting in 2024, tax losses can be carried forward at a rate of 70% of taxable profits obtained in the next five consecutive years (previously the tax loss could be offset in full over seven years).

## EY key contacts

**Tax policy:**  
[Alexander Milcev](#)

**Tax controversy:**  
[Emanuel Bancila](#)

- ▶ Fiscal and state digitalization
- ▶ Tax digitization strategic projects through information systems

- ▶ The exceeding borrowing cost limitation was amended.
- ▶ Amendments were made for micro enterprises.
- ▶ The income tax was reduced from 10% to 3% or 1% for capital gains obtained as of 1 January 2023.

## Significant tax developments expected for 2024

- ▶ Pillar Two minimum tax was implemented in January 2024.
- ▶ From 1 July 2024, income from unidentifiable sources will be subject to income tax at a rate of 70% applied to the adjusted tax base.
- ▶ Special taxes were introduced on residential buildings and luxury cars registered in Romania if their values exceed certain thresholds.
- ▶ A deductible flat rate of 20% has been introduced when determining the taxable rental income earned as of January 2024.
- ▶ Starting 2024, non-harmonized excise duties were introduced for certain sugary beverages and tobacco substitutes.

## Significant legislative activity that could include tax

- ▶ No draft tax bills are currently expected. However, certain clarifications are expected on the computation and applicability of the newly introduced taxes.

## Developments in tax transparency requirements

- ▶ DAC7 was implemented on 31 January 2023.
- ▶ DAC8 must be implemented by 31 December 2025.

# Romania

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** for the President and for the Parliament are occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ The MTT, a special tax on turnover for credit institutions and for companies operating in the oil and gas sectors were introduced, effective 1 January 2024.
- ▶ Starting 1 January 2024, income tax rates will be 1% or 3% for certain micro enterprises.
- ▶ The definition of a micro enterprise now requires timely submission of annual financial statements as a qualification.

### Taxes on digital business activity

- ▶ No developments are currently expected.

### Taxes related to climate change or sustainability

- ▶ On 30 November 2023, the guarantee-return system for not-reusable primary packaging was implemented with registration, compliance and payment obligations for producers and traders.

### Windfall taxes

- ▶ A contribution to the Energy Transition Fund by natural gas or electricity producers and traders is in effect.

### VAT/GST or sales taxes

- ▶ Effective 1 July 2024, **electronic invoicing** is mandatory for business-to-business transactions having the place of supply for VAT purposes in Romania.
- ▶ **E-reporting of invoicing data** is applicable to all categories of goods or services as on 1 January 2024.
- ▶ The VAT deduction right for **real estate** will be limited to 50% starting with the first day of the month following derogation from the EU Council in this respect.

- ▶ **The RO e-TVA system** (from its Romanian abbreviation) should be implemented by 1 August 2024. It will pre-fill information on taxable transactions into VAT returns for each reporting period and make them available to taxpayers through the Virtual Private Space. Taxpayers are obligated to check, modify and complete the information in the VAT return according to the real tax situation.
- ▶ Changes were made on the applicable VAT rate for certain categories.
- ▶ A new anti-VAT fraud provision makes a crime any action or inaction committed within cross-border fraudulent schemes resulting in a prejudice of at least EUR10 million. The attempted crime is also punished.

### Personal taxes

- ▶ The introduction of a progressive taxation on personal income has been under discussion. It continues to be the highlight of intense fiscal policy debates. Still, there is no definite timeline for its implementation, at least not for 2024.
- ▶ The annual threshold for switching from the income norms to the real system for self-employment income was reduced from EUR100,000 to EUR25,000.
- ▶ Starting 1 July 2024, income identified by the tax authorities from unknown sources will be subject to 70% income tax on the adjusted taxable base.
- As of 1 January 2024, a special tax of 0.3% is due from individuals on high-value real estate residential buildings with a taxable value of more than RON2.5 million and vehicles registered in Romania with a purchase value over RON375,000.

### Other

- ▶ Starting February 2024, the new Automated Export System of the Romanian Customs Authority will come into effect and replace the ECS-RO system (for the previous customs system abbreviation in Romanian).
- ▶ The tax-free ceiling of RON450,000 was eliminated for income from transfer of real estate ownership, such income being subject to income tax of either 1% or 3% depending on the ownership period (i.e., up to three years or more).
- ▶ The deductible 40% flat rate, as deductible expenses, for rental income was eliminated, with the entire gross rental income being subject to taxation.
- ▶ Tax-free ceilings were introduced for various salary benefits, as well as new reporting obligations for tax-free benefits.
- ▶ There was a reduction of salary tax incentives as of November 2023 for certain industries, i.e., software development, construction, agriculture and food.

# Romania

## Expectations for tax enforcement and tax controversy

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### Top tax enforcement or tax controversy developments in 2023

- ▶ The strategic objectives of the Romanian Tax Authorities (RTA) are focusing on (i) improving the services offered, (ii) digital transformation, (iii) preventing and fighting tax evasions and (iv) efficiency and transparency.
- ▶ In 2023 there was a significant increase in the number of documentary verifications, especially those performed by the Anti-Fraud Division, resulting in the issuance of tax assessment decisions.
- ▶ Natural persons carrying out de facto commercial activities (such as beauty parlors, sellers of goods on social media, used cars sellers, etc.) were frequently subject to audits and verifications.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ For 2024, even stronger audit activity is expected as the government plans to give nationwide jurisdiction to tax inspectors, meaning that a taxpayer could be audited by any tax body irrespective of who is actually managing the taxpayer.

### Tax audits in Romania in 2024 are generally expected to increase in number and intensity.

### Top audit issues

1. Transfer pricing: frequent challenges of the analyses made by the taxpayer, irrespective of chosen method and selected comparable
2. Permanent or fixed establishments
3. Withholding taxes: focus on repayment of loans granted by an affiliate and other types of payments

### Changes in tax audit approaches or methods

- ▶ Documentary verifications include an analysis of the taxpayer's fiscal situation, based on the existing documents in the taxpayer's files and any relevant documents transmitted by third parties or held by the government.
- ▶ A different approach entails the tax authority, before carrying out a tax audit, sending a notice for compliance. The taxpayer can verify and modify, and then they may be or may not be subject to a subsequent tax audit.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No developments are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ Tax governance is improving, and a series of electronic reporting systems will be implemented. The RTA is working on modernizing its IT systems to be able to take the ever-increasing volumes of data from taxpayers, to be able to analyze them accurately, so as to quickly identify areas of risk and to direct checks only to those taxpayers who report irregularities. At the same time, the legislation is being updated, to allow tax audits to be simplified, to be carried out mostly remotely and to encourage voluntary compliance.

### Digital tax administration developments

- ▶ Starting January 2024, in Romania, mandatory electronic invoicing is established for all transactions made between taxable persons established in the territory of Romania (E-Factura System). The measure will ease the performance of the tax audits, especially through the documentary verification method.
- ▶ In December 2023, the Romanian government issued an emergency ordinance regarding the implementation of digitalization projects, through the following information systems considered as being of strategic and national interests: RO e-Factura (e-Invoice), RO e-Transport, RO e-Sigiliu (e-Seal), RO e-SAF-T, RO e-Case de marcat electronice (electronic cash registers) and RO e-TVA (e-VAT). The fines for noncompliance are significant.
- ▶ As of 1 January 2023, SAF-T reporting is mandatory in Romania for middle taxpayers (present in this category as of 31 December 2021) and financial banking institutions and insurance and reinsurance companies (i.e., large taxpayers as of 31 December 2021), with a grace period of six months.
- ▶ Considering that the SAF-T reporting is mandatory for large taxpayers since 2022, checks from the Romanian tax authorities should be expected in 2024 regarding the quality and completeness of data already reported.
- ▶ The draft legislation implementing the CESOP requirements is currently in process of being approved. Based on materials on the Romanian tax authority website, the expectation is that the reporting will mainly follow the standard EU schema.



# Romania

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	16% 1% or 3% for microenterprises	16% 1% or 3% for microenterprises	–	Higher	Higher
MTT*	–	1%	100%	Higher	Higher
Additional taxes on turnover	–	0.5%/2%**	100%	Higher	Higher
PIT	10%	10%	–	Same	Same
VAT/sales	19%	19%	–	Same	Same

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This information is current as of 25 January 2024.

\* The MTT should be compared with the CIT, and the maximum of the two is paid.

\*\* 0.5% additional tax on turnover for oil and gas companies having a turnover of more than EUR50 million in FY23; 2% additional tax on turnover for credit institutions. This tax is in addition to the CIT.



# Saudi Arabia

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## Key issues to watch in 2024

- ▶ Issuance of new income tax law and by-laws
- ▶ Issuance of new Zakat regulations

## Key drivers of tax policy change

- ▶ Implementation of Pillar Two globally
- ▶ Clarifying and enhancing tax policies based on practices and experience accumulated since adoption of the Income Tax Law in 2004
- ▶ Introducing tax incentives to attract foreign direct investments into specific industries

## Significant tax developments in 2023

- ▶ Abolishment of the historical “Virtual Service PE,” which contradicted conventional interpretation of service PE provisions under DTTs
  - ▶ Under the Virtual Service PE concept, the Zakat, Tax and Customs Authority (ZATCA) recognized deemed service PE based on duration of a contract rather than physical presence of nonresident employees or other personnel engaged by the nonresidents for provision of services in the Kingdom of Saudi Arabia (KSA)
- ▶ Withholding tax reduction on related-party payments (from 15% to 5%) for technical and consulting services, as well as international telecommunication services
- ▶ Issuance of the new Tax Ruling Guidelines, which provides taxpayers with more clarity on the tax ruling process in KSA
- ▶ Inclusion of Zakat payers within the scope of transfer pricing regulations, their compliance commencing for years starting on or after 1 January 2024
- ▶ An APA program introduced in the KSA for transfer pricing by-laws
- ▶ The VAT Implementing Regulations amended to raise the VAT return correction limit from SAR5,000 to SAR15,000
- ▶ VAT and Zakat rulings issued to taxpayers to be binding on the ZATCA
- ▶ The cancellation of fines and exemption of financial penalties for certain taxes extended until 30 June 2024

## EY key contacts

**Tax policy:**  
Hosam Abdulkareem

**Tax controversy:**  
Hosam Abdulkareem

- ▶ New separate law for Zakat and tax compliance procedures
- ▶ Detailed tax regulations relating to special economic zones

## Significant tax developments expected in 2024

- ▶ Issuance of new Income Tax Law and by-laws to replace the current law and by-laws adopted in 2004; effective fiscal period yet to be defined
- ▶ Issuance of new Zakat regulation to replace the current regulation
- ▶ Issuance of new Income Tax and Zakat Compliance Procedures Laws
- ▶ Potential reduction of the statute of limitations from five years to three years
- ▶ Expanded participation exemptions for Saudi-based companies
- ▶ Detailed tax regulations regarding special economic zones and regional headquarters (RHQ)
- ▶ Issuance of further transfer pricing guidance for Zakat payers
- ▶ Issuance of detailed guidance for the implementation of the APA program in KSA
- ▶ Various amendments expected to the VAT, real estate transaction tax and excise tax legislation

## Significant legislative activity that could include tax

- ▶ Issuance of new Income Tax Law and by-laws; issuance of new Zakat regulation

## Developments in tax transparency requirements

- ▶ As part of the new Income Tax Law, it is expected that ZATCA’s guidelines will become binding for ZATCA, which is aimed at improving transparency and consistency in application of the Income Tax Law.

# Saudi Arabia

## Expectations for tax policy

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**Significant tax reform:** Adopting a new Income Tax Law would not be a conceptual tax reform, but it may be rather significant for specific areas of taxation.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to increase (i.e., RHQ incentives, special economic zones).

### Corporate taxes

- ▶ The Saudi RHQ initiative became effective beginning 1 January 2024. The Ministry of Investment recently announced that RHQs are eligible for a 30-year exemption from all corporate income and withholding taxes that arise in relation to approved RHQ activities.
- ▶ Corporate tax rates are to remain the same. The standard rate is 20%. For taxpayers engaged in oil and hydrocarbons production the tax rates range from 50% to 85% depending on the amount of capital invested.
- ▶ WHT rates of 5%, 15% and 20% depending on type of income will remain the same. The draft new Income Tax Law envisages application of flat 10% WHT rate on vast majority of the income, except for dividends and royalties, which are still to be taxed at 5% and 15% rates, respectively (effective date or fiscal period is yet to be determined upon adoption of new Income Tax Law).
- ▶ Capital gains tax (CGT) will remain at 20%.

### Taxes on digital business activity

- ▶ No expected developments with respect to taxes on digital business activity.

### Taxes related to climate change or sustainability

- ▶ No expected developments with respect to taxes related to climate change or sustainability

### Windfall taxes

- ▶ Saudi Arabia does not impose any windfall taxes.

### VAT/GST or sales taxes

- ▶ No changes to the VAT rate of 15% are expected.
- ▶ E-invoicing has been implemented in two phases:
  - ▶ Phase 1 on 4 December 2021 – generation and storage of e-invoices
  - ▶ Phase 2 on 1 July 2023 (Wave 1) – integration of enterprise resource planning system with the tax authority's system, this is applicable to entities having a taxable turnover over SAR3b in calendar year 2021
- ▶ Implementation of Phase 2 of e-invoicing for taxpayers under Wave 2 to Wave 9 will happen in 2024.
- ▶ Following the guidance issued by tax authority in 2023, issuance of VAT guidelines and amendments to VAT regulations is likely to occur in 2024 to provide more clarifications and guidance.

### Personal taxes

- ▶ There is no PIT in Saudi Arabia.

### Other

- ▶ Following the release of the proposed amendments to the RETT regulations by the tax authority in 2023 for public consultation, further amendments, guidance and clarifications are expected to occur in 2024.
- ▶ Various amendments to the excise tax legislation are expected in 2024.

# Saudi Arabia

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ An amended procedure for tax dispute resolution was published in 2023.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ For VAT audits, easier data gathering by tax authority for audit purposes is now possible due to the implementation of e-invoicing.

**Tax audits in Saudi Arabia in 2024 are generally expected to** stay the same in number and/or intensity, except for transfer pricing audits where the audit is expected to increase in number and intensity.

### Top audit issues

1. Transfer pricing audits becoming more technical and frequent; focus on loss-making taxpayers, complex transfer pricing structures and specific related-party transactions (e.g., services, royalties, financial, intangibles)
2. Cross-border transactions and challenges in the interpretation of DTT provisions
3. Input VAT recovery by real estate companies if not registered as “eligible persons” in Saudi Arabia
4. Applicability of RETT on Build-Operate-Transfer (BOT) and Build-Own-Operate-Transfer (BOOT) contracts
5. The application of zero rating on the supply of services to nonresidents

### Changes in tax audit approaches or methods

- ▶ No changes are expected. Generally, we observed during 2023 that ZATCA is dedicating more time for conducting tax audit procedures prior to issuance of tax assessments to enhance the quality of the tax assessments.

### Changes to dispute prevention or dispute resolution tools or programsTax govern

- ▶ No changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ No changes are currently expected.

### Digital tax administration developments

- ▶ Ongoing implementation of Phase 2 of e-invoicing to adhere to the tax digitalization development in Saudi Arabia

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	20%	20%	–	Same	Same
PIT	N/A	N/A	N/A	N/A	N/A
VAT/sales	15%	15%	–	Same	Same
RETT	5%	5%	–	Same	Same
Excise tax	50%-100%	50%-100%	–	Same	Same

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# Singapore

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## EY key contacts

**Tax policy:**  
Angela Tan

**Tax controversy:**  
Angela Tan

## Key issues to watch in 2024

- ▶ Pillar Two – legislative developments to implement the Multinational Top-up Tax (MTT) and Domestic Top-up Tax (DTT)
- ▶ Tax governance and tax risks management
- ▶ New tax of gains from the sale or disposal of foreign assets received in Singapore
- ▶ Tax residency claims

## Key drivers of tax policy change

- ▶ Alignment with Pillar Two developments
- ▶ Alignment with international tax developments on tax avoidance risks relating to the nontaxation of disposal gains in the absence of economic substance
- ▶ Promoting a culture of good tax governance and tax risk management as a leading practice in corporate governance
- ▶ Confirming that Singapore tax's position on tax residency remains relevant and robust in view of evolving business and international practices and technological solutions
- ▶ A new Section 10L was enacted in late 2023 to tax gains from the sale or disposal of foreign assets that occur on or after 1 January 2024 and are received in Singapore by business without adequate economic substance. This change marks a significant departure from the long-standing Singapore tax treatment of not taxing gains if they are capital gains.
- ▶ In December 2023, the IRAS issued new guidelines on its position on tax residency for companies, specifically for board-of-directors meetings that involve the use of virtual meeting technology.

## Significant tax developments in 2023

- ▶ In 2023, Singapore announced plans to implement the GloBE rules and DTT for large MNE Groups from businesses' financial year starting on or after 1 January 2025, subject to international developments. Per the latest annual report of the Inland Revenue Authority of Singapore (IRAS) for FY 2023, the IRAS conducted 36 consultation sessions with businesses from various industries and tax practitioners in the implementation of GloBE rules and DTT in Singapore. A joint study group was also set up with representatives from the Big Four public accounting firms, Singapore chartered tax professionals (SCTP) and the Institute of Singapore Chartered Accountants to study the design of GloBE rules and DTT. The IRAS has initiated closed-door consultation with SCTP on the draft legislation. Further updates are pending in the Singapore Budget 2024 (scheduled to take place on 16 February 2024).

## Significant tax developments expected in 2024

- ▶ Pillar Two implementation
- ▶ Enhancement of existing dispute resolution process – clarity on escalation process and safe harbor for certain tax issues, such as writing down allowance claims on intellectual property rights

## Significant legislative activity that could include tax

- ▶ Pillar Two legislation, if enacted

## Developments in tax transparency requirements

- ▶ No significant developments are currently expected.

# Singapore

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024 other than Pillar Two legislation, if enacted.

**Elections** may occur in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ As of now, there is no indication of any change in the corporate tax rate of 17%.
- ▶ The Pillar Two rules (if and when put in place) would implement an MTT and DTT that top up the MNE groups' effective tax rate in Singapore to 15%.

### Taxes on digital business activity

- ▶ Singapore applies GST on digital services; no significant changes are currently expected.

### Taxes related to climate change or sustainability

- ▶ From 2024 onward, the carbon tax will be increased from the current \$5 per ton to (i) \$25 per ton (2024-2025); (ii) \$45 per ton (2026-2027); and (iii) \$50-\$80 per ton by 2030.

### Windfall taxes

- ▶ Singapore does not impose windfall taxes.

### VAT/GST or sales taxes

- ▶ Following the GST rate change from 7% to 8% in 2023, the GST rate has now been increased from 8% to 9%, with effect from 1 January 2024.

### Personal taxes

- ▶ The top personal income tax rate is increased from 22% to 24% from the year of assessment 2024.



# Singapore

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ The specialized teams within the IRAS that review specific matters (such as R&D claims, valuation of intellectual property rights (IPRs)) have gained experience over the years and have raised detailed questions that add to the depth and intensity of the tax audit process.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ No significant developments are currently expected.

**Tax audits in Singapore in 2024 are generally expected to** stay the same in number and/or intensity.

### Top audit issues

1. TP controversy and imposition of TP surcharge
2. Writing down allowance claims on IPRs
3. R&D deduction
4. Interest expense and borrowing cost deduction
5. Non-remittance of foreign-sourced income

### Changes in tax audit approaches or methods

- ▶ Tax audit questions of the IRAS continue to be extensive in breadth and depth, with a focus on contemporaneous documentary evidence.
- ▶ The IRAS is requesting meetings with taxpayers to better understand the taxpayers' business operations.

- ▶ Certain specific matters that require specialized technical knowledge, such as R&D claims and valuation of IPRs, are reviewed by specialized teams within the IRAS. Such teams comprise of IRAS officers who have the relevant technical background and experience.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ To enhance the dispute resolution process, there are discussions within the IRAS to provide more clarity on the dispute escalation process and introduce certain safe harbor on tax issues, such as writing down allowance claims on IPRs.

### Tax governance approach/processes developments for business taxpayers

- ▶ The IRAS continues to encourage taxpayers to participate in the IRAS' Tax Governance Framework and the Tax Risk Management and Control Framework for corporate income tax, though they remain voluntary.
- ▶ The IRAS extended the one-time waiver of penalties for non-willful GST errors voluntarily disclosed under the Assisted Compliance Assurance Program (ACAP) Review. This benefit (which was originally set to expire by 31 March 2024) will be available to businesses until such time as the IRAS removes the benefit.

### Digital tax administration developments

- ▶ The IRAS continues to use data analytics in their tax audit efforts. Taxpayers should be prepared for the new norm that discrepancy across different tax types are readily flagged out by the IRAS for reconciliation and explanation to be made by taxpayers.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate*	% rate change	Overall base changes	Combined effect
CIT	17%	17%	–	Same	Same
PIT	22%	24%	9%	Same	Higher
VAT/sales	8%	9%	12.5%	Same	Higher

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This information is current as of 16 January 2024.

\* Any changes in the key tax rates will be announced in the Singapore Budget, scheduled to take place on 16 February 2024.



# Slovakia

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## EY key contacts

**Tax policy:**  
Richard Panek

**Tax controversy:**  
Tatiana Knošková

## Key issues to watch in 2024

- ▶ Pillar Two implementation
- ▶ Budget deficit reduction

## Key drivers of tax policy change

- ▶ Fiscal consolidation
- ▶ Increase of state income
- ▶ Fight against tax fraud and tax evasion
- ▶ Tax system consolidation

## Significant tax developments in 2023

- ▶ Pillar Two approved in domestic legislation
- ▶ Reinstatement of the tax license (minimum tax) for legal entities that incur a loss or achieve tax lower than the tax license
- ▶ Proposed amendments to the VAT Act
- ▶ Amendments approved to personal taxes

## Significant tax developments expected in 2024

- ▶ The draft law covering business combination has been approved and will be effective from 1 March 2024. The aim is to create a uniform, comprehensive and clear legal regulation of mergers, divisions, changes in legal form and their cross-border alternatives, which replaces the currently valid legal regulation. The law introduces spin-offs as a new type of business combination.

## Significant legislative activity that could include tax

- ▶ An amendment to the VAT Act has undergone commenting and is still subject to changes, but if approved would bring several important changes for taxpayers effective 1 January 2025.

## Developments in tax transparency requirements

- ▶ Public CbCR
- ▶ DAC7



# Slovakia

## Expectations for tax policy

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**Significant tax reform** is expected in 2024.

**The Presidential election** is occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ The tax license (minimum tax) is reinstated for legal entities that incur a loss or achieve tax lower than the tax license.
  - ▶ The amount of the tax license will be tiered depending on the company's taxable income.
  - ▶ Certain entities designated by law (e.g., newly established companies) will be exempt from the tax license obligation.
  - ▶ New rules will enable taxpayers to offset positive difference between the minimum tax and the tax calculated in the tax return against their tax liability for up to three immediately subsequent tax periods.
- ▶ The tax exemption is restored for income on Slovak corporate bonds paid to nonresidents that was in place prior to 1 January 2023. Income generated on bond transactions by non-Slovak residents are not covered by the Slovak source rules, i.e., the income is not subject to taxation in Slovakia.

### Taxes on digital business activity

- ▶ The Ministry of Finance has opened a consultation on a proposal to introduce a DST on revenue of nonresidents for the provision of services. No further steps have been taken in this respect so far.

### Taxes related to climate change or sustainability

- ▶ There are no new taxes related to climate change or sustainability.

### Windfall taxes

- ▶ The solidarity contribution (Solidárny príspevok) in the O&G and refining industry is still in effect.
- ▶ The levy on excess income of electricity producers is still in effect.

### VAT/GST or sales taxes

An amendment to the VAT Act has undergone the procedure for comments and is still subject to changes, but would bring several important changes for taxpayers, effective 1 January 2025:

- ▶ Special scheme for small enterprises
- ▶ Changes to VAT registration of domestic taxable persons
- ▶ VAT registration of foreign taxable persons
- ▶ Reverse charge on import of goods
- ▶ Retrospective VAT registration with significantly increased responsibilities
- ▶ For leasing contracts with a negotiated option to purchase the goods at the end of the lease
- ▶ VAT deduction based on a document other than an invoice
- ▶ Other changes relating to unpaid liabilities, place of supply of services, simplified invoices, theft and services provided to members

### Personal taxes

The following amendments apply to personal taxes:

- ▶ ESOP: When an employee or contractor of a company acquires or holds an unlisted share or an equity interest, it will be exempt from tax until the company pays a dividend for the first time.
- ▶ Tax exemptions available for individuals: The tax exemption at the individual level is only for listed shares after a holding period of one year.
- ▶ Dividends: The tax rate on dividends paid to an individual will increase from 7% to 10%. This rate increase should apply to the distribution of profits originating in periods starting on 1 January 2024 and thereafter.
- ▶ Abolition of the CFC rules for individuals: The cancellation came into effect on 1 August 2023.

### Other

- ▶ Parliament approved an adjustment of the special levy in regulated industries extending the scope to other entities.

# Slovakia

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ DAC7 applied as of 1 January 2023 in Slovakia with the first reporting of data due 31 January 2024.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Public CbCR to apply to the first financial year starting on or after 22 June 2024
- ▶ Pillar Two implementation

**Tax audits in Slovakia in 2024 are generally expected to increase in number and/or intensity.**

### Top audit issues

1. Transfer pricing
2. Tax deductibility of management fees
3. Indirect taxes – VAT refunds

### Changes in tax audit approaches or methods

- ▶ No changes are currently expected.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ The upcoming draft amendment to the tax code introduces fundamental adjustment of tax enforcement proceedings, new effective forms of tax enforcement and adjustment of existing ones so that they reflect current practice and digitization trends of state administration. The co-responsibility of individuals drawing benefits from legal person for fulfilling their duties will be introduced.

### Digital tax administration developments

- ▶ Automatic registration of taxpayers by the tax administrator was introduced. Under new rules, registration for income tax should be automatic for a natural or legal person in the register of legal persons, entrepreneurs and public authorities. Taxpayers not registered should be registered by the tax administrator upon filing of their first tax return. The new registration process was effective from 1 January 2023.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	15%/21%	15%/21%	–	Higher	Higher
PIT	15%/19%/25% on portion of gross income exceeding EUR3,453.79 per month	15%/19%/25% on portion of gross income exceeding EUR3,961.5 per month	–	Higher	Higher
VAT/sales	20%/10%/5% (applicable for selected products)	20%/10%/5% (applicable for selected products)	Higher	Same	Same

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# Slovenia

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## EY key contacts

### Tax policy:

Matej Kovačič, Anka Pogačnik

### Tax controversy:

Matej Kovačič, Anka Pogačnik

## Key issues to watch in 2024

- ▶ The Minimum Tax Act – Pillar Two implementation
- ▶ Increase of the corporate income tax rate
- ▶ Balance sheet tax for banks and savings banks

## Key drivers of tax policy change

- ▶ The Minimum Tax Act introduces a whole new institute of minimal effective taxation rate of 15% for multinational corporations with consolidated revenues greater than EUR750 million.
- ▶ The Act on the Reconstruction, Development and Provision of Financial Funds (the Act) introduces a temporary increase in the corporate income tax rate to 22%. The new regime will enter into force on 1 January 2024 and expire on 31 December 2028.
- ▶ Balance sheet tax for banks and savings banks is introduced for the same period, which will amount to 0.2% and will be an income of the dedicated budget fund, set up by the Act. Similarly, the net balance sheet profit of the Slovenian Sovereign Holding will also become revenue of the dedicated budget fund over a period of five financial years following the year of entry into force of the law.
- ▶ Personal Income Tax Act, namely the field of taxation of investments of natural persons into securities issued by the Republic of Slovenia and issued in 2024, 2025 or 2026: In the exemption provision in Article 133 of ZDoh-2, the sum of tax bases on interest on such securities, as well as from interest on cash deposits in banks and savings banks, is reduced by EUR1,000.

## Significant tax developments expected in 2024

- ▶ The consultation process for the Minimum Tax Act is ongoing.
- ▶ Implementation of the Declaration of Income to the financial administration based on the DAC7 Directive will occur.
- ▶ The increase of the corporate income tax rate will take effect.
- ▶ The Interest Limitation Rule (ILR), introduced by ATAD Directive, has not been yet implemented in Slovenian tax legislation. However, current draft still provides that the rule would be applicable as of 1 January 2024 onward. According to ILR provision, exceeding borrowing costs of a taxable person who has a related person, will be deductible in the tax period in which they are incurred only up to 30% of earnings before EBITDA or EUR1m, whichever is higher.

## Significant legislative activity that could include tax

- ▶ No major tax reform is envisioned during the coming year; however, legislative changes that would affect taxation are still possible.
- ▶ A new government was elected in 2022 for four years and its policies show a trend of increasing tax liabilities for businesses and in general.

## Significant tax developments in 2023

- ▶ Reporting of payment data from payment service providers and transmission to CESOP
- ▶ Declaration of income to the financial administration for all those who generate income through online platforms (DAC7 Directive)
- ▶ Act on the Reconstruction, Development and Provision of Financial Funds
- ▶ Increase in the corporate income tax rate to 22%
  - ▶ Balance sheet tax for banks

## Developments in tax transparency requirements

- ▶ Reporting obligations for digital platforms and payment service providers

# Slovenia

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** are not occurring nationally in 2024, though European Parliament elections are in June.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ Rate increased to 22% in 2023
- ▶ The Minimum Tax Act (minimum effective tax rate of 15%)

### Taxes on digital business activity

- ▶ No changes are currently expected.

### Taxes related to climate change or sustainability

- ▶ During the CBAM transitional period, between 1 October 2023 and 31 December 2025, importers of covered goods (steel and iron, including some downstream products; aluminum; cement; fertilizers; electricity; and hydrogen) will need to submit quarterly reports and obtain CBAM import authorization.

### Windfall taxes

- ▶ Slovenia does not impose windfall taxes.

### VAT/GST or sales taxes

- ▶ No changes are currently expected.

### Personal taxes

- ▶ No changes are currently expected.

### Other

- ▶ Businesses have the obligation to establish systems enabling employees to record their time and absence.



# Slovenia

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ The tax authorities generally focus on:
  - ▶ Controls of corporate income tax
  - ▶ Taxes and contributions from the income of natural persons, personal income tax
  - ▶ VAT for cross-border transactions and online sales
  - ▶ Customs and other duties
- ▶ More complex and larger tax evasions will be dealt with in the context of financial investigations.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ No major changes are currently expected from the 2023 focus.

**Tax audits in Slovenia in 2024 are generally expected to stay the same in number.**

### Top audit issues

1. Transfer pricing
2. Payments to no- or low-tax jurisdictions or listed jurisdictions
3. Indirect taxes

### Changes in tax audit approaches or methods

- ▶ No changes are currently expected.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ There has been an increase of tax responsibilities for business taxpayers in recent years.

### Digital tax administration developments

- ▶ CESOP directive

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	19%	22%	+16%	Higher	Higher
PIT	50%	50%	–	Same	Same
VAT/sales	22%	22%	–	Same	Same

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# South Africa

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## Key issues to watch in 2024

- ▶ National elections
- ▶ Budget deficit reduction

## Key drivers of tax policy change

- ▶ Tax policy must be seen in the context of broader fiscal policy aimed at reducing the budget deficit and stabilizing public debt through boosting economic growth, increasing revenue collection and reducing expenditure.
- ▶ In the short-to-medium term, increased revenue collection will come primarily from improved tax collection (i.e., stronger enforcement and enhanced compliance), rather than significant structural tax changes.
- ▶ Cross-border activities (i.e., inbound and outbound multinationals) and high-net-worth individuals top the list of enforcement focus.

## Significant tax developments in 2023

- ▶ The corporate income tax rate was reduced from 28% to 27% for tax years ending on or after 31 March 2023.
- ▶ A limitation on the use of assessed losses by companies is effective for tax years ending on or after 31 March 2023.
- ▶ Various amendments to the interest limitation rules, which aim to extend the application of these provisions, is effective for tax years ending on or after 31 March 2023.
- ▶ The R&D tax incentive was extended for 10 years, and various amendments were made to simplify these provisions and make them more practical and effective.
- ▶ An APA program was introduced, subject to a future, unknown, effective date.
- ▶ A renewable energy tax incentive was introduced for the period 1 March 2023 to 28 February 2025 to alleviate the energy crisis.
- ▶ Nonresident employers who carry out activities in South Africa through a permanent establishment must register and withhold PAYE on remuneration paid. The amendment is effective from 22 December 2023.

## EY key contacts

**Tax policy:**  
Jula Mabena

**Tax controversy:**  
Jula Mabena

- ▶ South African Revenue Service (SARS) efforts to improve efficiency and enforce compliance
- ▶ Pillar Two draft legislation

## Significant tax developments expected in 2024

- ▶ National Treasury proposed a VAT increase in 2024 to fund the budget deficit; however, the likelihood of this occurring is uncertain.
- ▶ Pillar Two draft legislation is expected to be prepared for inclusion in the 2024 Taxation Laws Amendment Bill.
- ▶ Legislation is expected to be approved requiring all nonresident employers with a permanent establishment in South Africa to be registered as an employer with SARS and withhold employees' tax from remuneration paid to its employees.

## Significant legislative activity that could include tax

- ▶ The Budget Speech will take place in February 2024 and is expected to include tax provisions, including changes to tax rates, thresholds and rebates.

## Developments in tax transparency requirements

- ▶ Companies are required to file and update beneficial owner information, as and when applicable.
- ▶ New rules in South Africa require trusts to disclose beneficial ownership of assets, effective from 1 April 2023. The new rules effectively make trustees third-party providers of data for SARS.
- ▶ The ultimate parent entity or other multinational enterprises must file a county-by-country report, master file and local file with SARS.

# South Africa

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** are occurring in 2024. National and Provincial elections expected to take place by August 2024, although the dates have not yet been confirmed.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ The corporate income tax rate decreased from 28% to 27%, effective for years ending on or after 31 March 2022.
- ▶ While South Africa's current headline corporate income tax rate is considered to be "average" in the African regional context, it is recognized as being "high" compared to the OECD average. National Treasury does, therefore, acknowledge some competitive pressure to reduce the corporate income tax rate.
- ▶ Fiscal policy concerns, notably narrowing the budget deficit and stabilizing debt, mean that a further downward adjustment to the CIT rate is unlikely in the short term.
- ▶ The government is conducting a comprehensive review of all corporate tax incentives, with a view to broadening the CIT base.

### Taxes on digital business activity

- ▶ While South Africa does have a VAT regime for foreign suppliers of electronic services, no specific new proposals or indications have been made with regard to a general digital services tax.
- ▶ South Africa's traditional position has been to stick relatively narrowly to the OECD's BEPS recommendations. National Treasury has indicated in the past that South Africa will look more closely at the possibility of DSTs if the two-pillar solution fails.

### Taxes related to climate change or sustainability

- ▶ A carbon tax came into effect in 2019.
- ▶ The first phase of the carbon tax has been extended by three years for the period 1 January 2023 to 31 December 2025.
- ▶ There is a substantial increase in the carbon tax rate trajectory from 1 January 2023 onward. Allowances are likely to decrease over time.

### Windfall taxes

- ▶ There are no windfall taxes in South Africa, and none are expected in the foreseeable future.

### VAT/GST or sales taxes

- ▶ National Treasury proposed a 1%-2% increase in the VAT rate to fund the budget deficit; however, the likelihood of this occurring is uncertain.

### Personal taxes

- ▶ The maximum marginal tax rate is currently 45%. Structural and rate increases are unlikely in light of current fiscal and employment concerns.
- ▶ Additional tax may be raised by limiting the annual relief for bracket creep or fiscal drag. Increased enforcement is also expected to be a source of additional revenue. There is an increased focus on wealthy taxpayers and offshore holdings.

# South Africa

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ SARS initiated the process of digitizing its VAT collection system.
- ▶ The Dispute Resolution Rules were amended with effect from 10 March 2023.
- ▶ Revenue collection is higher than estimated due to increased scrutiny of taxpayers' tax returns.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Modernizing SARS systems to provide digital and streamlined online services
- ▶ Introduction of the APA program – effective date currently unknown
- ▶ Pillar Two draft legislation

**Tax audits in South Africa in 2024 are generally expected to** increase in number and/or intensity.

### Top audit issues

1. Transfer pricing
2. Allowance for future expenditure
3. Controlled foreign companies

### Changes in tax audit approaches or methods

- ▶ SARS is implementing risk engines and coordinated risk systems to achieve an integrated intelligence gathering approach, detailed analysis and early detection of risks.
- ▶ This will include a process whereby it will profile and rate taxpayers to determine audit case selection and audit activities.
- ▶ Increased scrutiny of taxpayers' tax returns can be expected.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ Introduction of the APA program – effective date currently unknown

### Tax governance approach/processes developments for business taxpayers

- ▶ Businesses are expected to have proper frameworks in place to manage their tax risk.
- ▶ SARS is expected to continue enhancement of tax corporate governance requirements.

### Digital tax administration developments

- ▶ SARS initiated the process of digitizing its VAT collection system.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	27%	27%	–	Same	Same
PIT	45%	45%	–	Same	Same
VAT/sales	15%	15%	–	Same	Same

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# South Korea

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## EY key contacts

**Tax policy:**  
Seung Yeop Woo

**Tax controversy:**  
Seung Yeop Woo

## Key issues to watch in 2024

- ▶ Enhance economic vitality by boosting export, investment and domestic demand
- ▶ Preparing for the future by overcoming demographic and regional challenges
- ▶ Korea-headquartered MNEs subject to the IIR under the Korean Pillar Two regulation enacted from FY2024

## Key drivers of tax policy change

- ▶ The combination of high inflation and elevated interest rates is causing domestic demand to weaken, leading to a prolonged economic downturn by constraining consumption and investment.
- ▶ The Korean government aims to foster national strategic technologies and new growth engine and source technologies, including semiconductor, battery cells, leading-edge mobility, next-generation nuclear energy, and leading-edge bio.
- ▶ South Korea has one of the lowest birth rates in the world, leading to challenges related to population aging and a future decline in the labor force.
- ▶ The government aims to enhance taxpayer-friendly environments through prompt dispute resolution, strengthening anti-tax avoidance measures and expanding the tax revenue base to improve tax equity.
- ▶ Pillar Two regulations have been amended to be aligned with other jurisdictions' movement in legislation.

- ▶ Significant increase in the tax credit rate for production costs in the film and content industry, to a maximum of 15% for large corporations, 20% for medium-sized companies and 30% for SMEs.

## Significant tax developments expected in 2024

- ▶ Rationalize regulations on the exclusion of dividend income received from foreign subsidiary companies from taxable revenue
- ▶ Postpone by one year the supplementary rules for the UTPR, extending the effective date to 1 January 2025
- ▶ Expand the benefits of the Special Gift Tax on Business Succession in Korea – alleviate gift tax burdens for family business succession by increasing the lowest tax bracket (10%) for gift tax on family business succession and extending the installment tax payment period from 5 years to 15 years
- ▶ Boost the inflow of skilled foreign workers by extending both the income tax cut for foreign engineers and special taxation for foreign workers for another five years (up to 31 December 2028)

## Significant tax developments in 2023

- ▶ Reduction of corporate income tax rates and tax base brackets (decreased by 1% for each of the four tax brackets, resulting in the top tax rate to be lowered from 25% to 24%)
- ▶ Reduced securities transaction taxes for shares listed on the Korean Composite Stock Price Index (KOSPI) and Korean Securities Dealers Automated Quotations (KOSDAQ) to 0.20% from 0.23%
- ▶ Adjustment of tax base and the amount of tax credit for salary income (raised the income level of two lowest tax base brackets to minimize tax burden for low- and middle-income households)
- ▶ Pending introduction of the Presidential Decree of the Pillar Two regulations was finalized as of 29 December 2023

## Significant legislative activity that could include tax

- ▶ Enhanced support is expected for reshoring companies by expanding income and corporate tax reductions, easing the requirements for receiving tax incentives and extending their applicable periods.
- ▶ The Ministry of Strategy and Finance is discussing the transition of the estate tax system to an inheritance tax system. The latter requires taxes to be paid based on the amount received by each heir, which could mean a reduced tax burden compared to the estate tax system. Although this shift appears mostly settled and vetted on a practical level, it has not been included in the final plan, given considerations around public opinion, political schedules, and issues regarding the timing and method of announcement.

# South Korea

## Expectations for tax policy

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### Developments in tax transparency requirements

- ▶ Other than BEPS Action 13 Documentation, the transfer pricing documentation should be prepared and maintained annually since 2023, pursuant to the Framework Act on National Taxes, Article 85-3.
- ▶ Disclosure requirements were strengthened by introducing mandatory for trustees to submit the information of overseas trusts.
- ▶ It is now mandatory for employees to submit stock-based compensation transaction details that a foreign parent company has provided to Korean executives and employees.
- ▶ Public disclosure of tax delinquency was expanded by disclosing personal information and the amount of tax evasion of a person convicted of customs fraud worth more than KRW200 million per year.

**Significant tax reform** is not expected in 2024.

**The National Assembly elections** are occurring in 2024.

**R&D incentives** are expected to increase.

**Other business incentives** are expected to increase.

### Corporate taxes

- ▶ Expansion of investment tax credits for corporate facility investment, increased tax credits for R&D investment increases
- ▶ Support the revitalization of the local economy in Saemangeum, the smooth operation of resident companies and the attraction of private investment Saemangeum
- ▶ Social Overhead Capital budget increased

### Taxes on digital business activity

- ▶ No significant changes are currently expected.

### Taxes related to climate change or sustainability

- ▶ South Korea does not impose a carbon tax or any other climate change-related tax that promotes carbon emissions abatement.

### Windfall taxes

- ▶ There is no windfall tax regime.

### VAT/GST or sales taxes

- ▶ No significant changes are currently expected.

### Personal taxes

- ▶ The Financial Investment Income Tax rule was introduced but not yet implemented. It will levy tax on income gained from financial investments, such as stocks, funds and derivatives. If the profit from the transactions exceeds KRW50 million, a tax rate of 20% is applied. Last year, the government introduced a proposal to defer this tax for two years through an amendment to the tax law, and a bipartisan agreement has postponed the introduction of this tax until 2025. In January 2024, the Ministry of Economy and Finance stated that it is moving toward “relaxing regulations” or abolishing the rule.
- ▶ A new tax incentive was introduced of an additional KRW100 million or gift that is given from an immediate family member within two years before or after the date of marriage registration.
- ▶ Support for childbirth and child-rearing incentives were strengthened by increasing the limit of nontaxable allowances for childbirth and childcare from the current KRW100,000 to KRW200,000 per month.
- ▶ Deferrals were extended on the imposition of higher real estate holding taxes or abolition of heavy taxes for owners of multiple homes.
- ▶ If individuals who own a single home purchase one new property in a population-decreasing area, the same special tax treatment to the one household one home principle applies.

### Other

- ▶ A temporary 50% acquisition tax deduction for Project Financing Investment Companies under the PF Normalization Fund when they acquire real estate

# South Korea

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Adjustment of corporate income tax rates and tax base brackets
- ▶ Increase of limit for the deduction of losses carried forward
- ▶ Expiration of additional corporate tax on excess corporate earnings reserves

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Pillar Two
- ▶ Financial investment income tax abolition

**Tax audits in Korea in 2024** are generally expected to decrease.

### Top audit issues

1. Exit tax – the business transfer among foreign related parties
2. Offshore tax evasion through unfair international transactions
3. Tax evasion committed by celebrities, entertainers and sports players

### Changes in tax audit approaches or methods

- ▶ The National Tax Service (NTS) has launched the New International Tax Response Team to prevent tax avoidance by MNEs.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ There are no tools or programs for dispute prevention and resolution.

### Tax governance approach/processes developments for business taxpayers

- ▶ The law has defined the corporation subject to external tax settlement.
- ▶ The arm's-length test of on the compensation related to the business transfer transaction derived by the international business restructuring shall be scrutinized by the NTS.

### Digital tax administration developments

- ▶ The NTS announced plans to expand tailored analytical support services, including data consulting, to provide high-level data analysis services and meet the demands of users.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	24%	24%	–	Same	Same
PIT	45%	45%	–	Same	Same
VAT/sales	10%	10%	–	Same	Same

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# Spain

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## EY key contacts

**Tax policy:**  
[Alberto Garcia Valera](#)

**Tax controversy:**  
[Maximino Ignacio Linares Gil](#)

## Key issues to watch in 2024

- ▶ Pillar Two implementation
- ▶ Extension of temporary taxes, reductions and incentives for 2024
- ▶ Increase in tax responsibility maintained
- ▶ EU economic governance framework reform

## Key drivers of tax policy change

- ▶ An increase in government revenue is maintained by the extension of many fiscal measures that were already approved due to the extraordinary situation of previous years (although the same situation no longer exists).
- ▶ Predictability in the regulations that, although it should be appreciated for the fiscal certainty it generates, is based on premises that have already generated the previous flight of numerous investors due to the accelerated increase in the tax burden.
- ▶ The Council of Europe has agreed on the proposed reform of the EU economic governance framework with the aim of achieving balanced and sustainable public finances and the protection of investment, growth and job creation throughout the EU.
- ▶ The PIT rate for the saving base was increased for revenues over EUR200,000. Additionally, the reduction for employment income was increased from EUR18,000 to EUR21,000 and the minimum amount of taxation increased from EUR14,000 to EUR15,000.

## Significant tax developments expected in 2024

- ▶ There is a preliminary draft bill to implement Pillar Two with a supplementary tax to guarantee a minimum level of taxation for groups with a turnover of more than EUR750 million.

## Significant legislative activity that could include tax

- ▶ Reform of the regional financing system is possible.

## Developments in tax transparency requirements

- ▶ DAC7 was implemented into domestic law in 2023.
- ▶ No developments are expected in tax transparency requirements in 2024.

## Significant tax developments in 2023

- ▶ The introduction of a new solidarity tax (which was initially expected to be a temporal measure for 2023 and 2024) that applied to taxpayers holding assets of EUR3 million or more. The tax quota paid under the wealth tax will be deductible to avoid double taxation.
- ▶ A new general CIT rate of 23% applied for companies with net value of turnover below EUR1 million. Additionally, it included a 50% limitation on the possibility of offsetting the carryforward tax losses of the subsidiaries by a tax group.
- ▶ Temporary taxes (for 2023 and 2024) on energy and on credit institutions and financial credit establishments were established.

# Spain

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** are not planned in 2024 but, given that the government does not have a parliamentary majority and must agree on each measure with several political parties, it is possible that elections will be called by the end of 2024 or during 2025.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same, with some minor changes.

### Corporate taxes

- ▶ The standard tax rate is to remain at 25% (a minimum 15% rate) and at 30% (a minimum of 18%) for financial and oil and gas companies.
- ▶ The 15% (10% minimum) rate for newly created companies and the 23% rate for companies with net value of turnover <EUR1 million also remain the same.
- ▶ The 50% limitation on the possibility of offsetting the carryforward tax losses of the subsidiaries by a tax group established for 2023 will not be extended.
- ▶ Regarding the temporary taxes on energy and on credit institutions and financial credit establishments, the government has announced that the budget law will incorporate an incentive to be applied in the energy sector for strategic investments made since 2024.

### Taxes on digital business activity

- ▶ Spain applies the tax on certain digital services, an indirect tax levied on the provision of certain digital services involving users located in Spanish territory.

### Taxes related to climate change or sustainability

- ▶ Spain has two green taxes in place: a tax on non-reusable plastic packaging and a tax on landfill, incineration and co-incineration.

### Windfall taxes

- ▶ The temporary taxes established for 2023 and 2024 (taxes on energy and on credit institutions and financial credit establishments, and on solidarity tax) are maintained.
- ▶ The solidarity tax will be maintained indefinitely until a new regional financing regime is negotiated.

### VAT/GST or sales taxes

- ▶ Spain usually has three VAT tax rates: (1) general (21%), (2) reduced (10%) and (3) super-reduced (4%).
- ▶ During the first six months of 2024, food commodities and facemasks will remain at 0%, and olive oil and pasta will remain at 5%. These reductions were established in 2023 as anti-inflationary measures.
- ▶ The electricity and gas tax rate rises to 10% (before 2023 it was 21%, and in 2023 it was reduced to 5%).

### Personal taxes

- ▶ Personal income tax rates remain the same: 47% for the general base and 26% for the saving base.
- ▶ Some autonomous communities have announced the reduction of the tax rates.

### Other

- ▶ Due to the normalization of the electricity market, the tax reductions established in 2023 in the excise tax on electricity and the tax on the value of electricity production are attenuated. The excise tax will be charged during the first two quarters at 2.5% and 3.8% (lower than its general rate); and the second tax will see its taxable base reduced by 50% and 25% during the first and second quarters, respectively.

# Spain

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ The Spanish Tax Administration (STA) verified the transfer of intangibles assets and interests and dividend payments received within multinational groups, utilizing increased exchange of information between administrations for tax related purposes.
- ▶ Controversy increased regarding the tension between the EU prohibition of abuse of law principle and domestic GAAR and SAARs.
- ▶ The STA increasingly challenged R&D tax benefits, particularly software projects. Relevant case law is expected before summer 2024.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ There is currently only a draft bill implementing Pillar Two, so the law will likely not be approved until mid-2024 and will likely have controversial retrospective effects.
- ▶ The development of coordinate and joint audits is expected after the transposition of DAC7 into domestic law in 2023.
- ▶ Advanced transfer pricing issues aligned with BEPS actions are expected to be a focus area.
- ▶ Beneficial ownership will be applied as an implicit anti-avoidance clause in all tax exemptions and benefits of nonresidents.

**Tax audits in Spain in 2024 are generally expected to stay the same in number and intensity.**

### Top audit issues

1. Transfer pricing issues, both formal requirements and material grounds
2. Tax fraud involving mainly corporate reorganizations and R&D deductions
3. CIT deductibility of remuneration paid to directors
4. Structures of Agrupaciones de Interés Económico (entities that directly allocate income and losses to their partners)

### Changes in tax audit approaches or methods

- ▶ Spain implemented DAC7, which regulates the regime of joint tax audits and certain specific issues related to the presence of officials from other Member States in Spain – and of Spanish officials abroad. These measures took effect as of 1 January 2024.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No changes are expected during 2024.

### Tax governance approach/processes developments for business taxpayers

- ▶ No changes are expected during 2024.

### Digital tax administration developments

- ▶ The STA will continue with the development of the new Comprehensive Digital Administration, a “virtual counter” designed under the premise of facilitating voluntary compliance with more and better information and assistance to taxpayers by a more agile, dynamic and closer tax administration.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	30%	30%	–	Same	Same
PIT	47%	47%	–	Same	Same
VAT/sales	21%	21%	–	Same	Same

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# Sweden

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## EY key contacts

**Tax policy:**  
Erik Hultman

**Tax controversy:**  
Per Holstad

## Key issues to watch in 2024

- ▶ Implementation of domestic Pillar Two legislation
- ▶ Review of the taxation of owners of closely held companies
- ▶ CBAM and its implementation

## Key drivers of tax policy change

The government has published inter alia the following goals for tax law:

- ▶ A legitimate and fair tax system
- ▶ Clear rules
- ▶ Taxation close to taxable event
- ▶ Sustainable rules in relation to the EU

## Significant tax developments expected in 2024

- ▶ Amendments to new act on global minimum tax are expected to implement the administrative guidance from the OECD, but this has yet to be confirmed.
- ▶ A review of the taxation of owners of closely held companies is expected to result in proposed changes to the taxation of owners.

## Significant legislative activity that could include tax

- ▶ A large number of government agencies have been instructed to review and simplify the administrative responsibilities on corporations in regulations and processes (including the Swedish Tax Agency (STA)).

## Developments in tax transparency requirements

- ▶ There is a new obligation for certain large corporate to prepare, publish and make available reports on income tax information. Corporation and groups with a revenue of more than SEK8 billion are affected.
- ▶ There is a new obligation in 2024 for payment service providers to report to the Swedish Tax Agency information on certain cross-border payment transactions that they carry out.

## Significant tax developments in 2023

- ▶ A new act regarding global minimum tax implementing BEPS Pillar Two at a national level was passed in December 2023.
  - ▶ New legislation entered into force 1 January 2024.
  - ▶ Sweden introduced a QDMTT and implemented the EU directive on global minimum tax (EU) 2022/2523.
- ▶ Introduction of a new VAT act, in force from 1 July 2023. The new law is primarily aimed at modernizing the language and not the introduction of new material rules. However, the new act required companies to update language in their invoicing to adapt to the new act.
- ▶ To address increased fuel prices, the government decreased the percentage of renewable fuel mix into fossil fuel for the period 2024-2026 from the highest rate in EU to the minimum level required. Excise duties on fuel have also been decreased, from 1 January 2024.

# Sweden

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**National elections** are not occurring in 2024. Elections to the European Parliament will take place in 2024.

**R&D incentives** are expected to increase.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ New act regarding global minimum tax implementing BEPS Pillar Two was approved in December 2023 and entered into force 1 January 2024.
  - ▶ Sweden introduced a QDMTT and implemented the EU directive on global minimum tax (EU) 2022/2523.
  - ▶ Some amendments to the legislation are expected during 2024 to implement administrative guidance from OECD.
- ▶ R&D incentives: The incentive allows for a reduction of social charges, currently with a maximum of KSEK1,500. This amount will be increased to KSEK3,000 per month from 1 January 2024. A larger review of R&D incentive with the aim to improve and increase incentives has been initiated by the government in 2023 but is unlikely to result in substantial changes during 2024.
- ▶ Progress on a new act on withholding taxes (previously expected to be applicable as from 1 January 2024) is paused. Once the legislative process continues there will most likely be material changes to the legislative act following the proposed EU directive on Faster and Safer Relief of Excess Withholding Taxes (FASTER).

### Taxes on digital business activity

- ▶ No national digital service tax is currently expected.

### Taxes related to climate change or sustainability

- ▶ No developments are currently expected.

### Windfall taxes

- ▶ The temporary windfall tax on revenue for electricity produced in force between March and July in 2023 is not expected to be renewed in 2024.

### VAT/GST or sales taxes

- ▶ No developments are currently expected on VAT.

### Personal taxes

- ▶ A review of the taxation of owners of closely held companies with the aim to simplify the taxation rules and making it more attractive for owners is expected to result in a legislative proposal.
- ▶ The current government tax agenda is general reductions in taxation, primarily for individuals. As the government has slightly lowered taxes on employment income and pensions from January 2024, further decreases are unlikely during 2024.



# Sweden

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Enhanced focus on carried interest and management incentive programs, both in enforcement and controversy
- ▶ Continued strong focus on interest deductions

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ As a COVID-19 investment incentive, a one-off tax credit for investments in equipment during 2021 was given. The basis for the credit was to be reported in the tax return for FY22 and can be offset against taxes in FY22 and FY23. STA is expected to focus some attention on enforcing these tax credits in 2024.
- ▶ Continued focus on the taxation of individuals receiving carried interest is expected.

**Tax audits in Sweden in 2024 are generally expected to stay the same in number and intensity.**

### Top audit issues

1. Transfer of intellectual property
2. Transfer pricing
3. Interest deductions
4. Indirect taxes – intra-group invoicing
5. Permanent establishment of foreign corporations in Sweden

### Changes in tax audit approaches or methods

- ▶ The trend to not only review past years but also the current fiscal year will continue.
- ▶ Digital analysis is increasing.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ No changes are currently expected.

### Digital tax administration developments

- ▶ Enhanced availability for digital submission of returns and other communication with the STA
- ▶ STA is developing digital tools for property taxation
- ▶ STA uses API, AI and other digital tools to develop solutions to increase legibility and accessibility of tax rules

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	20.6%	20.6%	–	Same	Same
PIT	55.6%	55.6%	–	Same	Same
VAT/sales	25%	25%	–	Same	Same

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# Switzerland

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## EY key contacts

**Tax policy:**  
[Roger Krapf](#)

**Tax controversy:**  
[Martin Kistler](#)

## Key issues to watch in 2024

- ▶ Implementation of Pillar Two of OECD BEPS 2.0
- ▶ “Tax competition” among the Swiss cantons

- ▶ Increased tax controversy activity

## Key drivers of tax policy change

- ▶ Implementation of Pillar Two
- ▶ Digitalization
- ▶ Measures against climate change and sustainability

**Significant tax reform** is not expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

## Corporate taxes

## Significant tax developments in 2023

- ▶ Reporting procedures within the corporate group have been simplified.
- ▶ Tax-free amounts and allowances for private individuals have been increased due to inflation.

- ▶ Switzerland will implement Pillar Two of OECD BEPS 2.0.
- ▶ Cantons must provide for a platform to enable electronic procedures for all relevant taxes (in particular individual and corporate income tax).

## Significant tax developments expected in 2024

- ▶ Decision on the enactment of the VAT revision regarding the VAT liability of internet platform providers
- ▶ Discussion about a possible implementation of a tonnage tax in Switzerland
- ▶ Discussions about the separate taxation of married couples

## Taxes on digital business activity

- ▶ No changes are currently expected.

## Taxes related to climate change or sustainability

- ▶ Electric cars are newly subject to automobile tax.

## Significant legislative activity that could include tax

- ▶ Social security reform
- ▶ Measures against climate change and sustainability
- ▶ Update of the anti-money laundering rules related to the central registry on the economic ownership of legal entities
- ▶ Justitia 4.0 – a project to provide for a holistic platform for digital correspondence between authorities, courts and private individuals and entities

## Windfall taxes

- ▶ No changes are currently expected.

## VAT/GST or sales taxes

- ▶ Increase of VAT tax rate as of 1 January 2024

## Personal taxes

- ▶ No significant changes are currently expected.

# Switzerland

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ The Switzerland Federal Tax Administration continuously tightened its practice with regard to the treaty clearance by extending the tax avoidance schemes.
- ▶ In 2023, certain cash-pool deposits (and the remuneration thereon) have been under increased scrutiny.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ No material changes are currently expected.

**Tax audits in Switzerland in 2024 are generally expected to** slightly increase in number and intensity.

### Top audit issues

1. Transfer pricing (in particular, related to financial transactions)
2. R&D incentives (in particular, R&D super deduction and patent box)

### Changes in tax audit approaches or methods

- ▶ No changes are currently expected.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ No changes are currently expected.

### Digital tax administration developments

- ▶ No changes are currently expected.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	12%-21%	12%-21%	–	Same	Same
PIT	22.5%-41.5%	22.5%-41.5%	–	Same	Same
VAT/sales	7.7%	8.1%	5.2%	Higher	Higher

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# Taiwan

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## Key issues to watch in 2024

- ▶ US-Taiwan Expedited Double-Tax Relief Act

## Key drivers of tax policy change

- ▶ Taiwan implemented the CFC rules in 2023.
- ▶ Amendments to Point 15 of the “Guidelines for the Determination of Income from Sources in the Republic of China in Accordance with Article 8 of the Income Tax Act” for extension of deadline to 10 years by the Ministry of Finance (MoF) for foreign profit-seeking enterprises applying for recalculation of reduced withholding tax
- ▶ The MoF amending rules for calculating the taxable income of foreign profit-seeking enterprises (Article 25 relief), including extending the application period from the current 5 years to 10 years, with approval potentially granted for a maximum of 5 years
- ▶ The MOF announcing a new tax ruling that if the seller claims interest for default with the statutory rate and this amount is charged to the buyer, it does not fall into the scope of sales and is not subject to VAT

## EY key contacts

**Tax policy:**  
Chien Hua Yang

**Tax controversy:**  
Chien Hua Yang

## Significant tax developments in 2023

- ▶ CFC rules were implemented on 1 January 2023.
- ▶ Articles 10-2 of the Statute for Industrial Innovation (Taiwan Chips Act) includes a 25% tax deduction on forward-looking R&D spending and a 5% deduction on advanced machinery spending, effective 1 January 2023 to 31 December 2029.

## Significant tax developments expected in 2024

- ▶ There is currently discussion to reduce the VAT rate for the financial industry to 2%.

## Significant legislative activity that could include tax

- ▶ No changes are currently expected.

## Developments in tax transparency requirements

- ▶ No changes are currently expected.

# Taiwan

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** for the President and legislature occurred on 13 January 2024.

**R&D incentives** increased with the Taiwan Chips Act and are otherwise expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ The MoF amended the Regulations Governing Assessment of Profit-seeking Enterprise Income Tax. The amendment includes increasing the meal allowance tax limit from 2,400 to 3,000 per person per month

### Taxes on digital business activity

- ▶ No changes are currently expected.

### Taxes related to climate change or sustainability

- ▶ According to Tax Ruling No. 11204681100, the income derived from the selling of foreign carbon reduction credit through the Taiwan Carbon Exchange by a foreign company is deemed as Taiwan-sourced income. It should be taxed in accordance with the Article 3, Paragraph 3 of the Income Tax Act.

### Windfall taxes

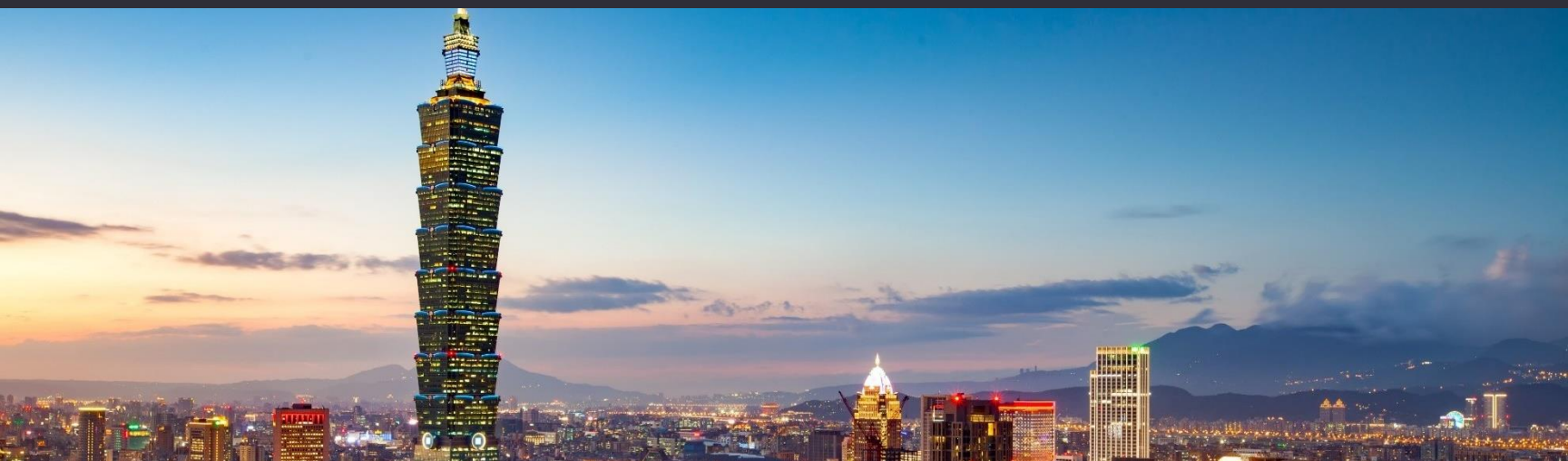
- ▶ Taiwan does not impose windfall taxes.

### VAT/GST or sales taxes

- ▶ The MOF issued a tax ruling stating that statutory deferred interest does not fall within the scope of sales and will not be subject to VAT.

### Personal taxes

- ▶ Residential property taxes (House hoarding tax 2.0) passed the third reading and will be increased from 2% to 4.8% for those who own multiple homes or are not residing in their property and will be implemented from 1 July 2024.
- ▶ From 2024, rental expenses will be listed as a special deduction for taxpayers instead of an itemized deduction.



# Taiwan

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Customs value determination of one-time transfer pricing in a fiscal year (one-time TP adjustment)

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ US-Taiwan Expedited Double-Tax Relief Act
- ▶ Taiwan and the Republic of Korea concluded the ADTA

Tax audits in Taiwan in 2024 are generally expected to stay the same.

### Top audit issues

1. The One-time TP Adjustment: Customs will inform National Taxation Bureaus (NTB) about the final assessment. Some NTBs have begun to conduct reviews regarding the customs-approved duty-paid value, and businesses are required to attach a Customs Approval Letter.
2. Implementation of CFC rules in 2023: Businesses may need to prepare the relevant documents required for filing its corporate income tax return.
3. Loss carryforward: If the company would like to use the loss carryforward from the preceding 10 years, the loss amount should first be deducted from the investment income, and then the loss balance can be removed from the current year's net income.

### Changes in tax audit approaches or methods

- ▶ No significant changes are currently expected.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No significant changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ No significant changes are currently expected.

### Digital tax administration developments

- ▶ No significant changes are currently expected.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	20%	20%	–	Same	Same
PIT	40%	40%	–	Same	Same
VAT/sales	5%	5%	–	Same	Same

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# Thailand

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## EY key contacts

**Tax policy:**  
[Yupa Wichitkraisorn](#)

**Tax controversy:**  
[Kamolrat Nuchitprasitchai](#)

## Key issues to watch in 2024

- ▶ Implementation of Pillar Two
- ▶ Thailand Digital Tax Ecosystem roadmaps
- ▶ Transfer pricing issues
- ▶ CRS implementation
- ▶ Public spending leading to higher tax collection

## Key drivers of tax policy change

- ▶ The Bank of Thailand (BOT) revised down economic growth forecasts for 2024 to 3.2% due to a slowdown in the service sector. Public spending also contracted due to lower capital expenditures, prompting a need for tax policy adjustments to rebalance the economic situation.
- ▶ Stimulus plans, like the digital wallet scheme, pose potential long-term fiscal burdens. Short-term government spending could expedite public debt growth, nearing the 70% of GDP debt ceiling faster.
- ▶ The proposed welfare package, costing THB650 billion annually, would necessitate funding through budget cuts (THB350 billion) and potentially new taxes, such as a land tax, large corporate income tax or a wealth tax.
- ▶ Recent amendments subject local residents earning income overseas to personal income tax, aligning with international standards on financial information exchange. The change closes a longstanding tax loophole and supports tax transparency and fairness.
- ▶ The Finance Ministry's tax reform agenda aims to foster economic resilience and sustainability, with several focus areas:
  - ▶ Enhancing competitiveness and achieving sustainable economic growth, including a comprehensive examination of the overall tax structure to identify avenues for increased revenue and a critical review of costly tax benefit measures
  - ▶ Aligning tax policies with the digital economy, leveraging cutting-edge technologies, such as blockchain, to streamline tax collection processes and facilitate VAT refunds
  - ▶ A concerted effort to promote the green economy, incorporating both tax and nontax measures, including incentivizing tax-deductible donations and introducing sustainable bonds
  - ▶ A commitment to create a more equitable tax system that supports vulnerable groups

## Significant tax developments in 2023

- ▶ Thailand Digital Tax Ecosystem roadmaps: The service providers will be able to prepare, deliver and store e-tax invoice on behalf of taxpayers.

## Significant tax developments expected in 2024

- ▶ Implementation of Pillar Two
- ▶ More tax audits due to high public spending

## Significant legislative activity that could include tax

- ▶ A rate reduction for an additional year (extended until 31 December 2024) for the transfer fee and mortgage fee on immovable property of which the appraisal value does not exceed THB3 million.

## Developments in tax transparency requirements

- ▶ Implementation of CRS
- ▶ Enforcement of the emergency decree on the exchange information to comply with international tax agreement
- ▶ Electronic platforms required to submit the revenue derived from merchants to the Thai Revenue Department (TRD) within 150 days from the year-ended date

# Thailand

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ Extension of tax measure to promote e-tax systems to the taxpayers (e.g., allowed additional expenses for the expenses incurred from e-tax system)
- ▶ Extension of tax measure to promote tourism in Thailand
- ▶ Extension of tax measure to the promote e-donation system

### Taxes on digital business activity

- ▶ An electronic platform, which is incorporated under the laws of Thailand with income exceeding THB1,000 million in an accounting period, is required to file an application to TRD for connecting its system with TRD's system for the purpose of submitting the special account to TRD.
- ▶ A special account is required to be submitted to TRD. Details of the electronic platform operator's income derived from the merchants offering their goods or services on such an online platform shall be declared and filed in the prescribed special account to TRD via an electronic channel within 150 days from the end of the accounting period.
- ▶ This is effective for accounting period starting on or after 1 January 2024.

### Taxes related to climate change or sustainability

- ▶ Additional measures to promote the use and manufacture of electric vehicles (EVs)
- ▶ Measures to promote investment to address PM2.5 particulate pollution
- ▶ Tax incentive for investors in an ESG fund
- ▶ Extension of duty reduction or exemption period on Battery Electric Vehicle imports and an excise tax reduction on Eco-cars

- ▶ Corporate income tax exemption on income derived from sale of greenhouse gas reduction carbon credits for carbon emissions reduction projects that registered with the Thailand Greenhouse Gas Management Organization from 20 March 2023 to 31 December 2027.
- ▶ Adjustments in tax policy may address environmental concerns, potentially incorporating "green taxes" to reduce carbon emissions.

### Windfall taxes

- ▶ A draft land windfall tax received approval from the previous cabinet in 2018, yet no subsequent amendments have been implemented to date. The Finance Ministry may revive this legislation designed to address landowners profiting from the augmented land prices resulting from developments in transport infrastructure. The objective is to rejuvenate this law, achieving fairness in the tax system by capturing gains derived from the increased value of the land.

### VAT/GST or sales taxes

- ▶ Thailand maintains the 7% reduced VAT rate for another year, until 30 September 2024, to support the economic stability of the country.

### Personal taxes

- ▶ Mandatory electronic payroll withholding tax filing (i.e., Forms PND 1 and PND 1 Gor) starting from 1 January 2024
- ▶ New tax measure under an "Easy e-receipt" scheme to encourage domestic consumption and promote the adoption of e-tax invoice and e-receipt
- ▶ TRD's Instruction (Paw.162) instructs Thai tax officers to levy Thai personal income tax on foreign-sourced income that the Thai tax residents have earned from 1 January 2024 onward, regardless of when the income is brought into Thailand.

### Other

- ▶ Tax measures designed to encourage foreign investors to relocate their production bases to Thailand, refer to "Thailand Plus Package" has been extended from 31 December 2022 to 31 December 2025.



# Thailand

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Mandatory e-filing of various type of taxes, including other reports (e.g., CbCR report, transfer pricing disclosure form)
- ▶ More focus on transfer pricing assessments, requests for a tax refund, business restructurings and consistent loss companies

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ The data integrated between government agencies to the tax authorities is expected to increase (e.g., Customs Department or other government agencies and TRD).
- ▶ Less documentary evidence will be required by the tax authorities during the course of tax audit since TRD obtained the taxpayer's data from the upstream stage.

### Tax audits in Thailand in 2024 are generally expected to increase in number and intensity.

### Top audit issues

1. Transfer pricing policy
2. Intercompany service fees charged (supporting documents to prove the fee is commensurate to services actually incurred)
3. One line transfer pricing adjustment on a timely basis
4. Self-assessed VAT incurred from the services fee paid to overseas service providers
5. Allocation of expenses from overseas related parties
6. Intangible assets expenses (e.g., royalty, trademark)
7. Business restructuring and dissolution

### Changes in tax audit approaches or methods

- ▶ Using big data in tax audit administration and expanding TRD's database and access to other relevant government agencies' databases
- ▶ Using artificial intelligence to manage cost and time of tax audit approaches and digitalize the tax refund process
- ▶ Expand paperless tax audit approaches and accepted communication via online channels

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ APA is frequently used by TRD for dispute prevention.

### Tax governance approach/processes developments for business taxpayers

- ▶ TRD has continued measures to encourage taxpayers to apply e-tax system and enhance digital services.
- ▶ Ultimately, TRD will develop a "one seamless tax ecosystem," aimed at providing a smooth simplified one-stop service to the taxpayers.

### Digital tax administration developments

- ▶ TRD issued detailed regulations to provide method and criteria for the taxpayers for issuance, delivery or retention of electronic tax invoice and receipt under the Ministerial Regulation No.384 (B.E.2565) (MR no.384).

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	20%	20%	–	Same	Same
PIT	35%	35%	–	Same	Same
VAT/sales	7%	7%	–	Same	Same

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This information is current as of 10 January 2024.



# Türkiye

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## EY key contacts

**Tax policy:**  
Selin Otman

**Tax controversy:**  
Ahmet Sağlı

## Key issues to watch in 2024

- ▶ Inflation adjustment accounting
- ▶ Additional corporate tax (ACT)
- ▶ Financial expense restriction (FER)
- ▶ Proposal for major tax reform

## Key drivers of tax policy change

- ▶ To increase tax revenue due to the financing needs following the earthquake in Türkiye, additional taxes (ACT and additional motor vehicles tax (AMVT)) were introduced retroactively for FY2022. Their constitutionality is being examined in the litigation system of Türkiye. AMVT was examined by the Constitutional Court and was not found unconstitutional. However, ACT is still under review by the constitutional court.
- ▶ In line with the abovementioned initiative for increasing the tax revenue, the government plans to review and reduce existing tax incentives.
- ▶ In cases initiated against the FER practice, the tax courts (first instance court) rendered favorable and unfavorable decisions; the decision of Council of State is expected to eliminate this inconsistency.

## Significant legislative activity that could include tax

On 24 November 2023, a tax reform proposal, including 80 articles, was submitted to the Parliament. The proposed law also includes regulations on income tax and corporate tax. Some of the noteworthy measures are:

- ▶ Expansion of the exemption for services provided over the internet and similar media and application development for mobile devices
- ▶ Expansion of the exemption from income tax on dividends received from joint stock and limited liability companies whose legal and business center is not located in Türkiye
- ▶ Abolition of the lump-sum expenditure applied by taxpayers engaged in export, construction, repair, assembly and transport activities abroad
- ▶ Increase to 80% from 50% the discount applied to earnings from certain services, such as architecture, engineering, design, software, medical reporting, accounting record keeping, call center, product testing, certification, and education and health services provided to foreigners
- ▶ The profit or loss arising from the inflation adjustment to be made by banks and financial institutions in 2024 and 2025 to not be considered in the determination of earnings, but the inflation adjustment to be applied for all other companies for FY2024 and 2025
- ▶ Extension of the corporate tax exemption applied to currency-protected deposit and participation accounts until 30 June 2024

## Significant tax developments in 2023

- ▶ ACT
- ▶ AMVT
- ▶ The practice of FER (ongoing since FY21)

## Significant tax developments expected in 2024

- ▶ Inflation adjustment accounting requirements for all companies
- ▶ ACT
- ▶ FER

## Developments in tax transparency requirements

- ▶ No changes are currently expected.

# Türkiye

## Expectations for tax policy

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**Significant tax reform** is expected in 2024.

**Municipality elections** shall be held in March 2024.

**R&D incentives** are expected stay the same or decrease.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ The corporate tax rate would have reduced to 20% with the previous regulation but was increased by 5% to 25% due to the financing needs following the earthquake in Türkiye.

### Taxes on digital business activity

- ▶ Taxes on digital business activity (such as DST, virtual PE, VAT/GST, withholding): The revenues from digital advertisements, sales of all kinds of digital content and the operation of the digital platform are subject to a digital service tax of 7.5% according to the Law No. 7194.
- ▶ Tax residency and permanent establishment: The Turkish tax administration claims that some companies providing electronic services generate commercial revenue within Türkiye through digital workplaces should be considered as permanent establishment. While this view of the administration has not been accepted until now, the Fourth Chamber of the Council of State has recently decided contrary to the existing case law. As the Fourth Chamber is now assigned with the cases other than tax controversies, it is currently unclear whether the other tax controversy chambers of the Council of State will follow the existing practice and decision.
- ▶ The payments as royalty or in return for intangible rights: Turkish tax administration tends to define the payments made to group companies' resident abroad as royalty payments, even for payments made in return for certain services. (Please note that this kind of controversy is about catachrestic of payment, not about its compliance with arm's-length principle.) While this view of the tax administration has not been accepted until now, the Fourth Chamber of the Council of State has recently decided contrary to the existing case law. It is currently unclear whether the other chambers will follow the existing practice.

### Taxes related to climate change or sustainability

- ▶ The introduction of a carbon tax or a revision of the existing motor vehicle tax based on carbon consumption is being discussed. However, a concrete draft has not been shared with the public yet.

### Windfall taxes

- ▶ The corporate tax rate is applied 5% higher (30%) to tax the income generated by the financial sector due to its high income in an inflationary environment.

### VAT/GST or sales taxes

- ▶ The main item in the agenda of Turkish tax authority is consistently dealing with false or forged documents (invoices). The scope for false documents is broad and in practice all documents issued by a taxpayer who issued a false or forged document once are deemed as false or forged document. In this sense, any taxpayer that trades with such taxpayer is subject to additional tax assessment and tax penalty.
- ▶ To increase the tax revenue, the President of Türkiye will be authorized to amend the VAT deduction mechanism in line with the legislative action mentioned.

### Personal taxes

- ▶ No significant changes are currently expected.

# Türkiye

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ In 2023, there were not broad tax inspections mainly because after the amnesty law, the existing inspections were closed by most of the companies accordingly.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ The tax inspections are expected to increase, which will result in more tax controversies and litigations.

### Tax audits in Türkiye in 2024 are generally expected to increase.

### Top audit issues

#### 1. Cross-border taxation (excluding transfer pricing):

- ▶ Taxes on digital business activity
- ▶ Tax residency and permanent establishment
- ▶ The payments in as royalty or in return intangible rights

#### 2. Transfer pricing:

- ▶ General transfer pricing audits: The Turkish tax authority frequently focuses on subsidiaries of multinational companies, including issues with royalties and licensing fees, management fees and procurement structures.
- ▶ The unpaid equity debts: In the opinion of the Turkish tax authority, unpaid equity debts are actually loans given by the company to shareholders; thus, interest shall be calculated in line with the arm's-length principle.

#### 3. Domestic direct taxes:

- ▶ Treaty benefits: In recent years, the Turkish tax authority focused audits on the implementation of beneficial owner clauses of DTTs.

- ▶ Audits upon tax refund request: In line with current legislation, tax audits are mandatory for tax refunds exceeding some certain amounts. Thus, tax audits initiated upon refund applications are quite common.

#### 4. Indirect taxes (including customs):

- ▶ VAT, GST, sales and use, and service taxes: The main item in the agenda of the Turkish tax authority is consistently dealing with false or forged documents (invoices). The scope for false documents is broad, and in practice, all documents issued by a taxpayer who issued a false or forged document once are deemed as false or forged documents. In this sense, any taxpayer that trades with such taxpayer is subject to additional tax assessment and tax penalty.
- ▶ Effective from 24 November 2023, the right to deduct VAT calculated within the scope of surveillance and safeguard measures on imports has been abolished.

### Changes in tax audit approaches or methods

- ▶ No significant changes are currently expected.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ In 2023, an amnesty law was issued; but currently, no new or similar tax amnesty law is expected in 2024.

### Tax governance approach/processes developments for business taxpayers

- ▶ No significant changes are expected.

### Digital tax administration developments

- ▶ No significant changes are expected.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	25%	25%*	–	Same	Same
PIT	40%	40%	–	Same	Same
VAT/sales	18%	20%	2%	Same	Same

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\* 30% for banks, companies within the scope of Law No. 6361, electronic payment and money institutions, authorized foreign exchange institutions, asset management companies, capital market institutions, insurance companies



# United Arab Emirates

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## Key issues to watch in 2024

- ▶ Continued development of corporate income tax system
- ▶ Pillar Two public consultation
- ▶ Increased attention on the application of transfer pricing rules
- ▶ Tax administration digitalization

## Key drivers for tax policy change

- ▶ Diversification of revenue sources: The UAE government is looking at diversifying its sources of revenue, notably through the introduction of VAT in 2018 and the recent introduction of CIT.
- ▶ Global tax compliance: The government aims to align tax policy with international tax standards and practices, especially in light of initiatives like BEPS.
- ▶ Economic growth and investment: The government aims to have the tax system support the UAE's broader economic growth and attractiveness to foreign investors amid increased regional competition.

## Significant tax developments in 2023

- ▶ Implementation of CIT: a major shift in the UAE tax landscape with the introduction of a 9% standard CIT rate
- ▶ BEPS 2.0 Pillar Two: amendment of certain provisions of CIT law to include definitions related to Pillar Two, paving the way for its implementation alongside the announced public consultation
- ▶ VAT amendments: changes in VAT laws, including updates on reverse charge mechanisms, tax invoices and deregistration conditions

## EY key contacts

**Tax policy:**  
Jeanine Daou

**Tax controversy:**  
Wadih Abounasr

## Significant tax developments expected in 2024

- ▶ Continued development and implementation of CIT: Adapting to the new CIT environment is expected, including dealing with compliance and planning issues. Furthermore, a Pillar Two public consultation will be held in 2024.
- ▶ Transfer pricing adjustments: There will be continued focus on facilitating transfer pricing arrangements that comply with the new tax laws.
- ▶ Further VAT refinements: Additional adjustments and clarifications in the VAT regime as businesses and authorities gain more experience with the system are possible.

## Significant legislative activity that could include tax

- ▶ N/A

## Developments in tax transparency requirements

- ▶ Increased reporting obligations: With the new tax regime, businesses might face more stringent reporting and disclosure requirements.

# United Arab Emirates

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ Numerous legislative instruments and guidance have been released related to the new CIT, with the expectation of additional material being released in 2024 as the tax system matures.
- ▶ A public consultation has been announced for 2024 on Pillar Two.

### Taxes on digital business activity

- ▶ The criteria and conditions for electronic commerce have been published for the purpose of keeping records of the supplies made. Increased scrutiny on compliance for e-commerce can be expected in the upcoming years.

### Taxes related to climate change or sustainability

- ▶ No changes are currently expected.

### Windfall taxes

- ▶ No changes are currently expected.

### VAT/GST or sales taxes

- ▶ Changes in VAT laws, including updates on reverse charge mechanisms, tax invoices and deregistration conditions

### Personal taxes

- ▶ UAE does not impose a PIT.

### Other

- ▶ Amendments to excise tax regulations



# United Arab Emirates

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ The introduction of new tax procedures executive regulations, effective from 1 August 2023, brought changes in recordkeeping, tax registration and deregistration processes.
- ▶ Introduction of an optional fourth dispute level allows taxpayers to submit a request to review the tax assessment issued by the tax authorities before submitting a Reconsideration Request.
- ▶ Increased strictness on eligibility to become a tax agent as seen in recently published decisions on additional conditions for juridical persons and professional development requirements for natural persons.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Ongoing implementation of the CIT regime: As businesses continue to adapt to the corporate tax environment, there could be an increase in enforcement activities and clarification requests.
- ▶ Scrutiny of transfer pricing: Increased focus on transfer pricing policies, documentation and compliance may lead to more enforcement and controversy.
- ▶ Foreign entity compliance: The tax status and activities of entities incorporated outside the UAE but operating within the UAE will be closely monitored, potentially leading to increased tax obligations.

**Tax audits in UAE in 2024 are generally expected to increase in number and/or intensity.**

### Top audit issues

1. Compliance with transfer pricing requirements
2. Accurate e-commerce transactions recording per Emirate level for VAT purposes
3. Adjustment to standardized accounting standards – IFRS mandated by corporate tax law
4. Accurate recording of cross-border transactions
5. Eligibility of qualifying free-zone persons and accuracy in determination of qualifying income

### Changes in tax audit approaches or methods

- ▶ The UAE tax authorities are expected to enhance the use of digital tools and data analytics for tax audits and compliance checks. This includes the use of advanced technologies to identify audit targets and streamline the audit process.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No changes are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ No changes are currently expected.

### Digital tax administration developments

- ▶ The UAE tax authorities are likely to continue enhancing their digital tax administration capabilities as seen from recent updates on their tax platform, "EmaraTax." This may include the development of new digital tools and requirements for tax filing and compliance, as well as the use of AI and data analytics for enforcement and audit purposes.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	9%	9%	–	Same	Same
PIT	N/A	N/A	–	N/A	N/A
VAT/sales	5%	5%	–	Same	Same

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This information is current as of 10 January 2024.



# United Kingdom

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## EY key contacts

**Tax policy:**  
Chris Sanger

**Tax controversy:**  
Jim Wilson

## Key issues to watch in 2024

- ▶ Previously enacted freezing of tax thresholds will continue to give rise to additional tax as “fiscal drag” reduces the value of fixed thresholds and reliefs.
- ▶ General election may be held in May or Autumn of 2024.
- ▶ Tax cuts are expected in the pre-election budget on 6 March 2024.
- ▶ Tax policy likely is likely to change after the election, whichever political party is in power.

## Key drivers of tax policy change

### Under current government

- ▶ Avoiding tax changes that would make it harder to bring inflation down closer to its 2% target
- ▶ Reducing taxes ahead of the election
- ▶ Removing barriers to investment and cutting taxes for businesses

### Under potential labor government

- ▶ Only a few policy changes have been confirmed before the production of manifestoes. These include:
  - ▶ Taxing some forms of “carried interest” as income rather than capital
  - ▶ Abolishing the ability for non-domiciled individuals to be taxed on a repatriation basis, and replacing it with a relief for new UK residents in the first few years of residency
  - ▶ Various changes to VAT, including imposing VAT on private education fees
  - ▶ Expanding the use of the so-called windfall tax on oil and gas companies, potentially with retrospective effect
  - ▶ Changing the limit for contributions to pension funds
  - ▶ Reforming the non-domestic rates (UK property tax) that applies to business property

## Significant tax developments expected in 2024

- ▶ Two percentage point cut in employee social security (national insurance contributions) from 6 January 2024
- ▶ One percentage point cut in self-employed social security from 6 April 2024
- ▶ Technical consultation on simplification of the capital allowances regime
- ▶ Merging of the R&D tax incentive regimes for large and small companies

## Significant legislative activity that could include tax

- ▶ Usual Finance Bill expected after Spring Budget on 6 March 2024 and potentially after Autumn Budget or Economic Statement
- ▶ Additional potential “emergency” Finance Bill following the election
- ▶ Pillar Two: UTPR to be legislated to apply for periods starting on or after 31 December 2024

## Developments in tax transparency requirements

- ▶ No major developments are currently expected in transparency requirements in 2024.

## Significant tax developments in 2023

- ▶ Commitment to the delivery of 12 new investment zones
- ▶ Introduction of income inclusion rule (multinational top-up tax) from 31 December 2023
- ▶ Confirmation of 100% relief in year of purchase for new qualifying assets and 100% relief for first GBP1m of second-hand qualifying assets



# United Kingdom

## Expectations for tax policy

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**Significant tax reform** beyond Pillar Two is not expected in 2024.

**A general election** is required to be held by 28 January 2025, but more likely in Autumn 2024. Polls at the start of 2024 predict a change of government.

**R&D incentives** are merging into a single scheme.

**Other business incentives** are expected to remain under review.

### Corporate taxes

- ▶ The top corporate income tax rate will remain at 25%.
- ▶ A technical consultation on the capital allowances regime is expected in 2024.
- ▶ Merging of research and development expenditure credit (RDEC) and SME schemes for accounting periods on or after 1 April 2024. The RDEC will now be deducted from gross income at a rate of 20% of qualifying expenditure, with loss-making companies in the merged scheme taxed at 19% instead of 25%.
- ▶ HM Revenue and Customs (HMRC) is due to publish a compliance action plan to deal with noncompliance in R&D reliefs.
- ▶ UTPR applies for periods starting on or after 31 December 2024.
- ▶ 75% relief up to a GBP110,000 cap on business property taxes levied on business premises used in retail, hospitality and leisure, until April 2025.

### Taxes on digital business activity

- ▶ Offshore receipts in respect of intangible property (ORIP) rules are to be abolished for income arising from 31 December 2024, following the introduction of the UTPR.

### Taxes related to climate change or sustainability

- ▶ The government will implement a UK CBAM by 2027 and will issue consultations in 2024 on its design and delivery, and proposed changes to better target free allocations under the UK Emissions Trading Scheme (ETS) to encourage participants to decarbonize.
- ▶ From April 2024, the plastic packaging tax will increase from GBP210.82 per ton to GBP217.85 per ton.

### Windfall taxes

- ▶ It has been confirmed that the energy profits levy (EPL) will end by March 2028 or if the energy security investment mechanism is triggered.

### VAT/GST or sales taxes

- ▶ From 1 February 2024, the temporary 0% VAT rate that applies to certain energy-savings material (ESMs) will be extended to additional technologies, such as water-source heat pumps, electrical batteries that store electricity generated by certain ESMs and diverters that enable excess electricity from certain ESMs to be used within a building in which it is generated.
- ▶ HMRC is working on a proof of concept for split payments (where VAT is paid directly to HMRC). The proof of concept applies to nonresident businesses supplying goods into the UK.
- ▶ Alcohol duty rates are frozen until 1 August 2024.
- ▶ The stamp duty growth market exemption and 0% stamp duty rate on issuance of securities into foreign markets have been extended.

### Personal taxes

- ▶ The personal allowance (nil rate band) and other thresholds have been frozen, and hence, while rates have remained the same, the effective rate of income tax has increased due to inflation.
- ▶ The nil rate band (annual exemption allowance) for capital gains tax will be reduced from GBP6,000-GBP3,000 from 6 April 2024.
- ▶ The dividend allowance will be reduced from GBP1,000-GBP500 from 6 April 2024.
- ▶ For employees with earnings between GBP12,570-GBP50,270 the main rate of social security contributions (Class 1 National Insurance contributions) rate is cut from 12% to 10% with effect from 6 January 2024.
- ▶ For the self-employed, the main social security contribution (Class 4 National Insurance contributions) rate is cut from 9% to 8% for profits between GBP12,570-GBP50,270. Additionally, the Class 2 weekly flat rate social security contribution has been abolished from 6 April 2024.
- ▶ Annual investment limits for Individual Savings Accounts (ISAs) are frozen at GBP20,000 (GBP9,000 for Junior ISA).
- ▶ The requirement to file a tax return for individuals with income above GBP150,000 taxed only via PAYE is abolished from 6 April 2024.

# United Kingdom

## Expectations for tax enforcement and tax controversy

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### Top tax enforcement or tax controversy developments in 2023

- ▶ HMRC has been taking an increasingly wide view of the applicability of the anti-avoidance provisions of s.441 CTA 2009 (loan relationships for unallowable purposes) following its success in the Upper Tribunal (UT) in the Blackrock Case (UT/2021/000022) published 19 July 2022.
- ▶ HMRC published updated APA guidance in its manuals (INTM422000) during 2023. This included new commentary on the interaction of APA applications with existing domestic and overseas enquiries and profit diversion compliance facility (PDCF) cases. It also stated that HMRC will target agreement within 30 months of application (previously 18-21 months).
- ▶ Per HMRC statistics published in February 2023, the number of HMRC enquiries and MAPs continued to increase, while there was a decrease in APAs and PDCF. There is a continued high focus by HMRC on cross-border tax issues and, therefore, risk of double taxation. There is also an increase in intensity of tax audits (e.g., more instances of forensic email reviews).

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Increased use of alternative dispute resolution (ADR) in larger cases. An ADR uses an HMRC mediator, outside the case team, to facilitate resolution of the issue. This mediation is done on a without-prejudice basis.
- ▶ Clearer guidelines are being set out at the beginning of enquiries to make clear expectations on HMRC, agents and taxpayers.
- ▶ Expectation that HMRC will look to emphasize the benefits of being considered low risk and increase the “downsides” of being high risk by carrying out more audits on high-risk clients.

### Tax audits in United Kingdom in 2024 are generally expected to increase in number and intensity.

### Top audit issues

1. International tax, especially transfer pricing, continues to be a priority area in relation to MNEs. HMRC has continued to recruit in this area.
2. R&D, particularly where there is a large increase to the claim or for an entity that has not previously made a claim: New Additional Information Forms, requiring additional information from clients, will be used for risk assessment purposes.
3. Off-payroll working and issues relating to globally mobile employees are a focus.

### Changes in tax audit approaches or methods

- ▶ Increase in use of questionnaires by HMRC covering a range of subjects such as off-payroll working, VAT and expenses. The questionnaires are used by HMRC to gather information to help determine where there may be risks which require an audit.
- ▶ HMRC has a “promote, prevent, respond” strategy. There is increasing focus on “promote” and “prevent” to help taxpayers get it right. This has included more Guidelines for Compliance which seek to make HMRCs views on complex issues clearer.
- ▶ Increased “one to many” approaches, where HMRC writes to a group of taxpayers on an issue.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ The HMRC PDCF is not new (starting in 2019), but it continues to be rolled out with taxpayers being nudged by HMRC to bring their UK tax affairs up to date. We are increasingly seeing the scope of PDCF widening to cover more areas of tax risk in addition to transfer pricing, for example, anti-hybrids, corporate residence and permanent establishment. HMRC has also broadened its scope to issue “nudge letters” to mid-sized businesses, not just large businesses.
- ▶ HMRC published a new Litigation and Settlement Strategy Manual in February 2023. The manual provides clarification on some areas such as HMRC not forgoing a penalty as part of a wider settlement.

### Tax governance approach/processes developments for business taxpayers

- ▶ Continued focus on tax risk management, including senior accounting officer (SAO) certification process, publication of tax strategy and evidence of response to Corporate Criminal Offence.
- ▶ Increase in risk assessment of large businesses through the Business Risk Review+ (BRR+). The number of BRR+ decreased during COVID-19, so the number increased in 2023 and is expected to increase further in 2024.
- ▶ More requests to “show not tell” from HMRC in its risk assessment. For example, increase in requests for taxpayers to share Tax Risk Registers as part of BRR+ or SAO and increased VAT and employment duties visits.

# United Kingdom

## Expectations for tax enforcement and tax controversy

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### Digital tax administration developments

- ▶ HMRC has been using data profiling in risk assessments for some time. It is expected to continue to refine the profiles currently used and to create more profiles to tackle any new areas of risk.
- ▶ Implementation of "Making Tax Digital" for income tax was delayed from April 2024 to April 2026. "Making Tax Digital" for corporation tax has also been delayed and will not be mandated before April 2026.
- ▶ All VAT-registered businesses should be signed up for "Making Tax Digital."

### Summary of tax rate and base changes

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Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	25%	25%	–	Same	Same
PIT*	45%	45%	–	Same	Same
VAT/sales	20%	20%	–	Same	Same

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\* While there are no changes to PIT tax bands, employees' social security was cut by two percentage points.



# Ukraine

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## EY key contacts

**Tax policy:**  
Vladimir Kotenko

**Tax controversy:**  
Vladimir Kotenko

## Key issues to watch in 2024

- ▶ Initiatives to increase tax collections (tax rates increase, tax administration enhancement)
- ▶ Redeployment of tax audits
- ▶ Harmonization of tax legislation with EU standards

## Key drivers of tax policy change

- ▶ Confirming that the tax policies are responding to the war, recovery and development priorities
- ▶ Increasing tax collection to cover growing war costs
- ▶ Focusing on tackling illegal tax evasion schemes and tax avoidance
- ▶ Furthering aligning tax legislation and policies to the core OECD standards on international taxation
- ▶ There are initiatives to combat tax evasion upon exportation of certain types of agricultural products (export licensing regime except for qualifying exporters with positive compliance record).
- ▶ There has been a tightening of tax and customs control rules over the turnover of tobacco goods (including a ban of sales of Ukrainian products in the duty-free shops).
- ▶ Mandatory financial guarantees of payment of customs taxes for most types of transit transportation of goods were introduced.
- ▶ Efforts have been made to enhance voluntary compliance with customs law, e.g., a campaign encouraging declaration of dutiable royalties paid to foreign licensors.

## Significant tax developments in 2023

- ▶ The efforts in tax developments continued to be aimed at coping with various problems caused by war as well as mechanisms to support business.
- ▶ A gradual rollback to pre-war tax rules is being implemented, including abolishing the 2% single tax for qualifying companies.
- ▶ Changes aimed at increasing tax collections were adopted, which included an increase in tax rates for exceptional taxpayers with a focus on additional profits (gaming revenue of online casinos and revenue of banks).
- ▶ The VAT exemption for supplies of software products as well as for other qualifying transactions with software products is no longer effective since 1 January 2023.
- ▶ The agreements of Ukraine with the Republic of Belarus and the Russian Federation on the avoidance of double taxation and prevention of tax evasion regarding income and property taxes were terminated.

## Significant tax developments expected in 2024

- ▶ Tax reform will remain on the country's reform agenda to confirm that the tax policies are responding to the war, recovery and development priorities.
- ▶ Further alignment of tax legislation and policies to the core OECD standards on international taxation is expected.
- ▶ Revision is expected of the simplified tax regime to address the erosion of labor taxes by moving the legal basis for labor relations to civil law.
- ▶ A gradual alignment of VAT and excise rules with the EU acquis is anticipated.

# Ukraine

## Expectations for tax policy

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### Significant legislative activity that could include tax

- ▶ According to the recommendations of the European Commission's Annual Report on EU Enlargement for Ukraine, the enforcement of the GAAR and the implementation of the ATAD Directive in general are high priority in the field of direct taxation.
- ▶ Reforms related to protection and extension of the CIT base, while providing an attractive environment for investors in the post-war recovery period (e.g., review of investment incentive regimes for CIT purpose by canceling CIT benefits and implementing the full deduction of costs approach (instant depreciation)).
- ▶ As part of the harmonization with the EU VAT legislation, the system of VAT exemptions and reduced VAT rates is to be revised (in accordance with Directive 2006/112/EU).
- ▶ During 2024, an analysis of the introduction of the QDMTT will occur to assess the scope of changes to be made to the legislation and the optimal timing of their adoption.
- ▶ There is an increasing number of registered draft laws related to tax exemptions and incentives for military purposes and for the period of martial law (e.g., for support of domestic industry and business, import or supply of goods for security and defense needs, import of vehicles by qualified persons, taxation of fuel, tax benefits and support for victims, support of volunteer and charitable activities).

### Developments in tax transparency requirements

- ▶ The Common Reporting Standard for tax information exchange will become fully operational in 2024.

**Significant tax reform** has not been presented for public discussion as implementable in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ The standard CIT rate remains at 18%. The only exception is an increase of the CIT rate for banks – for 2023 the rate is increased to 50%, starting from 2024, the rate is 25%.

- ▶ Starting 1 August 2023, the possibility to apply special 2% single tax rate to the income was abolished.
- ▶ Starting 2024, expenses of Diia City residents, who opted to apply exit capital tax (9%) instead of standard 18% CIT regime, on cooperation with private entrepreneur single taxpayers, should not exceed 50% of their total expenses.
- ▶ Since 1 January 2024, producers of electricity under a "green tariff" are no longer entitled to disregard income or expenses related to the supply of such energy for the purposes of calculating the CIT liability.

### Taxes on digital business activity

- ▶ BtC supplies of digital services to Ukrainian-based customers by nonresidents continue to be subject to 20% VAT.
- ▶ There is a Draft Law of Ukraine No.10225-1 dated 17 November 2023, which offers to make transactions with virtual assets subject to CIT and PIT but exempt them from VAT (except for transactions with some virtual assets).
- ▶ In 2024, the government plans to analyze various options for taxation of virtual assets to develop guidelines aligned with the EU's data exchange rules (DAC8) and the OECD Global Forum initiatives.

### Taxes related to climate change or sustainability

- ▶ The environmental tax rate in Ukraine is UAH30 (USD0.8) per ton of CO<sub>2</sub> emitted.
- ▶ There is a Draft Law of Ukraine No.9596 dated 9 August 2023, which suggests introducing a zero-UAH rate of the environmental tax on CO<sub>2</sub> emissions for installations generating such emissions through the combustion of biofuels.
- ▶ The Association Agreement with the EU obliges Ukraine to create emissions trading systems (ETS) by 2025 with similar coverage to the existing EU ETS. The government plans to consider changing to taxation of CO<sub>2</sub> emissions.

### Windfall taxes

- ▶ A tax rate of 50% (vs. standard 18%) on the windfall profits of banks on the results of the 2023 tax year (i.e., retrospectively) has been introduced.
- ▶ In 2024, the government plans to hold a detailed discussion on the principles of windfall taxes, including guidance on extraordinary circumstances in which such taxes may be applied.

# Ukraine

## Expectations for tax enforcement and tax controversy

### VAT/GST or sales taxes

- ▶ Following the cancellation of the 2% regime, taxpayers that applied this regime had their VAT payer status automatically restored.
- ▶ Starting 1 January 2023, supplies of software products are no longer exempt from VAT. A bill to extend this exemption to 2028 was registered in Parliament but was not adopted in 2023. There is uncertainty whether the exemption will be re-introduced.
- ▶ Starting 1 January 2024, the VAT exemption on import of sea vessels for use exclusively as search and rescue units is not available.
- ▶ Starting 1 July 2023, the reduced 7% VAT rate for imports and domestic supplies of specific products has been cancelled, and such transactions shall be taxed at the basic VAT rate of 20%.
- ▶ The State Tax Service (STS) of Ukraine has published the *Handbook of Tax Information Codes*, which is the basis for making a decision on the compliance of a VAT payer with the riskiness criteria of a taxpayer. Such criteria could serve as a ground for blocking the registration of VAT invoices or adjustments to them
- ▶ Implementation of the Directive 2006/112/EU remains on the agenda (e.g., review tax exemptions and reduced VAT rates, assess the functionality of existing VAT administration systems to meet the requirements of respective EU Directive(s)).

### Personal taxes

- ▶ Starting 1 August 2023, the amount of income received as compensation for immovable property damaged or destroyed in war is exempted from personal income tax and military levy.
- ▶ No essential changes are expected in 2024. The major changes are discussed for the period from 2025 to 2027 (e.g., to restore the progressive scale of personal income tax, to strengthen control over the income and expenses of individuals).

### Top tax enforcement or tax controversy developments in 2023

- ▶ Gradual lift of moratorium for different types of tax audits

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Redeployment of tax audits: Starting from 1 December 2023, the moratorium on the following tax audits has been abolished:
  - ▶ Scheduled documentary tax audits of “risky enterprises” (there is established criteria)
  - ▶ Unscheduled tax audits (except of (1) tax audits on the territories where hostilities are taking place and the territories temporarily occupied by the Russian Federation and (2) first and second group of single taxpayers (with some exceptions))

### Tax audits in Ukraine in 2024 are generally expected to increase.

### Top audit issues

1. Disputes related to application of martial law special tax rules
2. Transactions' actual performance test
3. Nonresident activity in Ukraine
4. Business purpose test (disallowance of deductions and VAT credit)
5. Transactions with related parties, including transfer pricing issues
6. Withholding tax and treaty benefits
7. Interpretation of financial accounting rules

### Changes in tax audit approaches or methods

- ▶ Starting 1 January 2023, during e-audits, large taxpayers are obliged to submit standard audit file (SAF-T UA) at the request of the tax authorities. Mandatory submission of this file by large taxpayers is envisaged starting 2025, and by all VAT payers starting 2027.
- ▶ During 2024, the STS plans to complete the development, test and implement the information and communication system BigData TP (automated system for working with large data for analysis of transfer pricing risks).
- ▶ During 2023-2025 development of software for digitalization of process on the formation of actual tax audits materials is expected.

# Ukraine

## Expectations for tax enforcement and tax controversy

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ Efforts to eliminate inconsistencies between national legislation and international taxation rules that limit Ukraine's ability to generate tax revenues are expected.
- ▶ Efforts to improve MAP for compliance with Ukraine's obligations are expected.
- ▶ Strengthening of and continued explanatory work on the application of provisions of international tax legislation is expected.
- ▶ Draft Law No.8387 was introduced, which suggests establishing the presumption of innocence of the taxpayer in tax legislation as well as to introduce additional safeguards against obstruction of the taxpayer's business activity by the controlling authorities during the tax audit.

### Tax governance approach/processes developments for business taxpayers

- ▶ In 2023, the Concept of the Risk Management System, was approved; accordingly, a comprehensive and unified approach to managing tax compliance risks by taxpayers is planned. Its methodology is based on the ISO 31000:2018 standard "Risk Management. Principles and Guidelines," which is in line with the OECD recommendations. Implementation of the concept will be carried out in stages until 2027.

### Digital tax administration developments

- ▶ On 1 April 2023, the Law "On E-residency" came into force, providing foreigners an opportunity to register as individual entrepreneurs in Ukraine, remotely open and manage bank accounts, run their businesses online and sign documents with e-signature. The government plans to launch the "E-residency" project in 2024.
- ▶ The STS is expected to create a long-term Digital Development Plan until 2030 in accordance with the National Revenue Strategy of Ukraine.
- ▶ An assessment by the OECD Global Forum is expected on the level of readiness of the Ukraine's control system for information protection. Passing the assessment will allow the STS as a competent authority of Ukraine to join the international system of automatic information exchange and will provide for the international automatic exchange of information on financial accounts according to the General Reporting Standard and CbCR.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	18% 50% for banks	18% 25% for banks	+32% in 2023 for banks -25% in 2024 for banks	Same	Same
PIT	18% + 1.5% military levy	18% + 1.5% military levy	–	Same	Same
VAT/sales	20%	20%	–	Same	Same

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This information is current as of 10 January 2024.



# Uruguay

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## EY key contacts

**Tax policy:**  
[Inés Eibe](#)

**Tax controversy:**  
[Rodrigo Barrios](#)

## Key issues to watch in 2024

- ▶ Pillar One and Pillar Two implications
- ▶ Development of the UN Framework Tax Convention.

## Key drivers of tax policy change

- ▶ Uruguay has been performing changes to comply with international organizations, such as the OECD and EU.
- ▶ In this sense, sourcing criteria was modified effective 2023, and changes to implement BEPS 2.0 are likely to occur.

## Significant tax developments in 2023

- ▶ Significant amendments were introduced to the source criteria applicable only for domestic CIT taxpayers that are part of a multinational group.
- ▶ According to the general criterion, passive income from abroad (e.g., dividends or interests paid by an entity located abroad) is not subject to CIT as it would be regarded as of foreign source. Said criterion is now subject to substance requirements, under which, if the requirements are met, the income would still be considered as foreign-sourced; while if the requirements are not met, it would be deemed as Uruguayan-sourced subject to CIT. Yields of capital and capital gains from brands will be considered of Uruguayan source in any case, provided that the company forms part of a multinational group (i.e., regardless of whether economic substance requirements are met or not).
- ▶ On 22 November 2023, the UN adopted by 125 jurisdictions (including Uruguay) a resolution to begin the process of establishing a framework tax convention, which has the potential to change or reshape global tax rules.

## Significant tax developments expected in 2024

- ▶ Updates on Uruguay's position regarding the impact of Pillar Two

## Significant legislative activity that could include tax

- ▶ No announcement has been made of tax changes for 2024.

## Developments in tax transparency requirements

- ▶ On 24 October 2023, Uruguay and the United States signed an exchange of information agreement relating to tax matters.

**Significant tax reform** is not expected in 2024.

**Elections** are occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

## Corporate taxes

- ▶ Statements from government officials announcing news of the implementation of Pillar Two.

## Taxes on digital business activity

- ▶ There may be proposals to be implemented in 2024 in order to comply with Pillar One of BEPS 2.0.

## Taxes related to climate change or sustainability

- ▶ The government is studying the matter; but for now, no important changes are expected.



# Uruguay

## Expectations for tax enforcement and tax controversy

### Windfall taxes

- ▶ No significant changes are currently expected.

### VAT/GST or sales taxes

- ▶ No significant changes are currently expected.

### Personal taxes

- ▶ No significant changes are currently expected.

### Top tax enforcement or tax controversy developments in 2023

- ▶ No significant developments occurred.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ There are no announced political or administration priorities or strategies for tax enforcement in Uruguay.
- ▶ It is expected that tax audits will focus on the control of the substance by the law that granted a source extension for those multinational groups that obtain passive income from abroad.

**Tax audits in Uruguay in 2024 are generally expected to increase in number and intensity.**

### Top audit issues

1. Transfer pricing matters
2. Tax Treaty benefits
3. Comply with substance requirements

### Changes in tax audit approaches or methods

- ▶ No significant developments are currently expected.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No significant developments are currently expected.

### Tax governance approach/processes developments for business taxpayers

- ▶ No significant developments are currently expected.

### Digital tax administration developments

- ▶ No significant developments are currently expected.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	25%	25%	–	Same	Same
PIT	36%	36%	–	Same	Same
VAT/sales	22%	22%	–	Same	Same

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# United States

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## Key issues to watch in 2024

- ▶ November 2024 presidential, Congressional and state elections
- ▶ International tax developments and policies
- ▶ Internal Revenue Service compliance initiatives

## Key drivers of tax policy change

- ▶ 2024 is an election year, so political dynamics are likely to affect tax policy decisions and lawmakers' ability to enact changes. With slim margins in Congress and election campaigns ongoing, tax legislation will have to be bipartisan to pass.
- ▶ Economic conditions will also shape US tax policy. A "soft landing" seems more likely than a recession, but the uncertainties of inflation, tight labor markets and fluctuating interest rates continue to affect policy decisions.
- ▶ The practical implications for US MNEs of Pillar Two may help shape US tax policy discussions as lawmakers begin to see the impact of these rules as they are applied to US MNEs operating in jurisdictions that have implemented the global minimum tax and related rules.
- ▶ Sustainability goals can drive US tax policy, as shown by the Biden administration's use of tax incentives to encourage companies to move toward clean energy use and sustainable practices.
- ▶ Social issues factor into tax policy decisions. Congressional Democrats want to raise the Child Tax Credit limits, and concerns over immigration policy have affected Congress's ability to move legislation.
- ▶ Revenue is always a consideration. Tax legislation that loses revenue generally must be offset with revenue-raising items.

## Significant tax developments in 2023

- ▶ Most of the significant tax developments in 2023 resulted from administrative guidance intended to clarify existing policy or implement existing legislation, such as the Inflation Reduction Act (IRA), the CHIPS and Science Act of 2022, the Secure 2.0 Act and the Infrastructure Investment and Jobs Act (IIJA). Among the guidance items released:
  - ▶ Temporary relief from controversial foreign tax credit (FTC) regulations that will allow taxpayers to claim FTCs that otherwise may not have been available ([Notice 2023-55](#))
  - ▶ Guidance on the interaction of the FTC rules and dual consolidated loss (DCL) rules with top-up taxes imposed via an IIR or a QDMTT under the GloBE Rules ([Notice 2023-80](#))
  - ▶ Guidance on determining taxable income or loss and currency gain or loss with respect to a qualified business unit whose functional currency differs from its tax owner ([REG-132422-17](#))

## EY key contacts

### Tax policy:

Jose Murillo, Jeffrey Van Hove, Ray Beeman, Robert Carroll, Colleen O'Neill, David Kirk, Scott Roberti

### Tax controversy:

Kiara Rankin, Bryon Christensen, Ryan J. Kelly, Kirsten Wielobob, Scott Susko

- ▶ Expired and sunset tax provisions from the 2017 Tax Cuts and Jobs Act (TCJA)
- ▶ State and local tax reform and fiscal headwinds

- ▶ Interim guidance clarifying how to amortize specified research or experimental expenditures under Internal Revenue Code (IRC) Section 174 ([Notice 2023-63](#) and [Notice 2024-12](#))
- ▶ Interim guidance clarifying the application of the corporate alternative minimum tax (CAMT) enacted under the IRA, and guidance on how to determine adjusted financial statement income for purposes of the CAMT ([Notice 2023-7](#)) ([Notice 2023-20](#)) ([Notice 2023-42](#)) ([Notice 2023-64](#)) ([Notice 2024-10](#))
- ▶ Guidance on the IRA's clean energy-related tax credits and incentives, including guidance on determining foreign-entity-of-concern compliance, what qualifies as eligible energy property for the Section 48 investment tax credit, details of the Section 45L credit for energy-efficient homes, and guidelines on the transfer of clean vehicle credits ([REG-118492-23](#)) ([REG-132569-17](#)) ([Notice 2023-65](#)) ([REG-113064-23](#))

## Significant tax developments expected in 2024

- ▶ Tax legislation, if enacted, might include:
  - ▶ Modifications to some TCJA provisions that went into effect in 2022 and 2023, including addressing a change to Section 174 that requires five-year or 15-year R&D amortization rather than expensing; changes to the interest deduction limitation calculations under Section 163(j); and the phasedown of 100% expensing

## Major legislative activity that could include tax

- ▶ Whether tax legislation is considered will depend on whether lawmakers can agree on legislation that can be modified to include tax provisions and appropriate revenue offsets.
- ▶ At the state level, tax policy trends include reforms modifying the sources and mix of state tax revenues, taxation of the digital economy, shifts from graduated to flat income tax rates, changes to the taxation of foreign-sourced income and tax credits and incentives focused on sustainability.

## Developments in tax transparency requirements

- ▶ The Large Business and International division of the Internal Revenue Service (IRS) made some updates to its Compliance Assurance Process (CAP) program for tax year 2024. CAP is a cooperative pre-filing program available to certain large taxpayers.

# United States

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** are occurring in 2024. Election Day is 5 November 2024. In addition to the presidential election, all 435 members of the U.S. House of Representatives and 34 members of the U.S. Senate will be up for election. At the state level, there are 11 gubernatorial elections scheduled – in Delaware, Indiana, Missouri, Montana, New Hampshire, North Carolina, North Dakota, Utah, Vermont, Washington and West Virginia. Elections will also be held for 86 state legislative chambers in 44 states.

**Federal R&D incentives** are expected to stay the same, unless legislation is enacted restoring Section 174 expensing for domestic R&D.

**Other federal business incentives** are expected to stay the same, unless legislation is enacted restoring 100% bonus depreciation. States are expected to continue to enact new, or enhance existing, tax credits.

### Corporate taxes

- ▶ Corporate tax rate: The top federal corporate income tax rate is 21%, and the average of the combined US federal-state rate is 26%, plus a 15% federal CAMT that applies to companies earning more than \$US1b in profits, effective as of 1 January 2023.
- ▶ No changes to the federal corporate tax rate are currently expected in 2024.

### Taxes on digital business activity

- ▶ There is currently no US federal digital services tax.
- ▶ US states continue to adapt their sales tax regimes to the modern economy. Several states are exploring sales tax base expansions in areas such as digital products (e.g., books, movies, audio, newspapers), streaming services, platform-based or sharing companies, business-to-business services and personal or consumer services.
- ▶ Maryland is the first state to tax digital advertising services. That law has been challenged and litigation is ongoing.
- ▶ New Mexico adopted rules in 2023 clarifying when receipts from digital advertising services are taxable, becoming the second state to tax digital advertising services.
- ▶ The DC Tax Revision Commission is considering various proposals to amend and modernize the District's tax system and fee structure, including creating a business activity tax and a data excise tax.

### Taxes related to climate change or sustainability

- ▶ The US has established green tax incentives for renewable energy, fleet decarbonization and energy efficiency at the national, state and local levels.
- ▶ Most regulatory measures have been established at the state and local levels, while the incentives are spread across both national and local levels. Several local jurisdictions have implemented or are considering an emissions trading system or carbon tax; however, the outlook for federal, bipartisan carbon pricing action remains limited.
- ▶ The 2022 IRA legislation included \$369b in climate- and energy-related provisions designed to stimulate and accelerate the build-out of renewable energy and domestic manufacturing for energy technologies and to advance the adoption of electric vehicle (EV) technologies and improve the energy efficiency of buildings and communities. US local jurisdictions are also actively working on expanding green tax incentives and carbon pricing regimes.

### Windfall taxes

- ▶ The US does not currently impose windfall taxes.

### VAT/GST or sales taxes

- ▶ There is no VAT at the federal level, but US states and localities have different sales and use tax regimes and rates.

### Personal taxes

- ▶ The top federal individual income tax rate is 37%, which rises to 43% when the average state tax rate of 6% is factored in. US state and municipal individual income tax rates generally range from 0% to 13.3%.
- ▶ There is also a federal 3.8% net investment income tax that applies to certain net investment income of individuals, estates and trusts that have income over statutory threshold amounts (and is not included in the 43% rate cited above).

# United States

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ The IRS has increased enforcement with respect to large corporations, complex partnerships, and HNWI's using IRA funds.
- ▶ Courts heard or decided several cases that will impact business taxpayers in the coming years (e.g., *Moore v. United States*, *Liberty Global, Inc. v. United States*, *Soroban v. Comm'r.*).
- ▶ The IRS continued enforcement efforts in transfer pricing, R&D credits and TCJA provisions.

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ The IRS will continue its increased enforcement efforts with respect to large corporations, complex partnerships and HNWI's.
- ▶ The IRS will likely take additional opportunities to assert the economic substance doctrine and associated penalties to what the IRS views as "aggressive" tax planning.
- ▶ Challenges to the validity of U.S. Treasury Department regulations and other IRS guidance will continue to be an area of controversy.

**Tax audits in the United States in 2024 are generally expected to increase in number and intensity.**

### Top audit issues

1. Partnership basis
2. Transfer pricing
3. TCJA-related issues
4. R&D credit
5. Noncash charitable contributions
6. Self-employment tax on limited partners

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	25.8%*	26%*	–	Same	Same
PIT	43%**	43%**	–	Same	Same
VAT/sales	N/A	N/A	–	Same	Same

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\* The top federal marginal CIT rate is 21%. The 26% figure is an average that incorporates state and local municipal corporate income taxes, as well as other types of business taxes; as such, the top rate could be higher in states with higher state and city rates.

\*\* The top federal individual income tax rate is 37%. The 43% figure reflects an average maximum state tax rate of 6%.

### Changes in tax audit approaches or methods

- ▶ Increased use of artificial intelligence
- ▶ Return to more in-person audits
- ▶ IRS restructuring and organizational changes to improve internal compliance efficiency and effectiveness

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ The Independent Office of Appeals requested comments and will consider changes to enhance Alternative Dispute Resolution programs, such as Fast Track Settlement.
- ▶ The IRS will make permanent the Bridge Plus phase in the CAP program and add new Form 14234-E Cross Border Activities Questionnaire (CBAQ), at the beginning of the CAP process.

### Tax governance approach/processes developments for business taxpayers

- ▶ Large businesses are increasingly interested in technology tools to track tax risk and worldwide audits.

### Digital tax administration developments

- ▶ The IRS would like to expand the existing Online Account tools for individuals and businesses to allow access to more data and services.
- ▶ The IRS would like to provide new direct free file capabilities, expand e-filing and develop flexible tools to submit tax information.
- ▶ The IRS is very focused on cyber security and data protection.



# Venezuela

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## EY key contacts

**Tax policy:**  
[José A. Velázquez M.](#)

**Tax controversy:**  
[Saul R. Medina R.](#)

## Key issues to watch in 2024

- ▶ Effects of the National Law for the Coordination and Harmonization of Taxing Powers of States and Municipalities
- ▶ National elections

## Key drivers of tax policy change

- ▶ The National Law for the Coordination and Harmonization of Taxing Powers of States and Municipalities took effect at the end of 2023. As a summary, this law establishes the faculties of the National Executive through the Higher Council of Tax Harmonization, to determine the general parameters to be considered by the states and municipalities when exercising taxing powers. Therefore, it is expected that in 2024, all states and municipalities will adapt their tax regulations considering the parameters set by the law.
- ▶ There are different initiatives from the private sector evaluating the current national tax system with the purpose to simplify and increase the collection of taxes. However, the outcomes of these initiatives are uncertain as 2024 is expected to have a national presidential election.

## Significant tax developments in 2023

- ▶ National Law for the Coordination and Harmonization of Taxing Powers of States and Municipalities

## Significant tax developments expected in 2024

- ▶ Significant activity is expected from states and municipalities adapting their tax regulations (local tax laws) to the provisions of the National Law for the Coordination and Harmonization of Taxing Powers of States and Municipalities and rules to be issued by the Higher Council of Tax Harmonization.
- ▶ Other significant tax changes are not expected considering that a presidential election is expected.

## Significant legislative activity that could include tax

- ▶ No information has been released regarding legislative activity that could include tax effects for 2024.

## Developments in tax transparency requirements

- ▶ No significant developments are expected for 2024.

**Significant tax reform** is not expected in 2024.

**Elections** are expected in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

## Corporate taxes

- ▶ Corporate tax rate – Standard rate is to remain at a maximum of 34%. No changes are expected to be adopted in 2024.

## Taxes on digital business activity

- ▶ No specific taxes on digital business activity are in force; therefore, general tax provisions are applicable. No significant change is expected.

## Taxes related to climate change or sustainability

- ▶ Venezuela does not impose a carbon tax or any other climate-change-related tax that promotes carbon emissions abatement.

# Venezuela

## Expectations for tax enforcement and tax controversy

### Windfall taxes

- ▶ No changes are expected in 2024 to the current oil windfall tax.

### VAT/GST or sales taxes

- ▶ The standard rate VAT rate is to remain at 16%.
- ▶ The VAT Law amendment of 2020, included an additional VAT rate of between 5% to 25% for sales of goods or service provisions paid in foreign currency or cryptocurrencies different than petro.
- ▶ Such additional VAT rate shall be determined by the National Executive. However, the additional VAT rate has not yet been determined.

### Personal taxes

- ▶ Personal income tax rate – Standard rate is to remain at a maximum of 34%. No changes are expected to be adopted in 2024.

### Top tax enforcement or tax controversy developments in 2023

- ▶ The National Law for the Coordination and Harmonization of Taxing Powers of States and Municipalities

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Development of rules regarding the implementation of the National Law for the Coordination and Harmonization of Taxing Powers of States and Municipalities

**Tax audits in Venezuela in 2024 are generally expected to** stay the same in number and intensity.

### Top audit issues

1. Taxability of FX differentials (income tax)
2. Tax on economic activities (municipal tax)
3. Comparison between taxable bases for income tax and VAT, to determine if any differences are reasonable and justified
4. Transfer pricing

### Changes in tax audit approaches or methods

- ▶ No changes are expected for 2024.

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ No changes are expected for 2024.

### Tax governance approach/processes developments for business taxpayers

- ▶ No developments are expected for 2024.

### Digital tax administration developments

- ▶ No developments are expected for 2024.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	34%	34%	–	Same	Same
PIT	34%	34%	–	Same	Same
VAT/sales	16%	16%	–	Same	Same

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# Vietnam

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## EY key contacts

**Tax policy:**  
Huong Vu

**Tax controversy:**  
Dung Chi Nguyen

### Key issues to watch in 2024

- ▶ Pillar Two implementation
- ▶ Development of new VAT law
- ▶ Enhancement of tax audit and inspection
- ▶ Digital transformation in all tax function (e-invoice management, VAT refund, tax audit and inspection)

### Key drivers of tax policy change

- ▶ Application of top-up tax under the GloBE rule, to protect Vietnam's State Budget in the context of Pillar Two
- ▶ Assessment of current tax laws (VAT, CIT, special sales tax) and propose a comprehensive revision of tax laws to adapt with socio-economy condition, requirement of effective tax administration and international practice
- ▶ Continued issuance of tax policy solutions to support enterprises to overcome the negative impact of the COVID-19 pandemic and global supply chain crisis
- ▶ A circular was issued amending and supplementing guidance on VAT to remove some difficulties and obstacles regarding tax refund for phased investment projects and investment projects in some conditional business lines. Such amendments have facilitated both taxpayers and tax authorities.
- ▶ The tax payment deadline for VAT, CIT, PIT and land lease fee were extended.

### Significant tax developments expected in 2024

- ▶ Amending the VAT
- ▶ Decree guiding the implementation of Pillar Two
- ▶ Decree amending and supplementing the decree on invoices (Decree No. 123/2020/ND-CP dated 19 October 2020)
- ▶ Decree amending the decree stipulating tax administration for related-party transactions (Decree No. 132/2020/ND-CP dated 5 November 2020)

### Significant legislative activity that could include tax

- ▶ No changes are currently expected.

### Developments in tax transparency requirements

- ▶ No changes are currently expected in 2024.

### Significant tax developments in 2023

- ▶ Pillar Two rules were enacted, effective from 1 January 2024.
- ▶ A new Law on Inspection replaces the old one, effective from 1 July 2023. Some new regulations include specifying the required standards for tax auditors, a timeline to issue the conclusion on inspection and regulating cooperation of the tax audit, state audit and investigation. Accordingly, the General Department of Taxation has issued the new procedure of tax audit under Decision No. 970/QD-TCT effective from 14 July 2023 to regulate the process for desk audits and field audits based on the risk assessment principle. Such new policies and procedure might make the tax enforcement on taxpayers stricter.
- ▶ The VAT rate is reduced from 10% to 8%, applicable during the period from 1 July 2023 to 31 December 2023. Of note, there are still some gray areas during the application in practice, which may trigger potential risk for taxpayers when apply the reduced VAT rate.
- ▶ The VAT rate is reduced from 10% to 8%, applicable during the period from 1 January 2024 to 30 June 2024.

# Vietnam

## Expectations for tax policy

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**Significant tax reform** is not expected in 2024.

**Elections** are not occurring in 2024.

**R&D incentives** are expected to stay the same.

**Other business incentives** are expected to stay the same.

### Corporate taxes

- ▶ Development of detailed guidance is expected on CIT regulations to be consistent with the application of top-up tax under Pillar Two.
- ▶ The standard rate is to remain at 20%.
- ▶ There is a proposal to amend rules on transfer pricing to remove obstacles during the implementation in practices. Such as: consider not reassessing taxpayers' profits when the value of their related-party transactions is less than 10% of the total transaction value; whether the nondeductible interest expenses could be carried forward to the next financial year that has not incurred related-party transactions, etc. The Draft Decree is expected to be approved in Q3 of 2024.

### Taxes on digital business activity

- ▶ A directive was issued promoting connectivity and data sharing related to e-commerce activities among the Ministries of Finance, Industry and Trade, and Public Security to prevent tax fraud in this field.

### Taxes related to climate change or sustainability

- ▶ No changes are currently expected in 2023 and 2024. Vietnam does not impose a carbon tax. Currently, the tax policy related to climate change or sustainability has been regulated in the Law on Environmental Protection Tax No. 57/2010/QH12 dated 15 November 2010 (effective from 1 January 2012).

### Windfall taxes

- ▶ Vietnam does not currently impose any windfall taxes.

### VAT/GST or sales taxes

- ▶ Detailed guidance was issued to remove difficulties for enterprises, including enable VAT refund for projects divided into several investment phases or investment categories and VAT refund for enterprises with conditional business line.
- ▶ Decree was issued to decrease the VAT rate from 10% to 8%, applicable to certain goods and services during the period from 1 July 2023 to 30 June 2024.
- ▶ On 8 January 2024, the Ministry of Finance has issued the First Draft of Law on VAT (amended) with some key changes related to taxable prices for real estate business activities, 0% VAT rate for exported service; noncash payment vouchers; VAT refund for goods and service subject to 5% VAT, among others.

### Personal taxes

- ▶ No changes are currently expected in 2024.



# Vietnam

## Expectations for tax enforcement and tax controversy

### Top tax enforcement or tax controversy developments in 2023

- ▶ Implementation of VAT rate reduction (from 10% to 8%) and deferral of payment deadline for CIT, VAT, PIT to support taxpayers to overcome difficulties, recover and develop business activities
- ▶ Implementation of new tax administration processes related to tax refund, tax audit and inspection
- ▶ Accelerating digital transformation and applying risk management in tax administration (e.g., IT application in e-invoice management, implementation of e-tax services)

### Top tax enforcement or tax controversy development expectations for 2024

- ▶ Implementation of Pillar Two
- ▶ Tax policies to support enterprises impacted by the COVID-19 pandemic expected to be implemented, i.e., tax exemption and reduction, tax payment deferral
- ▶ Application of new IT tools (i.e., Big Data, AI) to strengthen the risk management of e-invoices, tax refund and tax audit or inspection

**Tax audits in Vietnam in 2024 are generally expected to stay the same in number and/or intensity.**

### Top audit issues

1. Transfer pricing: deem the profit margin based on internal comparable data, focus on the deductibility of service fee charged by related parties
2. CIT incentive: strict review of conditions to enjoy CIT incentives
3. Tax refund and exemption (VAT refund, tax refund or exemption under DTA): strict review of conditions for refund

### Changes in tax audit approaches or methods

- ▶ Focus on preparation before audit: request taxpayer to provide information in advance to study and perform in-depth analysis to clarify the key contents that need focus in inspection, assigning team members, estimating tax collection through inspection
- ▶ Tend to make the tax treatment based on the accuracy and completeness of the tax returns or supporting documents and wordings of regulations rather than considering nature of the economic transactions

### Changes to dispute prevention or dispute resolution tools or programs

- ▶ In the context of tax authorities strengthening tax inspections and adjusting transaction prices, the implementation of the APA program becomes more effective and popular for taxpayers in managing transaction price risks in Vietnam. However, so far, no APA agreement has been signed in Vietnam.

### Tax governance approach/processes developments for business taxpayers

- ▶ No changes are currently expected in 2024.

### Digital tax administration developments

- ▶ Since April 2023, the General Department of Taxation of Vietnam has announced and implemented the "System of database analysis and e-invoice management" applying Big Data and AI technology. This system helps to screen, monitor and reconcile information declared by taxpayers and the number of issued electronic invoices to identify, prevent and handle the behavior of illegal e-invoice usage.

## Summary of tax rate and base changes

Tax type	Top 2023 rate	Top 2024 rate	% rate change	Overall base changes	Combined effect
CIT	20%	20%	–	Same	Same
PIT	Resident: 35% Nonresident: 20%	Resident: 35% Nonresident: 20%	–	Same	Same
VAT/sales	10%/8%	10%/8%	–	Same	Same

The 2024 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.

This information is current as of 10 January 2024.

<b>AI:</b> artificial intelligence	<b>DTA:</b> deferred tax asset	<b>IFRS:</b> International Financial Reporting Standards
<b>AEOI:</b> Automatic Exchange of Information	<b>DST:</b> digital services tax	<b>IIR:</b> Income Inclusion Rule
<b>ALP:</b> arm's-length principle	<b>DTT:</b> double taxation treaty	<b>IMF:</b> International Monetary Fund
<b>AMT:</b> alternative minimum tax	<b>EBITDA:</b> earnings before interest, taxes, depreciation and amortization	<b>IP:</b> intellectual property
<b>APA:</b> advance pricing agreement	<b>ESG:</b> environmental, social and governance	<b>ITR:</b> income tax return
<b>ASEAN:</b> Association of Southeast Asian Nations	<b>ETT:</b> electronic transaction tax	<b>M&amp;A:</b> mergers and acquisitions
<b>ATAD:</b> Anti-Tax Avoidance Directive	<b>EU:</b> European Union	<b>MAP:</b> mutual agreement procedure
<b>BEFIT:</b> Business in Europe: Framework for Income Taxation	<b>EU ATAD 2:</b> EU requirement for Member States include in domestic legislation a number of anti-hybrid provisions in line with OECD BEPS Action 2	<b>MDR:</b> Mandatory Disclosure Regime
<b>BEPS:</b> base erosion and profit shifting	<b>FATCA:</b> Foreign Account Tax Compliance Act	<b>MNE:</b> multinational enterprise
<b>BEPS 2.0:</b> the ongoing project on addressing the tax challenges arising from the digitalization of the economy	<b>FBAR:</b> Report on the Foreign Bank and Financial Accounts	<b>NOL:</b> net operating loss
<b>BEPS IF:</b> BEPS Inclusive Framework	<b>FDI:</b> foreign direct investment	<b>O&amp;G:</b> oil and gas
<b>BtB:</b> Business to business	<b>FTA:</b> Free-trade agreement	<b>OECD:</b> Organisation for Economic Co-operation and Development
<b>CA:</b> competent authority	<b>FTT:</b> financial transaction tax	<b>PE:</b> permanent establishment
<b>CBAM:</b> Carbon Border Adjustment Mechanism	<b>FX:</b> foreign exchange	<b>PIT:</b> personal income tax
<b>CbC:</b> country-by-country	<b>G20:</b> The Group of Twenty, an intergovernmental forum comprising 19 countries and the European Union	<b>PPT:</b> principal purpose test
<b>CbCR:</b> country-by-country reporting	<b>GAAR:</b> General Anti-Abuse Rule	<b>QDMTT:</b> Qualified Domestic Minimum Top-up Tax
<b>CESOP:</b> Central Electronic System of Payment information	<b>GCC:</b> Cooperation Council for the Arab States of the Gulf	<b>R&amp;D:</b> research and development
<b>CFC:</b> controlled foreign company	<b>GDP:</b> gross domestic product	<b>SAFE:</b> Securing the activity framework of enablers
<b>CGT:</b> capital gains tax	<b>GHG:</b> greenhouse gas emissions	<b>SAF-T:</b> Standard Audit File for Tax
<b>CIT:</b> corporate income tax	<b>GloBE proposal:</b> Global Anti-Base Erosion proposal under Pillar Two of the OECD	<b>SME:</b> small- or medium-sized enterprise
<b>CRS:</b> Common Reporting Standard	<b>GST:</b> goods and services tax	<b>TARIC code:</b> Tarif Intégré Communautaire (Integrated Tariff of the European Communities)
<b>DAC6:</b> EU directive regarding the mandatory automatic exchange of information	<b>HNWI:</b> high-net-worth individual	<b>TP:</b> transfer pricing
<b>DAC7:</b> EU tax transparency rules reporting by digital platforms on their sellers	<b>ICAP:</b> International Compliance Assurance Programme	<b>UBO:</b> ultimate beneficial owner
<b>DAC8:</b> The proposed Crypto-Asset Reporting Framework		<b>UN:</b> United Nations
		<b>UTPR:</b> Undertaxed Profits Rule
		<b>VAT:</b> value-added tax
		<b>ViDA:</b> VAT in the Digital Age
		<b>WHT:</b> withholding tax

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